



Archer

# **2022** **Archer Limited**

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FORTH QUARTER AND  
PRELIMINARY 2022 RESULTS

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## Consolidated Statements of Operations (unaudited)

(In USD millions)		Three Months Ended December 31		Year Ended December 31	
	Note	2022	2021	2022	2021
<b>Revenues</b>					
Operating revenues		218.5	210.7	823.3	813.1
Reimbursable revenues		45.8	41.2	146.9	123.0
<b>Total revenues</b>		<b>264.3</b>	<b>251.9</b>	<b>970.2</b>	<b>936.1</b>
<b>Expenses</b>					
Operating expenses		177.4	174.8	691.7	682.3
Reimbursable expenses		45.4	42.2	145.8	122.3
Operating lease costs	10	1.7	1.7	6.0	8.0
Depreciation and amortization		12.0	14.6	49.5	53.8
(Gain)/loss on sale of assets		0.1	(0.2)	0.0	(0.6)
Impairment charges		2.3	13.5	7.3	16.4
General and administrative expenses		12.4	10.9	40.7	38.4
<b>Total expenses</b>		<b>251.2</b>	<b>257.5</b>	<b>940.9</b>	<b>920.7</b>
<b>Operating income</b>		<b>13.0</b>	<b>(5.5)</b>	<b>29.2</b>	<b>15.4</b>
<b>Gain on bargain purchase</b>	13	—	<b>(0.8)</b>	<b>9.2</b>	<b>11.4</b>
<b>Financial items</b>					
Interest income		1.3	0.7	2.5	2.4
Interest expenses		(11.5)	(6.5)	(34.6)	(29.0)
Share of results in associated companies	7	(0.1)	0.1	(0.6)	(0.5)
Other financial items	3	17.6	(0.0)	17.3	(6.8)
<b>Total financial items</b>		<b>7.2</b>	<b>(5.7)</b>	<b>(15.4)</b>	<b>(33.9)</b>
Gain (loss) from continuing operations before taxes		<b>20.2</b>	<b>(12.0)</b>	<b>23.1</b>	<b>(7.1)</b>
Income tax expense	4	(3.8)	(0.7)	(13.3)	(7.7)
<b>Gain (loss) from continuing operations</b>		<b>16.4</b>	<b>(12.7)</b>	<b>9.8</b>	<b>(14.8)</b>
<b>Net gain (loss)</b>		<b>16.4</b>	<b>(12.7)</b>	<b>9.8</b>	<b>(14.8)</b>
Gain (loss) per share - basic		0.11	(0.09)	0.07	(0.10)
Gain (loss) per share - diluted		0.11	(0.09)	0.07	(0.10)
<b>Weighted average number of shares outstanding</b>					
Basic	5	148.8	148.7	148.8	148.2
Diluted	5	149.1	148.7	149.5	148.2

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

## Consolidated Statements of Comprehensive Income (Loss) and Accumulated Other Comprehensive Loss (unaudited)

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

(in USD millions)	Three Months Ended December 31,		Year Ended December 31,	
	2022	2021	2022	2021
<b>Net gain (loss)</b>	<b>16.4</b>	<b>(12.7)</b>	<b>9.8</b>	<b>(14.8)</b>
Other comprehensive (loss) / income				
Currency translation differences	12.3	(1.4)	(16.7)	(6.4)
Gain on sale of equity investment	—	—	—	0.6
Total other comprehensive income (loss)	12.3	(1.4)	(16.7)	(5.8)
<b>Total comprehensive income (loss)</b>	<b>28.7</b>	<b>(14.1)</b>	<b>(6.9)</b>	<b>(20.6)</b>

### Accumulated Other Comprehensive Income (Loss) (Unaudited)

(in USD millions)	Translation differences	Other comprehensive income	Total
<b>Balance at December 31, 2021</b>	<b>7.2</b>	<b>0.6</b>	<b>7.8</b>
Total other comprehensive income during 2022	(16.7)	-	(16.7)
<b>Balance at December 31, 2022</b>	<b>(9.5)</b>	<b>0.6</b>	<b>(9.0)</b>

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







## Consolidated Balance Sheet (unaudited)

(In USD million)			December 31, 2022	December 31, 2021
	Note		(Unaudited)	(Audited)
<b>ASSETS</b>				
Cash and cash equivalents			82.1	50.7
Restricted cash			10.9	14.8
Accounts receivables	2		152.6	125.6
Inventories	6		55.2	52.1
Other current assets			39.0	30.7
<b>Total current assets</b>			<b>339.7</b>	<b>273.9</b>
Investment in associated	7		11.8	3.4
Marketable securities			15.9	2.9
Property plant and equipment, net			310.7	343.6
Right of use assets	10		26.4	26.7
Deferred income tax asset	4		21.6	20.6
Goodwill	8		149.4	167.5
Other intangible assets, net			2.2	0.6
Deferred charges and other assets			28.4	11.4
<b>Total noncurrent assets</b>			<b>566.5</b>	<b>576.7</b>
<b>Total assets</b>			<b>906.2</b>	<b>850.7</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
Current portion of interest-bearing debt	9		562.9	25.3
Accounts payable			47.2	43.5
Operating Lease liabilities	10		5.6	5.2
Other current liabilities			162.3	140.2
<b>Total current liabilities</b>			<b>778.1</b>	<b>214.2</b>
Long-term interest-bearing debt	9		8.7	509.5
Subordinated related party Loan	9		15.9	15.9
Operating Lease liabilities	10		20.8	21.5
Deferred tax	4		0.4	1.0
Other noncurrent liabilities			0.8	0.0
<b>Total noncurrent liabilities</b>			<b>46.6</b>	<b>547.9</b>
<b>Shareholders' equity</b>			<b>81.5</b>	<b>88.5</b>
<b>Total liabilities and shareholders' equity</b>			<b>906.2</b>	<b>850.7</b>

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

## Consolidated Statements of Cash Flows (unaudited)

(In USD millions)	Year Ended December 31,	
	2022	2021
<b>Cash Flows from Operating Activities</b>		
Net (loss)/profit from continuing operations	9.8	(14.8)
Adjustment to reconcile net loss to net cash provided by operating activities		
Depreciation and amortization	49.5	53.8
Impairment of fixed assets	7.3	16.4
Share-based compensation expenses	0.1	0.4
(Gain)/loss on assets disposals	0.0	(0.6)
Share of losses of unconsolidated affiliates	0.6	0.5
Amortisation of loan fees	1.3	1.3
Mark to market of financial instruments	(7.7)	(5.1)
Mark to market of marketable securities	(13.1)	3.2
Change in deferred and accrued taxes	6.8	4.5
Gain on bargain purchase	(9.2)	(11.4)
Increase in accounts receivable and other current assets	(55.8)	(17.3)
Decrease in inventories	1.2	2.2
Increase in accounts payable and other current liabilities	43.4	13.8
Change in other operating assets and liabilities net, including non-cash fx effects	7.3	5.7
<b>Net cash provided by operating activities</b>	<b>41.5</b>	<b>52.7</b>
<b>Cash Flows from Investing Activities</b>		
Capital expenditures	(30.3)	(33.5)
Proceeds from asset disposals	1.9	3.2
Proceeds from partial sale of equity investment	-	1.9
Investment in associated entities	(9.3)	(0.9)
Investment in subsidiaries net of cash acquired	(5.9)	(13.3)
<b>Net cash used by investing activities</b>	<b>(43.6)</b>	<b>(42.6)</b>
<b>Cash Flows from Financing Activities</b>		
Borrowings under revolving facilities, other long-term debt and financial leases	91.8	58.5
Repayments under revolving facilities, other long-term debt and financial leases	(54.5)	(52.3)
Cash settlement of RSUs	(0.2)	(0.3)
<b>Net cash provided by financing activities</b>	<b>37.1</b>	<b>5.9</b>
Effect of exchange rate changes on cash and cash equivalents	(7.5)	(4.1)
<b>Net increase in cash and cash equivalents</b>	<b>27.5</b>	<b>11.9</b>
Cash and cash equivalents, including restricted cash, at beginning of the period	65.5	53.6
<b>Cash and cash equivalents, including restricted cash, at the end of the period</b>	<b>93.0</b>	<b>65.5</b>
Interest paid	33.1	27.6
Taxes paid	6.5	3.9

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
<b>Balance at December 31, 2021</b>	<b>1.5</b>	<b>928.1</b>	<b>(1,589.0)</b>	<b>7.8</b>	<b>740.1</b>	<b>88.5</b>
Share based compensation		0.1				0.1
Translation differences				(16.7)		(16.7)
Cash Settlement of RSUs		(0.2)				(0.2)
Net income			9.8			9.8
<b>Balance at December 31, 2022</b>	<b>1.5</b>	<b>928.0</b>	<b>(1,579.2)</b>	<b>(8.9)</b>	<b>740.1</b>	<b>81.5</b>

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

### Notes

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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 4,668 skilled and experienced people at December 31, 2022.

Archer was incorporated in Bermuda on August 31, 2007.

### *Basis of presentation*

The unaudited fourth quarter and full year 2022 consolidated financial statements are presented in accordance with United States of America Generally Accepted Accounting Principles (US GAAP). The unaudited fourth quarter and full year 2022 consolidated financial statements do not include all the disclosures required in complete annual financial statements. These unaudited fourth quarter and full year 2022 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.

### *Going Concern*

The financial statements have been prepared on a going concern basis. The Group is dependent on new financing to refinance its current loans maturing 1st October 2023. These conditions indicate that a material uncertainty exists that may cast substantial doubt on the Company's ability to continue as a going concern. The Consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. The company is exploring alternatives for its capital structure and anticipates having a refinancing solution in place well ahead of maturity. Management expects to meet the business requirements for at least the next twelve months as of the date of these consolidated financial statements. There is no assurance that Archer will be able to execute the refinancing.

### *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 and full year 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.

### *Recently issued accounting standards*

There are currently no recently issued Accounting Standard updates that are expected to materially affect our consolidated financial statements and related disclosures in future periods.



## Fourth quarter and full year 2022 report

### 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)	December 31, 2022	December 31, 2021
Accounts receivable net	152.6	125.6

*Provision for bad debts* - On December 31, 2022, we have a provision for bad debt of \$0.3 million which relates to debt owed from Russia. We have closed our operation in Russia. Prior to this provision we had no provisions for bad debts in our balance sheet since any anticipated unrecoverable revenues are taken into account under our revenue recognition policy and subsequent bad debts are written off as they are recognised.

We have recognised contract assets of \$15.7 million which relate to mobilisation fees for one of our modular rigs. These fees will be amortised over the contract period. \$6.3 million of these fees are included in other current assets and \$9.4 million in other non-current assets.

*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 December 31,		Year Ended December 31,	
	2022	2021	2022	2021
Foreign exchange gains/(losses)	9.8	(1.6)	(18.5)	(7.0)
Mark-to-market of marketable securities	8.4	(1.5)	13.1	(3.2)
Mark-to-market of financial investments	(0.2)	2.0	24.0	5.1
Other items	(0.4)	1.0	(1.3)	(1.8)
<b>Total other financial items</b>	<b>17.6</b>	<b>(0.0)</b>	<b>17.3</b>	<b>(6.8)</b>

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 USD/NOK 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 11%. This resulted in the large exchange losses recorded in the income statement in 2022. These are largely offset by translation adjustments recorded directly in accumulated other comprehensive income, and so the net effect of these exchange rate movement on equity is not so significant.

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 in 2022 following the accelerated increase 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)	Three Months Ended December 31,		Year Ended December 31,	
	2022	2021	2022	2021
North America	0.7	0.1	1.4	0.5
South America	3.9	0.3	5.3	0.8
Europe	(0.7)	(0.1)	6.4	4.5
Others	0.1	0.4	0.3	1.9
<b>Total</b>	<b>3.8</b>	<b>0.7</b>	<b>13.3</b>	<b>7.7</b>

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 expense for 2022 is \$13.3 million. The tax charge reported in the current year relates primarily to taxable profit reported from operations in Norway, withholding tax on interest to Bermuda and tax cost in Argentina. Tax cost current quarter primarily arises from Argentina.

The net tax expense in Europe amounted to \$6.4 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 \$5.3 million at the end of December 2022 related to operations in Brazil (\$1.2) and Guyana (\$0.5) and payable tax in Argentina (\$3.6) due to not being able to pay internal short-term debt. We have taken an allowance related to the 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. Tax cost in North America relates to withholding taxes paid to Guyana.

As on 31 December 2022 we have total deferred tax assets of \$21.6 million which mainly consist of \$12.0 million of tax assets in Norway, \$8.2 million tax assets in Argentina and \$1.0 million tax assets in UK. \$6.4 million of deferred tax assets in Norway relates to the acquisition of Ziebel AS in first quarter 2022.

Deferred tax liabilities on 31 December 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 December 31,		Full Year Ended December 31,	
	2022	2021	2022	2021
<b>Denominator</b>				
Weighted-average common shares outstanding	148,758	148,712	148,758	148,217
Effect of potentially dilutive common shares	362	—	768	—
Weighted-average common shares outstanding and assumed conversions	149,120	148,712	149,526	148,217

## Fourth quarter and full year 2022 report

### Note 6 Inventories

#### Inventories

(In USD millions)	December 31, 2022	December 31, 2021
Manufactured		
Raw materials	1.5	1.2
Finished goods	13.6	10.4
Work in progress	0.9	0.4
<b>Total manufactured</b>	<b>16.1</b>	<b>12.0</b>
Drilling supplies	21.8	14.1
Chemicals	--	0.2
Other items and spares	17.3	25.8
<b>Total inventories</b>	<b>55.2</b>	<b>52.1</b>

"Other items and spares" primarily relate to parts and spares for the land rigs used in our Latin America operation and spares and parts used in the Oiltools operations.

### Note 7 Investments in Associates

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

	December 31, 2022	December 31, 2021
Comtrac AS ("Comtrac")	50.0%	50.0%
Jarðboranir hf. ("Iceland Drilling")	50.0%	-

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

(In USD millions)	December 31, 2022	December 31, 2021
Comtrac	2.5	3.4
Iceland Drilling	9.3	-

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

(In USD millions)	Comtrac	Iceland Drilling
<b>Carrying value of investment at December 31, 2021</b>	<b>3.4</b>	<b>-</b>
Investment in Iceland Drilling	-	8.3
Subsequent loan to Iceland Drilling		1.0
Additional capital investment	0.0	-
Share in results of associates	(0.6)	-
Translation adjustments	(0.3)	-
<b>Carrying value of investment at December 31, 2022</b>	<b>2.5</b>	<b>9.3</b>

During the fourth quarter 2022, we completed our acquisition of 50% of Iceland Drilling, an unrelated, international geothermal drilling and integrated Service company for a purchase price of \$8.25 million. In addition to our equity shareholding we have equal Board representation with the other single 50% shareholder, Kaldbakur ehf, which is also unrelated to Archer Ltd. We have determined that our interest in Iceland Drilling does not constitute a controlling interest. Due to the fact that we are able to exercise significant influence over the company's operations we are accounting for the investment using the equity method of consolidation. The initial investment of \$8.3 million includes the purchase consideration for the shares and direct costs relating to the purchase, comprising mainly legal and professional fees. Following due diligence work we have concluded that the fair value of the net assets acquired is not materially different from the amount of our investment, totalling \$8.3 million. We shall not therefore be adjusting our share of the results of Iceland Drilling, recognised in our future income statements, to reflect any basis differences between the value recorded as our initial investment and the book value of the underlying equity acquired.

Following the acquisition we have made a loan equivalent to \$1.0 million to Iceland drilling.

Quoted market prices for Iceland Drilling and Comtrac and are not available because the shares are not publicly traded.

The carrying value of Comtrac 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 Platform Drilling and Well Services reporting segment – see also note 10.

### Goodwill

(In USD millions)	
<b>Net book balance at December 31, 2021</b>	<b>167.5</b>
Translation adjustments	(18.1)
<b>Net book balance at December 31, 2022</b>	<b>149.4</b>

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 judgment 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 in the 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 December 31, 2022.

## Fourth quarter and full year 2022 report

### Note 9 Long-term, Interest Bearing Debt

(In USD millions)	December 31, 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	559.6	(0.8)	558.8	516.4	(2.1)	514.3
Related party subordinated loan	15.9	—	15.9	15.9	—	15.9
Hermes-covered term loans	—	—	—	4.4	—	4.4
Other loans and capital lease liability	12.8	—	12.8	16.1	—	16.1
<b>Total loans and capital lease liability</b>	<b>558.3</b>	<b>(0.8)</b>	<b>587.5</b>	<b>552.8</b>	<b>(2.1)</b>	<b>550.7</b>
Less: current portion	(563.8)	(0.8)	(563.0)	(25.3)	—	(25.3)
<b>Long-term portion of interest-bearing debt</b>	<b>24.5</b>	<b>—</b>	<b>24.5</b>	<b>527.5</b>	<b>(2.1)</b>	<b>525.4</b>

#### Multicurrency term and revolving credit facility

The total amount available under the Multicurrency term and revolving credit facility (the “Facility”) is \$559.6 million, split between \$334.0 million under a term loan and \$225.6 million in revolving facilities. In addition, a total of \$10.9 million of the Facility is carved out into an overdraft facility. A total of \$559.6 million was drawn as at December 31, 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 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 December 31, 2022, the Company is compliant with all covenants under this Facility. Because the Facility matures on October 1st, 2023, the debt is classified as short term. 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.

### **Other loans and capital leases**

As described above, a total of \$10.9 million of the Facility is carved out into an overdraft facility. There was no borrowing under the overdraft facility on December 31, 2022.

On December 31, 2022 net borrowing under short-term facilities in Argentina was \$1.6 million.

We have finance arrangements relating to equipment in our Oiltools and Platform Drilling divisions. On December 31, 2022, the balance under these arrangements was \$10.6 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 on December 31, 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 \$9.6 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 12 years at December 31, 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 \$0.9 million during 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 of assets and lease liability for short term leases.



## Fourth quarter and full year 2022 report

Supplemental information pertaining to the Company's leasing activities for the year ended December 31, 2022 was as follows;

(In USD millions)	Year Ended December 31, 2022
Finance Lease costs	
Amortization of right of use assets	2.2
Interest on lease liabilities	0.5
Operating lease costs	5.6
Short term lease costs	21.8
<b>Total Lease costs</b>	<b>30.1</b>
Other information	
Cash paid for amounts included in measurement lease liabilities	
Operating cash flows from finance leases	0.5
Operating cash flows from operating leases	21.8
Financing cash flows from finance leases	2.8
Right of use assets obtained in exchange for new finance lease liabilities	5.3
Right of use assets obtained in exchange for new operating lease liabilities	1.7
Weighted average remaining lease term in years – finance leases	4.1
Weighted average remaining lease term in years– operating leases	7.7
Weighted average discount rate – finance leases	6.6%
Weighted average discount rate – operating leases	6.5%

### 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.

To date, we have presented our business under two reporting segments based on geographical location;

- Eastern Hemisphere
- Western Hemisphere

In addition, we have reported corporate costs, and assets as separate line items.

During 2022 we have conducted a review of our reporting Segments. Within the Eastern and Western Hemisphere segments, our business is split into business units according to the type of services supplied. Western hemisphere operations consist only of Land drilling services in Latin America. We have no land drilling services within our Eastern Hemisphere operations. Our management structure reflects the split of operations by service. The chief operating decision maker, Archer's Board of directors, receives some financial information by service unit, or division, and uses such information in assessing the company's overall performance and making decisions about resource allocation. The relative revenues and assets relating to the main divisions have grown and developed such that they now represent a significant percentage of Archer's business as a whole. We have therefore concluded that the disclosure of segmental information at divisional level is more appropriate than aggregating the divisions into the larger Eastern and Western Hemisphere segments. With effect from December 31, 2022 our reporting segments are represented by divisions which are engaged in the supply of the following services

**Divisions comprising Platform Operations**

Platform Drilling and Modular Rigs

Engineering

**Divisions comprising Well Services**

Wireline

Oiltools

**Divisions comprising Land Drilling**

Land Drilling

The Well Services and Platform Drilling reporting segment was previously reported combined as Eastern Hemisphere, whereas Western Hemisphere comprised the Land Drilling division.

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.

## Fourth quarter and full year 2022 report

### Segment information

(In USD millions)	Three Months Ended December 31,		Year Ended December 31,	
	2022	2021	2022	2021
<b>Revenues from external customers</b>				
Platform Operations	119.0	129.2	450.8	516.9
Well Services	65.1	64.6	240.0	208.4
Land Drilling	80.2	58.0	279.4	210.6
<b>Total revenue</b>	<b>264.3</b>	<b>251.9</b>	<b>970.2</b>	<b>936.1</b>
<b>Depreciation and amortization</b>				
Platform Operations	3.2	4.3	12.7	14.4
Well Services	2.7	2.5	10.8	8.3
Land Drilling	6.0	7.8	26.0	31.1
<b>Total depreciation and amortization</b>	<b>12.0</b>	<b>14.6</b>	<b>49.5</b>	<b>53.8</b>
<b>Operating income/net income</b>				
Platform Operations	12.3	6.6	34.8	33.8
Well Services	3.1	6.5	18.0	23.1
Land Drilling	5.0	(13.3)	(10.6)	(31.2)
Corporate Cost	(7.3)	(5.2)	(12.9)	(10.2)
Stock compensation cost	0.0	(0.1)	0.0	(0.3)
<b>Total operating income/(loss)</b>	<b>13.0</b>	<b>(5.5)</b>	<b>29.2</b>	<b>15.4</b>
Total financial items	7.2	(5.7)	(15.4)	(33.9)
Gain on bargain purchase	0.0	(0.8)	9.2	11.4
Income taxes	(3.8)	(0.7)	(13.3)	(7.7)
<b>Net income/(loss)</b>	<b>16.4</b>	<b>(12.7)</b>	<b>9.8</b>	<b>(14.8)</b>
<b>Capital Expenditures</b>				
Platform Operations	7.2	6.3	8.0	11.6
Well Services	5.6	3.9	11.4	9.0
Shared assets*	<u>1.0</u>	<u>0.4</u>	<u>1.5</u>	<u>1.9</u>
<b>Total excluding Land Drilling</b>	<b>13.8</b>	<b>9.6</b>	<b>20.9</b>	<b>22.5</b>
Land Drilling	3.5	4.1	9.6	11.0
<b>Total</b>	<b>17.3</b>	<b>13.7</b>	<b>30.5</b>	<b>33.5</b>

### Goodwill

(in USD millions)	Platform Operations	Well Services	Total
<b>Balance at December 31, 2021</b>	<b>86.3</b>	<b>81.2</b>	<b>167.5</b>
Translation adjustments	(9.3)	(8.8)	(18.1)
<b>Balance at December 31, 2022</b>	<b>77.0</b>	<b>72.4</b>	<b>149.4</b>

All goodwill relates to our Platform Drilling, Oiltools and Wireline operations

**Total assets**

<b>(In USD millions)</b>	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Platform Operations	216.6	160.4
Well Services	197.1	260.2
Shared assets*	173.8	106.1
New investment Iceland Drilling	9.5	-
Land Drilling	294.0	313.2
Corporate	15.2	10.8
<b>Total</b>	<b>906.2</b>	<b>850.7</b>

\* Assets shared by Platform Drilling and Well Services segments include shared office and admin facilities, cash, which is pooled, and tax assets and liabilities

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.

As a result of our testing in 2022 we have recognized total impairment charges of \$6.0 million relating to our land rigs in Argentina. We also recognised impairment charges totalling \$1.3 million relating to assets located in the US acquired as part of the acquisition of Ziebel

**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**

<b>(In USD millions)</b>	<b>December 31, 2022</b>		<b>December 31, 2021</b>	
	<b>Fair Value</b>	<b>Carrying Value</b>	<b>Fair Value</b>	<b>Carrying Value</b>
<b>Nonderivatives</b>				
Cash and cash equivalents	82.1	82.1	50.7	50.7
Restricted cash	10.9	10.9	14.8	14.8
Marketable securities	15.9	15.9	2.9	2.9
Accounts receivable	152.6	152.6	125.6	125.6
Accounts payable	(47.2)	(47.2)	(43.5)	(43.5)
Current portion of interest-bearing debt	(562.9)	(562.9)	(25.3)	(25.3)
Current portion of operating lease liability	(5.6)	(5.6)	(5.2)	(5.2)
Long-term interest-bearing debt	(8.7)	(8.7)	(509.5)	(509.5)
Operating lease liability	(20.8)	(20.8)	(21.5)	(21.5)
Subordinated related party loan	(15.9)	(15.9)	(15.9)	(15.9)
<b>Derivatives</b>				
Interest cap agreements	14.5	14.5	7.0	7.0

## Fourth quarter and full year 2022 report

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

### Financial assets and liabilities

In USD millions)	December 31, 2022	Fair Value Measurements at Reporting Date Using		
	Fair Value	Level 1	Level 2	Level 3
<b>Assets</b>				
Cash and cash equivalents	82.1	82.1	—	—
Restricted cash	10.9	10.9	—	—
Marketable securities	15.9	15.9	—	—
Accounts receivable	152.6	—	152.6	—
Interest cap agreements	14.5	—	14.5	—
<b>Liabilities</b>				
Accounts payable	(47.2)	—	(47.2)	—
Current portion of interest-bearing debt	(562.9)	—	(562.9)	—
Current portion of operating lease liability	(5.6)	—	(5.6)	—
Long-term, interest-bearing debt	(8.7)	—	(8.7)	—
Operating lease liability	(20.8)	—	(20.8)	—
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 caps are calculated using well-established independent market valuation techniques applied to contracted cash flows and LIBOR interest rates.

The fair value of the current portion of long-term debt is assumed to not deviate materially from the carrying value. The majority of our loan is repayable within twelve months. In general, the cost of capital has increased, and it is possible that the company will experience higher credit margins in the future.

Restricted cash consists mainly of bank deposits arising from advance employee tax withholdings

### Note 13 Gain on bargain purchase

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 existing wireline product offering. Archer expects 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
<b>Gain on assignment of debt - included in gain on bargain purchase</b>	<b>22.2</b>	<b>2.5</b>

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)
<b>Total fair value of assets acquired</b>	<b>6.7</b>

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 operational results of Ziebel are included in our Well Services reporting segment. For the period from the acquisition until the end of 2022, Archer recognized a total of \$3.2 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 with C6 Technologies AS and Comtrac AS:**

Our 50% investment in Comtrac AS comprises equity investment and a loan equivalent to \$1.7 million and \$0.9 million respectively. We account for our investment using the equity method, as discussed above in note 7. During the 12 months ended December 31, 2022, we have invoiced Comtrac AS a total of NOK 3.3 million, or \$0.3 million for services provided to them. The total balance of \$0.4 million is outstanding on December 30, 2022 and is reported in Accounts receivable

**Transactions with Iceland drilling:**



## Fourth quarter and full year 2022 report

During the fourth quarter of 2022 we acquired 50% of Iceland drilling. We are accounting for this investment using the equity method of accounting. Due to the fact that we exercise significant influence over its operations, following the acquisition, Iceland is a related party. The acquisition and relevant transactions are discussed further in note 7.

### *Transactions with other related parties*

The following are related parties, being companies in which Archer's second-largest shareholder Hemen Holding Ltd have significant direct and indirect interest:

- Seadrill Limited ("Seadrill")
- Front Ocean Management (Bermuda) Limited, ("Front")
- Seatankers Management Company Limited ("Seatankers")

During the 12 months ended December 31, 2022, we supplied Seadrill and affiliates with platform drilling and engineering services amounting to \$0.8 million. This amount has been included in operating revenue. On December 31, 2022 Seadrill owed us \$0.4 million in respect of these services.

Front and Seatankers provide management support and administrative services to us, and we have recorded fees of \$0.1 million and \$0.3 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 December 31, 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 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 January 10th, 2023 we completed the acquisition of Romar-Abrado, an unrelated company who offers advanced milling and SWARF handling services to the global P&A market. The acquisition is based on an enterprise value of USD 8 million, plus earn-out pending trading performance over 2023 to 2025. Romar-Abrado will be added to our Well Services reporting segment.

On February 8th, 2023 we agreed the acquisition of Baker Hughes coiled tubing business in the UK ("BH CT"), an unrelated company who offers coil tubing and pumping services to the UK market. The acquisition is based on an enterprise value of USD 7 million. BH CT will be added to our Well Services reporting segment.

## Appendix to Fourth 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. 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 December 31, 2022, September 30, 2022, June 30, 2022, March 31, 2022, December 30, 2021 and September 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					
	Dec. 31, 2022	Sep. 30, 2022	Jun. 30, 2022	Mar. 31, 2022	Dec. 31, 2021	Sep. 30, 2021
<b>Revenue</b>	264.3	240.2	246.6	219.1	251.9	242.8
Cost and expenses						
Operational costs	(249.1)	(229.6)	(238.9)	(221.2)	(244.0)	(235.3)
Impairments	(2.3)	—	—	(5.0)	(13.5)	—
Net financial items	7.2	(7.2)	(25.5)	10.1	(5.7)	(15.0)
Gain on bargain purchase	—	—	—	9.2	(0.8)	—
Income / (loss) from continuing operations before income taxes	<b>20.2</b>	<b>3.4</b>	<b>(17.8)</b>	<b>17.3</b>	<b>(12.0)</b>	<b>(7.5)</b>
Income tax (expense)/benefit	(3.8)	(4.4)	(1.7)	(3.3)	(0.7)	(2.2)
Net income / (loss)	<b>16.4</b>	<b>(1.1)</b>	<b>(19.5)</b>	<b>13.9</b>	<b>(12.7)</b>	<b>(9.7)</b>

### Reconciliation of GAAP to non-GAAP Measures (Unaudited)

(In USD million)	Three Months Ended					
	Dec. 31, 2022	Sep. 30, 2022	Jun. 30, 2022	Mar. 31, 2022	Dec. 31, 2021	Sep. 30, 2021
Net (loss)/income	16.4	(1.1)	(19.5)	13.9	(12.7)	(9.7)
Depreciation, amortization and impairments	14.3	12.4	12.0	18.2	14.6	13.2
Net financial items	(7.2)	7.2	25.5	(10.1)	5.7	15.0
Taxes on income	3.8	4.4	1.7	3.3	0.7	2.2
Gain on sale of asset	0.1	(0.1)	(0.1)	—	(0.2)	(0.2)
Gain on bargain purchase	—	—	—	(9.2)	0.8	—
EBITDA	<b>27.4</b>	<b>22.9</b>	<b>19.5</b>	<b>16.2</b>	<b>22.4</b>	<b>20.5</b>
Exceptional charges	1.8	0.9	1.4	4.9	3.4	3.0
<b>EBITDA before restructuring costs</b>	<b>29.2</b>	<b>23.7</b>	<b>20.9</b>	<b>21.1</b>	<b>25.8</b>	<b>23.5</b>

## Fourth quarter and full year 2022 report

### EBITDA by reporting segments (Unaudited)

(In USD million)	Three Months Ended					
	Dec. 31, 2022	Sep. 30, 2022	Jun. 30, 2022	Mar. 31, 2022	Dec. 31, 2021	Sep. 30, 2021
Platform Operations	15.5	11.1	11.4	9.6	11.1	12.3
Well Services	7.1	11.1	6.7	5.2	9.1	8.3
Land Drilling	7.3	2.6	3.4	3.2	3.6	1.6
Corporate costs	(2.5)	(1.9)	(1.9)	(1.8)	(1.5)	(1.7)
<b>EBITDA</b>	<b>27.4</b>	<b>22.9</b>	<b>19.5</b>	<b>16.2</b>	<b>22.4</b>	<b>20.5</b>

EBITDA for Platform Operations and Well Services has been restated historically to reflect the allocation of Overhead which was previously reported separately.