Archer

2022
Archer Limited

THIRD QUARTER 2022 REPORT

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Consolidated Statements of Operations (unaudited)

(In USD millions)		**Three Months Ended September 30**		**Nine Months Ended September 30**	
	Note	**2022**	**2021**	**2022**	**2021**
Revenues					
Operating revenues		209.8	206.1	604.8	602.4
Reimbursable revenues		30.4	36.6	101.1	81.8
Total revenues		**240.2**	**242.8**	**705.9**	**684.2**
Expenses					
Operating expenses		176.9	178.5	514.4	507.5
Reimbursable expenses		29.7	34.8	100.3	80.1
Operating lease costs	10	1.5	2.1	4.3	6.3
Depreciation and amortization		12.4	13.2	37.6	39.2
(Gain)/loss on sale of assets		(0.1)	(0.2)	(0.1)	(0.3)
Impairment charges		—	—	5.0	3.0
General and administrative expenses		9.3	6.9	28.3	27.5
Total expenses		**229.6**	**235.3**	**689.7**	**663.2**
Operating income		**10.6**	**7.4**	**16.2**	**20.9**
Gain on bargain purchase	13	—	—	**9.2**	**12.2**
Financial items					
Interest income		0.5	0.5	1.3	1.7
Interest expenses		(7.3)	(7.3)	(23.1)	(22.6)
Share of results in associated companies	7	(0.1)	(0.4)	(0.4)	(0.6)
Other financial items	3	(0.3)	(7.8)	(0.3)	(6.8)
Total financial items		**(7.2)**	**(15.0)**	**(22.6)**	**(28.2)**
Profit/(loss) from continuing operations before income taxes		**3.4**	**(7.5)**	**2.9**	**4.9**
Income tax(expense)/ benefit	4	(4.4)	(2.2)	(9.5)	(7.0)
Loss from continuing operations		**(1.1)**	**(9.7)**	**(6.6)**	**(2.0)**
Net Loss		**(1.1)**	**(9.7)**	**(6.6)**	**(2.0)**
Loss per share - basic		(0.01)	(0.07)	(0.04)	(0.01)
Loss per share - diluted		(0.01)	(0.07)	(0.04)	(0.01)
Weighted average number of shares outstanding (million)					
Basic	5	148.8	148.1	148.8	148.1
Diluted	5	148.8	148.1	148.8	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,**	
	2022	**2021**	**2022**	**2021**
Net loss	**(1.1)**	**(9.7)**	**(6.6)**	**(2.0)**
Other comprehensive income (loss)				
Currency translation differences	(12.4)	(4.7)	(29.1)	(5.0)
Gain on sale of equity investment	—	—	—	0.6
Total other comprehensive income (loss)	**(12.4)**	**(4.7)**	**(29.1)**	**(4.4)**
Total comprehensive income (loss)	**(13.5)**	**(14.4)**	**(35.7)**	**(6.4)**

Accumulated Other Comprehensive Loss (Unaudited)

(in USD millions)	**Translation differences**	**Other comprehensive income**	**Total**
Balance at December 31, 2021	**7.2**	**0.6**	**7.8**
Total other comprehensive income during 2022	(29.1)	-	(29.1)
Balance at September 30, 2022	**(21.9)**	**0.6**	**(21.3)**

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


Archer

Consolidated Balance Sheet (unaudited)

(In USD million)	Note	September 30, 2022	December 31, 2021
		(Unaudited)	(Audited)
ASSETS			
Cash and cash equivalents		102.2	50.7
Restricted cash		6.5	14.8
Accounts receivables	2	121.3	125.6
Inventories	6	51.0	52.1
Other current assets		39.5	30.7
Total current assets		**320.5**	**273.9**
Investment in associates	7	2.5	3.4
Marketable securities		7.6	2.9
Property plant and equipment, net		303.0	343.6
Right of use assets	10	32.4	26.7
Deferred income tax asset	4	20.0	20.6
Goodwill	8	138.3	167.5
Other intangible assets, net		2.2	0.6
Deferred charges and other assets		19.6	11.4
Total noncurrent assets		**525.7**	**576.7**
Total assets		**846.1**	**850.7**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current portion of interest-bearing debt	9	567.9	25.3
Accounts payable		48.2	43.5
Operating Lease liabilities	10	5.7	5.2
Other current liabilities		122.5	140.2
Total current liabilities		**744.3**	**214.2**
Long-term interest-bearing debt	9	5.9	509.5
Subordinated related party Loan	9	15.9	15.9
Operating Lease liabilities		26.7	21.5
Deferred tax	4	0.4	1.0
Other noncurrent liabilities		—	0.0
Total noncurrent liabilities		**48.9**	**547.9**
Shareholders' equity		**52.9**	**88.5**
Total liabilities and shareholders' equity		**846.1**	**850.7**

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,**	**Nine Months Ended September 30,**
Cash Flows from Operating Activities	**2022**	**2021**
Net (loss)/profit from continuing operations	(6.6)	(2.0)
Adjustment to reconcile net loss to net cash provided by operating activities		
Depreciation and amortisation	37.6	39.2
Impairment of fixed assets	5.0	3.0
Share-based compensation expenses	0.1	0.3
(Gain)/loss on assets disposals	(0.1)	(0.3)
Share of losses of unconsolidated affiliates	0.4	0.6
Amortisation of loan fees	1.1	1.0
Decrease/(increase) in net derivative financial instruments	(7.3)	(3.1)
Mark to market of marketable securities	(4.7)	1.7
Change in deferred and accrued taxes	6.8	3.8
Gain on bargain purchase	(9.2)	(12.2)
Decrease/(increase) in accounts receivable and other current assets	(23.2)	(11.1)
Decrease/(increase) in inventories	2.8	2.0
(Decrease)/increase in accounts payable and other current liabilities	11.1	(8.4)
Change in other operating assets and liabilities net, including non-cash fx effects	19.0	(1.6)
Net cash provided by operating activities	**32.8**	**12.9**
Cash Flows from Investing Activities		
Capital expenditures	(13.0)	(19.5)
Proceeds from asset disposals	2.0	3.0
Proceeds from partial sale of equity investment	—	1.9
Loans to associated entities	—	(0.4)
Investment in subsidiaries net of cash acquired	(5.9)	(13.3)
Net cash used by investing activities	**(16.9)**	**(28.3)**
Cash Flows from Financing Activities		
Borrowings under revolving facilities, other long-term debt and financial leases	88.0	32.2
Repayments under revolving facilities, other long-term debt and financial leases	(47.7)	(32.4)
Net cash provided by financing activities	**40.3**	**(0.2)**
Effect of exchange rate changes on cash and cash equivalents	(12.9)	(1.5)
Net increase in cash and cash equivalents	**43.3**	**(17.0)**
Cash and cash equivalents, including restricted cash, at beginning of the period	65.5	53.6
Cash and cash equivalents, including restricted cash, at the end of the period	**108.7**	**36.6**
Interest paid	22.0	21.5
Taxes paid	2.7	3.2

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, 2021	**1.5**	**928.1**	**(1,589.0)**	**7.8**	**740.1**	**88.5**
Share based compensation	—	0.1	—	—	—	0.1
Translation differences	—	—	—	(29.1)	—	(29.1)
Gain on sale of equity investment	—	—	—	—	—	—
Net income	—	—	(6.6)	—	—	(6.6)
Balance at September 30, 2022	**1.5**	**928.2**	**(1,595.6)**	**21.3**	**740.1**	**52.9**

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

Notes

Note 1 Summary of Business and Significant Accounting Policies

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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 4,600 skilled and experienced people at September 30, 2022.

Archer was incorporated in Bermuda on August 31, 2007.

Basis of presentation

The unaudited third quarter and first nine months 2022 consolidated financial statements are presented in accordance with United States of America Generally Accepted Accounting Principles (US GAAP). The unaudited third quarter and first nine months 2022 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, 2021. 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 2022 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, 2021.

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, 2022**	**December 31, 2021**
Accounts receivable net	121.3	125.6

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,	
	2022	2021	2022	2021
Foreign exchange losses	(7.4)	(2.8)	(28.2)	(5.4)
Mark-to-market of marketable securities	3.6	(4.4)	4.7	(1.7)
Mark-to-market of financial investments	3.9	0.0	24.2	3.1
Other items	(0.4)	(0.5)	(1.0)	(2.8)
Total other financial items	**(0.3)**	**(7.8)**	**(0.3)**	**(6.8)**

Foreign exchange gains and losses includes foreign exchange gains and losses on an intercompany loan balance denominated in Norwegian Kroner. The internal NOK 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 USDNOK exchange rate movements on the entity with Norwegian Kroner functional currency is classified as other comprehensive income. During 2022 we have experienced significant movements in foreign exchange rates, with the NOK weakening against the USD by around 17%. This resulted in the large exchange losses recorded in 2022.

Mark-to-market of marketable securities include the mark to market of our investment in KLX Energy Services Holdings Inc. while mark-to-market of financial instruments include the mark to market of our interest rate caps agreements, which has increased in value following the rapid increased in the USD interest rates.

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,	
	2022	2021
United States	0.7	0.4
South America	1.3	0.6
Europe	7.1	4.6
Others	0.4	1.4
Total	**9.5**	**7.0**

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 2022 is $9.5 million. The tax charge reported in the current period relates primarily to taxable profit reported from operations in Norway and withholding tax on interest to Bermuda.

The net tax expense in Europe amounted to $7.1 million for 2022, which relates to our operation in Norway and UK and withholding tax in Norway.

The net tax cost in South America amounted to $1.3 million at the end of September 2022 related to operation in Brazil ($0.8) and Guyana ($0.5). We have taken a valuation allowance against deferred tax assets relating to taxable losses incurred in Argentina for the year.

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

As on 30 September 2022 we have total deferred tax assets of $20.0 million which mainly consist of $10.6 million of tax assets in Norway, $8.2 million tax assets in Argentina and $1.0 million tax assets in UK.

Deferred tax liabilities on 30 September 2022 totals $0.4 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,	
	2022	2021	2022	2021
Denominator				
Weighted-average common shares outstanding	148,758	148,050	148,758	148,050
Effect of potentially dilutive common shares	-	-	-	-
Weighted-average common shares outstanding and assumed conversions	148,758	148,050	148,758	148,050

Note 6 Inventories

Inventories

(In USD millions)	September 30, 2022	December 31, 2021
Manufactured		
Raw materials	1.1	1.1
Finished goods	10.7	9.7
Work in progress	0.6	0.4
Total manufactured	**12.4**	**11.2**
Drilling supplies	22.4	14.5
Other items and spares	16.3	26.4
Total inventories	**51.1**	**52.1**

Note 7 Investments in Associates

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

	September 30, 2022	December 31, 2021
Comtrac AS	50.0%	50.0%

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

(In USD millions)	September 30, 2022	December 31, 2021
Comtrac AS	2.5	3.4

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

(In USD millions)	Comtrac AS
Carrying value of investment at December 31, 2021	**3.4**
Additional capital investment	0.0
Share in results of associates	(0.4)
Translation adjustments	(0.5)
Carrying value of investment at September 30, 2022	**2.5**

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

The carrying value comprises original cost of investment adjusted by our share of Comtrac results. We provide services to Comtrac. Our trading balance with Comtrac is disclosed in related party note 14.

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 11.

Goodwill

(In USD millions)	
Net book balance at December 31, 2021	**167.5**
Translation adjustments	(29.2)
Net book balance at September 30, 2022	**138.3**

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.

All of our goodwill relates to our Platform Drilling, Wireline and Oiltools business divisions. All these divisions have seen improved results last couple of years and they have a solid contract backlog for the next 3-5 years. Based on the combined improved results, order backlog and forecasts, we identified no impairment indicators at September 30, 2022.

Note 9 Long-term, Interest Bearing Debt

(In USD millions)	September 30, 2022			December 31, 2021		
	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	563.6	(1.0)	562.6	516.4	(2.1)	514.3
Related party subordinated loan	15.9	—	15.9	15.9	—	15.9
Hermes-covered term loans	1.0	—	1.0	4.4	—	4.4
Other loans and capital lease liability	10.2	—	10.2	16.1	—	16.1
Total loans and capital lease liability	**590.7**	**(1.0)**	**589.7**	**552.8**	**(2.1)**	**550.7**
Less: current portion	(568.9)	(1.0)	(567.9)	(25.3)	—	(25.3)
Long-term portion of interest-bearing debt	**21.8**	—	**21.8**	**527.5**	**(2.1)**	**525.4**

Multicurrency term and revolving credit facility

The total amount available under the Multicurrency term and revolving credit facility (the "Facility") is $567.5 million, split between $336.3 million under a term loan and $227.2 million in revolving facilities. In addition, a total of $11.0 million of the Facility is carved out into an overdraft facility of $11.0 million. A total of $563.6 million was drawn as at September 30, 2022 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, 2022 and/or August 31, 2023, the loan will accrue an additional 1% PIK margin for 2022 and/or from January 1st to October 1st 2023. The quarterly instalments amount to $4 million. 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 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. For further information on the Multicurrency term and revolving credit facility, please see the Board of Directors' Report included in Archer's 2021 Annual Report.

As of September 30, 2022, the Company is compliant with all covenants under this Facility. Because the Facility matures on October 1st, 2023, the debt has been reclassified as short term at September 30, 2022. The Company is exploring refinancing alternatives which will provide the Company with sufficient flexibility going forward.

Related party subordinated loan

In Q2, 2017 we established a subordinated convertible loan 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 the Lender 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, 2022 the equivalent of $1.0 million was outstanding under this facility.

Other loans and capital leases

As described above, a total of $11.0 million of the Facility is carved out into an overdraft facility. There was no borrowing under the overdraft facility at September 30, 2022.

At September 30, 2022 net borrowing under short-term facilities in Argentina and in Bolivia was $2.4 million. Net borrowing on the 788 million Argentinian pesos syndicated loan facility in Argentina was equivalent to $0.0 million dollars.

We have finance arrangements relating to equipment in our Oiltools and Platform Drilling divisions. At September 30, 2022, the balance under these arrangements was $7.2 million.

Interest rate cap agreement

We have entered into USD interest rate cap agreements, securing the interest rate against fluctuations above 1.65% on $66 million until February 2025 and $34 million until February 2023. Furthermore, we have entered into a USD interest rate cap agreement, securing the interest rate against fluctuations above 0.85% on $100 million until December 2025. The fair value of the instruments as of September 30, 2022 was an asset of $14.7 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 $6.2 million are included in property plant and equipment.

Operating leases

The company has historically leased some operating assets, office and warehouse facilities and office equipment under operating leases. With effect from January 1, 2019, for material operating leases, we have recognised the relevant right of use assets and lease liabilities in our balance sheet. The leases have remaining lease terms of 1 to 11 years at September 30, 2022. 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 $0.7 million in 2022.

We have calculated an incremental borrowing rate, or IBR, for discounting each lease's cash-flows to arrive at an initial value for the lease liability and right of use asset. The IBR is calculated as a function of the following elements/considerations;

- Base rate – generally the inter-bank lending rate in the relevant jurisdictions,
- Credit spread – we estimate the effect of the lessee credit worthiness
- Country risk premium

- Inflation differential
- Contract term
- Security or collateral provided in the lease contract.

Significant judgment is required in estimating some of these elements. We apply a consistent methodology in estimating IBR for each lease.

We have elected not to recognise the right of use asset and lease liability for short term leases.

Supplemental information pertaining to the Company's leasing activities for the nine-month period ended September 30, 2022 was as follows;

(In USD millions)	**Nine months ended September 30, 2022**
Finance Lease costs	
Amortisation of right of use assets	1.7
Interest on lease liabilities	0.3
Operating lease costs	4.3
Short term lease costs	16.8
Total Lease costs	**23.1**
Other information	
Cash paid for amounts included in measurement lease liabilities	
Operating cash flows from finance leases	1.8
Operating cash flows from operating leases	4.3
Financing cash flows from finance leases	1.3
Right of use assets obtained in exchange for new finance lease liabilities	0.9
Right of use assets obtained in exchange for new operating lease liabilities	8.9
Weighted average remaining lease term – finance leases	3.0 years
Weighted average remaining lease term – operating leases	6.8 years
Weighted average discount rate – finance leases	6.0%
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.

Segment information

(In USD millions)	Three Months Ended September 30		Nine Months Ended September 30	
	2022	**2021**	**2022**	**2021**
Revenues from external customers				
Eastern Hemisphere	166.1	187.6	506.7	531.6
Western Hemisphere	74.0	55.2	199.2	152.6
Total revenue	**240.2**	**242.8**	**705.9**	**684.2**
Depreciation and amortisation				
Eastern Hemisphere	5.6	5.4	17.6	15.9
Western Hemisphere	6.9	7.8	20.0	23.3
Total depreciation and amortisation	**12.4**	**13.2**	**37.6**	**39.2**
Operating income/net income				
Eastern Hemisphere	9.1	15.2	30.0	43.8
Western Hemisphere	3.3	(6.0)	(8.3)	(17.9)
Corporate Cost	(1.3)	(1.7)	(4.9)	(4.8)
Stock compensation cost	(0.5)	(0.0)	(0.6)	(0.2)
Total operating income	**10.6**	**7.4**	**16.2**	**20.9**
Total financial items	(7.2)	(15.0)	(22.6)	(28.2)
Gain on bargain purchase	—	—	9.2	12.2
Income taxes	(4.4)	(2.2)	(9.5)	(7.0)
Net income (loss)	**(1.1)**	**(9.7)**	**(6.6)**	**(2.0)**
Capital Expenditures				
Eastern Hemisphere	2.2	6.7	7.1	12.9
Western Hemisphere	3.3	4.1	6.1	6.9
Total	**5.5**	**10.8**	**13.2**	**19.8**

Goodwill

(in USD millions)	Eastern Hemisphere	Western Hemisphere	Total
Balance at December 31, 2021	**167.5**	**—**	**167.5**
Adjustments	(29.2)	—	(29.2)
Balance at September 30, 2022	**138.3**	**—**	**138.3**

Total assets

(In USD millions)	September 30, 2022	December 31, 2021
Eastern Hemisphere	521.9	527.8
Western Hemisphere	295.9	313.2
Corporate	28.4	10.8
Total	**846.1**	**850.7**

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, 2022		December 31, 2021	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Nonderivatives				
Cash and cash equivalents	102.2	102.2	50.7	50.7
Restricted cash	6.5	6.5	14.8	14.8
Marketable securities	7.6	7.6	2.9	2.9
Accounts receivable	121.3	121.3	125.6	125.6
Accounts payable	(48.2)	(48.2)	(43.5)	(43.5)
Current portion of interest-bearing debt	(567.9)	(567.9)	(25.3)	(25.3)
Current portion of operating lease liability	(5.7)	(5.7)	(5.2)	(5.2)
Long-term interest-bearing debt	(5.9)	(5.9)	(509.5)	(509.5)
Operating lease liability	(26.7)	(26.7)	(21.5)	(21.5)
Subordinated related party loan	(15.9)	(15.9)	(15.9)	(15.9)
Derivatives				
Interest cap agreements	14.7	14.7	7.0	7.0

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

Financial assets and liabilities

In USD millions)	September 30, 2022	Fair Value Measurements at Reporting Date Using		
	Fair Value	Level 1	Level 2	Level 3
Assets				
Cash and cash equivalents	102.2	102.2	—	—
Restricted cash	6.5	6.5	—	—
Marketable securities	7.6	7.6		
Accounts receivable	121.3	—	121.3	—
Interest cap agreements	14.7	—	14.7	—
Liabilities				
Accounts payable	(48.2)	—	(48.2)	—
Current portion of interest-bearing debt	(567.9)	—	(567.9)	—
Current portion of operating lease liability	(5.7)	—	(5.7)	—
Long-term, interest-bearing debt	(5.9)	—	(5.9)	—
Operating lease liability	(26.7)	—	(26.7)	—
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 cap agreements are calculated using well-established independent market valuation techniques applied to contracted cash flows and USD LIBOR 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 $9.2 million relates to the acquisition of all of the shares in Ziebel AS from an unrelated third party. Ziebel AS is the parent company of the Ziebel group ("Ziebel")

Ziebel provides well intervention services mainly in the US. Ziebel has developed cutting edge wireline technology much of which has been patented. Services offered by Ziebel complement our exisiting wireline product offering. Archer expect to benefit from the use of the Ziebel wireline splicing technology and also the retention of the Ziebel brand name in our US wireline operations.

Purchase consideration was given by way of an assignment agreement, under which Archer assumed debt, of principal amount NOK 29 million in exchange for a settlement of NOK 7 million paid to the lenders. All outstanding shares in Ziebel were transferred to Archer for zero consideration.

Purchase consideration

	(In NOK millions)	(In USD million equivalent)
Cash settlement with Ziebel lenders	(7.0)	(0.8)
Principal and interest owing at date of assignment	29.2	3.3
Gain on assignment of debt - included in gain on bargain purchase	**22.2**	**2.5**

In addition, the gain on bargain purchase includes the fair value of the following assets acquired for zero consideration at the acquisition date of February 3, 2022:

Fair value of assets acquired (preliminary)

	(In USD millions equivalent)
Cash and restricted cash	0.2
Other current assets	0.6
Tangible fixed assets	2.0
Intangible assets	2.8
Deferred tax asset	6.4
Liabilities	(5.3)
Total fair value of assets acquired	**6.7**

The excess of fair value of the assets acquired over the purchase consideration is reported as a separate line item, "Gain on bargain purchase", and comprises the gain on loan assignment plus the fair value of the assets acquired. The USD numbers quoted above are based on consolidated USD numbers provided by Ziebel. The gain arises primarily from;

- the acquisition of the debt at significant discount,
- the recognition of the technology developed by Ziebel which will be utilized in our wireline divisions,
- the recognition of a deferred tax asset relating to Ziebel'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 February 3, 2022, which would result in adjustment to the reported gain and relevant carrying values acquired.

The acquisition and future operation of Ziebel are included in our Eastern Hemisphere reporting segment. For the period from the acquisition until the end of March 2022, Archer recognized a total of $0.4 million in external revenue from Ziebel.

Note 14 Related Parties

In the normal course of business, we transact business with related parties conducted at arm's length.

Transactions Comtrac AS:

Our 50% investment in Comtrac AS comprises equity investment and a loan equivalent to $1.7 million and $0.8 million respectively. We account for our investment using the equity method, as discussed above in note 7. During the 9 months ended September 30, 2022, we have invoiced Comtrac AS a total of NOK 2.4 million, or $0.3 million for services provided to them. The total balance of $0.3 million is outstanding at September 30, 2022 and is reported in Accounts receivable

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:

- Seadrill Group

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

- Seatankers Management Company Limited ("Seatankers")

During the 9 months ended September 30, 2022, we supplied Seadrill Limited and affiliates ("Seadrill") with services amounting to $0.5 million, mainly relating to the provision of Platform drilling and engineering services. This amount has been included in operating revenue.

Frontline and Seatankers provide management support and administrative services to us, and we have recorded fees of $0.1 million and $0.2 million respectively for these services in 2022. 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, 2022, 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

On November 16th, 2022 we completed the acquisition of 50% of Jarðboranir hf., ("Iceland Drilling"), an unrelated company engaged in international geothermal drilling and integrated services for a purchase consideration of $8.25 million. Under the purchase agreement we will not obtain control of the entity, and our ownership will be accounted for using the equity method of consolidation and reported within Investment in Associates.

Appendix to Third Quarter 2022 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. The adjustments in 2022 relate mainly to covid related costs and costs of idle rigs in Argentina. 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, 2022, June 30, 2022, March 31, 2022, December 30, 2021, September 30, 2021 and June 30, 2021 . 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, 2022	**Jun. 30, 2022**	**Mar. 31, 2022**	**Dec. 31, 2021**	**Sep. 30, 2021**	**Jun. 30, 2021**
Revenue	**240.2**	**246.6**	**219.1**	**251.9**	**242.8**	**228.0**
Cost and expenses						
Operational costs	(229.6)	(238.9)	(221.2)	(244.0)	(235.3)	(220.4)
Impairments	—	—	(5.0)	(13.5)	—	—
Net financial items	(7.2)	(25.5)	10.1	(5.7)	(15.0)	(16.2)
Gain on bargain purchase	—	—	9.2	(0.8)	—	12.2
(Loss)/income from continuing operations before income taxes	**3.4**	**(17.8)**	**17.3**	**(12.0)**	**(7.5)**	**3.6**
Income tax (expense)/benefit	(4.4)	(1.7)	(3.3)	(0.7)	(2.2)	(2.0)
Net (loss)/income	**(1.1)**	**(19.5)**	**13.9**	**(12.7)**	**(9.7)**	**1.6**

Reconciliation of GAAP to non-GAAP Measures (Unaudited)

(In USD million)	**Three Months Ended**					
	Sep. 30, 2022	**Jun. 30, 2022**	**Mar. 31, 2022**	**Dec. 31, 2021**	**Sep. 30, 2021**	**Jun. 30, 2021**
Net (loss)/income	(1.1)	(19.5)	13.9	(12.7)	(9.7)	1.6
Depreciation, amortisation and impairments (net of gains/losses on sale of assets)	12.4	12.0	18.2	14.6	13.2	13.7
Net financial items	(7.2)	(25.5)	(10.1)	5.7	15.0	16.2
Taxes on income	(4.4)	(1.7)	3.3	0.7	2.2	2.0
Gain on sale of asset	(0.1)	(0.1)	—	(0.2)	(0.2)	(0.1)
Gain on bargain purchase	—	—	(9.2)	0.8	—	(12.2)
EBITDA	**22.9**	**19.5**	**16.2**	**22.4**	**20.5**	**21.2**
Exceptional charges	0.9	1.4	4.9	3.4	3.0	1.1
EBITDA before restructuring costs	**23.7**	**20.9**	**21.1**	**25.8**	**23.5**	**22.3**

EBITDA by Geographic and Strategic Areas (Unaudited)

(In USD million)	**Three Months Ended**					
	Sep. 30, 2022	**Jun. 30, 2022**	**Mar. 31, 2022**	**Dec. 31, 2021**	**Sep. 30, 2021**	**Jun. 30, 2021**

Eastern Hemisphere	22.2	18.0	14.8	20.2	20.6	19.7
Western Hemisphere	2.6	3.4	3.1	3.6	1.6	3.2
Corporate costs	(1.9)	(1.9)	(1.8)	(1.5)	(1.7)	(1.7)
EBITDA	**22.9**	**19.5**	**16.2**	**22.4**	**20.5**	**21.2**