

BOART LONGYEAR LIMITED



INNOVATION LEADER



RECORD
PERFORMANCE

ANNUAL REPORT 2011



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WHO WE ARE

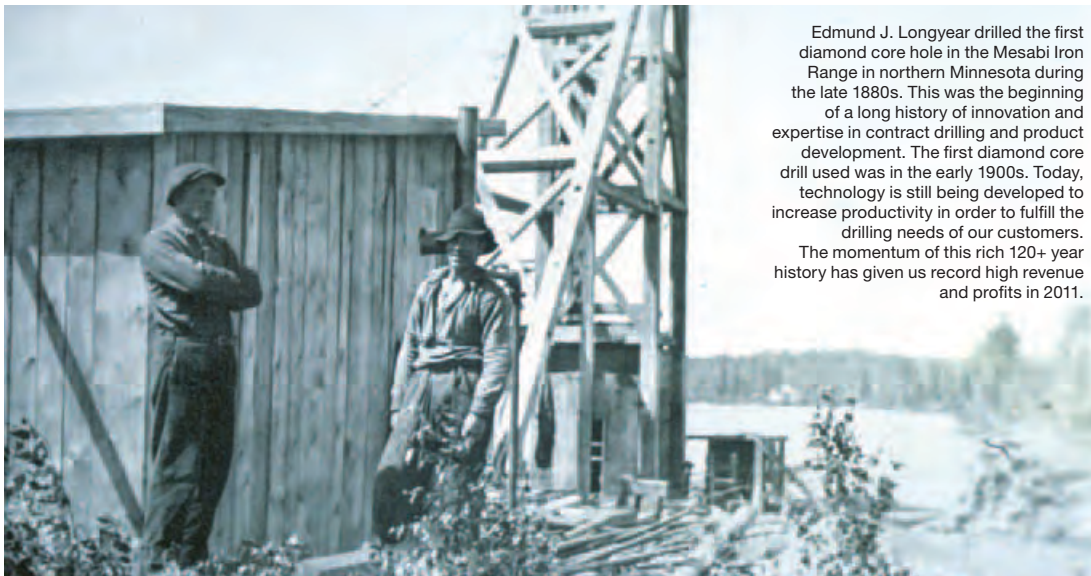
Boart Longyear is the world's largest mineral exploration drilling company. With more than 120 years of expertise, we provide drilling services and drilling products for the global mineral exploration industry. We also have a globally recognised expertise in mine de-watering, environmental sampling, energy, and oil sands exploration. Our customers rely on our unique ability to develop, field test and deliver any combination of drilling consumables, capital equipment and expertise direct to any corner of the world.

FINANCIAL CALENDAR

Final results and dividend announcement	21 February 2012
Annual General Meeting	15 May 2012
Half Year End	30 June 2012
Interim results	30 August 2012
Year End	31 December 2012

ANNUAL GENERAL MEETING

The Annual General Meeting of Boart Longyear will be held at:
National Wine Centre
Corner of Botanic and Hackney Roads, Adelaide, SA
Commencing at 1.00pm on 15 May 2012

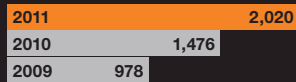


Edmund J. Longyear drilled the first diamond core hole in the Mesabi Iron Range in northern Minnesota during the late 1880s. This was the beginning of a long history of innovation and expertise in contract drilling and product development. The first diamond core drill used was in the early 1900s. Today, technology is still being developed to increase productivity in order to fulfill the drilling needs of our customers. The momentum of this rich 120+ year history has given us record high revenue and profits in 2011.

2011 OVERVIEW

REVENUE

US\$2,020M



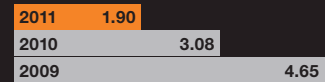
EBITDA

US\$356M



SEVERITY RATE*

1.90



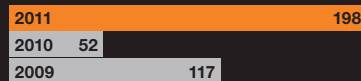
NET PROFIT AFTER TAX

US\$160M



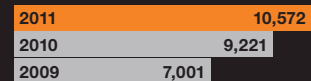
CASH FROM OPERATIONS

US\$198M



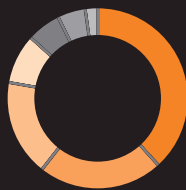
NUMBER OF EMPLOYEES

10,572



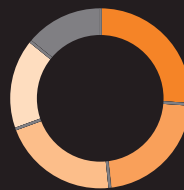
* Severity Rate = (# of Lost Time Days x 200,000)/# of man hours

TOTAL COMPANY REVENUE SPLIT



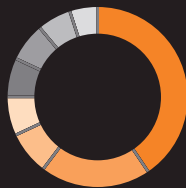
Surface Core Drilling	38%
Drilling Products	22%
Rotary Drilling	17%
Underground Core Drilling	9%
Percussive Products	6%
Non-mining/Other Drilling	5%
Percussive Drilling	2%

COMPANY REVENUE BY REGION



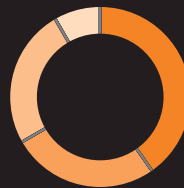
Asia Pacific	26%
United States	22%
Europe, Middle East and Africa	21%
Canada	16%
Latin America	14%

DRILLING SERVICES REVENUE BY COMMODITY



Gold	41%
Copper	20%
Iron	8%
Nickel	7%
Energy	7%
Other Metals	7%
Environmental	6%
Other	5%

DRILLING SERVICES REVENUE BY STAGE



Production (In pit)	40%
Exploration (Greenfield)	26%
Development (Brownfield)	25%
Non-Mining	8%

TECHNOLOGY

ORACLE®

During the year, we successfully implemented a single global Oracle® ERP system. Its 21 modules support all business segments and functions in over 40 countries. This new 'digital backbone' replaces numerous aging and disconnected systems and provides a foundation for efficiency improvements and future business growth. Its real-time data has enhanced visibility across our global operations, allowing for faster transactions and ensuring better compliance and control.

Employees who led the global implementation of the Oracle® ERP system (left to right): Jeff Kuckenbaker, Eric Povilus, Norm Robinson, Kelly Toombs, Ron Hankins, Matt Daw, Madhur Gulliani, Joe Harmer, Brett Davis, Matt Zollinger.



INNOVATION

INTELLECTUAL PROPERTY

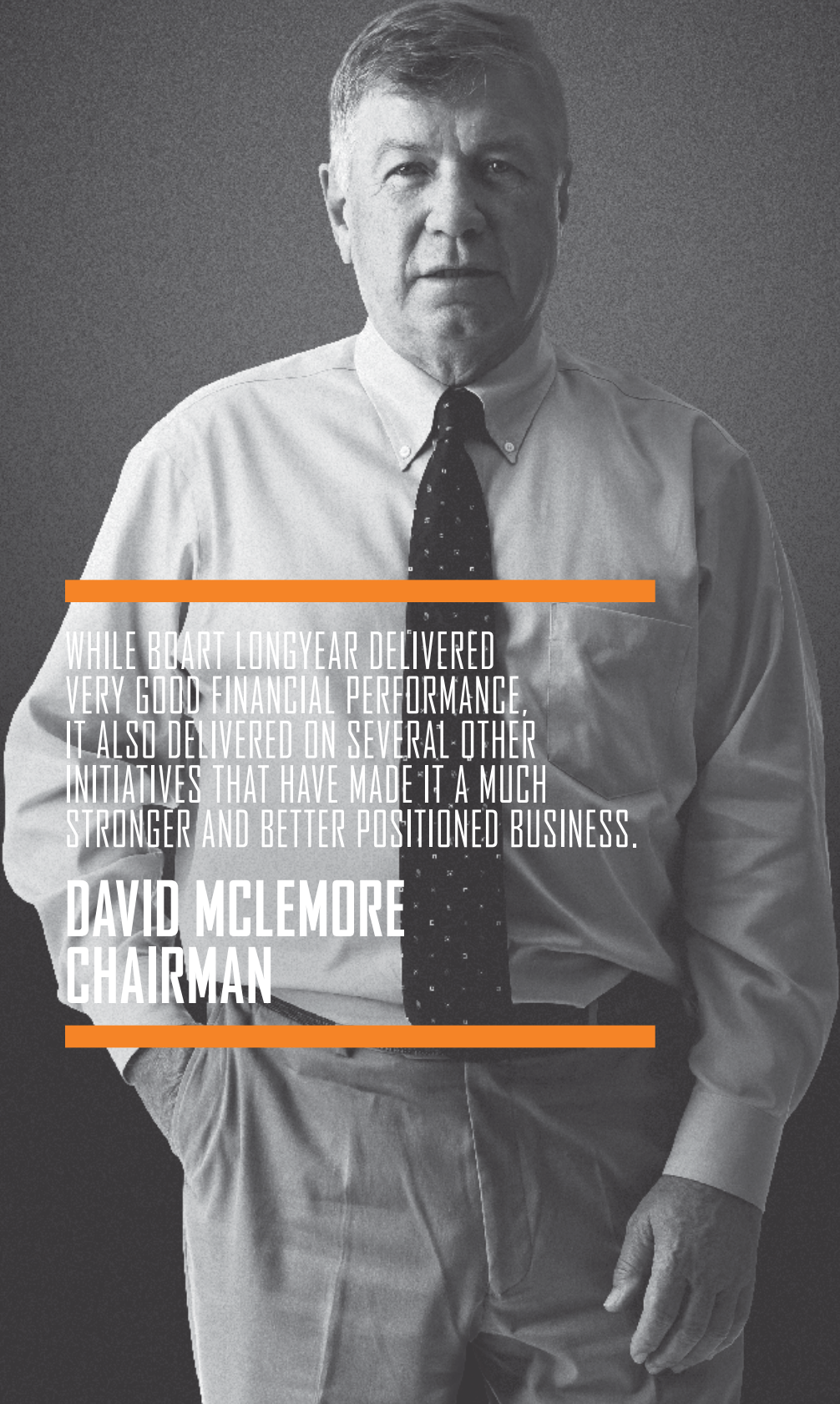
PATENT APPLICATIONS

2011	210
2010	173
2009	51

We continue to invest in research and development. In 2011 we launched 10 new products and filed a record 210 patent applications. We also were the proud recipient during the year of the Utah Genius Award, which recognises companies in the state of Utah, United States, for innovation. This award is based on statistics from the US Patent and Trademark Office.

Boart Longyear, in cooperation with Froude-Hofmann, developed the industry's first drill rig dynamometer. Shown here, this innovative testing system simulates drilling conditions and loading in a controlled environment prior to rigs being placed in the field.





WHILE BOART LONGYEAR DELIVERED
VERY GOOD FINANCIAL PERFORMANCE,
IT ALSO DELIVERED ON SEVERAL OTHER
INITIATIVES THAT HAVE MADE IT A MUCH
STRONGER AND BETTER POSITIONED BUSINESS.

DAVID MCLEMORE
CHAIRMAN

DEAR SHAREHOLDERS

2011 was a year of significant growth. Boart Longyear made a record US\$160 million net profit after tax as compared to US\$85 million in 2010. Both revenue and EBITDA were up substantially on the prior year. In 2011, our EBITDA was US\$356 million (US\$222 million in 2010) on revenues of US\$2.02 billion (US\$1.476 billion in 2010).

While Boart Longyear delivered very good financial performance, it also delivered on several other initiatives that made it a much safer, stronger and better positioned business:

- › The company finished restructuring its debt. All previous IPO debt facilities have been retired and replaced with new senior notes and a bank debt facility. These facilities are at low interest rates with staggered maturities and limited covenants. Our leverage remains under 1x EBITDA, providing headroom for any unforeseen market downturns.
- › The company continued to make investments in the business, laying a foundation for future growth. The commitment to R&D and bringing new products to market remained steady, with 10 new technologies being launched in 2011.
- › A new ERP system, Oracle®, was implemented globally in 2011. This system has brought greater visibility globally by connecting the countries where we operate under one system. The company will now be able to speed transactions and enhance compliance and controls worldwide.

- › The Board approved a new environmental sustainability program that focuses on air quality controls, energy and water conservation, and waste and hazardous materials minimisation. This initiative, in addition to our global annual ISO 14001 certification, drove several improvement projects worldwide to reduce our environmental impacts.
- › The company invested in new training programs and new equipment and technologies that are inherently safer to operate. Since 2007, Lost Time Days are down 79%, Total Case Incidents Rates are down 29% Lost Time Incidents Rates are down 62% and Severity Rates for lost-time incidents are down 83%.

The business is in great shape and the company is well positioned to deliver growth in 2012 and beyond. I would like to thank my fellow Board members for their support, advice and guidance provided to the company. I would also like to thank our Chief Executive Officer, Craig Kipp, and his executive team for their leadership, dedication and outstanding performance during this record year.

A RECORD YEAR

This past year was a record year for Boart Longyear! We delivered 37% revenue growth and a solid 89% NPAT growth. All this adds up to a new high in our rich 120 year history. The Boart Longyear “brand” is stronger than ever. Mr Edmund J Longyear would be proud.

We have been very busy transforming the company since the 2008 GFC (Global Financial Crisis). While 2011 revenue and profitability may look very similar to the previous results of 2008, this is a much different company.

Boart Longyear did not waste the 2008-2009 crisis. Let me explain:

- › Our capital structure has been made more recession resilient. The debt agreements in place prior to the IPO, have been completely replaced with long term high yield bonds and a new bank facility with extended maturities into 2021 and 2016, respectively.
- › The company’s leverage is well below 1x EBITDA, reducing our exposure to any potential “tail risk”.
- › We have finished implementing a world class ERP system (Oracle®) everywhere: 21 modules, 40 countries, all businesses. It has replaced 12 old and disconnected internal IT systems. A new foundation for the digital century.
- › We have launched well over 35 new products since 2007, for a current vitality index of 12%. 210 patents were applied for in 2011 alone.
- › During 2011, 90 older rigs were replaced, and 112 safer, newer technology rigs were added. A revenue enhancing process that will continue.
- › The safety metrics: TCIR and LTIR were 2.33 and 0.13, respectively. Our Severity Rate improved from 3.08 in 2010 to 1.9 in 2011.
- › Our emerging market geographic expansion has been dramatic, now representing over 35% of our revenue. We continue to follow our key customers as they expand geographically.
- › Re-investment back into the business has driven ROE from 8% in 2010 to 14% in 2011.

In summary, we have continued to invest in Boart Longyear’s people and technology. This has resulted in a much improved ROE. We will continue to invest for ongoing growth.

Finally, and perhaps most importantly, we have brought the company into the global digital age, with the recently launched “BLY App”. In the future, any driller will be able to order a Boart Longyear product while standing at his rig, with his cell phone, anywhere in the world.

So, time was not lost. As promised, we have emerged from the recession a better company and have extended our competitive advantage and our global footprint. The net result of all this hard work is leverage to the shareholders.


Principally, that has meant leverage in our financial performance: revenue, EBITDA, NPAT and ROE. For example, our dividends have grown 167% in the past 18 months and our ROE has grown by 77% from the previous year. We plan to keep this momentum going and improve our performance again in 2012. Expected revenue and NPAT for 2012 should exceed our previous highs of 2011.

Finally, whether we are drilling in Afghanistan or selling product in Laos – “People Create All Value”. As I mentioned last year, of the 20 top executives in Boart Longyear during September 2008 (start of the GFC), 17 are still here today. During difficult times, these leaders committed their most important asset to Boart Longyear: their careers.

This is the reason you reward good people in hard times: they are necessary to lead you to better opportunities. Leaders matter in these ongoing volatile times. The world is not going to get simpler or more predictable. Conversely, markets are getting faster, more variable and more global. Our team is tested and ready.

As always, I would like to thank our Board of Directors, our Chairman, David McLemore, and welcome our two newest Board members, Tanya Fratto and Barbara Jeremiah, to Boart Longyear.

In closing, thanks to all our shareholders for their ongoing support. The company is in great shape – ready to grow and continue performing.



WE HAVE BEEN VERY BUSY TRANSFORMING THE COMPANY SINCE THE 2008 GLOBAL FINANCIAL CRISIS. WHILE 2011 REVENUE AND PROFITABILITY MAY LOOK VERY SIMILAR TO THE PREVIOUS RESULTS OF 2008, THIS IS A MUCH DIFFERENT COMPANY.

CRAIG KIPP
CHIEF EXECUTIVE OFFICER



REVENUE

US\$1,448M

2011	1,448
2010	1,080
2009	737

EBITDA

US\$296M

2011	296
2010	191
2009	142

DRILLING SERVICES

The Drilling Services business includes the largest surface coring, underground coring, reverse circulation, rotary, and sonic rig fleets in the world. Our expertise in these various drilling methods allows our teams to tailor the drilling services we provide our customers, resulting in customised drilling solutions that deliver superior results.

As the global leader in minerals exploration drilling, our business is able to support mining customers in their exploration, development and production of gold, copper, nickel, zinc, uranium, and other metals and minerals. The geological samples we extract through our drilling operations, provide mining companies with critical information over the life of a mining project, from exploration to mine closure, wherever they operate.

In 2011, a number of key initiatives drove our record financial results, including: a focus on more profitable contracts, customers and geographies; a shift in “rig mix” towards high margin, technical drilling technologies; and a general increase in fleet vitality through investment in new and more productive drill rigs.

We also continued to win contracts and new business by executing our global priorities:

- › “Industry Best” safety performance with a special focus on compliance.
- › A “One Boart Longyear” drilling experience globally.
- › A modern “drill ready” fleet of equipment.
- › Development and retention of the best drilling organisation in the industry.



REVENUE

US\$572M

2011	572
2010	395
2009	241

EBITDA

US\$132M

2011	132
2010	95
2009	26

DRILLING PRODUCTS

The Products business designs, manufactures and sells drilling equipment and support systems, as well as drilling consumables such as bits, rods and tooling. These products are used in a range of industries including mineral exploration, mining, energy, environmental sampling and remediation, and infrastructure reinforcement and development. We also offer our customers professional aftermarket service and support. This includes drill equipment commissioning, training, maintenance programs, spare parts and emergency parts kits.

In 2011, record growth was attributed to a number of initiatives: new products, market expansion, capacity investments and service support.

We released 10 new products in 2011 and continued to invest in our R&D pipeline to ensure continued development and product vitality in the years ahead. In 2011, we filed 210 patent applications globally and were also recognised for our innovation commitment as recipients of the 2011 Utah Genius Award.

The business stayed focused on its primary objective of creating innovative products which provide safer and more productive drilling solutions to the industry.

Boart Longyear products are sold in over 100 countries and in 2011 we executed plans to expand into emerging countries such as Mali and Colombia. We successfully focused on improving global customer service performance through the addition of regionally positioned diamond bit technicians, customer service and supply chain representatives. The business successfully made several manufacturing capacity additions to adequately support the increase in global demand.

ENVIRONMENT

SUSTAINABILITY

Throughout Boart Longyear, environmental, health, and safety (EHS) are our top priority. We have a responsibility to our communities, employees, contractors, customers and shareholders to proactively strengthen our safety culture. Our management tracking system for EHS incidents sends daily emails, promptly reporting on every incident in every country in which we operate. We are continually enhancing our EHS programs and implementing best practices to ensure we can develop new processes and practices that help reduce safety incidents.

When it comes to the environment, our areas of focus include air quality controls, energy and water conservation, and waste and hazardous materials minimisation. Some examples of environmental projects undertaken during 2011 include:

- › Introducing high-efficiency paint guns and water-based paints in three of our manufacturing sites. This has reduced VOC (volatile organic compounds)

by three metric tonnes – equivalent to more than 200,000 vehicle kilometres.

- › Installing high-efficiency lighting at two manufacturing sites and upgrading a high-demand compressor. This has provided almost 900,000 kWh in energy savings – sufficient to power 78 homes for a year.
- › Filtering and reusing process waste water has reduced waste water disposal by 90 percent at one site – equivalent to more than 2,700 car washes at 380 litres per wash.
- › Implementing waste minimisation measures to reduce solid waste disposal at one site by 75 percent, or 265 tonnes annually – equivalent to the annual solid waste production of 371 people.

Our commitment to the well-being of our employees, our customers and the environment is reinforced by having our ISO 14001 environmental and OSHAS 18001 certifications renewed annually at all global operations and facilities.



2011 SAFETY RESULTS

TOTAL CASE INCIDENT RATE*

2011	2.33
2010	2.23
2009	1.78

LOST TIME INCIDENT RATE**

2011	0.13
2010	0.12
2009	0.08

LOST TIME DAYS

2011	307
2010	306
2009	377

Boart Longyear's commitment to the safety of our employees, our customers and the environment is reinforced by having our global ISO 14001 environmental and OSHAS 18001 certifications renewed annually.

* Total Case Incident Rate =
 $(\# \text{ Injuries} \times 200,000) / \# \text{ of Man hours}$

** Lost Time Incident Rate =
 $(\# \text{ of Lost Time Injuries} \times 200,000) / \# \text{ of Man hours}$

PEOPLE

DIVERSITY

One of Boart Longyear’s core values – Mutual Trust and Respect – states that our people are our most important asset. We know that the best ideas develop from collaborative efforts between individuals with diverse backgrounds, opinions and perspectives.

We have continued to expand training programs for employees around the world to develop their competencies and leadership skills. In 2011, the Board adopted a Workforce Diversity Policy that sets forth our commitment to creating a diverse and motivated workforce and is representative of the many communities in which we operate.

Several significant diversity achievements were recognised during 2011, including: the appointment of two female Non-Executive Directors (improving female board representation from 0% to 29%); the

THIS YEAR THE BOARD ADOPTED A WORKFORCE DIVERSITY POLICY WHICH SETS FORTH OUR COMMITMENT TO CREATING A DIVERSE AND MOTIVATED WORKFORCE AND IS REPRESENTATIVE OF THE MANY COMMUNITIES IN WHICH WE OPERATE.

development of a system to measure and report global gender representation; improvement of female representation within senior managers from 5% to 10%; and sponsorship of an internal Women’s Network at our US headquarters.



A few of the female leaders (left to right): Calisa Olinquevitch, Jasmina Finell, Janet Cooley, Stacie Rollins, Alice Barschti, Ginny Sorensen, Melanie Marier, Laura Holupka, Suzanne Silvestri, Monika Portman, AnnMarie Geddes.



Boart Longyear Asia Pacific is proud to be a corporate sponsor of The Royal Flying Doctor Service.

COMMUNITY

VOLUNTEERING

During the year, we took a more comprehensive approach towards giving back to the communities in which we operate by aligning company support with employees' charitable interests. Globally, we support organisations that provide education and opportunities for children and programs that focus on health and preventive care.

Recent examples of Boart Longyear's community activities include:

- Boart Longyear Zambia funds the **Rainbow Elizabetta Project** in the impoverished and AIDS-stricken Kantolomba district of Zambia. The company purchases medication for terminally ill patients and formula for babies with terminally ill mothers. Daily meals are provided for patients and several hundred orphaned children who have lost parents to AIDS. We also provide books and pens for counselling and education. In 2008 and 2011, we drilled new water wells and installed a new water pump to provide clean water and showers.
- Boart Longyear sponsors the **FIRST Lego League** promoting science and engineering. FIRST Lego League (For Inspiration and Recognition of Science and Technology) is an exciting global robotics and innovation program that develops an enthusiasm for discovery, science, teamwork and technology in children aged nine to 14. FIRST Lego League students have the opportunity to solve real-world challenges by building LEGO-based robots to complete tasks on a thematic playing surface. Teams, guided by their imaginations and adult coaches, discover exciting career possibilities and through the process learn to make positive contributions to society.
- Boart Longyear Asia Pacific is proud to be a corporate sponsor of **The Royal Flying Doctor Service**. This Australian not-for-profit service provides aero-medical emergency and primary health care services along with communication and education assistance to people who live, work and travel in regional and remote Australia.
- Boart Longyear held an employee food drive to help restock shelves at the **Utah Food Bank**. The employee food drive raised more than 1,800 pounds of food and thousands of dollars in donations by both employees and the company. In total, Boart Longyear helped the Utah Food Bank provide almost 30,000 meals for needy families in the state of Utah, United States. The Utah Food Bank provides food to a state-wide network of 154 emergency food pantries and agencies.
- Boart Longyear Latin America sponsored the International Association of Chile's "**Noche de Ayudarte**" – *the night of helping you* – in Santiago. This event included a silent auction and sale of art by local artists for a variety of children's charities.

BOARD OF DIRECTORS

DAVID MCLEMORE NON EXEC. CHAIRMAN

Mr McLemore was appointed a Director on 21 February 2007 and became Chairman of the Board on 23 August 2010. He also is a member of the Remuneration and Nominations Committee.

He has 35 years of industrial and broad operational experience. He has held a number of positions with various Advent International portfolio companies for more than ten years and was involved with Advent International's acquisition of the Boart Longyear Group from Anglo American plc in 2005.

Mr McLemore served at various times as Chairman, Deputy Chairman and Vice Chairman of the Boart Longyear Group from 2005 until 2007. Mr McLemore also served as a General Manager of a General Electric Power Systems division from 1985 to 1997.

Mr McLemore received his BS from Oklahoma State University.

CRAIG KIPP EXECUTIVE DIRECTOR, CHIEF EXECUTIVE OFFICER

Mr Kipp was appointed President and CEO of Boart Longyear in 2008, after serving three years as the company's COO and after the successful 2007 IPO. Prior to joining the company, he was employed by General Electric from 1983 to 2005, serving in various capacities in GE's Energy Division, including: President and COO of the Global Nuclear Fuel business, General Manager of Hungary operations in Budapest and finally General Manager of China operations in Shanghai.

Mr Kipp received both his BS and MS in Mechanical Engineering from the University of North Dakota and his MBA from the University of Chicago.

BRUCE BROOK NON EXEC. DIRECTOR

Mr Brook was appointed a Director of the Company on 21 February 2007, and is Chairman of the Audit, Compliance & Risk Committee and a member of the Environment, Health & Safety Committee.

Mr Brook currently is Chairman of the Board of Programmed Group and a director of CSL Limited, the Export Finance and Insurance Corporation, the Deep Exploration Technologies Co-operative Research Centre and Newmont Mining Corporation (New York Stock Exchange). Mr Brook is also a member of the Financial Reporting Council and a member of the Audit Committee of the Salvation Army (Southern Territory).

Mr Brook was the Chief Financial Officer of WMC Resources Ltd. from 2002 to 2005 and has approximately 30 years of experience in various management roles, including Deputy Chief Financial Officer of ANZ Banking Group Limited, Group Chief Accountant of Pacific Dunlop Limited, General Manager, Group Accounting at CRA Limited and General Manager, Accounting and Services at Pasminco Limited.

Mr Brook gained his B. Comm and B. Accounting at the University of Witwatersrand and is a fellow of the Institute of Chartered Accountants in Australia.

ROGER BROWN NON EXEC. DIRECTOR

Mr Brown was appointed a Director of the Company on 1 July 2010, and is the Chairman of the Remuneration & Nomination Committee and a member the Environment, Health & Safety Committee.

He currently holds board positions with McDermott International Inc. (New York Stock Exchange), and Ultra Petroleum Corporation (New York Stock Exchange). In addition, he has held board positions for I.E. Miller Services, Sandvik/Smith Ltd and the Petroleum Equipment Suppliers Association.

Prior to that, Mr Brown served as President of Smith Technologies, a business unit of Smith International, Inc., which prior to its acquisition by Schlumberger, Ltd. was a Fortune 500 company and a leading worldwide supplier of products and services to the oil and gas industrial markets.

Mr Brown received his BS in Economics, History and Political Science along with his JD from the University of Oklahoma.

ROY FRANKLIN NON EXEC. DIRECTOR

Mr Franklin was appointed a Director of the Company on 15 October 2010 and is the Chairman of the Environment, Health & Safety Committee and member of the Audit, Compliance & Risk Committee.

He is currently Chairman of the Board for Keller Group PLC (London Stock Exchange) and a Director of Santos Ltd. (ASX), Statoil ASA (Oslo Stock Exchange), and Cuadrilla Resources. He previously held directorships on a number of other corporate boards, including International Energy Group, and Novera Energy.

Mr Franklin also served as Chief Executive Officer of Paladin Resources from 1997 to 2006, was managing Director of Clyde Petroleum from 1991 to 1997, and held a number of executive roles with British Petroleum earlier in his career.

Mr Franklin is based out of England and received his BS in Geology from the University of Southampton.

TANYA FRATTO NON EXEC. DIRECTOR

Ms Fratto was appointed a Director on 1 June 2011 and is a member of the Environment, Health & Safety Committee and the Remuneration & Nominations Committee.

She most recently served as President and Chief Executive Officer of Diamond Innovations, the world's leading supplier of manufactured diamond, cubic boron nitride (CBN), and polycrystalline products, from 2004 and April 2011. Ms Fratto also was an officer of the General Electric Company and held a number of leadership positions over more than 20 years there, including in general management, operations, sourcing, product management and marketing.

Ms Fratto received her BS in Electrical Engineering from the University of South Alabama.

BARBARA JEREMIAH NON EXEC. DIRECTOR

Ms Jeremiah was appointed a Director of the Company on 1 October 2011 and is a member of the Audit, Compliance and Risk Committee and Environment, Health and Safety Committee.

Ms Jeremiah is a non-executive Director of EQT, Inc. (New York Stock Exchange), Allegheny Technologies, Inc. (New York Stock Exchange) and First Niagara Financial Group (NASDAQ). She also serves on the board of two non-profit organisations in the United States.

Ms Jeremiah's professional career includes several senior executive roles for Alcoa, Inc. She retired as Alcoa's Executive Vice President for Corporate Development in 2009 and in that role was responsible for leading Alcoa's worldwide acquisition and divestiture activity as well as its strategic analysis of its business.

Prior to her corporate development responsibilities, she held several senior positions in Alcoa's legal department, including Corporate Secretary and Assistant General Counsel.

Mrs Jeremiah received a BA in Political Science from Brown University and a JD from the University of Virginia School of Law.

PETER ST. GEORGE NON EXEC. DIRECTOR

Mr St. George was appointed a Director of the Company on 21 February 2007, and is a member of the Remuneration & Nomination Committee and the Audit, Compliance & Risk Committee.

Mr St. George currently is a Director of Dexus Group and First Quantum Minerals Limited (Toronto Stock Exchange). He also has served as a Director of SFE Corporation Limited and Spark Infrastructure Group.

Mr St. George's professional experience includes serving as Chief Executive/Co-Chief Executive of Salomon Smith Barney Australia/NatWest Markets Australia from 1995 to 2001 and more than 20 years of experience in senior corporate advisory roles within NatWest Markets and Hill Samuel & Co in London.

Mr St. George qualified as a Chartered Accountant in South Africa and received an MBA from the University of Cape Town.



EXECUTIVE LEADERSHIP TEAM

CRAIG KIPP

See page 14.

BRAD BAKER

Mr Baker was appointed as Senior Vice President, Human Resources in 2008. Prior to joining Boart Longyear he worked for Milacron Inc. for 17 years in a variety of operational, divisional and global human resources roles including Vice President of Human Resources.

Mr Baker received his BA in Business from Bowling Green State University and his MBA from Xavier University.

MIKE BIRCH

Mr Birch was appointed as Vice President of Global Drilling Services in 2010 after successfully leading the Global Products division to record performance from May 2006. Prior to joining Boart Longyear, he worked for Black & Decker Corporation for 15 years across various business units in both North America and Europe.

Past roles include Vice President and General Manager for Baldwin Hardware and Director of Marketing and Product Development for DeWalt Industrial Power Tools, both divisions of Black & Decker Corporation.

Mr Birch received his BA in Business Management from Brigham Young University.

IRA KANE

Mr Kane joined Boart Longyear in 2006 through the acquisition of the Prosonic Corporation, the USA's largest provider of sonic drilling services, where he served as its acting President and COO. Prior to this, he served for nine years as President and COO of publicly held MPW Industrial Services Co. and for 11 years as Executive Vice-President of publicly held OHM Corporation. Mr Kane was a practicing attorney in Columbus, Ohio for 13 years.

Mr Kane received his BA from Hofstra University and his JD from The Cleveland-Marshall College of Law at Cleveland-State University.

JOE RAGAN

Mr Ragan was appointed Chief Financial Officer in 2008. Prior to joining Boart Longyear, he held the position of Chief Financial Officer for GTSI Corporation, a leading technology solutions provider for the public sector listed on NASDAQ. He also held the position of Chief Financial Officer of U.S. Operations for Winstar Communications Inc., an international telecommunications company. Earlier in his career, Joe held various international and domestic finance positions for PSEG, The AES Corporation, and Deloitte and Touche.

Mr Ragan received his BS in Accounting from The University of the State of New York, his MS in Accounting from George Mason University, and his CPA in the Commonwealth of Virginia.

FAB RASETTI

Mr Rasetti was appointed Senior Vice President, General Counsel and Secretary in 2006. Prior to joining Boart Longyear, he was a Segment General Counsel and Segment Vice-President for Business Development for NYSE-listed SPX Corporation and served in various other management roles during his nine years there.

Prior to SPX Corporation, he worked in the private law firms of Howrey & Simon and Towey & Associates in Washington, DC.

Mr Rasetti received his BS in Foreign Service and JD from Georgetown University.

ALAN SIDES

Mr Sides was appointed Vice President, Global Products in 2010. Prior to joining Boart Longyear he spent over 25 years with the General Electric Company in the energy business. He was employed in various leadership capacities in both services and capital equipment globally. Most recently, he was the global commercial leader for the Aero Energy business in Houston, Texas. Prior positions included leading the commercial function in Asia Pacific for GE's power generation business and leading the wind energy P&L in Asia from Beijing. Mr Sides has been responsible for leading sales, commercial and services activities for GE while located in Singapore, Beijing, Tokyo, London and the USA. In addition, he has extensive acquisition integration experience having overseen over 20 integrations.

Alan received his BS in Mechanical Engineering from the Georgia Institute of Technology and earned an MBA from Emory University.



FINANCIAL REPORT

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Annual Financial Report

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DIRECTORS' REPORT

The directors present their report together with the financial report of Boart Longyear Limited (the "Parent") and its controlled entities (collectively the "Company") for the financial year ended 31 December 2011 ("financial year") and the Independent Auditor's Report thereon.

Financial results and information contained herein are presented in United States ("US") dollars unless otherwise noted.

DIRECTORS

The directors of the Company (the "Directors") in office during the financial year and as of the date of this report are set out below.

- Bruce Brook
- Roger Brown
- Tanya Fratto
- Roy Franklin
- Barbara Jeremiah
- Craig Kipp
- David McLemore
- Peter St. George

Others who held office as Directors during the financial year were:

- David Grzelak (appointed effective 13 November 2008; resigned effective 1 June 2011)

A summary of the Directors' work experience and qualifications is on pages 14-15.

DIRECTORS' MEETINGS

The following table sets out for each Director the number of Directors' meetings (including meetings of committees of Directors) held and the number of meetings attended by each Director during the financial year while he/she was a Director or committee member. The table does not reflect the Directors' attendance at committee meetings in an "ex-officio" capacity.

	<u>Board of Directors</u>		<u>Remuneration & Nominations Committee</u>		<u>Audit, Compliance & Risk Committee</u>		<u>Environment, Health & Safety Committee</u>	
	<u>Held</u>	<u>Attended</u>	<u>Held</u>	<u>Attended</u>	<u>Held</u>	<u>Attended</u>	<u>Held</u>	<u>Attended</u>
Bruce Brook	6	6			4	4	4	4
Roger Brown	6	6	4	4			4	4
Tanya Fratto ¹	3	3	2	1			2	1
Roy Franklin ⁴	6	6			3	2	3	3
David Grzelak ²	3	2			3	2	2	2
Barbara Jeremiah ³	1	1						
Craig Kipp	6	6						
David McLemore	6	6	4	4				
Peter St. George	6	6	4	4	4	4		

- (1) Ms Fratto was appointed to the Board effective 1 June 2011 and the EHS and ACRC Committees effective 1 July 2011.
- (2) Mr Grzelak resigned from the Board effective 1 June 2011.
- (3) Ms Jeremiah was appointed to the Board effective 1 October 2011 and the EHS and ACRC Committees effective 30 January 2012.
- (4) Mr Franklin was appointed to the ACRC and EHS Committees effective 1 March 2011.

In addition to the regular meetings listed above, several special meetings of the Board and its committees were held during the course of the year.

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COMPANY SECRETARIES

Fabrizio Rasetti was appointed Company Secretary on 26 February 2007. A summary of his work experience and qualifications is on page 16.

Paul Blewett was appointed Company Secretary on 21 October 2008. Prior to joining Boart Longyear he was General Counsel and Company Secretary for Hills Industries Limited (ASX:HIL). Prior to Hills Industries, he held a number of positions with other Australian Securities Exchange listed companies, following private legal practice for eight years with the Lynch Meyer law firm in Adelaide, South Australia. Mr Blewett received his LLB from the University of Adelaide in 1983.

PRINCIPAL ACTIVITIES

The Company is the leading integrated provider of drilling services, capital equipment and consumable products for customers in the mining and minerals exploration, environmental and infrastructure, and energy industries. The Company conducts these activities through two operating divisions, known as the Drilling Services and Products divisions.

The Drilling Services division operates in over 40 countries. It provides services to a diverse customer base and offers a broad range of drilling technologies, including, but not limited to, diamond core, underground, reverse circulation, percussive, rotary and sonic drilling.

The Products division manufactures and sells capital equipment and consumables primarily to customers in the drilling services and mining industries globally. These products include rigs and products such as bits, rods and in-hole tools for exploration drilling, rock drilling and environmental, infrastructure and construction applications.

Financial performance

Financial performance across all business lines and geographic regions has improved over the previous year.

Total revenue for the year ended 31 December 2011 was \$2,020 million, an increase of 37%, compared to \$1,476 million in the prior year. Of the \$544 million increase in revenue during 2011, \$367 million was attributable to an increase in revenue in the Drilling Services division and \$177 million was due to the Products division. Revenue was higher in each of the five geographic regions in which the Company operates. The Company experienced significant growth in the African and South American emerging markets.

By all measures, 2011 was a record year for the Drilling Services division, which increased revenue to \$1,448 million, an increase of 34% from the prior year. The Drilling Services division leveraged this strong top-line growth into a \$95 million, or 80%, increase in operating profit. A number of key initiatives drove these strong financial results, including: a focus on more profitable contracts, customers and geographies; a shift in "rig mix" towards high margin, technical drilling technologies; and a general increase in fleet vitality through investment in new and more productive drill rigs. The division also continued to execute on its global priorities of building on its reputation for industry-leading safety performance, legal compliance and global consistency of operations; maintaining a modern, "drill ready" fleet; and recruiting, developing and retaining the best drilling organisation in the industry.

In 2011, the Products division significantly increased revenue to \$572 million, an increase of 45% from the prior year, as a result of market growth as well as share gains in most product categories. The increase was driven by higher sales volume related to higher activity in the mining industry. The division released 10 significant new products in 2011, filed 210 patent applications and continued to increase investment in research and development to maintain a pipeline of new products for future years. The Products division also expanded geographically in 2011 by establishing operations in Mali and Colombia. In addition, the division focused on improving global customer service performance through the addition of regionally positioned diamond bit technicians and customer service and supply chain representatives and successfully made several manufacturing capacity additions to support the demand increases achieved during the year.

Net profit after tax for the year ended 31 December 2011 was \$160 million, compared to net profit after tax of \$85 million in the prior year. The 2010 net profit after tax includes restructuring expenses of \$5 million (\$3 million net of tax benefit). 2011 net profit after tax increased primarily due to leverage on increased volume, better productivity and continued price and margin recovery, partially offset by higher general and administrative expense and interest expense.

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Tax expense for the year ended 31 December 2011 was \$67 million, or 30% of profit before tax, compared to tax expense of \$39 million, or 31% of profit before tax for the prior year. The tax expense takes into account the tax weighting of the corporate structure.

Earnings per share in 2011 were 35.1 cents on a basic basis and 34.8 cents on a diluted basis, compared to earnings per share of 18.5 cents on a basic basis and 18.4 cents on a diluted basis for the prior year.

DIVIDENDS

A dividend of US 3.4 cents per share (total of \$15,679,556) was paid on 15 April 2011. The dividend, which was for the second half of 2010, was 35% franked at the Australian corporate taxation rate of 30%. 100% of unfranked portion of the dividend was conduit foreign income.

An interim dividend of US 4.8 cents per share (total of \$22,135,844) was paid on 7 October 2011. The dividend, which was for the half-year ended 30 June 2011, was 35% franked at the Australian corporate taxation rate of 30%. 69% of the unfranked portion of the dividend was conduit foreign income.

On 21 February 2012, the Directors determined to pay a dividend of US 5.6 cents per share (for a total of approximately \$26,000,000) for the second half of 2011. The dividend is expected to be paid on 13 April 2012 to shareholders of record as at 16 March 2012. The dividend will be 15% franked at the Australian corporate taxation rate of 30%. None of the unfranked portion of the dividend will be conduit foreign income. The dividend is not included as a liability in the 31 December 2011 financial statements.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Enterprise Resource Planning system implementation

The Company has successfully implemented a new Oracle Enterprise Resource Planning system. The implementation, which occurred in three phases over two years, was completed in January 2012 and covered operations in 40 countries across all of the Company's regions and businesses. It will be an integral element of the Company's management, reporting and control systems and includes a full suite of modules offered by Oracle.

2011 Senior Notes Offering and Bank Debt Refinancing

In March 2011, the Company completed an offering of \$300 million of 7% Senior Notes in a private offering to qualified institutional buyers in the United States pursuant to Rule 144a under the United States Securities Act of 1933 ("Securities Act") and to certain buyers outside of the United States under Regulation S of the Securities Act. The Senior Notes, which are unsecured and guaranteed by Boart Longyear Limited and certain of its subsidiaries, will mature on 1 April 2021. They are subject to covenants that restrict the Company's ability to engage in certain activities, including incurring additional indebtedness, and may require the Company to repurchase some or all of the notes upon the occurrence of a defined "change of control event" followed by a downgrade of the Company's credit ratings. The Company's ability to redeem the notes prior to maturity also is subject to certain conditions.

In July 2011, the Company refinanced its two existing bank debt facilities, which had an aggregate principal amount of \$285 million and were due to mature in February and April 2012. The Company's new bank debt facility, which has a maturity date of 29 July 2016, is for a principal amount of \$250 million and contains an option to increase the principal amount by an additional \$150 million. Interest rates on the new facility are subject to a leverage grid and are described in greater detail in Note 17 to the financial statements.

The combination of the March 2011 Senior Notes offering and refinancing of bank debt in July 2011 represented the completion of the Company's capital restructuring plan by retiring the last of the Company's bank debt facilities from the time of its initial public offering in 2007 and providing the Company with additional liquidity with staggered, long-term maturities and attractive terms.

EVENTS SUBSEQUENT TO REPORTING DATE

In the opinion of the Directors, there has not arisen in the interval between the end of the financial year and the date of the report any matter or circumstance that has significantly affected, or may significantly affect, the Company's operations, results or state of affairs in future financial years.

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FUTURE DEVELOPMENTS

The Company intends to continue to invest significantly in its principal activities related to providing drilling services and selling drilling capital equipment and consumable products while focusing on operating improvements, product development, cost management, return on equity and cash generation. The Company may also elect to expand its product or service offerings through organic growth initiatives or strategic acquisitions.

Further information about likely developments in the operations of the Company in future years, expected results of those operations, and strategies of the Company and its prospects for future financial years has been omitted from this report because disclosure of the information would be speculative or prejudicial to the Company.

CORPORATE GOVERNANCE STATEMENT

The Board believes that high standards of corporate governance are an essential prerequisite for creating sustainable value for shareholders. This statement summarises the main corporate governance policies and practices in place within the Company. Unless otherwise noted, the Company has followed the best practice recommendations set out in the ASX Corporate Governance Council's Principles and Recommendations (the "ASX Guidelines").

The Company's most significant governance policies, including its Board and committee charters, diversity policy and Code of Conduct, may be found on the Company's website at www.boartlongyear.com.

Role of the Board

The Board charter sets out the powers and responsibilities of the Board. These include:

- providing strategic direction for, and approving, the Company's business plans and objectives;
- monitoring the operational and financial position and performance of the Company;
- establishing a sound risk management framework for the Company and ensuring that management takes reasonable steps to implement appropriate controls and otherwise mitigate risks;
- requiring that robust financial and other reporting mechanisms are put in place to provide adequate, accurate and timely information to the Board and shareholders regarding all material developments;
- appointing and evaluating the performance of the Chief Executive Officer, approving other key executive appointments and planning for executive succession;
- reviewing and approving remuneration for senior executives;
- approving the Company's annual operating budget and business plans and monitoring the management of the Company's capital, including any material capital expenditures, acquisitions or divestitures;
- monitoring procedures to ensure compliance with legal and regulatory requirements and accounting standards; and
- determining the level of authority delegated to the Chief Executive Officer and Company management.

The Board has delegated to the Chief Executive Officer and to the Company's Executive Management Committee ("EXCO") responsibility for managing the business of the Company in compliance with Board policies, legal requirements and the fundamental standards of ethics and integrity reflected in the Company's Code of Business Conduct. The Board policies and charter set clear thresholds for management authority and ensure accountability to, and oversight by, the Board or its committees for the approval of specific matters, including remuneration of senior executives, changes to the Company's share capitalisation, declaration of dividends, the Company's annual operating budget, material acquisitions and divestitures and changes to corporate strategy. Delegations are regularly reviewed by the Board and may be changed by the Board at any time.

Composition of the Board and Director selection process

At the date of this report, the Company has one executive Director and seven non-executive Directors.

Boart Longyear recognises that the ability of its Board to fulfill its role properly requires that the Directors collectively have an appropriate range of skills, experience and expertise, including experience in accounting and financial reporting, operational expertise and experience in the markets the Company serves. The Board recruited two new non-executive Directors, Tanya Fratto and Barbara Jeremiah, in 2011. They were identified and selected with the assistance of a large, global executive search firm based on desired skills and experience criteria provided by the Company's Board and senior management after the completion of the annual Board performance assessment in the first half of 2011.

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Board independence

The Company recognises that a majority of the Directors should be independent, and the Board reviews Director independence at least annually. In assessing the independence of non-executive Directors, the Board has considered the criteria detailed in the Board charter, including, whether a Director:

- is a substantial shareholder of the Company, or otherwise is associated directly or indirectly with a substantial shareholder;
- has been employed in an executive capacity by the Company within the last three years or did not become a Director within three years of being so employed;
- has been a principal of a material professional advisor or a material consultant to the Company within the last three years;
- is a partner in, material shareholder or officer of, or otherwise has a significant association with, a material supplier or customer of the Company;
- has a material contractual relationship with the Company other than as a Director; or
- has received more than A\$100,000 from the Company during the past year other than as compensation for the Director fulfilling his duties as a Director.

The Board charter also defines materiality as being an amount in excess of 5% of Boart Longyear's or the advisor's, supplier's or customer's revenue or expenses, as the case may be.

The Board meets the requirements of the charter and the recommendations of the ASX Guidelines, as a majority of the Board is comprised of non-executive Directors and all non-executive Directors, including the Chairman of the Board and the chairmen of the three Board committees, meet the independence criteria listed above. In particular, none of the non-executive Directors, including the Chairman, has been an employee of the Company or any of its significant investors prior to the Company's initial public offering.

The Board has considered each Director's previous and current relationships with the Company's customers, suppliers, consultants, professional advisors and substantial shareholders. The Board notes that two non-executive Directors, Bruce Brook and Roy Franklin, each hold positions in companies with which the Company currently has commercial relationships. Mr Brook became a non-executive director of Newmont Mining Corporation in October 2011, and Mr Franklin currently is the non-executive Chairman of Keller Group plc. Both Newmont and Keller Group, through its Hayward Baker geotechnical construction engineering business, are customers of the Company's Drilling Services business.

The Board has considered each case separately and has concluded that these relationships are not material and do not interfere with the relevant Director's exercise of independent judgment. Nor do these relationships affect their ability to act in the best interests of the Company's shareholders. The relationships are arm's length customer-supplier relationships based on normal commercial terms. Neither Mr Brook nor Mr Franklin participates directly or indirectly in those relationships or the terms on which the companies conduct business, and they were not involved in any procurement or other Board decision-making regarding the companies with which they have an association. The Board also notes the importance of having Directors with experience in the Company's markets serving on the Board.

Board processes

The Board meets at least six times a year and convenes additional meetings as required. The agenda for Board meetings is prepared by the Chief Executive Officer, the Secretaries, and other senior management in conjunction with the Chairman and, along with supporting papers, is distributed to Directors prior to each meeting. Certain senior executives participate in Board and committee meetings to provide the Directors with access to key operating, financial and compliance personnel on a regular basis. In addition, the Directors have access to other Company employees in Board and committee meetings and in other settings. The Board endeavours to schedule at least one meeting annually at one of the Company's significant operating locations to meet with the location's management and better familiarise the Board with those operations and the Company's risks and opportunities.

Board committees

The Board is comprised of the following three permanent committees to assist it in discharging its responsibilities:

- Audit, Compliance & Risk Committee;
- Remuneration & Nominations Committee; and
- Environment, Health & Safety Committee.

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The committees have written charters that are reviewed annually. All non-executive Directors may attend any committee meeting. The Chairman of each committee reports on committee proceedings at the next Board meeting, and minutes of all committee meetings are circulated to Directors in the Board papers.

Audit, Compliance & Risk Committee

The Audit, Compliance & Risk Committee assists the Board to fulfill its governance and disclosure responsibilities in relation to the quality and integrity of the Company's financial reports, internal controls, risk management framework and external audits. The Committee also monitors compliance with laws and regulations. The Committee makes recommendations to the Board regarding the appointment, performance and independence of the external auditor and must approve all non-audit services performed by the external auditor.

The Committee is currently comprised of four non-executive Directors, all of whom are independent Directors and at least one of whom has relevant accounting qualifications or experience. The Committee consisted of the following non-executive Directors during the financial year:

- Bruce Brook – Chairman
- Roy Franklin (appointed 1 March 2011)
- David Grzelak (resigned effective 1 June 2011)
- Peter St. George

Barbara Jeremiah was appointed to the Committee effective 30 January 2012.

Remuneration & Nominations Committee

The Remuneration & Nominations Committee supports the Board by overseeing matters related to executive and Director remuneration and the composition and performance of the Board. The Committee's responsibilities include:

- developing and reviewing remuneration plans, including annual bonus plans and long-term incentive plans, including equity-based incentive plans;
- developing performance objectives for the Chief Executive Officer and his direct reports and reviewing performance against those objectives;
- overseeing policies for recruitment, retention and succession planning for Directors and key executive positions; and
- reviewing the composition of the Board and monitoring the performance of the Board and the Directors.

The Committee consisted of the following non-executive Directors during the financial year:

- David McLemore – Chairman
- Roger Brown
- Tanya Fratto (effective 1 July 2011)
- Peter St. George

Roger Brown will become Chairman of the Committee effective 1 March 2012, and Mr McLemore will continue to serve on the Committee after that date.

Environment, Health & Safety Committee

Boart Longyear places a high priority on safety, management of operational risks and compliance with environmental laws and regulations. The Environment, Health & Safety Committee assists the Board in the effective discharge of its responsibilities in relation to these matters, including Australia's work health and safety legislation, and has authority to investigate any matter within the scope of the Committee's charter.

Among its responsibilities, the Committee:

- assists the Directors to maintain an up-to-date knowledge of work health and safety matters;
- ensures that the Company has effective resources, systems and processes for monitoring and mitigating operational risks;
- reviews and assesses the Company's policies and practices to ensure compliance with environmental and operational regulatory requirements, including through internal and external audits; and
- reviews the results of investigations of any major health, safety or environmental incidents occurring in the Company's operations.

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The Committee consisted of the following non-executive Directors during the financial year:

- Roy Franklin – Chairman (appointed Chairman effective 1 June 2011)
- Bruce Brook
- Roger Brown
- Tanya Fratto (effective 1 July 2011)

Barbara Jeremiah was appointed to the Committee effective 30 January 2012.

Board and Director performance

The Board has a formal annual assessment process that includes performance assessments of the Board committees and individual Directors. As part of the assessment process, each Director completes a questionnaire on the operation of the Board and its committees and the performance and contributions of the Directors. The results of the questionnaires are compiled by the Chairman of the Board or committee, as applicable, and discussed with each Director individually.

The most recent Board performance evaluation was conducted in the first half of 2011 with the assistance of an external advisor, who prepared a questionnaire for the Directors and certain members of senior management, interviewed certain of the respondents, and compiled and reported the results in a report to the Chairman and the Directors. The Chairman then reviewed the results and recommendations with the Directors.

In addition, the Board committee chairmen currently are conducting a performance assessment of their committees and members. The committee assessments commenced in December 2011 and are expected to be completed in the first quarter of 2012.

Director induction process

New Directors undergo an induction process to inform them of the nature of the Company's business, strategies, risks and issues, and expectations about Director performance, including awareness of continuous disclosure principles. The terms of a non-executive Director's appointment are set out in a letter to the Director from the Company. The letter details the Director's obligations, including to:

- act in the best interests of the Company at all times;
- submit to re-election from time to time as required by the Company's constitution;
- notify the Chairman of any change in circumstances that might prevent the Director from being regarded as independent;
- comply with the Company's constitution, governance policies and all applicable legal requirements, including the Company's Securities Trading Policy;
- devote sufficient time to prepare for and attend Board meetings and otherwise to discharge the Director's duties;
- keep confidential, and not use for the benefit of any person or party other than the Company, any confidential information of the Company; and
- disclose any directorships, business interests or circumstances that might represent conflicts of interests or reasonably be perceived to interfere with the exercise of the Director's independent judgement, or have an adverse impact on the Company's reputation or public profile.

The appointment letter also confers certain benefits and rights upon the Director, including indemnities and insurance coverage for liabilities arising out of the discharge of the Director's duties and unfettered access to papers, information and employees of the Company. In addition, Directors may, with the approval of the Chairman, consult with professional advisors.

The Company's induction process also includes meetings with the senior management, including the leaders of the Company's business units and administrative functions.

Executive performance

The Company employs a structured performance evaluation process to ensure that senior executives are motivated to deliver shareholder value and are accountable to the Board at all times. The process commences early each financial year when the Board establishes and approves corporate performance objectives as well as individual performance objectives for senior managers of the Company. As detailed more fully in the Remuneration Report, performance against those objectives determines the potential incentive the executive may receive under the Company's annual bonus plan. The Chief Executive Officer and other senior managers of the Company participate in an annual short-term incentive plan that is based on the achievement of the annual corporate operating margin, safety and revenue growth performance objectives as well as certain individual strategic initiatives approved by the Board. Individuals are advised

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annually of their target bonuses, which in 2011 ranged from 50% to an additional 100% of base pay for the senior executives. Exceptional individual and corporate performance can increase actual bonuses paid under the Corporate Bonus Plan to up to 150% of a participant's target bonus amount. The Company's executive performance assessment process for 2011 and goal-setting process for 2012 commenced in January 2012 and will be completed in March 2012.

Risk Management

The Board recognises that risk management and internal controls are fundamental to good corporate governance, and the Board and senior management accept their responsibility to identify and manage risk on an ongoing basis. The Company's risk management framework consists of a number of controls, including:

- documented systems, procedures, authorities and delegations for the orderly management of the Company;
- policies and ethical standards, and ensuring that employees understand such obligations;
- risk-based internal audits to test the Company's controls and assist management with the enforcement of Company policies;
- certifications from management and process owners throughout the Company regarding the design and operation of risk management systems, internal controls and compliance; and
- a formal risk management system, overseen by the Director of Risk Management, based on a written risk management policy and the findings of Company audits and investigations.

The Board is assisted and advised in its oversight of the Company's risk management system by two of its committees: the Environment, Health & Safety Committee with respect to health safety and operational risks generally and the Audit, Compliance & Risk Committee with respect to financial and compliance risks. Those committees review the annual audit plan of the Company's internal audit function and Environment, Health & Safety group, and, along with senior management, consider the findings of those audits. The Audit, Compliance & Risk Committee also monitors compliance programs managed by the Company's legal function or outside counsel and reviews the significant findings of any compliance reviews or investigations.

The Company also implemented a scenario planning process in December 2010 to identify early signs of, and plan for, significant events and contingencies. The scenario planning process is an ongoing process and continued throughout 2011 with periodic reports to the Board.

Integrity of financial reporting

In accordance with the ASX Guidelines, the Chief Executive Officer and Chief Financial Officer have certified the following (among other detailed certifications) to the Board in writing:

- (1) in their opinion, after having made appropriate enquiries, with regard to the integrity of the financial statements of the Company for the year ended 31 December 2011:
 - (i) the financial statements for the financial year comply with Accounting Standards and have been properly maintained in accordance with section 286 of the Corporations Act 2001;
 - (ii) the financial reports, and notes thereto, present a true and fair view, in all material respects, of the financial position and performance of the Company in accordance with section 297 of the Corporations Act 2001; and
 - (iii) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- (2) to the best of their knowledge and beliefs after having made appropriate enquiries, with regard to risk management and internal control systems of the Company for the year ended 31 December 2011:
 - (i) the statements made in (1) above regarding the integrity of the financial statements are founded on a sound system of risk management and internal compliance which, in all material respects, implements the policies adopted by the Board of Directors;
 - (ii) the risk management and internal compliance system, to the extent it relates to financial reporting, is operating effectively in all material respects based on the risk management model adopted by the Company; and
 - (iii) nothing has come to management's attention since 31 December 2011 that would indicate any material change to the statements made in 2(i) and 2(ii) above.

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These statements are supported by certifications made to the Chief Executive Officer and Chief Financial Officer by the regional and financial managers of each of the Company's divisions. They provide a reasonable, but not absolute, level of assurance and do not imply a guarantee against adverse events or more volatile outcomes arising in the future. A number of internal control deficiencies relating to financial reporting have been identified during the financial year, and in such cases, where deemed appropriate, additional tests of procedures or tests of resulting account balances included in the financial statements have confirmed that there has been no material impact on the financial reports. Management also has reported to the Board as to the effectiveness of the Company's management of material business risks.

Code of business conduct and ethical standards

Boart Longyear's Directors, management and employees are required to act with integrity at all times and maintain high ethical standards. The Company has adopted a Code of Business Conduct that covers a broad range of matters, including:

- conflicts of interest and the preservation and proper use of Company assets;
- protection of confidential and commercially sensitive information;
- employment legislation;
- competition law and fair dealing;
- environmental, health and safety considerations;
- improper payments, bribery and money laundering, including transactions with government officials;
- financial reporting and record-keeping; and
- each employee's affirmative duty to report violations of policy or law.

The Code of Business Conduct is available on the Company's website at www.boartlongyear.com. The Company supplements the Code of Business Conduct with additional policies that provide more detailed guidance on substantive legal requirements and other principles and requires employees to successfully complete assigned compliance training courses on an ongoing basis.

In addition, the Company maintains, and actively promotes the use of, several systems for employees and other persons to report potential violations of the Code of Conduct and other policies. Reported concerns are investigated by the Company's legal department or external legal counsel and reported to the Board.

Workforce diversity

In 2011, the Board adopted the Company's Workforce Diversity Policy, which is available on the Company's website at www.boartlongyear.com.

This policy sets forth the Company's commitment to creating a diverse and motivated workforce that shares the Company's and its investors' values and is representative of the many communities in which the Company operates. It promotes a work environment where people are free to achieve their best without encountering prejudice regarding their gender, ethnicity, age, disability, sexual orientation, religion or cultural differences.

The Remuneration & Nominations Committee of the Board of Directors has responsibility for oversight of the policy and any amendments. The Committee will review the Workforce Diversity Policy at least annually and oversee its implementation. The Committee has established measurable objectives for achieving desired diversity and will annually assess their relevance and the progress made in achieving them.

Several significant diversity achievements were recognised during 2011, including:

- the appointment of two female Directors during 2011, improving female board representation from 0% to 29%;
- the development of a system to measure and report global gender representation so year-to-year progress can be monitored;
- female representation within senior managers improved from 5% in 2010 to 10% in 2011; and
- the Company's sponsorship of an internal Women's Network at its US headquarters (with the intention to expand the network in the future).

The levels of the Company's workforce gender diversity as of 31 December 2011 are set out below:

Gender diversity	Male	Female
Total Employees	92%	8%
Total Employees (excluding Drillers and Driller Helpers)	82%	18%
Senior Managers	90%	10%
Board of Directors	71%	29%

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Environmental performance

Boart Longyear is committed to achieving a high standard of environmental performance. The Company's operations are subject to various environmental laws and regulations in the many jurisdictions in which it operates, including regulations under both Commonwealth and state legislation in Australia. The Board, with the assistance of the Environment, Health and Safety Committee, monitors environmental performance against relevant legislation and Company objectives and monitors remedial action, when required.

In 2011, the Board approved a corporate environmental sustainability initiative that outlines specific waste and emission reduction programs to be developed and implemented by the Company's operations over three years. Implementation of the sustainability initiative began during the year throughout the Company's operations and already has yielded positive results, including:

- reducing solid waste disposal at the Company's Salt Lake City bit manufacturing plant by 75%, or 265 tonnes annually;
- upgrading a gas-fired annealing furnace at the Mississauga, Canada, plant with a high-efficiency electric induction heating coil system, producing an annual reduction in natural gas usage of 3.1 million m³ and an annual reduction of greenhouse gas emissions of approximately 7,000 tonnes of CO₂;
- filtering and reusing process waste water at the Wuxi, China, facility and reducing waste water disposal by 90%; and
- installing high-efficiency lighting in its North Bay and Mississauga plants in Canada and generating almost 400,000 kWh in annual energy savings.

The Directors are not aware of any business unit operating in breach of environmental regulations during the financial year, or as at, the date of this report, under any applicable law of the Commonwealth or of a State or Territory. The Company's Environmental, Health and Safety Policy can be reviewed on the Company's website at www.boartlongyear.com.

Continuous disclosure

The Board aims to ensure that all of its shareholders and the market in general are kept fully and promptly informed of all potentially price-sensitive developments and changes that are likely to materially affect the Company's operations, financial results and business prospects. The Company's External Communications Policy specifies how the Company will meet its continuous disclosure obligations under ASX Listing Rule 3.1 and sets out procedures for Company employees to report potentially price-sensitive information to management and the Board.

The Company produces financial statements for its shareholders and other interested parties twice per year. Shareholders have the right to attend the Annual General Meeting in May and are provided with an explanatory memorandum on the resolutions proposed through the Notice of Meeting. The Company also has an investor relations function to manage and assure prompt and relevant communications with shareholders and the market generally, and the Company posts material information for its shareholders, such as ASX announcements and financial results, on its website at www.boartlongyear.com.

Donations

Boart Longyear contributes to the communities in which it works with donations, sponsorship and practical support. The Company does not make political donations. The Company adopted a Charitable Giving Policy in 2011 that more formally establishes the framework and requirements for all charitable giving by, and on behalf of, all Company operations and units. The policy aims to align Company charitable giving with the charitable interests of employees and regional operations by soliciting proposals directly from them and targeting projects and causes in which they participate actively. The Company especially targets projects that have clear objectives and outcomes promoting the following:

- education and opportunities for children – programs and opportunities that assist young people to develop marketable skills and competencies, particularly in the areas of engineering, science and technology; and
- health and preventive care – programs that improve the health and safety of employees, their families and their communities by improving access to critical resources and addressing endemic illnesses, including providing access to clean water sources and supporting the development of malaria vaccinations and treatments.

The Company's charitable giving is coordinated by the Company's regional leadership teams and overseen by its Executive Committee.

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DIRECTORS' SHAREHOLDINGS

The following table sets out each Director's relevant interest in shares, debentures, and rights or options over shares or debentures of the Company or a related body corporate as at the date of this report.

	<u>Fully paid ordinary shares</u>	<u>Rights and options ¹</u>	<u>Total</u>
Bruce Brook	104,423	-	104,423
Roger Brown	30,000	-	30,000
Tanya Fratto	-	-	-
Roy Franklin	-	-	-
Barbara Jeremiah	30,000	-	30,000
Craig Kipp	564,998	1,405,400	1,970,398
David McLemore	115,861	-	115,861
Peter St. George	107,450	-	107,450

(1) Certain of the share rights listed for Mr Kipp are performance share rights granted under the Long-term Incentive Plan and thus are subject to a performance condition as well as a service condition.

GRANTS OF SHARES, RIGHTS OVER SHARES AND OPTIONS GRANTED TO DIRECTORS AND EXECUTIVES

The shares or rights over shares of the Company that have been granted to Directors or executives of the Company are included in the Remuneration Report. Options over unissued shares of the Company have been granted to the Chief Executive Officer, Mr Kipp, and certain other executives, as detailed in the Remuneration Report. No shares or interests have been issued during or since the end of the financial year as a result of exercise of options.

DIRECTORS' AND OFFICERS' INTERESTS IN CONTRACTS

Except as noted herein, no contracts involving Directors' or officers' interests existed during, or were entered into since the end of the financial year other than the transactions detailed in Note 31 to the financial statements.

PROCEEDINGS ON BEHALF OF COMPANY

No person has applied for leave of court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the financial year.

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REMUNERATION REPORT

INTRODUCTION

This remuneration report sets out Boart Longyear's remuneration policies and practices, the rationale underlying them and their outcomes.

The Company's policies have been developed within a framework that seeks to fairly reconcile and balance:

- the overall objective of attracting, retaining and motivating management in order to achieve the highest levels of performance from them for the benefit of all shareholders;
- high standards of fairness, transparency and sound corporate governance principles;
- the particular business environment in which Boart Longyear operates, recognising that:
 - o the Company's business is global and, consequently, the senior executive team is based primarily outside of Australia and is recruited internationally;
 - o the markets in which the Company operates can have strong cyclical characteristics which place equal performance pressures on management in an upswing as in down cycles; and
 - o importantly, the Company is incorporated and listed in Australia and must comply with local corporate regulatory requirements and practices.

During 2011, as in previous years, the Board undertook a comprehensive review of the Company's remuneration practices and policies. In conducting this review, the Board paid particular attention to the specific concerns that were raised by shareholders in the votes on the 2009 and 2010 remuneration reports. As a result of the changes to the Company's remuneration practices and policies in 2010, combined with the revised structure and improved transparency of the remuneration report, shareholders approved the 2010 remuneration report with 94% in favour.

This 2011 remuneration report maintains the improvements the Company made to the 2010 report and incorporates additional information based on feedback received from shareholders and proxy advisors. Some of the specific changes the Board of Directors addressed in 2011 include:

- adoption of non-executive Director shareholding guidelines;
- modification to the fee schedule for non-executive Directors;
- modification of the Long Term Incentive Plan ("LTIP") such that, for Share Rights granted beginning 2012, all dividends paid on unvested Share Rights will be held in trust and payable upon the participant satisfying applicable vesting conditions.

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Report Structure

The Remuneration Report (the "Report") is presented in six sections, as follows.

Section		Description of content
1	2011 remuneration overview	<ul style="list-style-type: none"> • Outlines the Company's remuneration practices and the key influences on the Company's remuneration arrangements during the year ended 31 December 2011. • Explains how executive remuneration is structured to support the Company's strategic objectives. • Sets out the Directors and senior executives who are covered by this Report. • Details the actual remuneration earned by the CEO and other senior executives during the year ended 31 December 2011.
2	Remuneration framework and strategy	<ul style="list-style-type: none"> • Sets out the Company's remuneration governance framework and explains how the Board and Remuneration & Nominations Committee make remuneration decisions, including the use of external remuneration consultants. • Outlines the Company's remuneration strategy.
3	Components of executive remuneration	<ul style="list-style-type: none"> • Provides a breakdown of the various components of executive remuneration. • Details the components of executive remuneration that are fixed and therefore not "at-risk". • Outlines the key features of the short-term incentive plan that applies to the Company's executives. • Outlines the key features of the long-term incentive plan and option plan that apply to the Company's executives.
4	Performance and risk alignment	<ul style="list-style-type: none"> • Explains how executive remuneration is aligned with performance and outlines short-term and long-term performance indicators and outcomes. • Explains how executive remuneration is structured to encourage behaviour that supports long-term financial soundness and the Company's risk management framework.
5	Executive remuneration in detail	<ul style="list-style-type: none"> • Sets out the total remuneration provided to executives (calculated pursuant to the accounting standards) during the years ended 31 December 2011 and 2010. • Provides details of the Rights granted to executives during the year ended 31 December 2011 under the long-term incentive plan. • Summarises the key terms of executive service contracts (including termination entitlements).
6	Non-executive Director arrangements	<ul style="list-style-type: none"> • Explains the non-executive Directors' remuneration structure including the basis on which non-executive Director remuneration is set and the components. • Outlines key features of the non-executive Director Share Acquisition Plan. • Sets out the non-executive Directors' remuneration during the years ended 31 December 2011 and 2010.

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1. 2011 REMUNERATION OVERVIEW

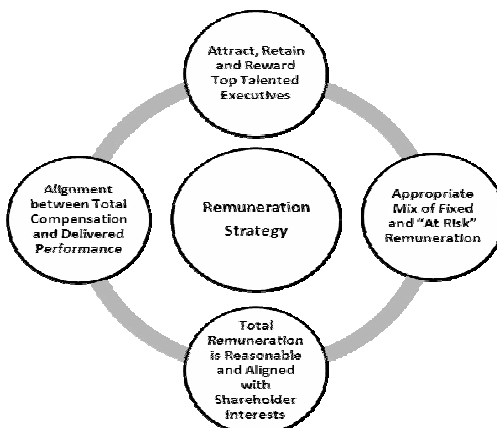
This section provides:

- an overview of the Company’s executive remuneration strategy and linkages between the strategy and the design of the components of executive remuneration;
- a summary of the comprehensive review of the Company’s remuneration strategy and procedures that was undertaken during 2010 and the outcomes of that review;
- details of the Directors and senior executives covered by this Report; and
- details of the actual remuneration outcomes for senior executives.

At the Company’s annual general meeting on 11 May 2010, shareholders approved a 10 for 1 share consolidation. Trading in the consolidated shares commenced 13 May 2010. Where relevant, amounts have been restated in this Report using consolidated share amounts.

1.1. EXECUTIVE REMUNERATION STRATEGY

The diagram below illustrates the significant objectives of the Company’s executive remuneration strategy and how the components of overall remuneration have been designed to support these objectives:



Attract, Retain and Reward Top Talented Executives

- Remuneration levels are competitive with similar roles in markets in which the Company competes for talent.
- Incentive-based compensation provides for upside potential with superior performance.
- Long-term incentive compensation provides for a meaningful retention.

Alignment between Total Compensation and Delivered Performance

- Incentive-based compensation is designed to reward executives for delivered performance against important company financial and strategic objectives.
- Incentive plans utilise an appropriate mix of challenging performance measures designed to only deliver value to executives if target performance is achieved over both the short and long terms.

Appropriate Mix of Fixed and “At Risk” Remuneration

- There is a significant amount of total executive remuneration which is at risk and dependent upon achieving challenging performance metrics.
- Fixed remuneration is appropriately market competitive and consistently higher performing executives are rewarded through higher base compensation.

Total Remuneration is reasonable and aligned with Shareholder Interests

- The Remuneration Committee regularly performs executive compensation benchmarking utilising independent compensation consultants.
- The long-term incentive component of remuneration is primarily delivered through equity share rights linked to the Company’s ordinary shares.
- Executives and Directors cannot hedge equity share rights that are invested or subject to restrictions.

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1.2. REVIEW OF REMUNERATION STRATEGY AND PRACTICES

During 2010, the Board reviewed the Company's executive remuneration arrangements. The key objectives of this review were to further enhance the linkage between performance-based compensation and actual business performance, and to establish a set of key performance metrics that would remain consistent through business cycles. At the same time it was recognised that the principle of a fair relationship between remuneration outcomes and performance delivered to shareholders was fundamental to any executive incentive scheme being proposed as a result of the review. The Board engaged Mercer Consulting as lead external consultants to assist in this review.

Following this review, the Company implemented several remuneration initiatives consistent with the goals of the review. These included:

- amending the terms of the short-term incentive ("STI") provided to executives under the Corporate Bonus Plan ("CBP") to include a broader range of performance measures, including operating, strategic, safety and individual performance measures, and to include stretch targets to reward exceptional performance. Details of the terms of this plan are set out in section 3.3 below;
- redesigning the terms of the long-term incentive ("LTI") plan for executives applicable to performance-based awards beginning 1 January 2010. This revised plan measures performance in relation to Return on Equity ("ROE"). This measure is considered a more appropriate measure of performance than the previous single measure of average earnings per share ("EPS") as it captures several of the key performance drivers of the business and reflects the importance to the Company of effective capital management. The revised plan also incorporates stretch targets to reward outstanding performance. Details of the 2011 Long-term Incentive Plan are set out in section 3.4 below; and
- establishing formulae and key performance metrics for both the CBP and the LTI plan which can be consistently applied through all aspects of the business cycle so as to provide certainty and clarity for executives and shareholders (the Board has, however, retained discretion to modify the plans should circumstances require).

All components of executive remuneration, including base pay, target short-term and target long-term incentive pay were reviewed for market competitiveness against companies of similar size and/or a composite peer group including companies with complementary talent pools and having similar value standards.

The philosophy and structure above were reviewed, discussed and determined to remain unchanged by the Board in 2011.

1.3. DIRECTORS AND SENIOR EXECUTIVES

This Report sets out the remuneration arrangements in place for the key management personnel ("KMP") of the Company for the purposes of the Corporations Act and the Accounting Standards, being those persons who have authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including the non-executive Directors. The KMP include the five highest remunerated executives of the Company for the year ended 31 December 2011 and are listed in Table 1.3 below:

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Table 1.3: Directors and senior executives who were KMP during the year ended 31 December 2011

Non-executive Directors	Position
David McLemore	Chairman, Non-executive Director
Bruce Brook	Non-executive Director
Roger Brown	Non-executive Director
Tanya Fratto	Non-executive Director (appointed effective 1 June 2011)
Roy Franklin	Non-executive Director
Barbara Jeremiah	Non-executive Director (appointed effective 1 October 2011)
David Grzelak	Non-executive Director (resigned from the Board effective 1 June 2011)
Peter St. George	Non-executive Director
Senior executives	Position
Craig Kipp	Chief Executive Officer and Executive Director
Joe Ragan III	Chief Financial Officer
Fabrizio Rasetti	Senior Vice President, General Counsel and Secretary
Brad Baker	Senior Vice President, Human Resources
Michael Birch	Vice President, Global Drilling Services
Alan Sides	Vice President, Global Products

The remuneration policy and programs set out in this Report apply to all KMP and to other members of the Company's senior management who are not KMP.

1.4. REMUNERATION OUTCOMES

Actual remuneration

Details of CEO and other senior executive remuneration for the year ended 31 December 2011, prepared in accordance with statutory obligations and accounting standards, are contained in Table 5.1 of this Report.

Table 1.4 below provides details of the cash and other benefits that were actually paid to the CEO and other senior executives who are KMP. It illustrates how the Company's remuneration strategy for senior executives translates into practice. 2011 was the first year of LTIP grants vesting for the CEO and other senior executives, as Rights granted in 2008 and subject to performance conditions from 2008 through 2010 reached their vesting date.

Table 1.4: Actual remuneration received by senior executives during the year ended 31 December 2011

	Base salary	STI (cash)¹	LTI (cash and equity)²	Other³	Total
	US\$	US\$	US\$	US\$	US\$
Craig Kipp	1,000,000	865,000	291,898	36,768	2,193,666
Joe Ragan III	435,385	276,360	102,534	36,768	851,047
Fabrizio Rasetti	393,942	180,334	92,652	35,551	702,479
Brad Baker	311,365	134,663	78,862	36,962	561,852
Michael Birch	449,692	177,336	95,800	30,511	753,339
Alan Sides	335,385	111,360	11,457	39,639	497,841

- (1) Represents the cash paid in respect of the executive's STI award earned under the CBP. For further details of the CBP, see section 3.3 of this Report.
- (2) Represents the value of share rights and cash rights vested during the year (based on the market value of shares at the vesting date) and dividends received on share rights. Share rights and cash rights granted under the Company's LTI Plan and options granted under the Company's Option Plans during the year ended 31 December 2011 and other grant years that are still in progress do not appear in this table, as they are not eligible for vesting until the conclusion of the performance period and/or continued service requirement. For further details of the LTI Plan and Option Plans, see section 3.4 of this Report.
- (3) Represents benefits such as special one-time bonuses (if any), US 401(k) retirement plan Company matching and/or profit sharing contributions, relocation benefits, car allowance, and tax preparation service reimbursement, if applicable.

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2. REMUNERATION FRAMEWORK AND STRATEGY

This section outlines the processes, principles and strategy that underpin the remuneration arrangements for senior executives.

2.1. HOW REMUNERATION DECISIONS ARE MADE

Board responsibility

The Board is responsible for the Company's remuneration arrangements and ensuring that they are equitable and aligned with the long-term interests of the Company and its shareholders. In performing this function and making decisions about executive remuneration, the Board is fully informed and acts independently of management. To assist in making decisions relating to remuneration, the Board has established a Remuneration & Nominations Committee.

Remuneration & Nominations Committee

The Remuneration & Nominations Committee ("Remuneration Committee") has been established to assist the Board with remuneration issues and is responsible for ensuring that the Company compensates appropriately and consistently with market practices. It also seeks to ensure that the Company's remuneration programs and strategies will attract and retain high-calibre Directors, executives and employees and will motivate them to maximise the Company's long-term business, create value for shareholders and support the Company's goals and values.

The Remuneration Committee's responsibilities include:

- developing and reviewing remuneration plans, including annual bonus plans and long-term incentive plans, including equity-based incentive plans;
- developing performance objectives for the CEO and his direct reports and reviewing performance against those objectives;
- overseeing strategies for recruitment, retention and succession planning for Directors and key executive positions; and
- reviewing the composition of the Board and monitoring the performance of the Board and the Directors.

The charter of the Remuneration Committee is set out in full on the Company's website at www.boartlongyear.com.

The CEO, the Senior Vice President for Human Resources and other members of senior management attend meetings of the Remuneration Committee, as appropriate, to provide information necessary for the Remuneration Committee to discharge its duties. Individual executives do not attend or participate in discussions where recommendations regarding their own circumstances are determined.

Use of remuneration consultants

Where appropriate, the Board seeks and considers advice from independent remuneration consultants. Remuneration consultants are engaged by, and report directly to, the Remuneration Committee and support the Committee in assessing market practice and movements to ensure that base salary and targeted short-term and long-term compensation are in line with comparable roles. When remuneration consultants are engaged, the Committee establishes with the consultants the appropriate level of independence from the Company's management that is required depending upon the circumstances of the assignment or advice being sought. Thus the Committee may determine that complete independence from management is required or that the consultants may be directed to work with Company management to obtain relevant information or input in order to formulate advice or recommendations to the Committee. The table below sets out details of the remuneration consultants engaged and a summary of the services provided during the year ended 31 December 2011.

Table 2.1: Remuneration consultant arrangements

Remuneration consultant	Nature of services provided
Mercer Consulting	The Committee utilised the information provided by Mercer in 2009 and 2010 as the benchmark for 2011 compensation decisions and will evaluate the need for a revised analysis by an independent remuneration consultant in 2012. In addition, in 2011 the Committee retained Mercer Consulting to provide remuneration analysis and benchmark data for the non-executive Director remuneration.
Blake Dawson	Provided regular independent advice and counsel on various legal and governance standards related to executive remuneration.

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2.2. REMUNERATION POLICY AND STRATEGY

The Company's remuneration program has been designed to ensure that the structure, mix of fixed and "at-risk" remuneration and quantum of senior executive remuneration all meet the Company's specific business needs and objectives and are consistent with good market practice.

Accordingly, the Company's senior executive remuneration program has been structured so that it:

- is reasonable;
- provides a competitive compensation program to retain, attract, motivate and reward key employees;
- achieves clear alignment between total remuneration and delivered business and personal performance over the short and long term; and
- is an appropriately balanced mix of fixed and "at-risk" remuneration.

The Company and the Remuneration Committee regularly review all elements of the remuneration program to ensure that it remains appropriate to the business strategy, is competitive and is consistent with contemporary market practice.

The diagram below illustrates three primary components of the executives' total compensation opportunity and how the components are structured to achieve the remuneration strategy and align with shareholder interests:

Fixed Remuneration	Short-term Incentive (Corporate Bonus Plan)	Long-term Incentive
<ul style="list-style-type: none"> • Provides a predictable base level of compensation commensurate with the executive's position, value and contribution to the Company. • Generally targeted to be near the median of the competitive talent market using external benchmarking data. Since the majority of the Company's executives (and all of the KMP) are located in the US, the competitive talent market is determined to be the US market. • Variability around the median is based on the experience, performance, skills, position, business unit size and/or complexity and unique market considerations where necessary. 	<ul style="list-style-type: none"> • This component of compensation is "at-risk" and earned only if challenging performance metrics are achieved. • Key performance metrics include operating margin, safety performance, revenue growth and individual strategic goals. • The plan is designed to weight performance on operating margins, safety and revenue growth to overall Company performance in order to promote collaboration and to align with shareholder interests. • Individual strategic goals can include financial and/or strategic targets for a business unit or function. Examples can include business unit growth, cost control goals, cash flow generation, geographic expansion, productivity programs, etc. 	<ul style="list-style-type: none"> • This component of compensation is "at-risk" and earned only if challenging performance metrics are achieved and/or continued service requirements are met over a three-year performance period. • The Board has determined to use three-year average return on equity ("ROE") as the key measure for performance-based long-term incentive awards. • The ROE targets include a minimum threshold performance, below which no value is achieved. The range of performance payouts was established based on an historical return analysis of the Company as well as against stated analyst and shareholder expectations. • ROE provides a strong link to shareholders as it is a measure of the profitability of the equity employed in the business. It also provides a basis to evaluate the Company's performance relative to other companies and can provide a direct comparison with alternative investments available to shareholders.

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3. COMPONENTS OF EXECUTIVE REMUNERATION

3.1. REMUNERATION MIX

Total remuneration for the CEO and senior executives is made up of fixed remuneration (consisting primarily of base salary and superannuation (or foreign equivalent such as the United States' 401(k) payments) and variable "at-risk" remuneration. The variable remuneration has two "at-risk" components:

- STI – being an annual bonus granted under the Company's CBP; and
- LTI – being equity or cash grants tied to vesting conditions, such as continued employment and performance hurdles.

The relevant proportions of fixed to "at-risk" components for senior executive remuneration are:

Table 3.1: Remuneration mix

	<u>Fixed Remuneration</u>	<u>"At-risk" remuneration</u>	
		<u>STI²</u>	<u>LTI³</u>
CEO	26%	25%	49%
KMPs (Excl. CEO) ¹	42% - 46%	21% - 27%	31% - 34%

- (1) Percentages vary between individuals. This is a range for the group.
- (2) Assuming performance metrics are achieved such that 100% of target bonus is earned.
- (3) Represents fair value at date of grant, assuming 100% performance and vesting requirements are achieved.

3.2. FIXED REMUNERATION

The fixed component of executive remuneration consists primarily of base salary. Senior executives also receive other benefits, such as a vehicle allowance. In addition, the Company contributes to retirement programs, such as Australia's compulsory superannuation scheme or the United States' 401(k) plans.

Base salaries are reviewed annually by the Remuneration Committee (or, for the CEO, by the Board) and may be adjusted as appropriate to maintain market competitiveness and/or based on merit in accordance with the CEO's recommendation (for senior executives other than the CEO).

3.3. SHORT-TERM INCENTIVE

Table 3.3: Summary of STI program

What is the STI program?	<p>The Corporate Bonus Plan ("CBP") provides certain employees with the potential to receive an annual bonus if they satisfy specific annual objectives and targets that are pre-determined by the Board.</p> <p>Potential incentives available to be earned under the CBP range between 10% and 200% of an employee's base salary depending on the employee's role and actual performance achieved. The actual bonus that an employee will receive under the CBP (if any) will vary depending on the Company's and the individual's performance against the relevant objectives and targets, as detailed more fully below.</p>
Who participates in the STI program?	Approximately 190 senior employees participated in the CBP in 2011.

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<p>Why does the Board consider the STI program an appropriate incentive?</p>	<p>The CBP and the performance conditions set under the CBP have been designed to:</p> <ul style="list-style-type: none"> • focus eligible employees on maximising Company performance in key financial, safety and operational targets; • align individual efforts with Company and shareholder interests; and • reward for superior individual and Company performance. <p>By putting a significant proportion of senior executive remuneration “at risk” under the CBP against challenging targets, the CBP aligns executive interests with the Company’s financial and safety performance and with the operational and/or functional objectives of their relevant business unit or function.</p>																														
<p>What are the performance conditions?</p>	<p>There are four key performance components to the CBP. Each component has a threshold performance below which no bonus is earned for that component; a target level of performance where 100% of the bonus can be earned; and a maximum stretch level of performance whereby superior results can earn up to 150% of that component of the bonus.</p> <p>The four performance components and their relative weightings are:</p> <ol style="list-style-type: none"> (1) <u>Operating margin</u> - 60% of an employee’s CBP opportunity is linked to the Company’s overall financial operating margin performance. (2) <u>Strategic objectives</u> - 30% of an employee’s CBP opportunity is dependent upon performance against strategic objectives relevant to the employee’s business unit or functional responsibility. Examples of strategic objectives may include business unit or functional cost targets, geographic or targeted market segment growth, new product introductions, specific project or initiative progress, etc. (3) <u>Safety</u> - 10% of an employee’s CBP opportunity is dependent upon the Company’s overall safety performance. (4) <u>Revenue growth</u> - a multiplier based on year-over-year increases in revenue is applied to any amounts earned for meeting or exceeding the Operating Margin, Strategic Objectives and Safety performance goals, thereby capturing overall business growth as a key objective. <p>The Company’s annual financial target for the purposes of the CBP is set by the Remuneration Committee and in 2011 both threshold and stretch targets were set to further incentivise executives. The Remuneration Committee’s philosophy in setting financial targets is to establish threshold targets that represent the desired minimum outcome for each goal (below which no bonus is payable) and stretch targets that can only be met by the achievement of excellent outcomes for each goal.</p> <p>For 2011, the Remuneration Committee specifically approved the following performance payout matrices for corporate Operating Margin and Revenue Multipliers:</p> <table border="1" data-bbox="451 1418 768 1721"> <thead> <tr> <th>Op. margin performance</th> <th>Payout (% of target for financial component)</th> </tr> </thead> <tbody> <tr> <td>20.0%</td> <td>150%</td> </tr> <tr> <td>17.5%</td> <td>120%</td> </tr> <tr> <td>15.0%</td> <td>90%</td> </tr> <tr> <td>12.5%</td> <td>70%</td> </tr> <tr> <td>10.0%</td> <td>50%</td> </tr> <tr> <td>7.5%</td> <td>40%</td> </tr> <tr> <td>5.0%</td> <td>30%</td> </tr> </tbody> </table> <table border="1" data-bbox="896 1418 1153 1721"> <thead> <tr> <th>Revenue growth</th> <th>Multiplier</th> </tr> </thead> <tbody> <tr> <td>50%</td> <td>1.33x</td> </tr> <tr> <td>40%</td> <td>1.27x</td> </tr> <tr> <td>30%</td> <td>1.20x</td> </tr> <tr> <td>20%</td> <td>1.13x</td> </tr> <tr> <td>10%</td> <td>1.07x</td> </tr> <tr> <td>0%</td> <td>1.00x</td> </tr> </tbody> </table>	Op. margin performance	Payout (% of target for financial component)	20.0%	150%	17.5%	120%	15.0%	90%	12.5%	70%	10.0%	50%	7.5%	40%	5.0%	30%	Revenue growth	Multiplier	50%	1.33x	40%	1.27x	30%	1.20x	20%	1.13x	10%	1.07x	0%	1.00x
Op. margin performance	Payout (% of target for financial component)																														
20.0%	150%																														
17.5%	120%																														
15.0%	90%																														
12.5%	70%																														
10.0%	50%																														
7.5%	40%																														
5.0%	30%																														
Revenue growth	Multiplier																														
50%	1.33x																														
40%	1.27x																														
30%	1.20x																														
20%	1.13x																														
10%	1.07x																														
0%	1.00x																														

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	<p>While these metrics are specific to 2011 and will be reviewed annually, they have been established with the intent of remaining consistent through the business cycle and are unchanged from 2010. The Remuneration Committee also reviews and approves the non-financial targets for senior executives (including the CEO).</p> <p>The Board maintains total discretion to reduce or eliminate a bonus entirely for any reason. Certain conditions may apply to an employee's CBP opportunity that reduces (but not increases) the bonus that they receive under the CBP. For example, if an employee fails to adhere to corporate leadership values, such as legal compliance, this may reduce total bonus payable to them under the CBP by up to 100%.</p>															
How are the performance conditions measured?	Performance is assessed against the relevant targets annually. The final determination of the Company's financial performance is determined after reviewing the Company's audited financial results for the relevant period. Financial targets are assessed quantitatively against the pre-determined targets. Where possible, non-financial targets are also assessed quantitatively and otherwise they are assessed by periodic qualitative performance appraisal.															
Sample calculation	<p>Following is an example of how a bonus would be calculated assuming the following:</p> <ul style="list-style-type: none"> • Employee earns \$150,000 with a 40% target bonus amount • Corporate Operating Margin of 12.5% • Safety and strategic objectives achievement each at target performance • Revenue growth of 10% <p>Corporate Operating Margin of 12.5% = 70% component payout (per table above) Safety performance at target = 100% component payout Strategic Objectives at target = 100% component payout Revenue Growth of 10% = Revenue Multiplier of 1.07 (per table above)</p> <p>Calculation:</p> <table style="margin-left: 20px;"> <tr> <td colspan="3">Step 1: Determine component subtotal</td> </tr> <tr> <td style="padding-left: 20px;">Operating Margin = (70% x 60% weighting)</td> <td style="padding-left: 20px;"></td> <td style="text-align: right;">= 42%</td> </tr> <tr> <td style="padding-left: 20px;">+ Safety performance = (100% x 10% weighting)</td> <td style="padding-left: 20px;"></td> <td style="text-align: right;">= 10%</td> </tr> <tr> <td style="padding-left: 20px;">+ Strategic objectives = (100% x 30% weighting)</td> <td style="padding-left: 20px;"></td> <td style="text-align: right;">= 30%</td> </tr> <tr> <td style="padding-left: 20px;">= Subtotal achievement</td> <td style="padding-left: 20px;"></td> <td style="text-align: right;">= 82%</td> </tr> </table> <p>Step 2: Multiply Subtotal by achieved Revenue Multiplier to obtain Total Bonus Percentage $82\% \times 1.07 = 88\%$</p> <p>Step 3: Calculate Bonus $\\$150,000 \times 40\% \text{ Target Bonus} \times 88\% \text{ Bonus achievement} = \\$52,800 \text{ Bonus}$</p>	Step 1: Determine component subtotal			Operating Margin = (70% x 60% weighting)		= 42%	+ Safety performance = (100% x 10% weighting)		= 10%	+ Strategic objectives = (100% x 30% weighting)		= 30%	= Subtotal achievement		= 82%
Step 1: Determine component subtotal																
Operating Margin = (70% x 60% weighting)		= 42%														
+ Safety performance = (100% x 10% weighting)		= 10%														
+ Strategic objectives = (100% x 30% weighting)		= 30%														
= Subtotal achievement		= 82%														
In what form is the STI delivered?	All bonuses awarded under the CBP are delivered as a cash bonus.															
What STI awards did senior executives earn in 2011?	Bonuses under the CBP during the year ended 31 December 2011 are set out in Table 4.1.3 in section 4.1 of this Report. The bonuses will be paid in March 2012 after Board approval.															

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3.4. LONG-TERM INCENTIVES

Long-term Incentive Plan (“LTIP”)

Table 3.4: Summary of the LTIP

<p>What is the purpose of the LTIP?</p>	<p>The Company established the LTIP to:</p> <ul style="list-style-type: none"> • align senior executive reward with shareholder value; • assist in retaining key executives; • encourage superior performance on a sustained basis; and • provide executives with an opportunity to share in the growth and value of the Company by tying the LTI component of senior executive remuneration to the achievement of performance conditions and time-based service conditions.
<p>Who participates in the LTIP?</p>	<p>The executives eligible to participate in the LTIP are senior divisional, regional and corporate executives. The target value of annual LTIP grants varies depending on the participant’s position. The target amounts are based on market averages for comparable roles at similarly-sized companies. The Company made grants to approximately 130 participants during the year ended 31 December 2011.</p>
<p>What proportion of total remuneration does the LTIP program represent?</p>	<p>Senior executives are offered grants that represent approximately 31% - 34% (49% for the CEO) of their total remuneration (on an annualised basis). However, participating senior executives derive no actual value from their LTI grants under the LTIP unless the performance hurdles and/or service conditions are satisfied.</p>
<p>How is reward delivered under the LTIP?</p>	<p>The incentive provided under the LTIP is a grant of rights (“Rights”). Rights can be granted in the form of shares (“Share Rights”), cash (“Cash Rights”) or a combination of the two. A Share Right is an entitlement to receive a fully-paid ordinary share in the Company and a Cash Right is an entitlement to receive a cash bonus up to a set maximum. Although the Board may elect to grant Cash Rights for any reason, they have typically been used to supplement Share Rights when the stock price was low at the time of the award. The combination of both Share and Cash Rights utilised a more appropriate quantum of Share Rights to deliver the desired grant date award values.</p> <p>Rights are granted on terms and conditions determined by the Board, including vesting conditions linked to service and performance over a specified period (usually three years).</p>
<p>Do participants pay for the Share Rights?</p>	<p>Rights are offered at no cost to the senior executives.</p>
<p>What rights are attached to the Share Rights?</p>	<p>Share Rights do not carry voting rights; however, shares allocated upon vesting of Share Rights will carry the same rights as other ordinary shares.</p> <p>The Company may acquire shares underlying the Share Rights that it has granted under the LTIP, and the price paid by the Company will be the prevailing market price of the shares at the time of acquisition. The acquired shares will be held in trust, and for Share Rights granted beginning 2012, all dividends paid on unvested Share Rights will be held in trust and payable when the participant satisfies the vesting conditions. For Share Rights granted prior to 2012, even though the Share Rights have not yet vested, the participant will receive dividends attributable to the shares that underlie their Share Rights from the time those underlying shares are acquired by the trustee.</p> <p>Senior executives are not entitled to trade or hedge their unvested Rights.</p>

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What are the vesting conditions?

For Rights granted during the years ended 31 December 2011 and 2010, the vesting conditions were as follows:

Tranche	Percentage of grant	Vesting condition	Partial vesting
Performance Share Rights or Performance Cash Rights	100% for the CEO 50% for executives other than the CEO	Achievement of average ROE targets over a three-year period set by the Board. The targets include a threshold average ROE target and a stretch average ROE target for the three-year performance period. plus Continuation of employment during the three-year performance period.	Vesting occurs on a pro-rata basis if the minimum three-year average ROE threshold is surpassed. At the minimum three-year average ROE threshold, 50% of Performance Share and/or Performance Cash Rights will vest. Full vesting occurs only if the Company's three-year average ROE meets or exceeds the stretch target for the performance period.
Retention Share Rights or Retention Cash Rights	0% for the CEO 50% for executives other than the CEO	Continuation of employment during the three-year continued service period.	No

For Rights granted prior to 2010, the vesting conditions were as follows:

Tranche	Percentage of grant	Vesting condition	Partial vesting
Performance Share Rights or Performance Cash Rights	50% for executives (including the CEO)	Vesting conditions are the same as for the Performance Share Rights described above, except that the performance measure is cumulative three-year earnings per share targets.	Partial vesting conditions are the same as for the Performance Share Rights described above.
Retention Share Rights or Retention Cash Rights	50% for executives (including the CEO)	Continuation of employment during the three-year continued service period.	No

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<p>How is the Return on Equity (“ROE”) hurdle measured?</p>	<p>Vesting of the Performance Share Rights or Performance Cash Rights that were granted during the year ended 31 December 2011 and 2010 will be determined by the Company’s performance against average ROE targets for the three-year performance period. ROE is defined as annual net profit after tax (“NPAT”) attributable to equity shareholders divided by average total equity.</p> <p>The following table shows the three-year average ROE threshold, target and maximum performance requirements:</p> <table border="1" data-bbox="354 454 1242 962"> <thead> <tr> <th>Average ROE performance</th> <th>3-year average ROE</th> <th>% of award earned</th> </tr> </thead> <tbody> <tr> <td>Maximum Award</td> <td>Greater than 13.0%</td> <td>150%</td> </tr> <tr> <td></td> <td>Greater than 11.0% and less than or equal to 13.0%</td> <td>125%</td> </tr> <tr> <td>Target Award</td> <td>Greater than 9.0% and less than or equal to 11.0%</td> <td>100%</td> </tr> <tr> <td></td> <td>Greater than 7.0% and less than or equal to 9.0%</td> <td>75%</td> </tr> <tr> <td>Threshold Award</td> <td>Greater than or equal to 6.0% and less than or equal to 7.0%</td> <td>50%</td> </tr> <tr> <td>Less than Threshold</td> <td>Less than 6.0%</td> <td>0%</td> </tr> </tbody> </table>	Average ROE performance	3-year average ROE	% of award earned	Maximum Award	Greater than 13.0%	150%		Greater than 11.0% and less than or equal to 13.0%	125%	Target Award	Greater than 9.0% and less than or equal to 11.0%	100%		Greater than 7.0% and less than or equal to 9.0%	75%	Threshold Award	Greater than or equal to 6.0% and less than or equal to 7.0%	50%	Less than Threshold	Less than 6.0%	0%
Average ROE performance	3-year average ROE	% of award earned																				
Maximum Award	Greater than 13.0%	150%																				
	Greater than 11.0% and less than or equal to 13.0%	125%																				
Target Award	Greater than 9.0% and less than or equal to 11.0%	100%																				
	Greater than 7.0% and less than or equal to 9.0%	75%																				
Threshold Award	Greater than or equal to 6.0% and less than or equal to 7.0%	50%																				
Less than Threshold	Less than 6.0%	0%																				
<p>How is the Earnings per Share (“EPS”) hurdle measured?</p>	<p>Vesting of the Performance Share Rights or Performance Cash Rights that were granted prior to 2010 will be determined by the Company’s performance against cumulative EPS targets for the three-year performance period. At the beginning of each year the Board establishes a threshold and maximum EPS metric for that year. At the end of the three-year performance period actual cumulative performance over the period will be measured against the cumulative threshold and maximum performance to determine the amount of the Performance Rights that will vest. Once the actual cumulative performance has exceeded the threshold, participants have the potential to earn any percentage of the target award between 50% and 100%.</p> <p>The Performance Share Rights or Performance Cash Rights granted in 2009 which have completed the performance period will vest in accordance with the following table:</p> <table border="1" data-bbox="446 1275 1092 1433"> <thead> <tr> <th>Cumulative EPS performance</th> <th>2011 cumulative EPS metric</th> <th>% of award earned</th> </tr> </thead> <tbody> <tr> <td>Maximum Award</td> <td>48.6 cents</td> <td>100%</td> </tr> <tr> <td>Threshold Award</td> <td>27.1 cents</td> <td>50%</td> </tr> <tr> <td>Less than Threshold</td> <td></td> <td>0%</td> </tr> </tbody> </table> <p>The number of Performance Share Rights or Performance Cash Rights granted in 2009 that are earned pursuant to the EPS performance metric above will vest in 2012 following the completion of the continuous service requirement.</p>	Cumulative EPS performance	2011 cumulative EPS metric	% of award earned	Maximum Award	48.6 cents	100%	Threshold Award	27.1 cents	50%	Less than Threshold		0%									
Cumulative EPS performance	2011 cumulative EPS metric	% of award earned																				
Maximum Award	48.6 cents	100%																				
Threshold Award	27.1 cents	50%																				
Less than Threshold		0%																				

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<p>Why have the performance hurdles been chosen?</p>	<p>ROE measures the Company's profitability by revealing how much profit the Company generates with the money shareholders have invested.</p> <p>In 2010, the Board chose, based on independent consultation with Mercer, to move to an ROE performance hurdle for Performance Share Rights and Performance Cash Rights in place of the EPS hurdle used in previous years. The average ROE hurdle is more appropriate as it accommodates the inherently cyclical nature of the Company's business by providing performance ranges (with the threshold being set at a minimum level of acceptable shareholder returns) rather than annual dollar EPS targets. The ROE hurdle therefore provides a greater alignment between the incentive provided to senior executives and their ability to influence the Company's performance.</p>
<p>What if a senior executive ceases employment?</p>	<p>A senior executive's unvested Rights will generally lapse on the date that they cease employment, unless the Board determines otherwise. However, where a senior executive's employment ceases due to their death or total and permanent disability, all of their unvested Rights will vest. Also, unless the Board determines otherwise, where a senior executive's employment ceases by reason of "Special Circumstances" (which includes redundancy, retirement or other circumstances which are considered by the Board to be extraordinary):</p> <ul style="list-style-type: none"> • where there is no performance condition attached to a Right (i.e. it is a Retention Share Right or Retention Cash Right), any applicable time-based condition will be waived and the number of Retention Share Rights and/ or Retention Cash Rights that vest will be pro-rated according to the extent of the retention period actually worked; and • where there is a performance condition attached to a Right (i.e. it is a Performance Share Right or Performance Cash Right), there will be no accelerated vesting of the Performance Rights and instead, the Performance Rights will remain "on foot" and be tested in the ordinary course and against the applicable performance condition. However, the number of Rights that vest will be pro-rated over the period of time actually worked during the continued service period.
<p>What happens in the event of a change of control?</p>	<p>In the event of a takeover or change of control of the Company, any unvested Rights may vest at the Board's discretion.</p>
<p>What Rights were granted in 2011?</p>	<p>Rights granted during the year ended 31 December 2011 are set out in Table 5.2 of this Report. The Rights were granted on 15 March 2011.</p>

Option Plans

In 2009, the Board approved the establishment of the 2009 Option Plan which authorised the granting of no more than 5,000,000 (later adjusted to 500,000 in light of the 10:1 consolidation of the Company's shares in 2010) options in total. The purpose of the Option Plan was to bolster executive retention during the economic downturn in 2009 by providing a one-off grant of options to senior executives (including the CEO).

No options were granted to senior executives during 2011.

Options, with an exercise price set at a premium of 22.5% of the prevailing market price for the Company's shares on the date of the grant, were granted to the senior executives employed on 18 June 2009 and will vest in full and become exercisable on 18 June 2012 if the relevant senior executive remains continuously employed with the Company until that date. Unexercised options will expire on 18 June 2014. On 15 March 2010, 25,000 options were granted to a new senior executive at an exercise price of A\$3.20, and those options will vest in full and become exercisable on 15 March 2013 and will expire on 15 March 2015.

In 2008, the Board approved the establishment of the 2008 Option Plan upon Mr Kipp's appointment to the position of CEO in order to award Mr Kipp a total of 2,500,000 (later adjusted to 250,000 in light of the 10:1 consolidation of the Company's shares in 2010) shares under two separate grants, both of which are still yet to vest and become exercisable. No other senior executive received a grant under the 2008 Option Plan.

Details of options that have been granted to senior executives under both option plans can be found in Table 4.1.7.

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4. PERFORMANCE AND RISK ALIGNMENT

4.1. PERFORMANCE ALIGNMENT

While senior executive remuneration is structured to attract and retain talented employees, the amount of remuneration received by an individual is dependent on the achievement of superior performance and generating value for shareholders.

Table 4.1.1 below summarises the Company's performance over the past five years in respect of the financial and non-financial indicators identified by the Board to assess the Company's performance and future prospects.

Table 4.1.1: Year-on-year performance

Financial year	Share performance			Earnings performance				
	Closing share price A\$	Dividend p/share US\$	EPS % ¹	Revenue US\$ millions	EBITDA US\$ millions	NPAT US\$ millions	ROE ²	Operating margin ³
2011	2.78	0.08	13%	2,020	356	160	14%	13%
2010	4.56	0.02	4%	1,476	222	85	8%	9%
2009	3.52	-	(2%)	978	111	(15)	(2%)	2%
2008	1.99	0.38	52%	1,838	356	157	18%	15%
2007	23.33	0.15	2%	1,576	297	81	N/A	15%

(1) Calculated as basic EPS divided by closing share price. EPS is adjusted for 10:1 share consolidation completed in May 2010.

(2) 2008 ROE is calculated on a pro-forma basis allowing for the \$700,000,000 equity raising completed in November 2009.

(3) Excludes other income and other expenses.

The Board determined to perform a detailed review of the Company's incentive plans for senior executives in 2010. This review took into account the experience of the relationship between executive compensation and outcomes for shareholders over the four years since becoming a public listed company. As a result (and detailed earlier in this Report), the Board modified the incentive plans for senior executives with the aim to further strengthen the relationship between shareholder value and executive compensation. In particular, the Board believes incentivising and rewarding management for sustaining higher levels of operating margin (via cash bonuses under the CBP) and ROE (via performance-based LTIP rights) will more consistently yield desirable shareholder returns over time. The Board will continue to monitor this relationship and make further modifications as it deems appropriate.

Short-term performance indicators and outcomes

As discussed above, the CBP rewards senior executives and other participants for their achievement of specific key performance indicators for the Company as well as for the achievement of performance goals specific to the business unit or function for which they are responsible during a financial year.

Table 4.1.2: Average proportion of STI awarded, 2007-2011

	2007	2008	2009	2010	2011
% of target STI awarded ¹	76%	84%	99%	88%	97%

(1) Weighted average for senior executives.

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Table 4.1.3: STI earned during the year ended 31 December 2011

	STI earned US\$	Target STI ¹ US\$	STI earned as % of target STI	% of target STI forfeited	STI as % of maximum STI ²	% of maximum STI forfeited ²
Craig Kipp	950,000	1,000,000	95%	5%	48%	52%
Joe Ragan III	305,844	308,000	99%	1%	50%	50%
Fabrizio Rasetti	209,200	200,000	105%	0%	52%	48%
Brad Baker	157,500	157,500	100%	0%	50%	50%
Michael Birch	215,898	227,500	95%	5%	47%	53%
Alan Sides	161,330	170,000	95%	5%	47%	53%

(1) The target potential value of the 2011 STI awards for the CEO and senior executives (who receive STI awards wholly in cash) is the amount disclosed. A minimum level of performance must be achieved before any STI is awarded. Therefore, the minimum potential value of the STI for all participants in 2011 was nil.

(2) The maximum potential award assuming superior performance against all CBP metrics is 200% of target STI.

Long-term performance indicators and outcomes

LTI awards are provided through the LTIP to assist in retaining key executives, encourage superior performance on a sustained basis, and provide such executives with an opportunity to share in the growth and value of the Company.

2011 was the final year that performance was measured against the cumulative EPS targets for performance-based LTIP awards granted in 2009. Table 4.1.4 shows the cumulative EPS performance required for these grants to vest as well as the actual EPS performance achieved during the same period. Based on the actual performance over the period, 100% of the award will be eligible to vest once the executive satisfies the continued service requirement, which in all cases will not occur prior to March 2012. The vesting dates for all outstanding awards are shown in Table 4.1.5 below.

Table 4.1.4: Cumulative performance for 2009 grants of performance-based LTIP awards

	Cumulative 3-year performance
Maximum EPS	48.60 cents (US)
Threshold EPS	27.10 cents (US)
Actual EPS ¹	53.52 cents (US)
% of Maximum Award Vesting	100%

(1) Earnings adjusted to exclude impact of restructuring, recapitalisation and related charges, as well as gains/losses related to the sale of businesses.

The vested Share Rights listed in Table 4.1.5 below include the Retention Share Rights and Performance Share Rights that were granted in 2008 and vested in 2011. The Performance Share Rights were subject to the performance period ended 31 December 2010 and achieved 76% of the target award amount (as detailed in last year's remuneration report). These earned Performance Rights remained unvested until the continuous service requirement was met in 2011.

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Table 4.1.5: Movement in Share Rights during the year ended 31 December 2011

Name	Grant date	Vesting date	LTIP shares (Total)	Number of Share Rights vested	Value of Share Rights vested US\$	Number of Share Rights forfeited	Value of Share Rights forfeited US\$
Craig Kipp	11-Apr-08	11-Apr-11	49,471	43,535	217,265	5,936	29,624
	25-Mar-09	25-Mar-12	180,000	-	-	-	-
	1-Mar-10	1-Mar-13	429,820	-	-	-	-
Joe Ragan III	15-Mar-11	15-Mar-14	455,580	-	-	-	-
	23-Oct-08	23-Oct-11	30,000	26,400	81,660	3,600	11,135
	25-Mar-09	25-Mar-12	75,000	-	-	-	-
Brad Baker	1-Mar-10	1-Mar-13	103,000	-	-	-	-
	15-Mar-11	15-Mar-14	80,000	-	-	-	-
	11-Apr-08	11-Apr-11	15,000	13,200	65,876	1,800	8,983
Michael Birch	25-Mar-09	25-Mar-12	55,000	-	-	-	-
	1-Mar-10	1-Mar-13	72,150	-	-	-	-
	15-Mar-11	15-Mar-14	60,000	-	-	-	-
Fabrizio Rasetti	26-Jun-08	11-Apr-11	8,950	7,876	34,363	1,074	4,686
	11-Apr-08	11-Apr-11	11,050	9,724	48,528	1,326	6,618
	25-Mar-09	25-Mar-12	55,000	-	-	-	-
Alan Sides	1-Mar-10	1-Mar-13	82,900	-	-	-	-
	15-Mar-11	15-Mar-14	80,000	-	-	-	-
	11-Apr-08	11-Apr-11	17,850	15,708	78,392	2,142	10,690
Alan Sides	25-Mar-09	25-Mar-12	55,000	-	-	-	-
	1-Mar-10	1-Mar-13	82,578	-	-	-	-
	15-Mar-11	15-Mar-14	70,000	-	-	-	-
Alan Sides	15-Mar-10	15-Mar-13	104,600	-	-	-	-
	15-Mar-11	15-Mar-14	60,000	-	-	-	-

Table 4.1.6: Movement in Cash Rights during the year ended 31 December 2011

Note: No Cash Rights either vested, were forfeited or lapsed for senior executives during the year ended 31 December 2011.

Name	Grant date	Vesting date	Cash (total) US\$	Number of Cash Rights vested	Value of Cash Rights vested US\$	Number of Cash Rights forfeited	Value of Cash Rights forfeited US\$
Craig Kipp	25-Mar-09	25-Mar-12	550,000	-	-	-	-
	1-Mar-10	1-Mar-13	450,000	-	-	-	-
Joe Ragan III	25-Mar-09	25-Mar-12	275,000	-	-	-	-
	1-Mar-10	1-Mar-13	100,000	-	-	-	-
Brad Baker	25-Mar-09	25-Mar-12	225,000	-	-	-	-
	1-Mar-10	1-Mar-13	80,000	-	-	-	-
Michael Birch	25-Mar-09	25-Mar-12	225,000	-	-	-	-
	1-Mar-10	1-Mar-13	80,000	-	-	-	-
Fabrizio Rasetti	25-Mar-09	25-Mar-12	225,000	-	-	-	-
	1-Mar-10	1-Mar-13	80,000	-	-	-	-
Alan Sides	15-Mar-10	15-Mar-13	80,000	-	-	-	-

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Table 4.1.7: Movement in options during the year ended 31 December 2011

Note: No options either vested, were forfeited or lapsed for Senior Executives during the year ended 31 December 2011.

Name	Effective grant date	Vesting date	Options (total)	Number of options vested	Value of options vested US\$	Option price A\$	Number of options forfeited/lapsed	Value of options forfeited/lapsed US\$
Craig Kipp	28-Apr-08	1-Jan-13	100,000	-	-	18.95	-	-
	28-Apr-08 ¹	1-Jan-14	150,000	-	-	1.55	-	-
Joe Ragan III	18-Jun-09	18-Jun-12	90,000	-	-	2.45	-	-
	18-Jun-09	18-Jun-12	37,500	-	-	2.45	-	-
Brad Baker	18-Jun-09	18-Jun-12	27,500	-	-	2.45	-	-
Michael Birch	18-Jun-09	18-Jun-12	27,500	-	-	2.45	-	-
Fabrizio Rasetti	18-Jun-09	18-Jun-12	27,500	-	-	2.45	-	-
Alan Sides	15-Mar-10	15-Mar-13	25,000	-	-	3.20	-	-

(1) The second grant of options Mr Kipp received in conjunction with his appointment as CEO was issued as of 1 January 2009. For purposes of compliance with Australian Accounting Standards, the effective grant date was determined to be 28 April 2008.

Adjustments made to existing Share Rights and options following share consolidation

In light of the 10:1 share consolidation, all unvested Share Rights and options held by executives prior to the consolidation were adjusted by dividing the number of Share Rights and/or options held by 10. The exercise price applicable to the options was also adjusted by multiplying it by 10 so that the exercise price per option became A\$2.45 for options granted to all executives on 11 April 2009; A\$3.20 for options granted to Mr Sides on 15 March 2010; and A\$18.95 and A\$1.55 for options granted to the CEO on 28 April 2008 and 1 January 2009 respectively. As the adjustments were made purely to address the impact of the share consolidation, the adjustments did not affect the fair value of the adjusted Share Rights and options.

4.2. RISK ALIGNMENT

Employee and Director trading in Company securities

Under the Company's Securities Trading Policy, Directors and employees (including senior executives) are prohibited from entering into transactions that limit the economic risk of holding unvested Rights or options that have been received as part of their remuneration. The Company treats compliance with this policy as a serious issue and takes appropriate measures to ensure the policy is adhered to, including imposing appropriate sanctions where an employee is found to have breached the policy.

Further restrictions also apply to Directors and senior executives with respect to their dealing in the Company's shares and other securities under the Securities Trading Policy and further details of the policy are set out in the Corporate Governance Statement on page 21 of this Annual Financial Report.

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5. EXECUTIVE REMUNERATION IN DETAIL

This section provides details of total remuneration and service contract terms for the CEO and other senior executives.

5.1. TOTAL REMUNERATION

Details of each senior executive's remuneration during the years ended 31 December 2011 and 2010 (calculated in accordance with applicable accounting standards) are set out in Table 5.1.

Table 5.1: Senior executive remuneration

	Short term benefits ¹			Cash-based compensation				Other long-term benefits			Non-cash-based compensation ³		
	Cash salary US\$	Annual bonus ⁴ US\$	Other ⁵ US\$	Post-employment benefits ⁶ US\$	Super- annuation benefits ⁶ US\$	Other ⁷ US\$	Retention Cash Rights US\$	Performance Cash Rights US\$	Options US\$	Rights US\$	Share- based % US\$	Total US\$	
Craig Kipp													
2011	1,000,000	950,000	95,623	7,350	7,350	7,350	91,583	363,996	654,171	1,293,823	43.6%	4,463,896	
2010	1,003,846	865,000	22,068	5,096	5,096	7,350	91,583	171,847	725,587	547,846	37.0%	3,440,223	
Joe Ragan III													
2011	435,385	305,844	42,964	7,350	7,350	7,350	62,443	82,363	17,856	264,739	23.0%	1,226,295	
2010	416,923	276,360	22,068	7,350	7,350	7,350	59,706	51,834	17,855	118,956	14.0%	978,402	
Fabrizio Rasetti													
2011	393,942	209,200	35,664	7,350	7,350	7,350	50,787	66,871	13,094	222,111	23.4%	1,006,369	
2010	363,750	180,334	20,178	7,350	7,350	7,350	48,597	42,231	13,094	144,692	19.1%	827,576	
Brad Baker													
2011	311,365	157,500	34,711	7,350	7,350	7,350	50,787	66,871	13,094	193,295	24.5%	842,323	
2010	297,058	134,663	21,107	7,350	7,350	7,350	48,597	42,231	13,094	125,656	19.9%	697,106	
Michael Birch													
2011	449,692	215,898	31,283	7,350	7,350	7,350	50,787	66,871	13,094	247,144	23.9%	1,089,469	
2010	426,154	177,336	14,580	7,350	7,350	7,350	48,597	42,231	13,094	166,337	19.9%	903,029	
Alan Sides⁸													
2011	335,385	161,330	32,102	7,350	7,350	7,350	13,321	22,494	17,921	177,305	25.2%	774,557	
2010	258,461	139,200	225,896	5,169	5,169	7,350	11,131	7,434	14,288	75,500	12.1%	744,429	

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- (1) There were no non-monetary benefits provided.
- (2) No termination benefits were paid in 2011.
- (3) In accordance with the requirements of the Australian Accounting Standards Board, remuneration includes a portion of the historical fair value of equity compensation recognised over the respective vesting period (i.e. Rights awarded under the LTIP and options awarded under the Option Plan(s)). The fair value of equity instruments is determined as at the grant date and is recognised over the vesting period. The amount included as remuneration is not related to or indicative of the benefit (if any) that senior executives may ultimately realise should the equity instruments vest. The fair value of options at the date of their grant has been determined in accordance with AASB 2 applying a Black-Scholes valuation method. The assumptions underpinning these valuations are set out in Note 29 to the financial statements.
- (4) The 2011 amount represents cash STI payments earned by the executive during the year ended 31 December 2011, which are expected to be paid in March 2012 and were approved by the Board on 21 February 2012.
- (5) Includes automotive allowances, reimbursements of financial and taxing assistance, dividends received on Share Rights, and, for Mr Sides, also includes relocation expenses and sign-on bonus in 2010.
- (6) Includes 401(k) plan matching contributions made by the employing entity in the United States.
- (7) Includes 401(k) profit sharing contributions made by the employing entity in the United States.
- (8) Mr Sides' employment commenced 15 March 2010.

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5.2. RIGHTS AND OPTIONS GRANTED

Table 5.2: Rights granted during the year ended 31 December 2011

Name	Share Rights			
	Number of Rights granted ¹	Future years payable ²	Fair value per Right ³ US\$	Maximum value of grant ⁴ US\$
Craig Kipp	455,580	3 yrs	4.36	2,979,493
Joe Ragan III	80,000	3 yrs	4.36	436,000
Brad Baker	60,000	3 yrs	4.36	327,000
Michael Birch	80,000	3 yrs	4.36	436,000
Fabrizio Rasetti	70,000	3 yrs	4.36	381,500
Alan Sides	60,000	3 yrs	4.36	327,000

- (1) The grants made to senior executives constituted their full LTI entitlement for 2011 and were made on 15 March 2011 on the terms summarised above. Any Rights that do not vest on the vesting date will be forfeited.
- (2) Rights vest on 15 March 2014 subject to performance over the period from 1 January 2011 to 31 December 2013 and/or continued service until the vesting date.
- (3) The fair value was calculated as at the grant date of 15 March 2011.
- (4) The maximum fair value of the grant is based on the fair value per instrument and full achievement of the stretch targets. The minimum total value of the grant, if the applicable performance conditions are not met, is nil.

There were no options or Cash Rights granted during the year ended 31 December 2011.

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5.3 SERVICE CONTRACTS AND TERMINATION PROVISIONS

Name and position held at the end of financial year	Duration of contract	Notice period by Company	Notice period by executive	Termination payments (where these are in addition to statutory entitlements)
Craig Kipp Chief Executive Officer, President	No fixed term	None required	180 days	For termination with cause, statutory entitlements only For termination without cause: <ul style="list-style-type: none"> • 12 months' salary • Pro-rata bonus to termination date • Waiver of medical insurance premiums for 12 months • Up to \$100,000 relocation expense reimbursement • Tax gross-up payment should any termination or other contractual payment be deemed subject to an excise tax under the US tax code
Joe Ragan III Chief Financial Officer	No fixed term	None required	90 days	For termination with cause, statutory entitlements only For termination without cause: <ul style="list-style-type: none"> • 12 months' salary • Pro-rata bonus to termination date • Waiver of medical insurance premiums for 12 months
Fabrizio Rasetti Senior Vice President, General Counsel and Secretary	No fixed term	None required	90 days	For termination with cause, statutory entitlements only For termination without cause: <ul style="list-style-type: none"> • 12 months' salary • Pro-rata bonus to termination date • Waiver of medical insurance premiums for 12 months
Brad Baker Senior Vice President, Human Resources	No fixed term	None required	90 days	For termination with cause, statutory entitlements only For termination without cause: <ul style="list-style-type: none"> • 12 months' salary • Pro-rata bonus to termination date • Waiver of medical insurance premiums for 12 months

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Michael Birch Vice President, Global Drilling Services	No fixed term	None required	90 days	For termination with cause, statutory entitlement only For termination without cause: <ul style="list-style-type: none"> • 12 months' salary • Pro-rata bonus to termination date • Waiver of medical insurance premiums for 12 months
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Mr Sides does not have an employment contract. Accordingly, he is neither bound by a notice period to the Company nor contractually entitled to termination payments in excess of statutory entitlements.

Under the terms of the Company's LTIP and option plans, the Board has discretion to provide for early vesting of all or a portion of unvested LTIP Rights and options depending on the circumstances of an employee's termination. In addition, the executive employment contracts listed above contain a twelve-month non-competition and non-solicitation covenant in the Company's favour. The Company may, at its option, extend the term of the covenants upon an executive's termination of employment for up to an additional twelve months in exchange for monthly payments of the executive's base salary for the term of the extension.

6. NON-EXECUTIVE DIRECTOR ARRANGEMENTS

This section explains the remuneration structure and outcomes for non-executive Directors.

6.1. NON-EXECUTIVE DIRECTORS' FEE STRUCTURE

non-executive Directors are remunerated by a fixed annual base fee with additional fees paid for serving on Board committees. The fees are determined within a maximum aggregate fee pool that is approved by shareholders in general meeting. The current approved fee pool limit is A\$2 million, which has not changed since the Company's initial public offering in 2007. During the financial year, US\$995,001 of the pool was utilised for non-executive Director fees, being approximately 48% of the fee pool limit.

In 2011, the Board performed a detailed review of the NED remuneration structure. The Board hired Mercer Consulting as an independent firm to assist with its review and examined several factors, including:

- market competitive remuneration levels provided to non-executive Directors of similar sized organisations in similar industry sectors (namely industrials and materials sectors) within the markets where our Directors reside or may be recruited (i.e. Australia, United States, Canada and Europe);
- differences in Director equity granting practices in markets where Company non-executive Directors reside or may be recruited;
- market practice treatment of different currencies for countries where non-executive Directors reside or may be recruited;
- Australian Director remuneration practices and governance implications; and
- reasonable non-executive Director shareholding guidelines.

The Board's review and analysis resulted in certain adjustments to the remuneration structure to improve its market competitiveness and to recognise the increased demands placed on the Board committees. Specifically, the following decisions were taken:

- all fees will continue to be paid in US currency;
- remuneration will continue to be limited to cash-based fees;
- the non-executive Director base fee was increased by \$20,000 per annum;
- the Board Chairman's base fee remained unchanged;
- committee member fees were changed from 10% of the base fee to a flat \$15,000 annual fee;
- committee chair fees were changed from 20% of the base fee to a flat \$30,000 annual fee; and
- a non-executive Director Shareholding Guideline as described in section 6.2 below was implemented.

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Table 6.1: Components of non-executive Director remuneration

<u>Component</u>	<u>Explanation</u>
Board fees	<p>Current base fees per annum are:</p> <ul style="list-style-type: none"> • \$120,000 for non-executive Directors other than the Chairman; and • \$300,000 for the Chairman of the Board
Committee fees	<p>Current committee fees for non-executive Directors (other than the Chairman) are:</p> <ul style="list-style-type: none"> • \$15,000 annually for committee members; and • \$30,000 annually for committee chairs. <p>Where the Chairman of the Board sits on a committee, he does not receive any additional fee.</p>
Other fees/benefits	<p>Non-executive Directors are entitled to be reimbursed for all reasonable out-of-pocket expenses incurred in carrying out their duties, including travel costs. The Chairman also is entitled to reimbursement for office and secretarial support.</p> <p>Non-executive Directors may also, with the approval of the Board, be paid additional fees for extra services or special exertions for the benefit of the Company.</p> <p>Non-executive Directors are not entitled to receive any performance-related remuneration, such as short-term or long-term incentives.</p>
Post-employment benefits	<p>Compulsory superannuation contributions for Australian-resident non-executive Directors are included in the base fee and additional committee fees set out above.</p> <p>Non-executive Directors do not receive any retirement benefits other than statutory superannuation contributions.</p>

6.2. NON-EXECUTIVE SHAREHOLDING GUIDELINE

In 2011, the Board implemented a shareholding guideline requiring non-executive Directors to accumulate 30,000 Boart Longyear shares over a five-year period from the latter of 1 September 2011 or the date of their appointment to the Board.

6.3. NON-EXECUTIVE DIRECTOR SHARE ACQUISITION PLAN

In February 2008, the Remuneration Committee recommended, and the Board approved, the establishment of a non-executive Director Share Acquisition Plan ("NEDSAP") as foreshadowed in the Company's prospectus.

The NEDSAP is a fee sacrifice plan in which only non-executive Directors may participate. Participation in the NEDSAP is voluntary and non-executive Directors may elect to sacrifice up to 100% of their pre-tax base and committee fees to acquire ordinary shares at the prevailing market price.

Shares acquired under the NEDSAP will be subject to a holding lock for up to 10 years, during which they are unable to deal with their shares. The holding lock may be removed in certain circumstances, including a cessation of directorship.

No shares were purchased under this plan during the year ended 31 December 2011.

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6.4. DETAILS OF REMUNERATION PAID TO NON-EXECUTIVE DIRECTORS

Details of non-executive Directors' remuneration for the year ended 31 December 2011 and 2010 are set out in the table below.

Table 6.4: Non-executive Director remuneration

	Fees (incl. committee fees) ¹ US\$	Superannuation contributions ² US\$	Shares ³ US\$	Total US\$
David McLemore ⁴				
2011	300,000	-	-	300,000
2010	190,779	-	-	190,779
Bruce Brook				
2011	129,969	11,697	-	141,666
2010	119,266	10,734	8,066	138,066
Roger Brown ⁵				
2011	130,000	-	-	130,000
2010	60,000	-	-	60,000
Tanya Fratto ⁶				
2011	82,500	-	-	82,500
Roy Franklin ⁷				
2011	134,167	-	-	134,167
2010	20,833	-	-	20,833
David Grzelak ⁸				
2011	54,167	-	-	54,167
2010	113,575	-	-	113,575
Barbara Jeremiah ⁹				
2011	30,000	-	-	30,000
Peter St. George				
2011	112,385	10,115	-	122,500
2010	119,266	10,734	12,668	142,668

- (1) Please refer to Table 6.1 above for details of the annual non-executive Director base fees and committee fees.
- (2) Includes compulsory superannuation guarantee payments to Australian-resident Directors which are deducted from their base and additional committee fees.
- (3) On the Company's listing in April 2007 restricted shares were awarded to certain non-executive Directors in respect of work performed prior to the Company's listing. Full details of the awards were provided in the Company's prospectus for the initial public offering. These shares vested in April 2010. The amount in this table is the accounting expense recognised in the year through amortisation of the cost over the service condition.
- (4) Mr McLemore was elected Chairman effective 23 August 2010.
- (5) Mr Brown was appointed a Director effective 1 July 2010.
- (6) Ms Fratto was appointed a Director effective 1 June 2011.
- (7) Mr Franklin was appointed a Director effective 15 October 2010.
- (8) Mr Grzelak resigned from the Board effective 1 June 2011.
- (9) Ms Jeremiah was appointed a Director effective 1 October 2011.

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NON-AUDIT SERVICES

Details of amounts paid or payable for non-audit services provided during the year by the auditor are outlined in Note 32 to the financial statements.

The auditor of Boart Longyear Limited is Deloitte Touche Tohmatsu. The Company has employed Deloitte Touche Tohmatsu on assignments additional to their audit duties where their expertise and experience with the Company are important. These assignments principally have been related to tax advice and due diligence reporting on acquisitions.

The Company and its Audit, Compliance & Risk Committee ("Audit Committee") are committed to ensuring the independence of the external auditors. Accordingly, significant scrutiny is given to non-audit engagements of the external auditor. The Company has a formal pre-approval policy which requires the pre-approval of non-audit services by the Chairman of the Audit Committee or the Audit Committee. Additionally, the total annual fees for such non-audit services cannot exceed the auditor's annual audit fees without the approval of the Audit Committee. The Audit Committee believes that the combination of these two approaches results in an effective procedure to pre-approve services performed by the external auditor.

Consistent with the approach outlined above, the Audit Committee approved Deloitte Touche Tohmatsu's services on a tax-related business improvement project for the years ended 31 December 2010 and 2011, which resulted in the amount of non-audit services exceeding the audit fee in both years. It is expected that this project will conclude during the year ending 31 December 2012 and that the level of non-audit services will be below the audit fee in subsequent years.

None of the services performed by the auditor undermine the general principles relating to auditor independence as set out in Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional & Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as an advocate for the Company or jointly sharing economic risks and rewards.

The Directors are satisfied that the provision of non-audit services, during the year, by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001 and are of the opinion that the services, as disclosed in Note 32 to the financial statements, do not compromise the external auditor's independence.

INDEMNIFICATION OF DIRECTORS AND OFFICERS AND AUDITORS

The Directors and officers of the Company are indemnified by the Company to the maximum extent permitted by law against liabilities incurred in their respective capacities as Directors or officers. In addition, during the financial year, the Company paid premiums in respect of contracts insuring Directors and officers of the Company and any related body corporate against liabilities incurred by them to the extent permitted by the Corporations Act 2001. The insurance contracts prohibit disclosure of the nature of the liability and the amount of the premium.

The Company has not paid any premiums in respect of any contract insuring Deloitte Touche Tohmatsu against a liability incurred in the role as an auditor of the Company.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is included on page 56 of the annual financial report.

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ROUNDING OF AMOUNTS

Boart Longyear Limited is a company of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the Directors' Report and Financial Report. Amounts in the Directors' Report and the Financial Report are presented in US dollars and have been rounded off to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

Signed in accordance with a resolution of the Directors.

On behalf of the Directors



David McLemore
Chairman

Sydney, 21 February 2012



Craig Kipp
Chief Executive Officer

Sydney, 21 February 2012



Deloitte Touche Tohmatsu
A.B.N. 74 490 121 060

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Independent Auditor's Report to the Members of Boart Longyear Limited

Report on the Financial Report

We have audited the accompanying financial report of Boart Longyear Limited, which comprises the statement of financial position as at 31 December 2011, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 59 to 124.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 3, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the consolidated financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the entity's preparation of the financial report that gives a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Boart Longyear Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

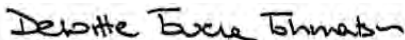
- (a) the financial report of Boart Longyear Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 3.

Report on the Remuneration Report

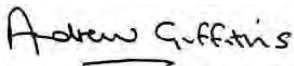
We have audited the Remuneration Report included in pages 29 to 53 of the Directors' Report for the year ended 31 December 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion the Remuneration Report of Boart Longyear Limited for the year ended 31 December 2011, complies with section 300A of the *Corporations Act 2001*.



DELOITTE TOUCHE TOHMATSU



A V Griffiths
Partner
Chartered Accountants
Sydney, 21 February 2012

Deloitte.

The Board of Directors
Boart Longyear Limited
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21 February 2012

Dear Directors

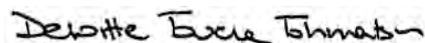
Boart Longyear Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Boart Longyear Limited.

As lead audit partner for the audit of the financial statements of Boart Longyear Limited for the financial year ended 31 December 2011, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



A V Griffiths
Partner
Chartered Accountants

Annual Financial Report

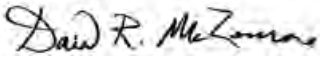
31 DECEMBER 2011

DIRECTORS' DECLARATION

The Directors declare that:

- (a) in the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;
- (b) in the Directors' opinion, the attached financial statements are in compliance with International Financial Reporting Standards, as stated in Note 3 to the financial statements;
- (c) in the Directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity; and
- (d) the Directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of the Directors made pursuant to section 295(5) of the Corporations Act 2001.



David McLemore
Chairman

Sydney, 21 February 2012



Craig Kipp
Chief Executive Officer

Sydney, 21 February 2012

Consolidated Statement of Comprehensive Income

For the financial year ended 31 December 2011

	Note	2011 US\$'000	2010 US\$'000
Revenue	6	2,020,322	1,475,945
Cost of goods sold		(1,456,023)	(1,103,636)
Gross margin		564,299	372,309
Other income		3,215	4,183
General and administrative expenses		(263,623)	(190,199)
Selling and marketing expenses		(38,968)	(37,401)
Other expenses		(19,288)	(20,454)
Operating profit		245,635	128,438
Interest income	6	5,111	3,570
Finance costs	7	(23,936)	(8,733)
Profit before taxation		226,810	123,275
Income tax expense	9	(66,939)	(38,762)
Profit for the year attributable to equity holders of the parent		159,871	84,513
Earnings per share:			
Basic earnings per share	24	35.1 cents	18.5 cents
Diluted earnings per share	24	34.8 cents	18.4 cents
Other comprehensive income		2011 US\$'000	2010 US\$'000
Profit for the year attributable to equity holders of the parent		159,871	84,513
Gains (losses) on cash flow hedges recorded in equity		193	(190)
Transfer to profit or loss on cash flow hedges		137	741
Exchange differences on translation of foreign operations		(26,087)	58,791
Actuarial losses related to defined benefit plans		(27,782)	(14,558)
Income tax on income and expense recognised directly through equity		8,165	4,224
Other comprehensive (loss) income for the year (net of tax)		(45,374)	49,008
Total comprehensive income for the year attributed to equity holders of the parent		114,497	133,521

Consolidated Statement of Financial Position

As at 31 December 2011

	Note	2011 US\$'000	2010 US\$'000
Current assets			
Cash and cash equivalents	28a	82,286	94,944
Trade and other receivables	10	334,307	276,836
Inventories	11	400,439	283,115
Current tax receivable	9	29,993	21,705
Prepaid expenses and other assets		23,782	17,965
Total current assets		870,807	694,565
Non-current assets			
Property, plant and equipment	13	508,231	439,446
Goodwill	14	294,063	297,408
Other intangible assets	15	129,843	106,295
Deferred tax assets	9	144,587	147,322
Other assets		1,153	1,918
Defined benefit plan asset	19	-	20,335
Total non-current assets		1,077,877	1,012,724
Total assets		1,948,684	1,707,289
Current liabilities			
Trade and other payables	16	320,604	260,038
Provisions	18	22,286	18,398
Other financial liabilities	12	-	7,272
Current tax payable	9	82,000	46,338
Loans and borrowings	17	2,518	979
Total current liabilities		427,408	333,025
Non-current liabilities			
Loans and borrowings	17	310,343	247,490
Deferred tax liabilities	9	2,905	11,468
Provisions	18	73,588	55,337
Total non-current liabilities		386,836	314,295
Total liabilities		814,244	647,320
Net assets		1,134,440	1,059,969
Equity			
Issued capital	20	1,128,923	1,132,051
Reserves	21	59,667	84,577
Other equity		(137,182)	(137,182)
Retained earnings (accumulated losses)	22	83,032	(19,477)
Total equity		1,134,440	1,059,969

Consolidated Statement of Changes in Equity

For the financial year ended 31 December 2011

	Issued capital US\$'000	Foreign currency translation reserve US\$'000	Equity-settled compensation reserve US\$'000	Hedging reserve US\$'000	Other equity US\$'000	Accumulated (losses)/ retained earnings US\$'000	Total attributable to owners of the parent US\$'000
Balance at 1 January 2010	1,136,347	17,630	6,024	(616)	(137,182)	(84,166)	938,037
Profit for the period	-	-	-	-	-	84,513	84,513
Other comprehensive income for the period	-	58,791	-	357	-	(10,140)	49,008
Payment of dividends	-	-	-	-	-	(9,684)	(9,684)
Vesting of LTIP rights, restricted shares	1,472	-	(1,472)	-	-	-	-
Purchase of shares for LTIP	(5,768)	-	-	-	-	-	(5,768)
Share-based compensation	-	-	3,863	-	-	-	3,863
Balance at 31 December 2010	1,132,051	76,421	8,415	(259)	(137,182)	(19,477)	1,059,969
Balance at 1 January 2011	1,132,051	76,421	8,415	(259)	(137,182)	(19,477)	1,059,969
Profit for the period	-	-	-	-	-	159,871	159,871
Other comprehensive income for the period	-	(26,087)	-	259	-	(19,546)	(45,374)
Payment of dividends	-	-	-	-	-	(37,816)	(37,816)
Vesting of LTIP rights, restricted shares	5,204	-	(5,204)	-	-	-	-
Purchase of shares for LTIP	(8,332)	-	-	-	-	-	(8,332)
Share-based compensation	-	-	6,122	-	-	-	6,122
Balance at 31 December 2011	1,128,923	50,334	9,333	-	(137,182)	83,032	1,134,440

See accompanying notes to the financial statements.

Consolidated Statement of Cash Flows

For the financial year ended 31 December 2011

	Note	2011 US\$'000	2010 US\$'000
Cash flows from operating activities			
Profit for the year		159,871	84,513
<i>Adjustments provided by operating activities:</i>			
Income tax expense recognised in profit		66,939	38,762
Finance costs recognised in profit	7	23,936	8,733
Depreciation and amortisation	8	110,623	93,350
Investment revenue recognised in profit	6	(5,111)	(3,570)
(Gain) loss on sale or disposal of non-current assets	8	(365)	1,827
Impairment of current and non-current assets		450	1,695
Non-cash foreign exchange loss		686	916
Share-based compensation	21	5,854	3,863
Long-term compensation - cash rights		2,670	1,954
<i>Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses:</i>			
<i>(Increase) decrease in assets:</i>			
Trade and other receivables		(62,052)	(66,726)
Inventories		(126,305)	(110,739)
Other assets		11,286	(1,784)
<i>Increase in liabilities:</i>			
Trade and other payables		58,844	59,652
Provisions		(3,801)	132
Cash generated from operations		<u>243,525</u>	<u>112,578</u>
Interest paid		(23,541)	(17,143)
Interest received	6	5,111	3,570
Income taxes paid		<u>(27,394)</u>	<u>(47,227)</u>
Net cash flows from operating activities		<u>197,701</u>	<u>51,778</u>

Consolidated Statement of Cash Flows (continued)

For the financial year ended 31 December 2011

	Note	2011 US\$'000	2010 US\$'000
Cash flows from investing activities			
Purchase of property, plant and equipment		(176,347)	(112,659)
Purchase of rods and casings		(3,308)	(6,234)
Proceeds from sale of property, plant and equipment		2,908	5,801
Development costs paid		(15,499)	(2,561)
Software costs paid		(25,793)	(18,771)
Net cash flows used in investing activities		<u>(218,039)</u>	<u>(134,424)</u>
Cash flows from financing activities			
Payments for share purchases for LTIP		(8,332)	(5,768)
Payments for debt issuance costs		(7,627)	(610)
Proceeds from borrowings		752,237	247,500
Repayment of borrowings		(683,708)	(134,558)
Dividends paid	23	(37,816)	(9,684)
Net cash flows from financing activities		<u>14,754</u>	<u>96,880</u>
Net (decrease) increase in cash and cash equivalents		(5,584)	14,234
Cash and cash equivalents at the beginning of the year		94,944	87,557
Effects of exchange rate changes on the balance of cash held in foreign currencies		(7,074)	(6,847)
Cash and cash equivalents at the end of the year	28a	<u>82,286</u>	<u>94,944</u>

See accompanying notes to the financial statements.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2011

1. GENERAL INFORMATION

Boart Longyear Limited (the “Parent”) is a public company listed on the Australian Securities Exchange Limited (“ASX”) and is incorporated in Australia. Boart Longyear Limited and subsidiaries (collectively referred to as the “Company”) operate in five geographic regions, which are defined as North America, Latin America, Europe, Asia Pacific, and Africa.

Boart Longyear Limited’s registered office and its principal place of business are as follows:

Registered office

26 Butler Boulevard
Burbridge Business Park
Adelaide Airport, SA 5650
Tel: +61 (8) 8375 8375

Principal place of business

Riverpark Corporate Center #14 Suite 600
10808 South River Front Parkway
South Jordan, Utah 84095
United States of America
Tel: +1 (801) 972 6430

2. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

The Company has adopted all of the new and revised standards and interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period. Details of the impact of these new accounting standards are set out in the individual accounting policy notes set out below. These standards and interpretations include:

Related party disclosures

AASB 2009-12 ‘Amendments to Australian Accounting Standards – Related Party Disclosures’ amends the requirements of the previous version of AASB 124 ‘Related Party Disclosures’ to clarify the definition of a related party and includes an explicit requirement to disclose commitments involving related parties. The adoption of this amendment did not have an impact on the Company’s disclosures.

Prepayments of a minimum funding requirement

AASB 2009-14 ‘Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement’ makes limited-application amendments to Interpretation 14 ‘AASB 119 ‘The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction’. The amendments apply when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements, permitting the benefit of such an early payment to be recognised as an asset. The adoption of this amendment did not have a significant impact on the Company’s financial results or statement of financial position.

Standards and Interpretations issued not yet effective

The accounting standards and AASB Interpretations that will be applicable to the Company and may have an effect in future reporting periods are detailed below. Apart from these standards and interpretations, management has considered other accounting standards that will be applicable in future periods, however they have been considered insignificant to the Company.

Financial instruments

AASB 2009-11 ‘Amendments to Australian Accounting Standards arising from AASB 9 ‘Financial Instruments’ introduces new requirements for classifying and measuring financial assets, as follows:

- debt instruments meeting both a “business model” test and a “cash flow characteristics” test are measured at amortised cost (the use of fair value is optional in some limited circumstances);
- investments in equity instruments can be designated as ‘fair value through other comprehensive income’ with only dividends being recognised in profit or loss;
- all other instruments (including all derivatives) are measured at fair value with changes recognised in the profit or loss; and
- the concept of “embedded derivatives” does not apply to financial assets within the scope of the Standard and the entire instrument must be classified and measured in accordance with the above guidelines.

These amendments will be adopted for the year ending 31 December 2015 subject to the AASB adopting the amendments to IFRS 9, which delays the effective date until the year ending 31 December 2015. Management has not yet assessed the impact of adoption of these amendments.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2011

2. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS (CONTINUED)

Consolidated financial statements

AASB 10 'Consolidated Financial Statements' introduces a single consolidation model for all entities based on control, irrespective of the nature of the investee. This standard will be adopted for the year ending 31 December 2013. Management does not believe that the adoption of this standard will have a significant impact on the Company's financial results or statement of financial position.

Fair value measurement

AASB 13 'Fair Value Measurement' defines fair value and provides guidance on how to determine fair value and requires disclosures about fair value measurement. This standard will be adopted for the year ending 31 December 2013. Management has not yet assessed the impact of the adoption of this standard.

Employee benefits

Amendments to AASB 119 'Employee Benefits' require changes in the calculation of the net defined benefit liability (asset) and pension expense and provides changes to certain financial statement disclosures. These amendments will be adopted for the year ending 31 December 2013. Management has not yet assessed the impact of the adoption of these amendments.

Financial instruments

A revised version of AASB 9 'Financial Instruments' incorporates revised requirements for the classification and measurement of financial liabilities. This revised standard will be adopted for the year ending 31 December 2013. Management has not yet assessed the impact of the adoption of this revised standard.

Disclosure of interests in other entities

AASB 12 'Disclosure of Interests in Other Entities' requires disclosure of information that enables financial statement users to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. This standard will be adopted for the year ending 31 December 2013. Management has not yet assessed the impact of the adoption of this standard.

Additional amendments of Australian Accounting Standards have been issued, the adoption of which management does not believe will have a significant impact on the Company's financial results or statement of financial position.

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

This financial report is a general purpose financial report which has been prepared in accordance with the requirements of applicable accounting standards including Australian interpretations and the Corporations Act 2001. The financial report includes the consolidated financial statements of the Company.

Accounting Standards include Australian equivalents to International Financial Reporting Standards ("A-IFRS"). Compliance with A-IFRS ensures that the financial statements and notes of the Company comply with IFRS.

The financial report is presented in United States dollars, which is Boart Longyear Limited's functional and presentation currency. The financial statements were authorised for issue by the Directors on 21 February 2012.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of preparation

The financial report has been prepared on a historical cost basis, except for the revaluation of certain financial instruments that are stated at fair value. Cost is based on fair values of the consideration given in exchange for assets.

At the Company's annual general meeting on 11 May 2010, shareholders approved a 10 for 1 share consolidation. Trading in the consolidated shares commenced 13 May 2010. The Company's earnings per share information, as well as the number of shares and rights under the LTIP, option plan and restricted shares have been restated in this report using the consolidated share amounts.

In applying A-IFRS, management is required to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the respective periods in which they are revised if only those periods are affected, or in the respective periods of the revisions as well as future periods if the revision affects both current and future periods.

Judgements made by management in the application of A-IFRS that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported. These accounting policies have been consistently applied by each entity in the Company.

The consolidated financial statements are prepared by combining the financial statements of all of the entities that comprise the consolidated entity, Boart Longyear Limited and subsidiaries as defined in AASB 127 'Consolidated and Separate Financial Statements'. Consistent accounting policies are applied by each entity and in the preparation and presentation of the consolidated financial statements.

Subsidiaries are all entities for which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Company until such time as the Company ceases to control such entity. Where necessary, adjustments are made to the financial statements of subsidiaries to make their accounting policies consistent with Company accounting policies.

In preparing the consolidated financial statements, all inter-company balances and transactions, and unrealised income and expenses arising from inter-company transactions, are eliminated. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

The accounting policies and methods of computation are the same as those in the prior annual financial report. Comparative figures have been adjusted to conform to the changes in presentation in the current reporting period, where necessary.

The significant accounting policies set out below have been applied in the preparation and presentation of the financial report for the year ended 31 December 2011 and the comparative information.

(a) Presentation currency

Results of operating businesses are recorded in their functional currencies, which are generally their local currencies. The US dollar is the Company's predominant currency. Accordingly, management believes that reporting the Company's financial statements in the US dollar is most representative of the Company's financial results and position and therefore the consolidated financial information is presented in US dollars.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Cash and cash equivalents

Cash and cash equivalents primarily include deposits with financial institutions repayable upon demand. Cash overdrafts are included in current liabilities in the statement of financial position unless there is a legal right of offset.

(c) Trade and other receivables

Trade receivables are recorded at amortised cost. The Company reviews collectability of trade receivables on an ongoing basis and provides allowances for credit losses when there is evidence that trade receivables may not be collectible. These losses are recognised in the income statement within operating expenses. When a trade receivable is determined to be uncollectible, it is written off against the allowance account for doubtful accounts. Subsequent recoveries of amounts previously written off are recorded in other income in profit or loss.

(d) Inventories

Inventories are measured at the lower of cost or net realisable value. The cost of most inventories is based on a standard cost method, which approximates actual cost on a first-in first-out basis, and includes expenditures incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overhead expenses (including depreciation) based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Allowances are recorded for inventory considered to be excess or obsolete and damaged items are written down to the net realisable value.

(e) Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Costs include expenditures that are directly attributable to the acquisition of the assets, including the costs of materials and direct labour and other costs directly attributable to bringing the assets to a working condition for the intended use. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate assets.

Subsequent costs related to previously capitalised assets are capitalised only when it is probable that they will result in commensurate future economic benefit and the costs can be reliably measured. All other costs, including repairs and maintenance, are recognised in profit or loss as incurred.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease terms or their useful lives. Items in the course of construction or not yet in service are not depreciated.

The following useful lives are used in the calculation of depreciation:

Buildings	20-40	years
Plant and machinery	5-10	years
Drilling rigs	5-12	years
Other drilling equipment	1-5	years
Office equipment	5-10	years
Computer equipment:		
Hardware	3-5	years
Software	1-7	years

Depreciation methods, useful lives and residual values are reassessed at each reporting date.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Goodwill and other intangible assets

Goodwill

Goodwill resulting from business combinations is recognised as an asset at the date that control is acquired. Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the previously held equity interest in the acquiree (if any) over the net amounts of the identifiable assets acquired and the liabilities assumed.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Company's cash-generating units expected to benefit from the acquisition. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the carrying value of the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Upon disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Trademarks and trade names

Trademarks and trade names recognised by the Company that are considered to have indefinite useful lives are not amortised. Each period, the useful life of each of these assets is reviewed to determine whether events and circumstances continue to support an indefinite useful life assessment for the asset. Trademarks and trade names that are considered to have a finite useful life are carried at cost less accumulated amortisation and accumulated impairment losses and have an average useful life of three years. Such assets are tested for impairment at least annually or more frequently if events or circumstances indicate that the asset might be impaired.

Contractual customer relationships

Contractual customer relationships acquired in business combinations are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be reliably measured. Contractual customer relationships have finite useful lives and are carried at cost less accumulated amortisation and accumulated impairment losses.

Contractual customer relationships are amortised over 10 – 15 years on a straight-line basis. Amortisation methods and useful lives are reassessed at each reporting date.

Patents

Patents are measured at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight-line basis over estimated useful lives of 10 - 20 years. Amortisation methods and useful lives are reassessed at each reporting date.

Research and development costs

Expenditures on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development costs are capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. Capitalised costs include the cost of materials, direct labour and overhead costs directly attributable to preparing the asset for its intended use. Other development costs are expensed when incurred.

Capitalised development costs are measured at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over the estimated useful lives, which on average is 15 years.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Leased assets

Leases are classified as finance leases when the terms of the leases transfer substantially all the risks and rewards incidental to ownership of the leased assets to the Company. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised at fair value or, if lower, at amounts equal to the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Finance lease payments are apportioned between finance charges and reductions of the lease obligations so as to achieve a constant rate of interest on the remaining balance of the liability. Finance leased assets are amortised on a straight-line basis over the shorter of the lease terms or the estimated useful lives of the assets.

Operating lease payments are recognised as expenses on a straight-line basis over the lease terms.

Lease incentives

In the event that lease incentives are received at the inception of operating leases, such incentives are recognised as liabilities. The aggregate benefits of incentives are recognised as reductions of rental expense on a straight-line basis over the lease terms.

(h) Current and deferred taxation

Income tax expense includes current and deferred tax expense (benefit). Income tax expense (benefit) is recognised in profit or loss except to the extent that amounts relate to items recognised directly in equity, in which case the income tax expense (benefit) is also recognised in equity, or amounts that relate to a business combination, in which case the income tax expense (benefit) is recognised in goodwill.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, in respect of all temporary differences for which transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred but have not reversed at the balance sheet date. Temporary differences are differences between the Company's taxable income and its profit before taxation, as reflected in profit or loss, that arise from the inclusion of profits and losses in tax assessments in periods different from those in which they are recognised in profit or loss.

Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they likely will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying temporary differences can be deducted. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Current and deferred taxation (continued)

Tax consolidation

The Company includes tax consolidated groups for the entities incorporated in Australia and the United States. Tax expense/benefit and deferred tax assets/liabilities arising from temporary differences of the members of each tax-consolidated group are recognised in the separate financial statements of the members of that tax-consolidated group using the 'separate taxpayer within group' approach by reference to the carrying amounts in the separate financial statements of each entity. Tax credits of each member of the tax-consolidated group are recognised by the head entity in that tax-consolidated group.

Entities within the various tax-consolidated groups will enter into tax funding arrangements and tax-sharing agreements with the head entities. Under the terms of the tax funding arrangements, the relevant head entity and each of the entities in that tax-consolidated group will agree to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the entity.

(i) Derivative financial instruments

The Company periodically enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts and interest rate swaps.

Derivatives are initially recognised at fair value at the date a derivative contract is executed and are subsequently remeasured to fair value at each reporting date. The resulting gain or loss is recognised in profit or loss unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

The Company designates certain derivatives as either hedges of the fair value of recognised assets, liabilities or firm commitments (fair value hedges), or hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges).

Hedge accounting

The Company designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges or cash flow hedges. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the Company documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions.

Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss immediately, together with any changes in the fair value of the hedged item that is attributable to the hedged risk.

Hedge accounting is discontinued when the Company revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. The adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Derivative financial instruments (continued)

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss as part of other expenses, other income, or interest expense as appropriate.

Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued when the Company revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

(j) Impairment

Non-financial assets

The Company's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the respective asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, a recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit or group of units.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use or its fair value, less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss is not recognised directly for trade receivables because the carrying amount is reduced through the use of an allowance account.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

(k) Trade and other payables

Trade payables and other payables are carried at amortised cost. They represent unsecured liabilities for goods and services provided to the Company prior to the end of the financial period that are unpaid and arise when the Company becomes obligated to make future payments.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Warranties

The Company maintains warranty reserves for products it manufactures. A provision is recognised when the following conditions are met: 1) the Company has an obligation as a result of an implied or contractual warranty; 2) it is probable that an outflow of resources will be required to settle the warranty claims; and 3) the amount of the claims can be reliably estimated.

Restructuring

A provision for restructuring is recognised when the Company has approved a detailed and formal restructuring plan and the Company starts to implement the restructuring plan or announces the main features of the restructuring plan to those affected by the plan in a sufficiently specific manner to raise a valid expectation of those affected that the restructuring will be carried out. The Company's restructuring accruals include only the direct expenditures arising from the restructuring, which are those that are both necessarily incurred by the restructuring and not associated with the ongoing activities.

Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived from a contract are less than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

(m) Employee benefits

Liabilities for employee benefits for wages, salaries, annual leave, long service leave, and sick leave represent present obligations resulting from employees' services provided and are calculated at discounted amounts based on rates that the Company expects to pay as at reporting date, including costs such as workers' compensation insurance and payroll tax, when it is probable that settlement will be required and they are capable of being reliably measured.

Liabilities recognised in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Company in respect of services provided by employees up to reporting date.

Non-accumulating non-monetary benefits, such as medical care, housing, cars and free or subsidised goods and services, are expensed based on the net marginal cost to the Company as the benefits are provided to the employees.

Provisions are recognised for amounts expected to be paid under short-term cash bonus or profit-sharing plans if the Company has present legal or constructive obligations to pay these amounts as a result of past service provided by employees and the obligations can be reliably estimated.

Defined contribution pension plans and post-retirement benefits

A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The Company has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The amount recognised as an expense in profit or loss in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the statement of financial position.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Employee benefits (continued)

Defined benefit pension plans

The Company's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any fund assets is deducted.

The discount rate is the yield at the balance sheet date on high quality corporate bonds that have maturity dates approximating the terms of the Company's defined benefit obligations. The calculation is performed by a qualified actuary using the projected unit credit method. Actuarial gains and losses arising from experience adjustments and related changes in actuarial assumptions are charged or credited to retained earnings.

Share-based payment transactions

Equity-settled share-based payments with employees and others providing similar services are measured at the fair value of the equity instrument at the grant date. For stock options, fair value is measured by use of a Black-Scholes-Merton model, which requires the input of highly subjective assumptions.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest.

For cash-settled share-based payments, a liability equal to the portion of the goods or services received is recognised at the current fair value determined at each reporting date.

When determining expense related to long-term incentive plans, the Company considers the probability of shares vesting due to the achievement of performance metrics established by the Board of Directors related to long-term incentives that includes performance vesting conditions. The Company also estimates the portion of share and cash rights that will ultimately be forfeited. A forfeiture rate over the vesting period has been estimated, based upon extrapolation of historic forfeiture rates.

(n) Loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. Debt issuance costs are amortised using the effective interest rate method over the life of the borrowing. Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(o) Financial instruments

Debt and equity instruments

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements.

Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at their fair values and subsequently at the higher of the amount recognised as a provision or the amount initially recognised less cumulative amortisation in accordance with the revenue recognition policies described in Note 3(q).

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Transaction costs on the issue of equity instruments

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

(q) Revenue recognition

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts, volume rebates and sales tax. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

Transfers of risks and rewards vary depending on the individual terms of the contract of sale and with local statute, but are generally when title and insurance risk has passed to the customer and the goods have been delivered to a contractually agreed location.

Revenue from services rendered is recognised in the statement of comprehensive income in proportion to the stage of completion of the transaction at the reporting date. The stage of completion of the contract is determined as follows:

- revenue from drilling services contracts is recognised on the basis of actual metres drilled or other services performed for each contract; and
- revenue from time and material contracts is recognised at the contractual rates as labour hours are delivered and direct expenses are incurred.

(r) Foreign currency

The financial statements of the Company and its subsidiaries have been translated into US dollars using the exchange rates at each balance sheet date for assets and liabilities and at an average exchange rates for revenue and expenses throughout the period. The effects of exchange rate fluctuations on the translation of assets and liabilities are recorded as movements in the foreign currency translation reserve ("FCTR").

The Company's presentation currency is the US dollar. The Company determines the functional currency of its subsidiaries based on the currency used in their primary economic environment, and, as such, foreign currency translation adjustments are recorded in the FCTR for those subsidiaries with a functional currency different from the US dollar.

Transaction gains and losses, and unrealised translation gains and losses on short-term inter-company and operating receivables and payables denominated in a currency other than the functional currency, are included in other income or other expenses in profit or loss.

(s) Contingencies

The recognition of provisions for legal disputes is subject to a significant degree of judgement. Provisions are established when (a) the Company has a present legal or constructive obligation as a result of past events, (b) it is more likely than not that an outflow of resources will be required to settle the obligation, and (c) the amount of that outflow has been reliably estimated.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Business combinations

Business combinations are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Where applicable, consideration for acquisitions includes assets or liabilities resulting from contingent consideration arrangements, measured at the acquisition-date fair value. Subsequent changes in such fair values are adjusted against the costs of the acquisitions where they qualify as measurement period adjustments (see below). All other subsequent changes in the fair values of contingent consideration classified as assets or liabilities are recognised in the statement of comprehensive income as incurred. Changes in the fair values of contingent consideration classified as equity are not recognised.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under AASB 3 (2008) are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with AASB 112 'Income Taxes' and AASB 119 'Employee Benefits', respectively;
- liabilities or equity instruments related to the replacement by the Company of an acquiree's share-based payment awards are measured in accordance with AASB 2 'Share-based Payment'; and
- assets (or disposal groups) that are classified as held for sale in accordance with AASB 5 'Non-current Assets Held for Sale and Discontinued Operations' are measured in accordance with that Standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the Company obtains complete information about facts and circumstances that existed as of the acquisition date, and is subject to a maximum of one year.

(u) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax ("GST"), except:

- where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2011

4. PARENT ENTITY DISCLOSURES

Financial position

	2011 US\$'000	2010 US\$'000
Assets		
Current assets	802,449	731,168
Non-current assets	2,232,744	2,237,753
Total assets	3,035,193	2,968,921
Liabilities		
Current liabilities	111,154	38,419
Non-current liabilities	214	2,646
Total liabilities	111,368	41,065
Equity		
Issued capital	2,886,462	2,886,462
Reserves	7,643	8,415
Retained earnings	29,720	32,979
Total equity	2,923,825	2,927,856

Financial performance

	2011 US\$'000	2010 US\$'000
Profit for the year	34,556	35,318
Other comprehensive income	-	-
Total comprehensive income	34,556	35,318

Guarantees entered into by the parent entity in relation to debts of its subsidiaries

As of 31 December 2011 and 2010 Boart Longyear Limited has not entered into any deed of cross guarantee with any of its wholly-owned subsidiaries, other than as described in Note 26.

Contingent liabilities

As of 31 December 2011 and 2010 Boart Longyear Limited did not have any contingent liabilities.

Contractual obligations

As of 31 December 2011 and 2010 Boart Longyear Limited did not have any contractual obligations.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2011

5. SEGMENT REPORTING

Information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance is aggregated based on the Company's two general operating activities – Drilling Services and Products. The Drilling Services segment provides a broad range of drilling services to mining companies, energy companies, water utilities, environmental and geotechnical engineering firms, government agencies and other mining services companies. The Products segment manufactures and sells capital equipment and consumables to customers in the drilling services and mining industries.

Information regarding these segments is presented below. The accounting policies of the reportable segments are the same as the Company's accounting policies.

Segment revenue and results

	Segment revenue		Segment profit	
	31 Dec 2011	31 Dec 2010	31 Dec 2011	31 Dec 2010
	US\$'000	US\$'000	US\$'000	US\$'000
Drilling Services	1,447,881	1,080,460	212,542	117,876
Products	572,441	395,485	119,765	85,034
	<u>2,020,322</u>	<u>1,475,945</u>	<u>332,307</u>	<u>202,910</u>
Unallocated ¹			(86,672)	(74,472)
Finance costs			(23,936)	(8,733)
Interest income			5,111	3,570
Profit (loss) before taxation			<u>226,810</u>	<u>123,275</u>

- (1) Unallocated costs include corporate general and administrative costs as well as other expense items such as restructuring costs and foreign exchange gains or losses.

Other segment information

	Depreciation and amortisation of segment assets		Additions to non-current assets ²	
	31 Dec 2011	31 Dec 2010	31 Dec 2011	31 Dec 2010
	US\$'000	US\$'000	US\$'000	US\$'000
Drilling Services	89,448	73,591	138,538	115,712
Products	12,757	10,374	45,360	21,161
Total of all segments	102,205	83,965	183,898	136,873
Unallocated ¹	8,418	9,385	34,436	25,191
Total	<u>110,623</u>	<u>93,350</u>	<u>218,334</u>	<u>162,064</u>

- (1) Unallocated additions to non-current assets relate to the acquisition of general corporate assets such as software.
 (2) Non-current assets excluding deferred tax assets, post-employment assets and other financial assets.

The Company has no single external customer that provided more than 10% of the Company's revenue.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2011

5. SEGMENT REPORTING (CONTINUED)

Geographic information

The Company's two business segments operate in five principal geographic areas – Africa, Europe, North America, Latin America, and Asia Pacific. The Company's revenue from external customers and information about its segment assets by geographical locations are detailed below:

	Revenue from external customers		Non-current assets ¹	
	31 Dec 2011 US\$'000	31 Dec 2010 US\$'000	31 Dec 2011 US\$'000	31 Dec 2010 US\$'000
North America	780,381	621,092	378,472	347,222
Asia Pacific	534,915	403,230	360,376	340,023
Latin America	290,509	186,177	98,529	89,008
Africa	288,168	192,920	73,497	55,169
Europe	126,349	72,526	22,416	13,645
Total	2,020,322	1,475,945	933,290	845,067

(1) Non-current assets excluding deferred tax assets, post-employment assets and other financial assets.

6. REVENUE

An analysis of the Company's revenue for the year is as follows:

	2011 US\$'000	2010 US\$'000
Revenue from the rendering of services	1,447,881	1,080,460
Revenue from the sale of goods	572,441	395,485
	2,020,322	1,475,945
Interest income:		
Bank deposits	5,003	3,306
Other	108	264
	5,111	3,570
Total	2,025,433	1,479,515

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2011

7. FINANCE COSTS

	2011 US\$'000	2010 US\$'000
Interest on loans and bank overdrafts	21,252	4,370
Interest rate swap expense	347	3,730
Amortisation of debt issuance costs	1,179	420
Interest on obligations under finance leases	251	213
	<u>23,029</u>	<u>8,733</u>
Finance costs due to debt repayment:		
Interest rate swap expense	137	-
Write-off of debt issuance costs	770	-
	<u>907</u>	<u>-</u>
Total finance costs	<u>23,936</u>	<u>8,733</u>

8. PROFIT FOR THE YEAR

(a) Gains and losses

Profit for the year includes the following gains and (losses):

	2011 US\$'000	2010 US\$'000
Gain (loss) on disposal of property, plant and equipment	365	(1,827)
Net foreign exchange losses	(3,381)	(7,159)
Change in fair value of financial assets carried at fair value through profit or loss	-	(1,076)
Impairment of non-current assets	(450)	(1,695)

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2011

8. PROFIT FOR THE YEAR (CONTINUED)

(b) Income and expenses relating to financial instruments

Profit for the year includes the following income and expenses arising from movements in the carrying amounts of financial instruments (excluding foreign currency gains and losses).

	2011 US\$'000	2010 US\$'000
Interest income	5,003	3,457
Net (expense) reversal of bad debt	(245)	1,002
	<u>4,758</u>	<u>4,459</u>
Financial liabilities at amortised cost:		
Interest expense	(21,252)	(4,370)
Interest rate swap expense	(347)	(3,730)
Amortisation of debt issuance costs	(1,179)	(420)
Finance costs due to debt repayment	(907)	-
Interest on obligations under finance lease	(251)	(213)
	<u>(23,936)</u>	<u>(8,733)</u>

(c) Employee benefits expenses

	2011 US\$'000	2010 US\$'000
Salaries and wages	(591,464)	(463,902)
Post-employment benefits:		
Defined contribution plans	(16,778)	(15,049)
Defined benefit plans	(1,106)	(1,666)
Long-term incentive plans:		
Equity-settled share-based payments	(5,854)	(3,863)
Cash rights compensation	(2,670)	(1,954)
Termination benefits	(135)	(2,790)
Other employee benefits ¹	(154,794)	(97,383)
	<u>(772,801)</u>	<u>(586,607)</u>

(1) Other employee benefits include items such as medical benefits, workers' compensation, other fringe benefits, state taxes, etc.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2011

8. PROFIT FOR THE YEAR (CONTINUED)

(d) Other

	2011 US\$'000	2010 US\$'000
Depreciation of non-current assets	(95,096)	(84,222)
Amortisation of non-current assets	(15,527)	(9,128)
Operating lease rental expense	(37,686)	(35,910)
Impairment of inventory	(568)	(611)

9. INCOME TAXES

Income tax expense is as follows:

	2011 US\$'000	2010 US\$'000
Income tax expense:		
Current tax expense	68,574	51,601
Adjustments recognised in the current year in relation to the current tax of prior years	(5,208)	2,402
Deferred tax expense (benefit)	3,573	(15,241)
	<u>66,939</u>	<u>38,762</u>

(a) The prima facie income tax expense on pre-tax accounting profit reconciles to the income tax expense in the financial statements as follows:

Profit before taxation	226,810	123,275
Income tax expense calculated at Australian rate of 30%	68,042	36,982
Impact of higher rate tax countries	5,196	2,701
Impact of lower rate tax countries	(20,473)	(6,334)
Net non-deductible/non-assessable items	(2,763)	(1,108)
Unrecognised tax losses	(826)	1,231
Income subject to double taxation in the US	4,547	(1,653)
Unutilised foreign tax credits	16,908	6,634
Recognition of deferred tax assets arising in prior years	150	(132)
Deduction of foreign taxes	(5,594)	(1,005)
Other	6,960	(957)
	<u>72,147</u>	<u>36,359</u>
(Over) under provision from prior years	(5,208)	2,403
	<u>66,939</u>	<u>38,762</u>

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2011

9. INCOME TAXES (CONTINUED)

(b) Income tax recognised directly in equity during the period

The following current and deferred amounts were credited (charged) directly to equity during the year:

	2011 US\$'000	2010 US\$'000
Deferred tax:		
Actuarial movements on defined benefit plans	8,236	4,418
Cash flow hedges	(71)	(194)
	<u>8,165</u>	<u>4,224</u>

(c) Current tax assets and liabilities

Current tax assets:

Income tax receivable attributable to:

Parent	(6,857)	23,164
Other entities in the tax consolidated group	14,282	(15,373)
Other entities	<u>22,568</u>	<u>13,914</u>
	<u>29,993</u>	<u>21,705</u>

Current tax liabilities:

Income tax payable attributable to:

Entities other than parent and entities in the consolidated group	<u>82,000</u>	<u>46,338</u>
	<u>82,000</u>	<u>46,338</u>

(d) Deferred tax balances

Deferred tax comprises:

Temporary differences	108,071	87,483
Tax losses	<u>33,611</u>	<u>48,371</u>
	<u>141,682</u>	<u>135,854</u>

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2011

9. INCOME TAXES (CONTINUED)

2011	Opening balance US\$'000	Credited to income US\$'000	FX differences US\$'000	Credited to equity US\$'000	Closing balance US\$'000
Deferred tax assets (liabilities)					
Property, plant and equipment	(8,842)	3,054	97	-	(5,691)
Provisions	2,429	1,687	46	-	4,162
Doubtful debts	403	(223)	8	-	188
Intangibles	(9,605)	709	(183)	-	(9,079)
Acquisitions and restructuring costs	3,176	(3,237)	61	-	-
Share-issue expenses	11,182	(6,247)	-	-	4,935
Accrued liabilities	2,075	475	40	-	2,590
Pension	9,015	(7,267)	172	8,236	10,156
Debt and interest	13,523	11,781	258	-	25,562
Hedge loss	2,774	(2,703)	-	(71)	-
Unearned revenues	19,090	(5,473)	364	-	13,981
Inventory	13,874	3,478	264	-	17,616
Investments in subsidiaries	(1,500)	-	-	-	(1,500)
Foreign tax credit carryforward	8,202	814	-	-	9,016
Unrealised foreign exchange	15,905	8,569	-	-	24,474
Other	5,782	5,770	109	-	11,661
	87,483	11,187	1,236	8,165	108,071
Unused tax losses and credits:					
Tax losses	48,371	(14,760)	-	-	33,611
	135,854	(3,573)	1,236	8,165	141,682

Presented in the statement of financial position as follows:

Deferred tax asset	144,587
Deferred tax liability	(2,905)
	<u>141,682</u>

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2011

9. INCOME TAXES (CONTINUED)

	Opening balance	Credited to income	FX differences	Credited to equity	Closing balance
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
2010					
Deferred tax assets (liabilities)					
Property, plant and equipment	(14,067)	5,276	(51)	-	(8,842)
Provisions	4,549	(2,097)	(23)	-	2,429
Doubtful debts	630	(224)	(3)	-	403
Intangibles	(9,302)	(351)	48	-	(9,605)
Acquisitions and restructuring costs	7,463	(4,249)	(38)	-	3,176
Share-issue expenses	17,678	(6,496)	-	-	11,182
Accrued liabilities	9,470	(7,346)	(49)	-	2,075
Pension	5,146	(522)	(27)	4,418	9,015
Debt and interest	8,816	4,782	(75)	-	13,523
Hedge loss	6,323	(3,355)	-	(194)	2,774
Unearned revenues	23,488	(4,275)	(123)	-	19,090
Inventory	6,782	7,127	(35)	-	13,874
Investments in subsidiaries	(597)	(903)	-	-	(1,500)
Foreign tax credit carryforward	6,723	1,479	-	-	8,202
Unrealised foreign exchange	(3,519)	19,424	-	-	15,905
Other	2,564	3,229	(11)	-	5,782
	<u>72,147</u>	<u>11,499</u>	<u>(387)</u>	<u>4,224</u>	<u>87,483</u>
Unused tax losses and credits:					
Tax losses	44,630	3,741	-	-	48,371
	<u>116,777</u>	<u>15,240</u>	<u>(387)</u>	<u>4,224</u>	<u>135,854</u>

Presented in the statement of financial position as follows:

Deferred tax liability	(11,468)
Deferred tax asset	<u>147,322</u>
	<u>135,854</u>

	2011 US\$'000	2010 US\$'000
Unrecognised deferred tax assets		
Tax losses - revenue	2,449	3,151
Unused tax credits	<u>63,754</u>	<u>61,829</u>
	<u>66,203</u>	<u>64,980</u>

The Parent and its wholly-owned Australian resident entities became part of the same tax-consolidated group with effect from 12 April 2007 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Boart Longyear Limited. Companies within the US group also form a tax-consolidated group within the United States. Certain companies within the Dutch group have also formed a tax-consolidated group within the Netherlands.

Entities within the tax-consolidated groups have entered into tax-funding arrangements with the head entities. Under the terms of the tax-funding arrangements, the tax-consolidated groups and each of the entities within those tax-consolidated groups agree to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the entity. Such amounts are reflected in amounts receivable from or payable to other entities in the tax-consolidated groups.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2011

9. INCOME TAXES (CONTINUED)

The Canada Revenue Agency ("CRA") has been reviewing the Company's tax returns for 2005 to 2009. The CRA issued an assessment in December 2011, which the Company is contesting, and further assessments for the period are possible.

The taxes, interest and penalties assessed relate to profits which the CRA asserts should have been attributable to the Company's Canadian operations. These profits were assessed in other jurisdictions and taxes were paid in those jurisdictions, many of which have tax rates similar to Canada.

The Company intends to request relief through a process known as "competent authority" which allows interested jurisdictions to determine where the Company's income and costs should be reported. This process avoids double payment of taxes but the Company would be exposed to penalties and interest on underpayments, if any.

The Company believes it is appropriately reserved in respect of this issue.

10. TRADE AND OTHER RECEIVABLES

	2011 US\$'000	2010 US\$'000
Trade receivables	292,719	245,842
Allowance for doubtful accounts	(1,412)	(3,619)
Goods and services tax receivable	33,796	23,978
Other receivables	9,204	10,635
	<u>334,307</u>	<u>276,836</u>

The ageing of trade receivables is detailed below:

	2011 US\$'000	2010 US\$'000
Current	220,532	172,930
Past due 0 - 30 days	45,619	43,050
Past due 31 - 60 days	11,344	13,710
Past due 61-90 days	7,778	6,302
Past due 90 days	7,446	9,850
	<u>292,719</u>	<u>245,842</u>

The movement in the allowance for doubtful accounts in respect of trade receivables is detailed below:

	2011 US\$'000	2010 US\$'000
Opening balance	3,619	5,940
Additional provisions	500	2,651
Amounts used	(2,361)	(1,271)
Amounts reversed	(255)	(3,653)
Foreign currency exchange differences	(91)	(48)
Closing balance	<u>1,412</u>	<u>3,619</u>

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2011

10. TRADE AND OTHER RECEIVABLES (CONTINUED)

The average credit period on sales of goods as at 31 December 2011 is 52 days (2010: 54 days). No interest is charged on trade receivables.

The Company's policy requires customers to pay the Company in accordance with agreed payment terms. The Company's settlement terms are generally 30 to 60 days from date of invoice. All credit and recovery risk associated with trade receivables has been provided for in the statement of financial position. Trade receivables have been aged according to their original due date in the above ageing analysis. The Company holds security for a number of trade receivables in the form of letters of credit, deposits, and advanced payments.

The Company has used the following basis to assess the allowance loss for trade receivables and as a result is unable to specifically allocate the allowance to the ageing categories shown above:

- the general economic conditions in specific geographical regions;
- an individual account by account specific risk assessment based on past credit history; and
- any prior knowledge of debtor insolvency or other credit risk.

11. INVENTORIES

	2011 US\$'000	2010 US\$'000
Raw materials	32,019	31,631
Work in progress	6,774	3,437
Finished products	361,646	248,047
	400,439	283,115

12. FINANCIAL INSTRUMENTS

Capital risk management

The Company manages its capital to ensure that entities in the Company will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balances.

The capital structure of the Company consists of debt, which includes the loans and borrowings disclosed in Note 17, cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued capital, reserves, and retained earnings/accumulated losses as disclosed in Notes 20, 21, and 22 respectively.

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 3.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2011

12. FINANCIAL INSTRUMENTS (CONTINUED)

Categories of financial instruments

	2011 US\$'000	2010 US\$'000
Financial assets		
<i>Current</i>		
Cash and cash equivalents	82,286	94,944
Trade and other receivables	334,307	276,836
	<u>416,593</u>	<u>371,780</u>
Financial liabilities		
<i>Current</i>		
Amortised cost:		
Trade and other payables	320,604	260,038
Restructuring and termination cost provisions	1,044	4,462
Loans and borrowings	2,518	979
	<u>324,166</u>	<u>265,479</u>
Other financial liabilities - derivative instruments	-	7,272
<i>Non-current</i>		
Amortised cost:		
Loans and borrowings	310,343	247,490
	<u>310,343</u>	<u>247,490</u>

At the reporting date there are no significant concentrations of credit risk. The carrying amount reflected above represents the Company's maximum exposure to credit risk for trade and other receivables.

Financial risk management objectives

The Company's corporate treasury function provides services to the business, coordinates access to domestic and international financial markets, and monitors and manages the financial risks relating to the operations of the Company through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

The Company seeks to minimise the effects of these risks, where deemed appropriate, by using derivative financial instruments to hedge these risk exposures. The use of financial derivatives is governed by the Company's policies approved by the Board, which provide written principles on foreign exchange risk and interest rate risk. The Company does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

Market risk

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates (Note 3(i)). The Company periodically enters into certain derivative financial instruments to manage its exposure to interest rate and foreign currency risk, including:

- foreign exchange forward contracts to hedge the exchange rate risk arising from transactions not recorded in an entity's functional currency; and
- interest rate swaps to mitigate the risk of rising interest rates.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2011

12. FINANCIAL INSTRUMENTS (CONTINUED)

Foreign currency risk management

Company subsidiaries undertake certain transactions denominated in currencies other than their functional currency, hence exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters, which may include utilising forward foreign exchange contracts.

The most significant carrying amounts of monetary assets and monetary liabilities (which include intercompany balances with other subsidiaries) that: (1) are denominated in currencies other than the functional currency of the respective Company subsidiary; and (2) cause foreign exchange rate exposure, at 31 December are as follows:

	Assets		Liabilities	
	2011	2010	2011	2010
	US\$'000	US\$'000	US\$'000	US\$'000
Australian Dollar	402,240	421,867	7,972	12,094
Canadian Dollar	7,306	10,629	88,785	62,556
Euro	33,510	5,715	38,326	18,915
US Dollar	206,392	296,142	386,926	397,356

Foreign currency sensitivity

The Company is mainly exposed to exchange rate fluctuations in the Australian Dollar (AUD), Canadian Dollar (CAD), Euro (EUR) and United States Dollar (USD). The Company is also exposed to translation differences as the Company's presentation currency is different from the functional currencies of various subsidiaries. However, this represents a translation risk rather than a financial risk and consequently is not included in the following sensitivity analysis.

The following tables reflect the Company's sensitivity to a 10% change in the exchange rate of each of the currencies listed above. This sensitivity analysis includes only outstanding monetary items denominated in currencies other than the respective subsidiaries' functional currencies and remeasures these at the respective year end to reflect a 10% decrease in the indicated currency against the respective subsidiaries' functional currencies. A positive number indicates an increase in net profit and/or net assets.

	10% change in AUD		10% change in CAD	
	2011	2010	2011	2010
	US\$'000	US\$'000	US\$'000	US\$'000
Net profit	(586)	(384)	4,745	2,505
Net assets	(35,842)	(37,252)	7,407	4,721

	10% change in EUR		10% change in USD	
	2011	2010	2011	2010
	US\$'000	US\$'000	US\$'000	US\$'000
Net profit	438	1,204	2,441	(12,520)
Net assets	438	1,204	16,412	9,201

In management's opinion, the sensitivity analysis is not fully representative of the inherent foreign exchange risk as the year-end exposure does not reflect the exposure during the course of the year.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2011

12. FINANCIAL INSTRUMENTS (CONTINUED)

Forward foreign exchange contracts

There were no open forward foreign currency contracts as of 31 December 2011 or 2010.

Interest rate risk management

The Company is exposed to interest rate risk as entities within the Company borrow funds at both fixed and floating interest rates. The risk is managed by the Company by maintaining an appropriate mix between fixed and floating-rate borrowings and by the use of interest rate swap contracts. Hedging activities are evaluated regularly to align with interest rate views and risk tolerance. The Company's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

Interest rate sensitivity

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the possible change in interest rates.

During the year, if interest rates had been 100 basis points higher or lower and all other variables were held constant, the Company's profit before tax would increase/decrease by \$170,000 (2010: decrease/increase by \$854,000) all of which is attributable to the Company's exposure to interest rates on its variable-rate borrowings.

Interest rate swap contracts

Under interest rate swap contracts, the Company agrees to exchange the difference between fixed and floating rate interest amounts calculated on notional amounts. Such contracts enable the Company to mitigate the risk of changing interest rates on the cash flow exposures on variable-rate debt. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using the LIBOR curve at the reporting date and the credit risk inherent in the contract. These are disclosed below. The average interest rate is based on the outstanding balances at the start of the financial year. There were no interest rate swap contracts outstanding at 31 December 2011.

The following table details the notional principal amounts and the remaining terms of interest rate swap contracts outstanding as at the reporting dates.

Outstanding floating for fixed contracts	Average contracted fixed interest rate		Notional principal amount		Fair value	
	2011 %	2010 %	2011 US\$'000	2010 US\$'000	2011 US\$'000	2010 US\$'000
Less than 1 year	-	5.1825%	-	200,000	-	(7,272)

The interest rate swaps settle on a quarterly basis. The floating rate on the interest rate swaps is 90-day USD LIBOR. The Company settles the difference between the fixed and floating interest rates on a net basis.

Any effective portion of the interest rate swap contracts that exchange floating-rate interest amounts for fixed-rate interest amounts are designated as cash flow hedges in order to reduce the Company's cash flow exposure resulting from variable rates on borrowings. The interest rate swaps and the interest payments on the loan occur simultaneously and the amount deferred in equity is recognised in profit or loss over the period of the respective loan.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2011

12. FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk management

The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, when appropriate, as a means of mitigating the risk of financial loss from defaults.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on accounts receivable. The Company holds security for a number of trade receivables in the form of letters of credit, deposits, and advanced payments.

The Company does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Except as detailed in the following table, the carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Company's maximum exposure to credit risk without taking account of the value of any collateral obtained. See Note 26.

	<u>Maximum credit risk</u>	
	<u>2011</u>	<u>2010</u>
<u>Financial assets and other credit exposures</u>	<u>US\$'000</u>	<u>US\$'000</u>
Performance guarantees provided, including letters of credit	15,797	20,350

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Company's Treasurer and Board, who have built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements.

The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecasted and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in Note 17 is a list of undrawn facilities that the Company has at its disposal to further reduce liquidity risk.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2011

12. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity and interest risk tables

The following tables reflect the expected maturities of non-derivative financial liabilities. These are based on the undiscounted expected cash flows of financial liabilities at the earliest date on which the Company may be required to pay. The table includes both interest and principal cash flows. The adjustment column represents the possible future cash flows attributable to the instrument included in the maturity analysis which are not included in the carrying amount on the balance sheet.

	Weighted average effective interest rate %	Less than 1 month US\$'000	1 to 3 months US\$'000	3 months to 1 year US\$'000	1 - 5 years US\$'000	5+ years US\$'000	Adjust- ment US\$'000	Total US\$'000
2011								
Non-interest bearing payables		196,176	124,428	-	-	-	-	320,604
Restructuring provision		87	174	783	-	-	-	1,044
Finance lease liability	8.9%	40	80	360	121	-	(65)	536
Variable interest rate instruments	2.2%	32	63	286	18,363	-	(1,744)	17,000
Fixed interest rate instruments	7.0%	1,760	3,520	15,839	86,191	389,408	(194,527)	302,191
		<u>198,095</u>	<u>128,265</u>	<u>17,268</u>	<u>104,675</u>	<u>389,408</u>	<u>(196,336)</u>	<u>641,375</u>
2010								
Non-interest bearing payables		133,308	126,730	-	-	-	-	260,038
Restructuring provision		372	743	3,347	-	-	-	4,462
Finance lease liability	8.9%	115	230	1,032	320	-	(184)	1,513
Variable interest rate instruments	1.0%	199	398	1,790	248,651	-	(3,038)	248,000
		<u>133,994</u>	<u>128,101</u>	<u>6,169</u>	<u>248,971</u>	<u>-</u>	<u>(3,222)</u>	<u>514,013</u>

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2011

12. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity and interest risk tables (continued)

The following tables reflect the expected maturities of non-derivative financial assets. These are based on the undiscounted expected cash flows of the financial assets.

	Less than 1 month US\$'000	1 to 3 months US\$'000	3 months to 1 year US\$'000	Total US\$'000
2011				
Non-interest bearing receivables	170,920	125,340	38,047	334,307
Cash	82,286	-	-	82,286
	<u>253,206</u>	<u>125,340</u>	<u>38,047</u>	<u>416,593</u>
2010				
Non-interest bearing receivables	135,550	108,440	32,846	276,836
Cash	94,944	-	-	94,944
	<u>230,494</u>	<u>108,440</u>	<u>32,846</u>	<u>371,780</u>

The liquidity and interest risk tables are based on the Company's intent to collect the assets or settle the liabilities in accordance with the contractual terms.

The following table reflects the Company's liquidity position for its derivative financial instruments. The table has been presented based on the undiscounted net cash outflows on the derivative instruments that settle on a net basis. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the reporting date. There were no swap contracts outstanding at 31 December 2011.

	Less than 1 month US\$'000	1 to 3 months US\$'000	3 months to 1 year US\$'000	1 - 5 years US\$'000	5+ years US\$'000	Total US\$'000
2010						
Interest rate swaps	-	(2,469)	(4,803)	-	-	(7,272)

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2011

12. FINANCIAL INSTRUMENTS (CONTINUED)

Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.
- The fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analyses using prices from observable current market transactions.
- The fair value of derivative instruments are calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analyses using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

Management considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	<u>Level 1</u> <u>US\$'000</u>	<u>Level 2</u> <u>US\$'000</u>	<u>Level 3</u> <u>US\$'000</u>	<u>Total</u> <u>US\$'000</u>
2011				
Financial liabilities at fair value				
Derivative instruments	-	-	-	-
2010				
Financial liabilities at fair value				
Derivative instruments	-	7,272	-	7,272

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2011

13. PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings US\$'000	Plant and Equipment US\$'000	Construction in Progress US\$'000	Total US\$'000
Balance at 1 January 2010	41,172	566,521	25,597	633,290
Additions	608	26,861	109,061	136,530
Disposal	(62)	(41,915)	-	(41,977)
Transfer to/from CIP	2,356	30,662	(33,018)	-
Transfer from intangible assets	-	-	802	802
Currency movements	1,118	32,949	1,760	35,827
Balance at 1 January 2011	45,192	615,078	104,202	764,472
Additions	1,160	47,624	129,117	177,901
Disposal	(922)	(17,485)	-	(18,407)
Transfer to/from CIP	16,251	101,955	(118,206)	-
Currency movements	(405)	(25,678)	(4,228)	(30,311)
Balance at 31 December 2011	61,276	721,494	110,885	893,655
Accumulated depreciation and impairment:				
Balance at 1 January 2010	(6,604)	(246,171)	-	(252,775)
Depreciation	(1,860)	(82,362)	-	(84,222)
Impairment	-	(867)	-	(867)
Disposal	38	34,311	-	34,349
Currency movements	(675)	(20,836)	-	(21,511)
Balance at 1 January 2011	(9,101)	(315,925)	-	(325,026)
Depreciation	(2,584)	(92,512)	-	(95,096)
Impairment	-	(57)	-	(57)
Disposal	494	15,370	-	15,864
Currency movements	93	18,798	-	18,891
Balance at 31 December 2011	(11,098)	(374,326)	-	(385,424)
Net book value at 31 December 2010	36,091	299,153	104,202	439,446
Net book value at 31 December 2011	50,178	347,168	110,885	508,231

The net book value of property, plant and equipment at 31 December 2011 and 2010 includes amounts of \$1,770,000 and \$2,740,000, respectively, related to assets held under finance leases.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2011

14. GOODWILL

	<u>US\$'000</u>
Gross carrying amount:	
Balance at 1 January 2010	276,956
Currency movements	20,452
Balance at 31 December 2010	<u>297,408</u>
Balance at 1 January 2011	297,408
Currency movements	(3,345)
Balance at 31 December 2011	<u>294,063</u>

Goodwill by cash-generating units

For purposes of impairment testing, goodwill is included in cash-generating units that are significant individually or in aggregate. The carrying amount of goodwill included in cash-generating units, by geographic area, is as follows:

	<u>2011</u> <u>US\$'000</u>	<u>2010</u> <u>US\$'000</u>
Asia Pacific	154,677	155,731
Latin America	32,767	34,602
North America	106,619	107,075
	<u>294,063</u>	<u>297,408</u>

The carrying amount of goodwill is tested for impairment annually at 31 October and whenever there is an indicator that the asset may be impaired. If an asset is impaired, it is written down to its recoverable amount.

In its impairment assessment, the Company assumes the recoverable amount based on a value-in-use calculation using cash flow projections based on the Company's three-year strategic plan and financial forecasts over a nine-year period, which approximates the length of a typical business cycle based on historical industry experience, with a terminal value. Key assumptions used for impairment testing include:

- a global discount rate of 11.5% adjusted on a case by case basis for regional variations in the required equity rate of return based on independent data (the adjusted rates ranged from 8.9% to 20.3%); and
- expected future profits and future annual growth rates consistent with internal forecasts and expected performance of the specific business line being tested for impairment over the cycle. The growth rates do not exceed forecasts for the long-term industry averages.

Sensitivity analyses were performed to determine whether the carrying value is supported by different assumptions. The key variables of the sensitivity analysis include:

- applicable discount rates;
- terminal growth rates; and
- inflation assumptions.

Based on the impairment testing performed, the recoverable amount from each cash-generating unit exceeded the goodwill carrying amount. Consequently, no impairments were recorded in 2011.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2011

15. OTHER INTANGIBLE ASSETS

	Trademarks US\$'000	Patents US\$'000	Customer relationships US\$'000	Software US\$'000	Develop- ment assets US\$'000	Total US\$'000
Gross carrying amount:						
Balance at 1 January 2010	3,763	1,697	57,728	22,955	16,869	103,012
Additions	121	1,250	-	20,799	3,364	25,534
Transfer to PP&E	-	-	-	-	(802)	(802)
Currency movements	-	-	3,826	3,580	1,289	8,695
Balance at 31 December 2010	3,884	2,947	61,554	47,334	20,720	136,439
Balance at 1 January 2011	3,884	2,947	61,554	47,334	20,720	136,439
Additions	-	1,725	-	23,646	14,935	40,306
Currency movements	-	-	(691)	-	(567)	(1,258)
Balance at 31 December 2011	3,884	4,672	60,863	70,980	35,088	175,487
Accumulated amortisation:						
Balance at 1 January 2010	(587)	(647)	(12,563)	(3,527)	(1,401)	(18,725)
Amortisation for the period	(423)	(200)	(5,757)	(2,200)	(548)	(9,128)
Impairment for the period	-	-	-	-	(828)	(828)
Currency movements	-	-	(1,463)	-	-	(1,463)
Balance at 31 December 2010	(1,010)	(847)	(19,783)	(5,727)	(2,777)	(30,144)
Balance at 1 January 2011	(1,010)	(847)	(19,783)	(5,727)	(2,777)	(30,144)
Amortisation for the period	(423)	(267)	(6,165)	(7,940)	(732)	(15,527)
Impairment for the period	-	-	-	-	(393)	(393)
Currency movements	-	-	324	-	96	420
Balance at 31 December 2011	(1,433)	(1,114)	(25,624)	(13,667)	(3,806)	(45,644)
Net book value at 31 December 2010	2,874	2,100	41,771	41,607	17,943	106,295
Net book value at 31 December 2011	2,451	3,558	35,239	57,313	31,282	129,843

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2011

16. TRADE AND OTHER PAYABLES

	2011 US\$'000	2010 US\$'000
Current		
Trade payables	173,936	159,820
Accrued payroll and benefits	59,492	47,157
Goods and services tax payable	29,365	17,675
Accrued drilling costs	10,013	6,340
Accrued legal and environmental	6,202	3,378
Accrued interest	5,446	56
Professional fees	5,331	4,420
Other sundry payables and accruals	30,819	21,192
	<u>320,604</u>	<u>260,038</u>

The average credit period on purchases of certain goods is 42 days (2010: 48 days). No interest is charged on the trade payables for this period. Thereafter, various percentages of interest may be charged on the outstanding balance based on the terms of the specific contracts. The Company has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

17. LOANS AND BORROWINGS

	2011 US\$'000	2010 US\$'000
Unsecured - at amortised cost		
<i>Current</i>		
Bank loans	2,191	-
<i>Non-current</i>		
Senior notes	300,000	-
Revolver bank loans	17,000	183,000
Term bank loans	-	65,000
Debt issuance costs	(6,866)	(1,044)
Secured - at amortised cost		
<i>Current - finance lease liabilities</i>	327	979
<i>Non-current - finance lease liabilities</i>	209	534
	<u>312,861</u>	<u>248,469</u>
Disclosed in the financial statements as:		
Current borrowings	2,518	979
Non-current borrowings	310,343	247,490
	<u>312,861</u>	<u>248,469</u>
A summary of the maturity of the Company's borrowings is as follows:		
Less than 1 year	2,518	979
Between 1 and 2 years	197	247,289
Between 2 and 3 years	13	194
Between 3 and 4 years	-	7
More than 4 years	310,133	-
	<u>312,861</u>	<u>248,469</u>

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2011

17. LOANS AND BORROWINGS (CONTINUED)

Senior notes

On 28 March 2011, the Company issued \$300,000,000 of senior unsecured notes at an interest rate of 7% with a scheduled maturity date of 1 April 2021. The net proceeds were used to repay the Company's \$65,000,000 term loan and \$230,000,000 in borrowings under its revolving loan facilities. The Company may redeem all or a portion of the notes prior to maturity subject to certain conditions, including in certain cases the payment of premiums or make-whole amounts. Guarantors of the senior notes are the same as the \$250,000,000 revolver bank loan facility described below.

The indenture governing the notes includes covenants that restrict the Company's ability to engage in certain activities, including incurring additional indebtedness and paying dividends, subject in each case to specified exceptions and qualifications.

Term bank loans

In March 2011, the Company repaid its \$65,000,000 variable rate term bank loan, which had a scheduled maturity date of 10 April 2012. The interest rate on this term bank loan was based on a base rate plus applicable margin. The base rate is generally based upon USD LIBOR rates, while the margin is determined based upon leverage according to a pricing grid. At 31 December 2010, the rates were based upon USD LIBOR + 0.65%, which totalled 0.9625%.

During 2010 and part of 2011, the Company hedged its exposure to floating rates under the loans via interest rate swaps, exchanging variable rate interest payments for fixed rate interest payments. The interest swap contracts were largely entered into in 2006 and reflected notional amounts and maturities assuming (a) a portion of the variable interest loans would be hedged and (b) that bank term loans would be repaid largely according to original, scheduled maturity dates. As of 31 December 2011, there were no interest rate swap contracts outstanding and as of 31 December 2010, the notional amount of interest rate swap contracts was \$200,000,000, which exceeded outstanding bank term loans. At 31 December 2010, interest rate swap contracts with notional values of \$16,250,000 were deemed effective and \$183,750,000 were deemed ineffective due to the repayment of the \$585,000,000 bank term loan in late 2009.

Revolver bank loans

On 29 July 2011, the Company executed an agreement for a \$250,000,000 revolver bank loan facility. \$17,000,000 was drawn as at 31 December 2011. Interest rates on borrowings are based on a base rate plus an applicable margin. The base rate is generally based on either 30-day USD LIBOR or the prime rate as determined by Bank of America, while the margin is determined based on leverage according to a pricing grid. \$15,000,000 of the borrowings as at 31 December 2011 were based on 30-day LIBOR at the time of draws (between 0.27% and 0.30%) plus a margin of 1.75%, for a weighted average interest rate of 2.03%. \$2,000,000 of the borrowings as at 31 December 2011 were based on the prime rate of 3.25% plus a margin of 0.75% for a total interest rate of 4.0%. The scheduled maturity date is 29 July 2016. Concurrent with executing the new \$250,000,000 facility, the Company terminated its \$200,000,000 and \$85,000,000 revolver bank loan facilities.

The initial draw on the \$250,000,000 facility was used to repay the borrowings under the \$200,000,000 revolver bank loan facility.

The \$200,000,000 facility had \$183,000,000 drawn as at 31 December 2010 with an interest margin of 0.65% over 30-day USD LIBOR, set at the time of the draws (totaling 0.9625%) and had a scheduled maturity date of 10 April 2012.

The \$85,000,000 bank facility had a scheduled maturity date of 10 February 2012 and an interest rate margin of 1.75% over 30-day USD LIBOR and was undrawn as at 31 December 2010.

Outstanding letters of credit of \$2,305,000 and \$2,205,000 as of 31 December 2011 and 2010, respectively, reduce the amount available to draw under the revolvers.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2011

17. LOANS AND BORROWINGS (CONTINUED)

Loan covenants - revolver and term bank loans

The Company's revolver and term bank loans contain covenants and restrictions requiring the Company to meet certain financial ratios and reporting requirements, as well as minimum levels of subsidiaries that are guarantors of the borrowings.

The covenants for the \$250,000,000 revolver bank loan facility includes maintaining a gross debt to EBITDA ratio of not more than 3.5:1, and an EBITDA to interest ratio of not less than 3.0:1. The agreement also requires that borrowers and guarantors represent at least 60% of Company EBITDA and total tangible assets of the Company.

The covenants for the \$200,000,000 revolver bank loan facility include maintaining a debt (offset by cash) to EBITDA ratio of not more than 3.75:1 and an EBITDA to interest ratio of not less than 3.0:1. The agreement also requires that borrowers and guarantors represent at least 75% of Company EBITDA and total tangible assets of the Company.

The covenants for the \$85,000,000 revolver bank loan facility include maintaining a debt (offset by cash) to EBITDA ratio of not more than 3.5:1 and an EBITDA to interest ratio of not less than 3.0:1. The agreement also requires that borrowers and guarantors represent at least 70% of Company EBITDA and has no tangible asset covenant.

Prior to the Company engaging in certain activities, including incurring additional indebtedness, the Company is subject to specific covenants, which contain specified exceptions and qualifications.

See Note 26 for a list of subsidiary guarantors which guarantee one or more of the debt facilities. Testing of covenant compliance takes place twice-yearly for the trailing 12 month periods to 30 June and 31 December. Non-compliance with one or more of the covenants and restrictions could result in the full or partial principal balance of the associated debt becoming immediately due and payable. The Company is in compliance with the debt covenants as at 31 December 2011 and 2010 as well as 30 June 2011 and 2010.

Finance leases

The finance lease liabilities were assumed largely as part of acquiring certain businesses prior to 2008. The leases are secured by the assets leased. The borrowings have interest rates ranging from 7.10% to 13.08%, with repayment periods not exceeding three years.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2011

18. PROVISIONS

	2011 US\$'000	2010 US\$'000
Current		
Employee benefits	19,871	13,323
Restructuring and termination costs ¹	1,044	4,462
Warranty ²	715	613
Onerous lease costs	656	-
	<u>22,286</u>	<u>18,398</u>
Non-current		
Employee benefits	4,510	4,993
Pension and post-retirement benefits (Note 19)	69,078	50,344
	<u>73,588</u>	<u>55,337</u>
	<u>95,874</u>	<u>73,735</u>

The changes in the provisions for the year ended 31 December 2011 are as follows:

	Restructuring and termination costs ¹ US\$'000	Warranty ² US\$'000	Onerous lease costs US\$'000
Balance at 1 January 2011	4,462	613	-
Additional provisions recognised	543	760	656
Reductions arising from payments	(3,299)	(175)	-
Reductions resulting from remeasurement	(452)	(403)	-
Foreign exchange	(210)	(80)	-
Balance at 31 December 2011	<u>1,044</u>	<u>715</u>	<u>656</u>

- (1) The provision for restructuring and termination costs represents the present value of management's best estimate of the costs directly and necessarily caused by the restructuring that are not associated with the ongoing activities of the entity, including termination benefits and onerous leases.
- (2) The provision for warranty claims represents the present value of management's best estimate of the future outflow of economic benefits that will be required under the Company's warranty program.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2011

19. PENSION AND POST-RETIREMENT BENEFITS

Pension and post-retirement medical commitments

The Company operates defined contribution and defined benefit pension plans for the majority of its employees. It also operates post-retirement medical arrangements in North America. The policy for accounting for pensions and post-retirement benefits is included in Note 3(m).

The assets of the defined contribution plans are held separately in independently administered funds. The charge in respect of these plans is calculated on the basis of contributions payable by the Company during the fiscal year.

The majority of the defined benefit pension plans are funded in accordance with minimum funding requirements by local regulators. The assets of these plans are held separately from those of the Company, in independently administered funds, in accordance with statutory requirements or local practice throughout the world.

The post-retirement medical arrangements provide health benefits to retired employees and certain dependants. Eligibility for coverage is dependent upon certain criteria. Most of these plans are unfunded and have been provided for by the Company.

Defined contribution plans

Pension costs represent actual contributions paid or payable by the Company to the various plans. At 31 December 2011, and 2010, there were no significant outstanding/prepaid contributions. Company contributions to these plans were \$16,778,000 and \$15,049,000 for the years ended 31 December 2011 and 2010, respectively.

The Company's operations in the Netherlands participate in an industry-wide pension scheme for the mechanical and electrical engineering industries, known as the PME Fund. Although it is a defined benefit pension plan, the participating employers have no obligation other than to pay set contributions based on benefits accrued by the employees every period. The employers are not obligated to make additional payments to fund deficits, nor have they any right to repayments in the event of surpluses. The Company treats the PME scheme as a defined contribution plan.

Defined benefit pension plans

Full actuarial valuations of the defined benefit pension plans were performed as of various dates and updated to 31 December 2011 by qualified independent actuaries. The estimated market value of the assets of the funded pension plans was \$173,776,000 and \$194,620,000 at 31 December 2011, and 2010, respectively. The market value of assets was used to determine the funding level of the plans. The market value of the assets of the funded plans was sufficient to cover 77% and 93% in 2011 and 2010, respectively, of the benefits that had accrued to participants after allowing for expected increases in future earnings and pensions. Entities within the Company are paying contributions as required by statutory requirements and in accordance with local actuarial advice.

As the majority of the defined benefit pension plans are closed to new participants, it is expected that under the projected unit credit method, service cost will increase as the participants age.

Company contributions to these plans were \$9,612,000 and \$7,115,000 in the years ended 31 December 2011 and 2010, respectively. Contributions in 2012 are expected to be \$13,231,000.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2011

19. PENSION AND POST-RETIREMENT BENEFITS (CONTINUED)

The principal assumptions used to determine the actuarial present value of benefit obligations and pension costs are detailed below (shown in weighted averages):

	2011			2010		
	North America	Europe	Southern Africa ¹	North America	Europe	Southern Africa ¹
Discount rates	4.5%	4.8%	-	5.3%	5.3%	8.8%
Expected average rate of increase in salaries	3.8%	4.0%	-	3.8%	4.0%	-
Expected average rate of increase of pensions in payment	-	1.5%	-	-	1.5%	-
Expected average long-term rate of return on plan assets	7.1%	4.2%	-	7.4%	5.3%	7.3%
Expected average increase in healthcare costs (initial)	8.0%	-	-	7.8%	-	-
Expected average increase in healthcare costs (ultimate)	5.0%	-	-	5.0%	-	-

(1) The Southern Africa pension and post-retirement medical plans were settled with participants in 2008. The majority of the members elected to transfer to the Alexander Forbes Retirement Fund, leaving only one member in the plan. In December 2011, the Company received payment from the plan representing the net pension assets.

Amounts recognised in profit or loss in respect of these defined benefit plans are as follows:

	2011			2010		
	Pension plan US\$'000	Post-retirement medical plan US\$'000	Total US\$'000	Pension plan US\$'000	Post-retirement medical plan US\$'000	Total US\$'000
Current service cost	1,862	769	2,631	1,443	581	2,024
Interest cost on plan liabilities	11,081	803	11,884	10,859	646	11,505
Past service cost	-	-	-	759	-	759
Expected return on plan assets	(13,409)	-	(13,409)	(12,622)	-	(12,622)
Total charge (credit) to profit and loss account	(466)	1,572	1,106	439	1,227	1,666

For the financial years ended 31 December 2011 and 2010, charges of approximately \$932,000 and \$1,180,000, respectively, have been included in cost of goods sold and the remainder in general and administrative or sales and marketing expenses.

The following amounts have been recognised in the statement of comprehensive income.

	2011			2010		
	Pension plan US\$'000	Post-retirement medical plan US\$'000	Total US\$'000	Pension plan US\$'000	Post-retirement medical plan US\$'000	Total US\$'000
Actuarial losses during the year, net of taxes	18,456	1,090	19,546	7,787	2,353	10,140

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For the financial year ended 31 December 2011

19. PENSION AND POST-RETIREMENT BENEFITS (CONTINUED)

The amount included in the balance sheet arising from the Company's obligations in respect of defined benefit plans is as follows:

	2011			2010		
	Pension plan US\$'000	Post-retirement medical plan US\$'000	Total US\$'000	Pension plan US\$'000	Post-retirement medical plan US\$'000	Total US\$'000
Present value of funded defined benefit obligations	221,041	-	221,041	205,183	-	205,183
Fair value of plan assets	(173,776)	-	(173,776)	(194,620)	-	(194,620)
	47,265	-	47,265	10,563	-	10,563
Present value of unfunded defined benefit obligations	4,575	17,238	21,813	4,567	14,879	19,446
Deficit	51,840	17,238	69,078	15,130	14,879	30,009
Net liability arising from defined benefit obligations	51,840	17,238	69,078	15,130	14,879	30,009

Changes in the present value of the defined benefit obligations were as follows:

	2011			2010		
	Pension plan US\$'000	Post-retirement medical plan US\$'000	Total US\$'000	Pension plan US\$'000	Post-retirement medical plan US\$'000	Total US\$'000
Opening defined benefit obligation	209,750	14,879	224,629	193,355	10,488	203,843
Current service cost	1,862	769	2,631	1,443	581	2,024
Interest cost	11,081	803	11,884	10,859	646	11,505
Contributions from plan participants	-	434	434	-	353	353
Actuarial losses	17,510	1,752	19,262	14,632	3,793	18,425
Past service cost	-	-	-	759	-	759
Exchange differences on foreign plans	(4,414)	(12)	(4,426)	(574)	27	(547)
Benefits paid	(10,173)	(1,387)	(11,560)	(10,724)	(1,009)	(11,733)
Closing defined benefit obligation	225,616	17,238	242,854	209,750	14,879	224,629

Changes in the fair value of plan assets were as follows:

	2011			2010		
	Pension plan US\$'000	Post-retirement medical plan US\$'000	Total US\$'000	Pension plan US\$'000	Post-retirement medical plan US\$'000	Total US\$'000
Opening fair value plan of assets	194,620	-	194,620	178,854	-	178,854
Expected return on plan assets	13,409	-	13,409	12,622	-	12,622
Actuarial (losses) gains	(8,520)	-	(8,520)	3,867	-	3,867
Exchange differences on foreign plans	(5,155)	-	(5,155)	2,886	-	2,886
Contributions from the employer	9,612	953	10,565	7,115	656	7,771
Distribution of assets from settled plan	(20,017)	-	(20,017)	-	-	-
Contributions from plan participants	-	434	434	-	353	353
Benefits paid	(10,173)	(1,387)	(11,560)	(10,724)	(1,009)	(11,733)
Closing fair value of plan assets	173,776	-	173,776	194,620	-	194,620

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For the financial year ended 31 December 2011

19. PENSION AND POST-RETIREMENT BENEFITS (CONTINUED)

The analysis of the plan assets and the expected rate of return at the balance sheet date are as follows:

	2011						Total fair value US\$'000
	North America		Europe		Southern Africa		
	Rate of return %	Fair value US\$'000	Rate of return %	Fair value US\$'000	Rate of return %	Fair value US\$'000	
At 31 December 2011							
Equity	9.0%	59,418	6.8%	15,963	-	-	75,381
Bonds	4.6%	60,498	2.5%	25,187	-	-	85,685
Property	-	-	4.8%	1,544	-	-	1,544
Cash	3.4%	6,794	1.4%	215	-	2,017	9,026
Other	3.4%	2,140	-	-	-	-	2,140
	7.1%	<u>128,850</u>	4.2%	<u>42,909</u>	-	<u>2,017</u>	<u>173,776</u>

	2010						Total fair value US\$'000
	North America		Europe		Southern Africa		
	Rate of return %	Fair value US\$'000	Rate of return %	Fair value US\$'000	Rate of return %	Fair value US\$'000	
At 31 December 2010							
Equity	9.3%	62,679	7.0%	26,599	-	-	89,278
Bonds	4.6%	56,547	3.3%	12,198	8.8%	11,470	80,215
Property	-	-	5.5%	2,028	-	-	2,028
Cash	3.7%	9,499	2.0%	223	7.8%	11,096	20,818
Other	3.9%	2,281	-	-	-	-	2,281
	7.4%	<u>131,006</u>	5.3%	<u>41,048</u>	7.3%	<u>22,566</u>	<u>194,620</u>

The pension and post-retirement (surplus) deficit by geographic region are as follows:

	31 December 2011				31 December 2010			
	North America	Europe	Southern Africa	Total	North America	Europe	Southern Africa	Total
Post-retirement medical plan deficit	17,238	-	-	17,238	14,879	-	-	14,879
Pension plan deficit (surplus)	36,298	15,542	-	51,840	19,202	16,263	(20,335)	15,130
Total deficit (surplus)	<u>53,536</u>	<u>15,542</u>	<u>-</u>	<u>69,078</u>	<u>34,081</u>	<u>16,263</u>	<u>(20,335)</u>	<u>30,009</u>

On 8 December 2003, the Medicare Prescription Drug Improvement and Modernisation Act of 2003 was signed into law in the US. The Act introduced a prescription drug benefit beginning 2006 under Medicare ("Medicare Part D") as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. Based on an actuarial analysis of the levels of benefits provided under the Company's Post-retirement Welfare Plan, the plan's actuary has concluded that beneficiaries receive drug coverage at least actuarially equivalent to Medicare Part D. The federal subsidy was reflected in costs, reducing the accumulated post-retirement benefit obligation by approximately \$930,000 and \$773,000 at 31 December 2011 and 2010, respectively. The expense was reduced by approximately \$49,000 and \$66,000 at 31 December 2011 and 2010, respectively.

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For the financial year ended 31 December 2011

19. PENSION AND POST-RETIREMENT BENEFITS (CONTINUED)

	2011			2010		
	Post-			Post-		
	Pension plan US\$'000	retirement medical plan US\$'000	Total US\$'000	Pension plan US\$'000	retirement medical plan US\$'000	Total US\$'000
Fair value of plan assets	173,776	-	173,776	194,620	-	194,620
Present value of defined benefit obligation	(225,616)	(17,238)	(242,854)	(209,750)	(14,879)	(224,629)
Deficit	(51,840)	(17,238)	(69,078)	(15,130)	(14,879)	(30,009)
Experience adjustments on plan liabilities	141	85	226	(643)	106	(537)
Experience adjustments on plan assets	(8,520)	-	(8,520)	3,867	-	3,867
	2009			2008		
	Post-			Post-		
	Pension plan US\$'000	retirement medical plan US\$'000	Total US\$'000	Pension plan US\$'000	retirement medical plan US\$'000	Total US\$'000
Fair value of plan assets	178,854	-	178,854	150,626	-	150,626
Present value of defined benefit obligation	(193,355)	(10,488)	(203,843)	(171,312)	(9,411)	(180,723)
Deficit	(14,501)	(10,488)	(24,989)	(20,686)	(9,411)	(30,097)
Experience adjustments on plan liabilities	(570)	(166)	(736)	(635)	63	(572)
Experience adjustments on plan assets	13,345	-	13,345	(49,714)	-	(49,714)
	2007					
	Post-					
	Pension plan US\$'000	retirement medical plan US\$'000	Total US\$'000			
Fair value of plan assets	257,362	-	257,362			
Present value of defined benefit obligation	(246,669)	(11,481)	(258,150)			
Deficit	10,693	(11,481)	(788)			
Experience adjustments on plan liabilities	(36,668)	2,688	(33,980)			
Experience adjustments on plan assets	8,974	-	8,974			

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For the financial year ended 31 December 2011

19. PENSION AND POST-RETIREMENT BENEFITS (CONTINUED)

Assumed healthcare cost trend rates have a significant effect on the amounts recognised in profit or loss. A one percentage point change in assumed healthcare cost trend rates would have the following effects:

	<u>2011</u> <u>US\$'000</u>	<u>2010</u> <u>US\$'000</u>
<i>One percentage point increase</i>		
Effect on the aggregate of the service cost and interest cost	211	184
Effect on accumulated post-employment benefit obligation	2,133	1,790
<i>One percentage point decrease</i>		
Effect on the aggregate of the service cost and interest cost	(180)	(156)
Effect on accumulated post-employment benefit obligation	(1,808)	(1,521)

20. ISSUED CAPITAL

	<u>2011</u>		<u>2010</u>	
	<u>Shares</u> <u>'000</u>	<u>US\$'000</u>	<u>Shares</u> <u>'000</u>	<u>US\$'000</u>
Share capital				
Ordinary shares, fully paid	<u>455,755</u>	<u>1,128,923</u>	<u>457,129</u>	<u>1,132,051</u>
Movements in ordinary shares				
Balance at beginning of year	457,129	1,132,051	459,363	1,136,347
Vesting of LTIP rights, restricted shares	322	5,204	26	1,472
Purchase of shares for LTIP	<u>(1,696)</u>	<u>(8,332)</u>	<u>(2,260)</u>	<u>(5,768)</u>
Balance at end of the year	<u>455,755</u>	<u>1,128,923</u>	<u>457,129</u>	<u>1,132,051</u>

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2011

21. RESERVES

	2011 US\$'000	2010 US\$'000
Foreign currency translation	50,334	76,421
Equity-settled employee benefits	9,333	8,415
Unrealised losses related to hedging instruments	-	(259)
	<u>59,667</u>	<u>84,577</u>

During the years ended 31 December 2011 and 2010, the changes in each of the respective reserve accounts were as follows:

	2011 US\$'000	2010 US\$'000
Foreign currency translation		
Balance at beginning of year	76,421	17,630
Exchange differences arising on translation of foreign operations	(26,087)	58,791
Balance at end of year	<u>50,334</u>	<u>76,421</u>

Exchange differences relating to the translation from various functional currencies of the Company's subsidiaries into United States dollars are brought to account by entries made directly to the foreign currency translation reserve.

	2011 US\$'000	2010 US\$'000
Equity-settled employee benefits		
Balance at beginning of year	8,415	6,024
Share-based compensation	6,122	3,863
Vesting of LTIP rights	(5,204)	(1,472)
Balance at end of year	<u>9,333</u>	<u>8,415</u>

The equity-settled employee benefits reserve is recognised over the vesting period of restricted shares, LTIP rights and share options. Amounts are transferred out of the reserve and into issued capital when the shares are issued.

	2011 US\$'000	2010 US\$'000
Unrealised losses related to hedging instruments		
Balance at beginning of year	(259)	(616)
Unrealised gain (loss) on cash flow hedges	193	(190)
Transfer to profit or loss on cash flow hedges	137	741
Related income tax	(71)	(194)
Balance at end of year	<u>-</u>	<u>(259)</u>

The hedging reserve represents hedging gains and losses recognised on the effective portion of cash flow hedges. The cumulative deferred gain or loss on the hedge is recognised in profit or loss when the hedged transaction impacts the profit or loss, or is included as a basis adjustment to the non-financial hedged item, consistent with the applicable accounting policy.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2011

22. RETAINED EARNINGS/ACCUMULATED LOSSES

During the years ended 31 December 2011 and 2010, the changes in retained earnings (accumulated losses) consist of:

	2011	2010
	US\$'000	US\$'000
Balance at beginning of year	(19,477)	(84,166)
Profit for the period attributable to equity holders of the Parent	159,871	84,513
Dividends paid	(37,816)	(9,684)
Actuarial losses on defined benefit plans (net of tax)	(19,546)	(10,140)
Balance at end of year	<u>83,032</u>	<u>(19,477)</u>

23. DIVIDENDS

Dividends declared and paid during the year ended 31 December 2011 are as follows:

	2011	
	US cents per share	Total US\$'000
Fully paid ordinary shares		
Final 2010 dividend 35% franked	3.4	15,679
Interim 2011 dividend 35% franked	4.8	22,137
	<u>8.2</u>	<u>37,816</u>

	2010	
	US cents per share	Total US\$'000
Fully paid ordinary shares		
Dividend 35% franked	2.1	9,684

On 21 February 2012, the Directors determined to pay a dividend of US 5.6 cents per share (for a total of approximately \$26,000,000) for the second half of 2011. The dividend is expected to be paid on 13 April 2012 to shareholders of record on 16 March 2012. The dividend will be 15% franked at the Australian corporate taxation rate of 30%. None of the unfranked portion of the dividend will be conduit foreign income. The dividend is not included as a liability in the 31 December 2011 financial statements. Franking credits available after payment of this dividend will be \$5,765,000.

Below is the combined amount of franking credits available for the next year:

	2011	2010
	US\$'000	US\$'000
Adjusted combined franking balance	<u>7,437</u>	<u>15,149</u>

Notes to the Consolidated Financial Statements

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24. EARNINGS PER SHARE

	2011 US cents per share	2010 US cents per share
Basic earnings per share	35.1	18.5
Diluted earnings per share	34.8	18.4
Basic earnings per share		
The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:		
	2011 US\$'000	2010 US\$'000
Earnings used in the calculation of basic EPS	159,871	84,513
	2011 '000	2010 '000
Weighted average number of ordinary shares for the purposes of basic earnings per share	456,117	457,397
Diluted earnings per share		
The earnings used in the calculation of diluted earnings per share are as follows:		
	2011 US\$'000	2010 US\$'000
Earnings used in the calculation of diluted EPS	159,871	84,513
	2011 '000	2010 '000
Weighted average number of ordinary shares used in the calculation of basic EPS	456,117	457,397
Shares deemed to be issued for no consideration in respect of:		
LTIP share rights	2,856	1,553
Options	39	-
Weighted average number of ordinary shares used in the calculation of diluted EPS	459,012	458,950

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25. COMMITMENTS FOR EXPENDITURE

Commitments

The Company has a number of continuing operational and financial commitments in the normal course of business.

	<u>2011</u> <u>US\$'000</u>	<u>2010</u> <u>US\$'000</u>
Capital commitments		
Purchase commitments for capital expenditures	13,631	9,786

Non-cancellable future operating lease commitments as at 31 December 2011 and 2010 consist of the following:

	<u>31 December 2011</u>		<u>31 December 2010</u>	
	<u>Land and buildings US\$'000</u>	<u>Plant and equipment US\$'000</u>	<u>Land and buildings US\$'000</u>	<u>Plant and equipment US\$'000</u>
Payments due within:				
1 year	15,536	17,121	10,153	19,313
2 to 5 years	34,172	24,616	29,280	40,134
After 5 years	12,166	-	10,159	146
	<u>61,874</u>	<u>41,737</u>	<u>49,592</u>	<u>59,593</u>

Description of operating leases

The Company has operating leases for land, buildings, plant and equipment with the following lease terms:

- 1 – 30 years for land and buildings with an average lease term of seven years
- 1 – 5 years for machinery and equipment with an average lease term of three years
- 1 – 7 years for all other property with an average lease term of three years

The Company's property operating leases generally contain escalation clauses, which are fixed increases generally between 3% and 9%, or increase subject to a national index. The Company does not have any significant purchase options.

Contingent rental payments exist for certain pieces of equipment and are not significant compared with total rental payments. These are based on excess wear and tear and excess use.

The Company has accruals for operating leases as at 31 December 2011 that are considered onerous in the amount of \$1,166,000, \$510,000 of which is included the restructuring provision. As at 31 December 2010, the Company has accruals for operating leases that are considered onerous of \$1,238,000, all of which is included in the restructuring provision.

Notes to the Consolidated Financial Statements

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26. CONTINGENT LIABILITIES

Letters of credit

Standby letters of credit primarily issued in support of commitments or other obligations as at 31 December 2011 are as follows:

- The Company's subsidiary in Zambia has a letter of credit in the amount of \$1,900,000 to support products inventory, which expires December 2012.
- The Company's subsidiary in the US has a letter of credit in the amount of \$405,000 to secure a worker's compensation program which expires January 2013.

A summary of the maturity of issued letters of credit is as follows:

	2011 US\$'000	2010 US\$'000
Less than 1 year	1,900	1,800
1 to 3 years	405	405
	<u>2,305</u>	<u>2,205</u>

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26. CONTINGENT LIABILITIES (CONTINUED)

Guarantees

The subsidiaries of the Company provide guarantees within the normal course of business which includes payment guarantees to cover import duties, taxes, performance and completion of contracts. In addition, the Parent and certain subsidiaries are guarantors on the Company's loans and borrowings.

A summary of the Company's subsidiaries which are guarantors of the Company's long-term debt is as follows:

<u>Country</u>	<u>Entity</u>
Canada	Longyear Canada ULC Boart Longyear Canada
United States	Longyear Holdings, Inc. Longyear TM, Inc. Boart Longyear Company Boart Longyear Nevada
Australia	Boart Longyear Limited Boart Longyear Management Pty Limited Votrait No. 1609 Pty Limited Boart Longyear Australia Pty Limited Aqua Drilling & Grouting Pty Ltd.
Switzerland	Votrait Switzerland SARL

Legal contingencies

The Company is subject to certain routine legal proceedings that arise in the normal course of its business. Management believes that the ultimate amount of liability, if any, for any pending claims of any type (either alone or combined) will not materially affect the Company's operations, liquidity, or financial position taken as a whole. However, the ultimate outcome of any litigation is uncertain, and unfavourable outcomes could have a material adverse impact.

Other contingencies

Other contingent liabilities as at 31 December 2011 and 2010 consist of the following:

	<u>2011</u> <u>US\$'000</u>	<u>2010</u> <u>US\$'000</u>
Contingent liabilities		
Guarantees/counter-guarantees to outside parties	13,492	18,145

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27. COMPANY SUBSIDIARIES

The Company's percentage ownership of the principal subsidiaries follows:

Subsidiaries	Country of incorporation	Business	31 Dec 2011	31 Dec 2010
A.C.N. 066 301 531 Pty Ltd	Australia	Tools and Equipment	100	100
Aqua Drilling & Grouting Pty Ltd.	Australia	Drilling Services	100	100
BLI Zambia Ltd.	Zambia	Drilling Services	100	100
BLY Gabon S.A.	Gabon	Drilling Services	100	100
BLY Ghana Limited	Ghana	Drilling Services	100	100
BLY Mali S.A.	Mali	Drilling Services	100	100
BLY Mexico Servicios S.A. de C.V.	Mexico	Drilling Services	100	100
BLY Senegal S.A.	Senegal	Drilling Services	100	100
BLY Sierra Leone Ltd.	Senegal	Drilling Services	100	100
Boart Longyear (Cambodia) Ltd.	Cambodia	Drilling Services	100	100
Boart Longyear (D.R.C.) SPRL	Dem. Rep. of Congo	Drilling Products and Services	100	100
Boart Longyear (Holdings) Ltd.	United Kingdom	Holding Company	100	100
Boart Longyear (Hong Kong) Limited	Hong Kong	Drilling Services	100	100
Boart Longyear (Investments) Ltd.	United Kingdom	Dormant	100	100
Boart Longyear (NZ) Limited	New Zealand	Drilling Services	100	100
Boart Longyear (Pty) Ltd	Botswana	Drilling Products	100	100
Boart Longyear (Vic) No. 1 Pty Ltd (Australia)	Australia	Holding Company	100	100
Boart Longyear (Vic) No. 2 Pty Ltd (Australia)	Australia	Holding Company	100	100
Boart Longyear Alberta Limited	Canada	Holding Company	100	100
Boart Longyear Argentina S.A.	Argentina	Drilling Services	100	100
Boart Longyear Australia Holdings Pty Limited	Australia	Holding Company	100	100
Boart Longyear Australia Pty Ltd	Australia	Drilling Services	100	100
Boart Longyear Bermuda Limited	Bermuda	Holding Company	100	100
Boart Longyear Burkina Faso Sarl	Burkina Faso	Drilling Services	100	100
Boart Longyear BV	Netherlands	Drilling Products	100	100
Boart Longyear Canada	Canada	Drilling Products and Services	100	100
Boart Longyear Chile Limitada	Chile	Drilling Products and Services	100	100
Boart Longyear Colombia S.A.S. ¹	Colombia	Drilling Services	100	-
Boart Longyear Company	USA	Tools, Equipment and Drilling	100	100
Boart Longyear Cote d'Ivoire S.A. ¹	Ivory Coast	Drilling Services	100	-
Boart Longyear Consolidated Holdings, Inc.	USA	Holding Company	100	100
Boart Longyear de Mexico, S.A. de C.V.	Mexico	Drilling Services	100	100
Boart Longyear Drilling and Products Mexico, S.A. de C.V. ¹	Mexico	Drilling Products and Services	100	-
Boart Longyear Drilling Private Limited Company ¹	Ethiopia	Drilling Services	100	-
Boart Longyear Drilling Products Company (Wuxi) Ltd.	China	Drilling Products and Services	100	100
Boart Longyear Drilling Services KZ LLP	Kazakhstan	Drilling Services	100	100
Boart Longyear EMEA Cooperatief U.A.	Netherlands	Holding Company	100	100
Boart Longyear EMEA UK Holdings Ltd ¹	United Kingdom	Holding Company	100	-
Boart Longyear Eritrea Ltd.	Eritrea	Drilling Services	100	100
Boart Longyear Financial Services SARL ¹	Switzerland	Products	100	-
Boart Longyear Global Holdco, Inc	USA	Holding Company	100	100
Boart Longyear GmbH & Co Kg	Germany	Drilling Products and Services	100	100
Boart Longyear Holdings (Thailand) Co., Ltd.	Thailand	Drilling Services	100	100
Boart Longyear India Private Ltd	India	Tools and Equipment	100	100
Boart Longyear International BV	Netherlands	Holding Company	100	100
Boart Longyear International Holdings, Inc.	USA	Holding Company	100	100
Boart Longyear Investments Pty Ltd	Australia	Holding Company	100	100
Boart Longyear Liberia Corporation	Liberia	Drilling Services	100	100
Boart Longyear Liberia Limitada	Brazil	Drilling Products	100	100
Boart Longyear Limited	Ireland	Drilling Products	100	100
Boart Longyear Limited	Laos	Drilling Services	100	100
Boart Longyear Limited	Thailand	Drilling Services	100	100

Notes to the Consolidated Financial Statements

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27. COMPANY SUBSIDIARIES (CONTINUED)

Subsidiaries	Country of incorporation	Business	31 Dec 2011	31 Dec 2010
Boart Longyear LLC	Russia Federation	Drilling Services	100	100
Boart Longyear Ltd	Ghana	Dormant	100	100
Boart Longyear Madagascar S.A. ¹	Madagascar	Drilling Services	100	-
Boart Longyear Management Pty Ltd	Australia	Holding Company	100	100
Boart Longyear Netherlands BV	Netherlands	Holding Company	100	100
Boart Longyear Nevada	USA	Drilling Services	100	100
Boart Longyear Poland Spolka Z.o.o.	Poland	Drilling Products and Services	100	100
Boart Longyear Products KZ LLP	Kazakhstan	Drilling Products	100	100
Boart Longyear RUS	Russia Federation	Drilling Services	100	100
Boart Longyear S.A.	Chile	Tools, Equipment and Drilling Services	100	100
Boart Longyear S.a.r.l.	France	Holding Company	100	100
Boart Longyear SAC	Peru	Drilling Products and Services	100	100
Boart Longyear Vermögensverwaltung GmbH	Germany	Dormant	100	100
Boart Longyear Zambia Ltd.	Zambia	Drilling Services	100	100
Connors SA ²	Chile	Drilling Services	-	100
Cooperatief Longyear Holdings UA	Netherlands	Holding Company	100	100
Drillcorp Pty Ltd	Australia	Drilling Services	100	100
Dongray Industrial Limited ³	United Kingdom	In Liquidation	100	100
Geoserv Pesquisas Geologicas S.A.	Brazil	Drilling Services	100	100
Grimwood Davies Pty Ltd	Australia	Drilling Services	100	100
Inavel S.A.	Uruguay	Drilling Services	100	100
J&T Servicios, S.C.	Mexico	Drilling Services	100	100
Longyear Calulo Holdings BV	Netherlands	Drilling Services	100	100
Longyear Canada, ULC	Canada	Tools and Equipment Services	100	100
Longyear Global Holdings, Inc.	USA	Holding Company	100	100
Longyear Holdings New Zealand, Ltd.	New Zealand	Holding Company	100	100
Longyear Holdings, Inc.	USA	Holding Company	100	100
Longyear South Africa (Pty) Ltd	South Africa	Drilling Products and Services	100	100
Longyear TM, Inc.	USA	Holding Company	100	100
North West Drilling Pty Limited	Australia	Drilling Services	100	100
P.T. Boart Longyear	Indonesia	Drilling Services	100	100
Patagonia Drill Mining Services S.A.	Argentina	Drilling Services	100	100
Portezuelo S.A.	Paraguay	Drilling Services	100	100
Professional Sonic Drillers (Pty) Limited T/A Prosonic Africa	South Africa	Dormant	100	100
Prosonic Corporation	USA	Drilling Services	100	100
Prosonic International, Inc.	USA	Drilling Services	100	100
Rentas de Exploracion I Limitada ²	Chile	Holding Company	-	100
Rentas de Exploracion II Limitada ²	Chile	Holding Company	-	100
Votrait No. 1609 Pty Ltd	Australia	Drilling Services	100	100
Votrait Switzerland SARL	Switzerland	Holding Company	100	100

(1) This entity was formed in 2011.

(2) All rights and obligations are succeeded by Boart Longyear Chile Limitada.

(3) Dissolved in 2008. Restored on 26 October 2010 in an "in liquidation" status to collect a debt.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2011

28. NOTES TO THE CASH FLOW STATEMENT

(a) Reconciliation of cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts.

	2011 US\$'000	2010 US\$'000
Cash and cash equivalents	82,286	94,944

(b) Businesses acquired

During the financial years ended 31 December 2011 and 2010 there were no business acquisitions.

(c) Businesses disposed

During the financial years ended 31 December 2011 and 2010 there were no business dispositions.

29. SHARE-BASED PAYMENTS

The Company has established a Long-term Incentive Plan ("LTIP") to assist in retaining key employees and encouraging superior performance on a sustained basis. The incentive provided under the LTIP includes an annual grant of rights that will vest based on the satisfaction of either time-based conditions or both performance-based and time-based conditions. Vested rights will convert to ordinary fully paid shares on a one-for-one basis.

Under the terms of the LTIP, the performance share rights vest upon the achievement of performance targets set by the Board. For awards granted prior to 2010, the performance targets were based on cumulative EPS over a three-year performance period. Awards granted beginning in 2010 have performance targets based on three-year average ROE targets. The Board has set threshold and maximum targets for both the EPS and ROE performance awards during each three-year performance period and vesting will be determined by the Company's actual performance against the targets. Partial vesting occurs on a pro-rata basis if the three-year threshold target is surpassed. Full vesting occurs only if the Company's actual performance meets or exceeds the maximum target for the three-year period. Participants must also remain continuously employed with the Company during the performance period. The retention share rights vest upon continuous employment with the Company from the grant date until the third anniversary of the grant date. The Company may acquire shares underlying the grants, which shares will be held in trust. For grants made prior to 2012, the participant will receive dividends paid on those shares from the time of acquisition until vesting. For grants made beginning in 2012, dividends paid on unvested share rights will be held in trust and paid when vesting occurs.

At the Company's annual general meeting on 11 May 2010, shareholders approved a 10 for 1 share consolidation. Trading in the consolidated shares commenced 13 May 2010. The number of share rights, options and restricted shares have been restated in this report using the consolidated share amounts.

The total share-based expense associated with share rights granted under the LTIP for the years ended 31 December 2011 and 2010 was \$5,107,000 and \$2,976,000, respectively.

The Board has on certain occasions granted share options to certain senior management in order to attract, retain and properly incentivise those individuals. During 2010, the Company granted 25,000 share options to an employee with an exercise price of A\$3.20 per share. The share-based expense associated with share options for the years ended 31 December 2011 and 2010 was \$748,000 and \$778,000, respectively. \$268,000 of share-based compensation was capitalised in the fiscal year ended 31 December 2011.

In addition, prior to the IPO, there were 64,324 restricted shares granted to Board members in consideration of services performed, which vested in 2010. The share-based expense recorded relating to the restricted shares during the year ended 31 December 2010 was \$109,000.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2011

29. SHARE-BASED PAYMENTS (CONTINUED)

Share Rights

The following table reflects the share rights arrangements that were in existence at 31 December 2011:

Series - Share Rights	Number	Effective grant date	Vesting date	Fair value at grant date ¹ US\$
1 - Issued 14 January 2009	1,250	14-Jan-09	14-Jan-12	1.78
2 - Issued 25 March 2009	1,171,219	25-Mar-09	25-Mar-12	0.74
3 - Issued 2 July 2009	5,000	2-Jul-09	2-Jul-12	3.41
4 - Issued 1 March 2010	1,912,898	1-Mar-10	1-Mar-13	2.78
5 - Issued 15 March 2010	104,600	15-Mar-10	15-Mar-13	2.93
6 - Issued 26 August 2010	30,000	26-Aug-10	26-Aug-13	3.29
7 - Issued 13 December 2010	10,000	13-Dec-10	13-Dec-13	4.35
8 - Issued 15 March 2011	2,022,180	15-Mar-11	15-Mar-14	4.36
9 - Issued 15 April 2011	74,324	15-Apr-11	1-Aug-12	4.97
10 - Issued 11 July 2011	26,750	11-Jul-11	11-Jul-14	4.27
11 - Issued 14 October 2011	125,000	14-Oct-11	14-Oct-14	3.05

(1) Because share rights have no market vesting conditions and participants are entitled to dividends, share rights are valued at the market price upon the grant date.

The following reconciles the outstanding share rights at the beginning and end of the year:

	2011 Number of rights '000	2010 Number of rights '000
Share rights		
Balance at beginning of year	3,686	1,884
Granted	2,270	2,284
Forfeited	(151)	(394)
Vested	(322)	(88)
Balance at end of year	5,483	3,686

The following share rights vested during 2011:

Grant date	Date of vest	Number of shares '000	Fair value at date of vest A\$
11-Apr-08	11-Apr-11	244	4.72
26-Jun-08	11-Apr-11	34	4.72
23-Oct-08	23-Oct-11	44	2.98

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2011

29. SHARE-BASED PAYMENTS (CONTINUED)

Options

The following table reflects the options arrangements that were in existence at 31 December 2011:

Series - Options	Number	Effective grant date	Vesting date	Fair value at grant date US\$
1 - Issued 28 April 2008	100,000	28-Apr-08	1-Jan-13	6.87
2 - Issued 1 January 2009 ¹	150,000	28-Apr-08	1-Jan-14	14.50
3 - Issued 18 June 2009	317,500	18-Jun-09	18-Jun-12	1.43
4 - Issued 15 March 2010	25,000	15-Mar-10	15-Mar-13	2.24

- (1) The second grant of options Mr Kipp received in conjunction with his appointment as CEO was issued as of 1 January 2009. For purposes of compliance with Australian Accounting Standards, the effective grant date was determined to be 28 April 2008.

The fair values of the options grants were determined using the Black-Scholes option pricing model using the following inputs:

	Grant date share price US\$	Expected volatility	Life of rights	Dividend yield	Risk-free interest rate
Series 1 *	16.30	49.86%	56 months	0.86%	5.58%
Series 2 *	16.30	49.86%	68 months	0.86%	5.58%
Series 3 *	1.90	97.29%	60 months	0.00%	5.59%
Series 4	2.93	92.14%	60 months	0.00%	5.25%

- * Subsequent to the original grant date, the Board modified the option exercise price to reflect the dilution impact resulting from the Company's 2009 capital raising program and the related issuance of additional shares subsequent to the original grant date, as follows:

	Original exercise price	Modified exercise price
Series 1	A\$19.50	A\$18.95
Series 2	A\$ 2.10	A\$ 1.55
Series 3	A\$ 3.00	A\$ 2.45

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2011

29. SHARE-BASED PAYMENTS (CONTINUED)

The following reconciles the outstanding options at the beginning and end of the year:

Options	2011		2010	
	Number of options '000	Weighted average exercise price US\$	Number of options '000	Weighted average exercise price US\$
Balance at beginning of year	592	4.88	567	4.96
Granted	-	-	25	2.93
Forfeited	-	-	-	-
Exercised	-	-	-	-
Balance at end of year	592	4.88	592	4.88
Exercisable at end of year	-	-	-	-

30. KEY MANAGEMENT PERSONNEL COMPENSATION

Details of key management personnel

The Directors and other members of key management personnel of the Company during the financial year were:

- David McLemore – Chairman, non-executive Director
- Bruce Brook - non-executive Director
- Roger Brown - non-executive Director
- Tanya Fratto - non-executive Director (appointed effective 1 June 2011)
- Roy Franklin - non-executive Director
- David Grzelak - non-executive Director (resigned effective 1 June 2011)
- Barbara Jeremiah - non-executive Director (appointed effective 1 October 2010)
- Craig Kipp - Chief Executive Officer and Executive Director
- Peter St. George - non-executive Director
- Joe Ragan III - Chief Financial Officer
- Fabrizio Rasetti - Senior Vice President, General Counsel and Company Secretary
- Brad Baker - Senior Vice President, Human Resources
- Michael Birch - Vice President, Drilling Services
- Alan Sides – Vice President, Products

The aggregate compensation made to key management personnel of the Company is set out below.

	2011 US\$	2010 US\$
Short-term employee benefits	6,171,076	5,665,932
Post-employment benefits	110,012	121,184
Other long-term benefits	989,175	666,019
Share-based payment	3,127,647	2,082,199
	<u>10,397,910</u>	<u>8,535,334</u>

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2011

31. RELATED PARTY TRANSACTIONS

Transactions with key management personnel

- (i) Key management personnel compensation
Details of key management personnel compensation are disclosed in Note 30.
- (ii) Other transactions with key management personnel of the Company
None.
- (iii) Key management personnel equity holdings

Shares

The number of shares held by Directors and other key management personnel are disclosed below.

	<u>Balance</u> <u>1 January</u>	<u>Net change</u> <u>during year</u>	<u>Balance</u> <u>31 December</u>	<u>Balance</u> <u>held nominally</u>
2011				
David McLemore	115,861	-	115,861	-
Bruce Brook	104,423	-	104,423	-
Roger Brown	30,000	-	30,000	-
Barbara Jeremiah	-	30,000	30,000	-
Peter St. George	107,450	-	107,450	-
Craig Kipp	521,463	43,535	564,998	-
Joe Ragan III	-	18,523	18,523	-
Fabrizio Rasetti	106,612	10,674	117,286	-
Brad Baker	-	8,967	8,967	-
Michael Birch	66,460	(18,117)	48,343	-
	<u>Balance</u> <u>1 January</u>	<u>Net change</u> <u>during year</u>	<u>Balance</u> <u>31 December</u>	<u>Balance</u> <u>held nominally</u>
2010				
David McLemore	115,861	-	115,861	-
Bruce Brook	104,423	-	104,423	-
Roger Brown	-	30,000	30,000	-
David Grzelak	1,000	-	1,000	-
Peter St. George	107,450	-	107,450	-
Craig Kipp	521,463	-	521,463	-
Fabrizio Rasetti	106,612	-	106,612	-
Michael Birch	66,460	-	66,460	-

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2011

31. RELATED PARTY TRANSACTIONS (CONTINUED)

Share rights and restricted shares

Details of the number of share rights granted under the LTIP program and restricted shares that have been granted as compensation to key management personnel, and the activity during the financial year, are as follows:

	Held at the beginning of the financial year	Granted as remun- eration	Vested and issued during the year	Forfeited during the year	Held at the end of the financial year
2011					
Craig Kipp	659,291	455,580	(43,535)	(5,936)	1,065,400
Joe Ragan III	208,000	80,000	(26,400)	(3,600)	258,000
Fabrizio Rasetti	155,428	70,000	(15,708)	(2,142)	207,578
Brad Baker	142,150	60,000	(13,200)	(1,800)	187,150
Michael Birch	157,900	80,000	(17,600)	(2,400)	217,900
Alan Sides	104,600	60,000	-	-	164,600

	Held at the beginning of the Financial year	Granted as remun- eration	Vested and issued during the year	Forfeited during the year	Held at the end of the financial year
2010					
Bruce Brook ¹	4,595	-	(4,595)	-	-
Peter St. George ¹	7,297	-	(7,297)	-	-
Craig Kipp	229,471	429,820	-	-	659,291
Joe Ragan III	105,000	103,000	-	-	208,000
Fabrizio Rasetti	72,850	82,578	-	-	155,428
Brad Baker	70,000	72,150	-	-	142,150
Michael Birch	75,000	82,900	-	-	157,900
Alan Sides	-	104,600	-	-	104,600

- (1) The restricted shares that vested in 2010 were awarded upon the Company's initial public offering in April 2007 in respect of work performed prior to the Company's listing.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2011

31. RELATED PARTY TRANSACTIONS (CONTINUED)

Cash rights

Details of the cash rights that have been granted under the LTIP program as compensation to key management personnel, and the activity during the financial year, are as follows:

	Held at the beginning of the financial year US\$	Granted as remun- eration US\$	Vested and issued during the year US\$	Forfeited during the year US\$	Held at the end of the financial year US\$
2011					
Craig Kipp	1,000,000	-	-	-	1,000,000
Joe Ragan III	375,000	-	-	-	375,000
Fabrizio Rasetti	305,000	-	-	-	305,000
Brad Baker	305,000	-	-	-	305,000
Michael Birch	305,000	-	-	-	305,000
Alan Sides	80,000	-	-	-	80,000

	Held at the beginning of the financial year US\$	Granted as remun- eration US\$ ¹	Vested and issued during the year US\$	Forfeited during the year US\$	Held at the end of the financial year US\$
2010					
Craig Kipp	550,000	450,000	-	-	1,000,000
Joe Ragan III	275,000	100,000	-	-	375,000
Fabrizio Rasetti	225,000	80,000	-	-	305,000
Brad Baker	225,000	80,000	-	-	305,000
Michael Birch	225,000	80,000	-	-	305,000
Alan Sides	-	80,000	-	-	80,000

- (1) The cash rights vest over a three-year period from the grant date, with 50% subject to certain performance conditions.

The share and cash rights under the LTIP were provided at no cost to the recipient.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2011

31. RELATED PARTY TRANSACTIONS (CONTINUED)

Options

Details of the options that have been granted as compensation to key management personnel under the LTIP program, and the activity during the financial year are as follows:

	Held at the beginning of the financial Year	Granted as remun- eration	Vested during the year	Forfeited during the year	Held at the end of the financial year	Vested and exercisable as at 31 December 2011
2011						
Craig Kipp	340,000	-	-	-	340,000	-
Joe Ragan III	37,500	-	-	-	37,500	-
Fabrizio Rasetti	27,500	-	-	-	27,500	-
Brad Baker	27,500	-	-	-	27,500	-
Michael Birch	27,500	-	-	-	27,500	-
Alan Sides	25,000	-	-	-	25,000	-
	Held at the beginning of the financial year	Granted as remun- eration	Vested during the year	Forfeited during the year	Held at the end of the financial year	Vested and exercisable as at 31 December 2010
2010						
Craig Kipp	340,000	-	-	-	340,000	-
Joe Ragan III	37,500	-	-	-	37,500	-
Fabrizio Rasetti	27,500	-	-	-	27,500	-
Brad Baker	27,500	-	-	-	27,500	-
Michael Birch	27,500	-	-	-	27,500	-
Alan Sides	-	25,000	-	-	25,000	-

During the year ended 31 December 2010, the Board awarded Mr Sides 25,000 options, which will vest in full and become exercisable on 15 March 2013 if the executive remains continuously employed with the Company until that date. At the date of grant, the options had an original exercise price of A\$3.20 per option and a fair market value of US\$2.24 per option.

During the years ended 31 December 2011 and 2010, no shares were issued on the exercise of options previously granted as compensation to the above individuals.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2011

32. REMUNERATION OF AUDITORS

	2011 US\$	2010 US\$
Company auditor's remuneration		
Audit and review of the financial report:		
Auditor of the parent entity	1,369,000	1,217,000
Related practices of the parent entity auditor	1,173,000	1,020,000
	<u>2,542,000</u>	<u>2,237,000</u>
Non-audit services:		
Tax services	2,669,000	2,493,000
Review of tax returns	687,000	681,000
Due diligence and other non-audit services	359,000	11,000
	<u>3,715,000</u>	<u>3,185,000</u>
 Total remuneration to Company auditor	 <u>6,257,000</u>	 <u>5,422,000</u>
 Remuneration to other accounting firms		
Audit services	272,000	196,000
Non-audit services:		
Tax services	2,457,000	1,825,000
Internal audit	1,339,000	812,000
Global mobility	885,000	371,000
Accounting and payroll services	439,000	343,000
Other	430,000	61,000
Total remuneration to other accounting firms	<u>5,822,000</u>	<u>3,608,000</u>

The auditor of Boart Longyear Limited is Deloitte Touche Tohmatsu. The Company has employed Deloitte Touche Tohmatsu on assignments additional to their audit duties where their expertise and experience with the Company are important. These assignments principally have been related to tax advice and due diligence reporting on acquisitions.

The Company and its Audit, Compliance & Risk Committee ("Audit Committee") are committed to ensuring the independence of the external auditors. Accordingly, significant scrutiny is given to non-audit engagements of the external auditor. The Company has a formal pre-approval policy which requires the pre-approval of non-audit services by the Chairman of the Audit Committee or the Audit Committee. Additionally, the total annual fees for such non-audit services cannot exceed the auditor's annual audit fees without the approval of the Audit Committee. The Audit Committee believes that the combination of these two approaches results in an effective procedure to pre-approve services performed by the external auditor.

Consistent with the approach outlined above, the Audit Committee approved Deloitte Touche Tohmatsu's services on a tax-related business improvement project for the years ended 31 December 2010 and 2011, which resulted in the amount of non-audit services exceeding the audit fee in both years. It is expected that this project will conclude during the year ending 31 December 2012 and that the level of non-audit services will be below the audit fee in subsequent years.

33. SUBSEQUENT EVENTS

The Directors have not become aware of any matter or circumstance that has arisen since 31 December 2011 that has affected or may affect the operations of the consolidated entity, the results of those operations, or the state of the consolidated entity in subsequent years.

SUPPLEMENTARY INFORMATION
Additional stock exchange information as at 8 March 2012
Substantial shareholders

There are no current substantial holders disclosed in substantial holding notices given to the Company.

Number of holders of equity securities
(a) Ordinary share capital

461,163,412 fully paid ordinary shares are held by 18,815 individual shareholders.

Each ordinary shareholder present at a general meeting (whether in person or by proxy or representative) is entitled to one vote on a show of hands or, on a poll, one vote for each fully paid ordinary share held.

(b) Share rights and share options

582,500 share options are held by 11 individual option holders. Options do not carry rights to vote.

Distribution of holders of equity securities

	Fully paid ordinary shares	Share options
1-1,000	7,827	-
1,001-5,000	7,354	-
5,001-10,000	2,279	-
10,001-100,000	1,274	10
100,001 and over	81	1
	<u>18,815</u>	<u>11</u>

There are 1,702 shareholders holding less than a marketable parcel of ordinary shares.

SUPPLEMENTARY INFORMATION (CONTINUED)
Top 20 holders

Ordinary shareholders	Fully paid ordinary shares	Percent of Issued Capital
	Number	Percent
HSBC Custody Nominees (Australia) Limited	116,592,228	25.3%
J P Morgan Nominees Australia Limited	78,276,726	17.0%
National Nominees Limited	76,444,944	16.6%
Citicorp Nominees Pty Limited	32,851,661	7.1%
Cogent Nominees Pty Limited	17,819,828	3.9%
J P Morgan Nominees Australia Limited	14,833,924	3.2%
Amp Life Limited	6,011,620	1.3%
Band and Co	4,233,556	0.9%
USB Nominees Pty Ltd	3,679,154	0.8%
Cogent Nominees Pty Limited	3,314,707	0.7%
HSBC Custody Nominees (Australia) Limited-A/C 2	3,053,065	0.7%
UBS Wealth Management Australia Nominees Pty Ltd	2,786,779	0.6%
Citicorp Nominees Pty Limited	2,747,621	0.6%
CS Fourth Nominees Pty Ltd	2,576,640	0.6%
Share Direct Nominees Pty Ltd	2,350,000	0.5%
Cogent Nominees Pty Limited	1,974,800	0.4%
Queensland Investment Corporation	1,927,092	0.4%
Australian Reward Investment Alliance	1,800,076	0.4%
RBC Dexia Investor Services Australia Nominees Pty Limited	1,584,616	0.3%
Bond Street Custodians Limited (MACQ High Conv Fund) & Bond Street Custodians Limited	1,334,803	0.3%
	376,193,840	81.6%

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CORPORATE INFORMATION

Headquarters

Principal Administrative Office
10808 South RiverFront Parkway #600
South Jordan, Utah 84095

Tel: +1 801 972 6430
Fax: +1 801 977 3374

Registered Office

26 Butler Boulevard,
Burbridge Business Park
Adelaide Airport
South Australia 5950

Tel: +61 8 8375 8375
Fax: +61 8 8375 8498

Auditors

Deloitte Touche Tohmatsu

Company Secretaries

Fabrizio Rasetti
Paul Blewett

Shareholder Enquiries

Boart Longyear
Investor Relations
10808 South Riverfront Parkway #600
South Jordan, Utah 84095

Australia: +61 8 8375 8300
Others: +1 801 401 3712

email: ir@boartlongyear.com

Listing

Boart Longyear is listed on the
Australian Securities Exchange
under the symbol "BLY"

Share Registry

Link Market Services Limited
Level 12680 George Street
Sydney NSW 2000

Tel: +61 2 8280 7111

Annual Meeting

The Annual General Meeting of
Boart Longyear will be held at:
National Wine Centre
Corner of Botanic and Hackney Roads,
Adelaide, SA
Commencing at 1.00pm on 15 May 2012

Website

www.boartlongyear.com

Forward-Looking Statements

Statements in this report that are not historical are forward-looking statements. These statements are based on management's current belief and their expectations. The forward-looking statements in this report are subject to uncertainty and changes in circumstances and involve risks and uncertainties that may affect our operations, markets, products, services, prices and other factors as discussed in our filings with the Australian Securities Exchange. Significant risks and uncertainties may relate to, but are not limited to, financial, economic, competitive, environmental, political, legal, regulatory and technological factors. In addition, completion of transactions of the type described in this report are subject to a number of uncertainties and to negotiation and execution of definitive agreements among the parties and closing will be subject to approvals and other customary conditions. Accordingly, there can be no assurance that the transactions will be completed or that our expectations will be realised. We assume no obligations to provide revision to any forward-looking statements should circumstances change, except as otherwise required by securities and other applicable laws.

