



Drillers in the field, USA

# ANNUAL REPORT 2014

# 2014 OVERVIEW



At Boart Longyear, "Safety First" is a core value. Fostering a safety culture that emphasises why we work safely is more than just a safety program – it's the way we work every day. To make it safe, make it personal, and make it home – for ourselves, our families, and for each other.

## Who we are

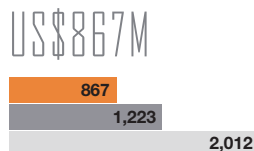
Celebrating its 125th anniversary in 2015, Boart Longyear is the world's leading provider of drilling services, drilling equipment, and performance tooling for mining and drilling companies globally. It also has a substantial presence in aftermarket parts and service, energy, mine de-watering, oil sands exploration, and production drilling.

The Drilling Services division operates in over 30 countries for a diverse mining customer base spanning a wide range of commodities, including copper, gold, nickel, zinc, uranium, and other metals and minerals. The Products division designs, manufactures and sells drilling equipment, performance tooling, and aftermarket parts and services to customers in over 100 countries. 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.

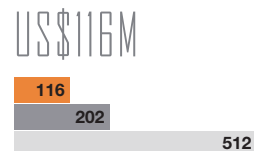


2014  
2013  
2012

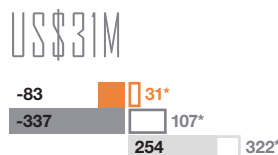
## REVENUE



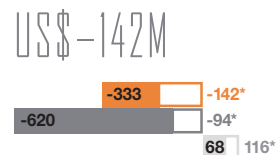
## GROSS MARGIN



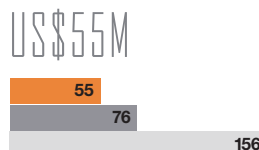
## ADJUSTED EBITDA



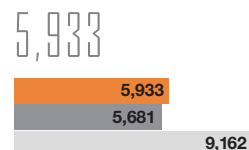
## ADJUSTED NET PROFIT AFTER TAX



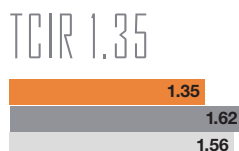
## CASH FROM OPERATIONS



## NUMBER OF EMPLOYEES



## SAFETY



\*EBITDA, Adjusted EBITDA, Adjusted EBIT, and Adjusted NPAT are non-IFRS measures and are used internally by management to assess the performance of the business. For 2014, the adjusted figures have been derived from the Company's financial statements by adding back \$114 million pre-tax (\$80 million post-tax) of significant items and \$111 million of tax expense on derecognition of deferred tax assets and unrecognised tax losses in the current year.

Cash from Operations: excludes interest and tax.

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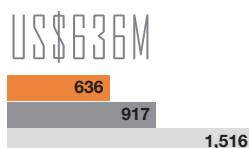
## FINANCIAL CALENDAR

2014 Final Results	24 February 2015
Annual General Meeting	26 May 2015
2015 Half Year End	30 June 2015
2015 Interim Results	25 August 2015
2015 Year End	31 December 2015

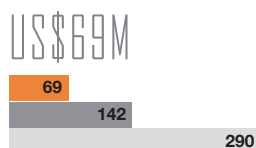
## ANNUAL GENERAL MEETING

The Annual General Meeting of Boart Longyear will be held at:  
Clarendon Room A, Melbourne Exhibition Centre, 2 Clarendon Street,  
South Wharf, Melbourne, Victoria 3006, Australia  
Commencing 1.00pm (Melbourne time) on Tuesday, 26 May 2015.

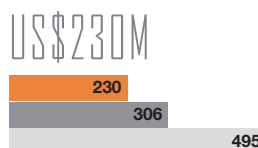
### DRILLING SERVICES REVENUE



### EBITDA



### PRODUCTS REVENUE



### EBITDA



### COMPANY REVENUE (PRODUCTS AND SERVICES)



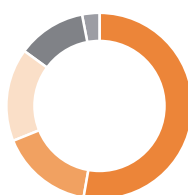
Performance Tooling	22%
Rotary/RC	22%
Surface Coring	21%
Underground Coring	17%
Production Drilling	8%
Drilling Equipment	5%
Other	5%

### COMPANY REVENUE BY REGION (PRODUCTS AND SERVICES)



Asia Pacific	26%
USA	23%
Canada	21%
EMEA	17%
Latin America	13%

### DRILLING SERVICES REVENUE BY STAGE



Development (Near Mine/Brownfield)	53%
Production (In-Pit)	16%
Water Services	16%
Exploration (Greenfield)	12%
Non-Mining	3%

### DRILLING SERVICES REVENUE BY COMMODITY



Gold	45%
Copper	19%
Other Metals	9%
Energy	9%
Other	8%
Iron	6%
Nickel	4%

# CEO'S REPORT



## DEAR SHAREHOLDERS

2014 was another difficult period for the mining industry and for Boart Longyear, as commodity prices continued to decline and mining companies maintained their focus on maximising near-term cash flows. This resulted in most of the world's mining companies continuing to significantly reduce their exploration, development and capital expenditures.

The vast majority of the revenues from our Drilling Services and Products businesses are related to mining companies spending on exploration and development activities. Since peaking in 2012 at US\$21.5 billion, non-ferrous annual exploration budgets declined to US\$15.2 billion (down 29% against 2012) in 2013 and US\$11.4 billion in 2014 (down 25% against 2013). As a result, Boart Longyear and the drilling services industry around the globe have experienced significant declines in drill rig utilisation rates since the second half of 2012, and those declines have continued through most of 2014. In the last quarter of 2014, the rate of decline in drill rig utilisation appeared to slow down compared to the declines experienced during 2013 and the first half of 2014. Lower utilisation rates and lower pricing continued to adversely impact the Company's and the industry's financial performance.

In particular, excess supply has resulted in significant price reductions across the drilling industry since the second half of 2012. While our business saw relatively flat utilisation rates during the second half of 2014, continued pricing headwinds further hurt the Company's financial performance. Pricing has, we believe, reached a level in the industry where many drilling services companies are operating at cash break-even. In fact, a number of drilling services companies have gone into administration or bankruptcy, or have elected to shut down their activities in certain countries around the world, including Australia.

Unfortunately, while our Company has been impacted by the negative financial and cash flow impacts associated with low utilisation rates and ongoing pricing headwinds, we also have had to deal with the problems of entering this mining down cycle with far too much debt. As a result, we continue to take aggressive actions to reduce our costs while we work to reduce our absolute level of debt over time by aggressively managing fixed, variable and capital costs and improving efficiencies through several ongoing initiatives, including:

1. re-examining our global operating model and underlying support costs;

2. completing the consolidation of certain financial service functions and leveraging our two shared services centers to consolidate other sales, general and administrative functions;
3. exiting certain loss-making drilling services projects or territories;
4. controlling SG&A and other overhead related costs; and
5. capitalising on our significant investment in modernising our rig fleet from 2010 to 2012, which we believe positions us well for any market recovery and reduces our expected capital expenditure requirements over the next several years.

Reducing our debt load will take time and one of our major accomplishments of 2014 was to announce in October a comprehensive recapitalisation that provides a more sustainable capital structure and better positions the Company to successfully weather the current down cycle. As a result of the recapitalisation, we no longer face the material uncertainty we faced one year ago related to our potential inability to refinance our debt. We are also much better positioned, as a result of substantial and sustainable cost reductions, to provide increased earnings and cash flow when our

**“In a year in which persistent uncertainty in the mining resources sector dominated the headlines, there were many noteworthy Boart Longyear accomplishments that have positioned the business for success.”**

markets recover. Highlights from the recapitalisation include:

› **US\$225 million in new loan financing provided by Centerbridge**

– Proceeds have been used to refinance the Company's former revolving credit facility and repurchase existing US\$105 million of the Company's 10% Senior Secured Notes. The new financing package has eliminated the restrictive financial covenants associated with the revolving credit facility, providing us with more financial flexibility and other advantages.

› **Approximately US\$111 million in new equity capital** – New capital was raised through two private placements of ordinary shares to Centerbridge totaling approximately US\$27 million and an equal-access, renounceable rights offering which totaled approximately US\$84 million.

› **US\$16 million Debt Equitisation** – Centerbridge also agreed to convert its US\$16 million holding of Boart Longyear Senior Unsecured Notes into US\$16 million of equity.

› **Equity-funded Share Repurchase Plan** – The Company also sold Centerbridge approximately 8 million fully paid ordinary shares it acquired in an off-market share buyback launched in December.

› **Centerbridge Ownership in Boart Longyear** – As a result of the recapitalisation transactions, Centerbridge now owns approximately 465 million ordinary shares (or 49.9%) and 434 million preferred shares, which are convertible one-for-one into ordinary shares under certain conditions.

› **Centerbridge nominees join Boart Longyear Board** – Jonathan Lewinsohn and Connor Tochilin, from Centerbridge, were appointed to the Board of Directors in 2014. In February 2015, Bret Clayton and Marcus Randolph also joined the Board.

In a year in which persistent uncertainty in the mining resources sector dominated the headlines, there were many noteworthy Boart Longyear accomplishments that have positioned the business for

success. Those successes include our businesses' ability to protect market share while maintaining cost, capital expenditure, pricing discipline and product leadership. During the year, our Drilling Services division won several key contracts, and our Products division continued to invest in innovative new products designed to drive productivity and safety on-site.

The challenges we faced in 2014 did not cause us to compromise our high standards of safety or governance, which are vital to our long-term success and fundamental to our culture. In 2014, we achieved a Total Case Incident Rate (TCIR) of 1.35 recordable incidents and a Lost-Time Injury Rate (LTIR) of 0.11 lost-time injuries, compared to 1.62 and 0.19 for 2013<sup>1</sup>. The TCIR rate is the lowest annual rate we have experienced since 2007.

Throughout 2015, we will continue to pursue improvements in our safety performance focusing on forward-looking safety indicators, such as increased interactions between managers and field employees, disciplined tracking and remediation of risks and increased training for our field supervisors and employees. Safety performance is central to the Company's strategy of operational improvements and improved customer relationships. Management and the Company's employees regard safety as not only a fundamental business value but also a significant commercial opportunity and risk, as blue-chip mining customers look to safety performance as a basis to differentiate their suppliers.

As we look forward, there are three key pillars that we will remain focused on:

1. **Safety:** Relentlessly pursue innovation to enhance safety on-site and look for continuous improvement initiatives. Safety will remain a personal responsibility and concern of each of our employees.
2. **Customers:** Growing our relationships with new and existing customers while optimising our commercial approach to the business. Also, expanding our drilling services offerings and pricing options and consistently investing in product

development efforts that respond to customer needs for safety and productivity.

3. **Profitability:** Continue to drive efficiencies and productivity throughout the business while ensuring pricing discipline. Focus on managing working capital, maintaining disciplined capital management and controlling all of our costs.

Also, as we look forward into 2015 and beyond, I am very pleased to welcome Marcus Randolph as Chairman of the Board of Directors. Marcus joins us after 35 years' experience in global senior executive roles across the mining sector. I would also like to thank Barbara Jeremiah and Dave McLemore for their service and guidance as our two previous Board Chairs over the last several, difficult years and also recognise and thank Roy Franklin and Tanya Fratto for their insights, diligence and unwavering concern for our shareholders during their tenures.

I also thank each and every one of our employees for their contributions to keeping our Company strong. We have worked hard to navigate through the difficult market environment of recent years. As we enter our 125th year in 2015, we are energised by a renewed vigor and discipline that we believe positions us to grow far into the future and provide increased value to our shareholders. As we celebrate the many accomplishments of our past, we are moving confidently toward the future.

Yours sincerely,

**Richard O'Brien**  
President and Chief Executive Officer

<sup>1</sup> TCIR and LTIR are based on 200,000 hours worked.

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Driller in the field, USA



"AT BOART LONGYEAR, "SAFETY FIRST" IS A CORE VALUE. FOSTERING A SAFETY CULTURE THAT EMPHASISES WHY WE WORK SAFELY IS MORE THAN JUST A SAFETY PROGRAM – IT'S THE WAY WE WORK EVERY DAY. TO MAKE IT SAFE, MAKE IT PERSONAL, AND MAKE IT HOME – FOR OURSELVES, OUR FAMILIES, AND FOR EACH OTHER."

Richard O'Brien, President and Chief Executive Officer

# FINANCIAL REPORT

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# Annual Financial Report

31 December 2014


BOART LONGYEAR LIMITED

## 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 2014 (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.

## PRINCIPAL ACTIVITIES

Boart Longyear is the world's leading integrated provider of drilling services, drilling equipment and performance tooling for mining and mineral drilling companies globally. The Company provides drilling services, drilling equipment and performance tooling to mining and drilling companies globally by offering a comprehensive portfolio of technologically advanced and innovative drilling services and products. The Company operates through two divisions, "Global Drilling Services" and "Global Products," and believes that its market-leading positions in the mineral drilling industry are driven by a variety of factors, including the performance, expertise, reliability and high safety standards of Global Drilling Services, the technological innovation, engineering excellence and global manufacturing capabilities of Global Products and its vertically integrated business model. These factors, in combination with the Company's global footprint, have allowed the Company to establish and maintain long-standing relationships with a diverse and blue-chip customer base worldwide that includes many of the world's leading mining companies. With more than 120 years of drilling expertise, the Company believes its  insignia and brand represent the gold standard in the global mineral drilling industry.

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

As previously announced, the Company announced a proposed conclusion to its Strategic Review process in October 2014, which culminated in the Company entering into a series of recapitalisation transactions with Centerbridge Partners, L.P. The recapitalisation transactions involved the entry into new term loans between the Company and Centerbridge Partners, L.P., equity placements to Centerbridge Partners, L.P., an equal-access rights offering made available to shareholders, an off-market share buy-back available to shareholders on a pro-rata basis, and a bond equitisation of Centerbridge Partners, L.P.'s holding in Boart Longyear's Senior Unsecured notes. The recapitalisation transactions represented a comprehensive solution to the Company's liquidity risk, as they eliminated the potential risk of default associated with covenant breaches related to the Company's former revolving credit facility and are also expected to stabilise the Company's balance sheet during the present cyclical downturn. At 31 December 2014, the following recapitalisation transactions had been executed and recorded in the Company's financial statements:

- **Term Loans:** The Company received \$225 million of "covenant-lite" terms loans that will accrete interest at a rate of 12% per annum. The proceeds of the term loans were used to refinance the Company's prior revolving credit facility, of which \$30.0 million was drawn at the time of repayment, and to repurchase \$105.0 million of the Company's existing 10.00% Senior Secured Notes.
- **Equity Placements:** The Company issued two equity placements directly to Centerbridge Partners, L.P., totaling approximately \$27.0 million. As a result of the transactions, Centerbridge Partners, L.P. increased its ownership in the Company's common stock to approximately 37%.

As a result of the recapitalisation transactions, the Company incurred approximately \$45.5 million of transaction related costs which were recorded in significant items. Of the \$45.5 million of costs, \$26.6 million were paid in 2014 and the residual balance will be paid in early 2015. As noted immediately below, the Company completed the recapitalisation, and additional proceeds related thereto were received, after 31 December 2014.

## EVENTS SUBSEQUENT TO REPORTING DATE

On 27 January 2015, the Company finalised the rights offering and received additional proceeds of A\$106.2 million. The Company also completed the acquisition of approximately 7.5 million fully paid ordinary shares at A\$0.165 per share pursuant to the off-market buyback. The Company cancelled the repurchased shares and subsequently sold an equivalent number of new shares to Centerbridge Partners, L.P. for the same price per share. In addition, the Company also completed the equitisation of US\$16 million of its 7.00% Senior Unsecured Notes, held by Centerbridge Partners, L.P., and its affiliates and related funds through the issuance of approximately 102.8 million shares.



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BOART LONGYEAR LIMITED

Following the completion of the recapitalisation transactions, the Company has 930.9 million fully paid ordinary shares and 434.0 million fully paid convertible preference shares on issue. Centerbridge Partners, L.P.'s holding in ordinary shares increased to 49.9% or 464.1 million shares and now also includes 434.0 million convertible preference shares at a value of approximately A\$71.6 million. Additionally, as all recapitalisation transactions have been completed, the Company paid the remaining \$18.9 million of costs accrued for in 2014 related to the Strategic Review.

The following pro forma balance sheet shows the effects of the 27 January 2015 transactions.

<u>US\$ Millions</u>	<u>Statutory</u>	<u>Pro Forma</u> <sup>1</sup>
Loans and Borrowings	716	700
Less: Cash and Cash Equivalents	169	234
Net Debt <sup>2</sup>	548	466
Issued Capital	1,159	1,259

<sup>1</sup> Inclusive of final recapitalisation transactions that occurred in January 2015

<sup>2</sup> Loans and borrowings, less cash and cash equivalents

The Company announced changes in the composition of its Board on 23 February 2015. The changes, which will take effect on 25 February 2015, include the retirement of Barbara Jeremiah and Roy Franklin from the Board and the appointment of Bret Clayton and Marcus Randolph as new directors. Mr. Randolph will also assume the role of Chairman from Ms. Jeremiah. The foregoing changes to the Company's Board arise from the recapitalisation agreements, in which the Board agreed that Centerbridge Partners, L.P. may appoint up to four directors, including the right to nominate the Board Chairman subject to the approval of a majority of the independent directors. Messrs. Clayton and Randolph join the Board as independent, non-executive directors and, with Messrs. Lewinsohn and Tochilin, who were appointed in 2014, comprise Centerbridge Partners, L.P. nominated Board appointees.

## DIVIDENDS

No dividends have been paid during the financial year.

No dividend was determined for either of the half-years ended 30 June 2014 or 31 December 2014.

## DIRECTORS

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

- Bruce Brook
- Peter Day (appointed effective 25 February 2014)
- Roy Franklin
- Tanya Fratto
- Barbara Jeremiah
- Jonathan Lewinsohn (appointed effective 23 October 2014)
- David McLemore
- Rex McLennan
- Richard O'Brien
- Conor Tochilin (appointed effective 18 December 2014)

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

- Roger Brown (appointed effective 1 July 2010; resigned effective 18 December 2014)

For a summary of experience and qualifications for each director, see the Board of Directors section on page 78 of this Report.

## COMPANY SECRETARIES

- Fabrizio Rasetti
- Paul Blewett

## DIRECTORS' MEETINGS

The following table sets out for each Director the number of Directors' meetings (including meetings of Board committees) 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. The table also does not reflect special or informal meetings of the Board or its committees.

	Board of Directors		Remuneration Committee		Audit, Compliance & Risk Committee		Environment, Health & Safety Committee		Finance Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Bruce Brook	14	14			4	4			10	9
Roger Brown <sup>1</sup>	14	13	2	2			3	3		
Peter Day <sup>2</sup>	11	11	3	3	3	3				
Roy Franklin <sup>3</sup>	14	14	3	3	2	2	2	2	10	10
Tanya Fratto	14	14	5	5			1	1		
Barbara Jeremiah	14	14							10	10
Jonathan Lewinsohn <sup>4</sup>	1	1								
David McLemore <sup>5</sup>	14	14	2	2	2	2	2	2	6	5
Rex McLennan <sup>6</sup>	14	14			4	4	1	1	10	10
Richard O'Brien	14	14								
Conor Tochilin <sup>7</sup>										

(1) Mr Brown resigned from the Board and the Environment, Health & Safety Committee effective 18 December 2014 and from the Remuneration Committee effective 1 June 2014.

(2) Mr Day joined the Board and the Audit, Compliance & Risk Committee effective 25 February 2014 and the Remuneration Committee effective 1 June 2014.

(3) Mr Franklin joined the Remuneration Committee and resigned from the Audit, Compliance & Risk Committee and Environment, Health & Safety Committee effective 1 June 2014.

(4) Mr Lewinsohn joined the Board effective 23 October 2014.

(5) Mr McLemore joined the Audit, Compliance & Risk Committee and resigned from the Remuneration Committee, the Environment, Health & Safety Committee and the Finance Committee effective 1 June 2014.

(6) Mr McLennan joined the Environment, Health & Safety Committee effective 1 June 2014.

(7) Mr Tochilin joined the Board effective 18 December 2014.

# Annual Financial Report

31 December 2014

BOART LONGYEAR LIMITED

## 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.

	Fully paid ordinary shares	Rights offering ordinary shares <sup>1</sup>	Rights and options	Total
Bruce Brook	220,000	215,559	-	435,559
Peter Day	175,000	171,465	-	346,465
Roy Franklin	300,000	293,940	-	593,940
Tanya Fratto	120,000	-	-	120,000
Barbara Jeremiah	455,000	-	-	455,000
Jonathan Lewinsohn	-	-	-	-
David McLemore	1,155,861	1,132,512	-	2,288,373
Rex McLennan	100,000	95,400 <sup>2</sup>	-	195,400
Richard O'Brien	300,000	293,940	7,897,813	8,491,753
Conor Tochilin	-	-	-	-

- (1) Rights offering ordinary shares represent shares taken up as part of the recapitalisation transaction offering finalised on 27 January 2015.
- (2) Mr McLennan was unable to acquire shares through the rights offering due to technical problems with the execution of his purchase of rights. Accordingly, he received clearance to purchase an equivalent number of shares on market at the time of the rights offering.

In August 2011, the Board adopted a non-executive Director shareholding guideline, which recommends that non-executive Directors acquire and hold at least 30,000 Company shares within five years of their appointment. The target share amount was established to be roughly equivalent to one year's directors' fees and was based on the value of the Company shares at the time. The target shareholding amount may be adjusted from time to time to track movements in the Company's share price.

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

No shares or rights over shares of the Company have been granted to non-executive Directors since the Company's initial public offering in April 2007. Shares and rights over shares granted to executives of the Company are included in the Remuneration Report. As detailed more fully in the Remuneration Report, the Company has at various times in 2009, 2010 and 2014 granted options to former and current members of senior management. 345,000 of these options granted in June 2009 vested in accordance with their terms and expired in June 2014, with none having been exercised. 25,000 of these options granted in March 2010 vested in accordance with their terms and expire in March 2015. During 2014 new options were granted to Mr O'Brien as part of a special one-off strategic award and new options were also granted to senior executives as part of the Company's long-term incentives for the year, as outlined more fully in the Remuneration Report. No shares or interests have been issued during the financial year as a result of the 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 36 to the financial statements.

## 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 the Directors and officers of the Company and any related body 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 90 of this report.

## NON-AUDIT SERVICES

Details of amounts paid or payable for non-audit services provided during the year by the auditor are outlined in Note 11 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 tax compliance services, the magnitude of which is impacted by the global reach of the Company.

The Company and its Audit, Compliance & Risk Committee (Audit Committee) are committed to ensuring the independence of the external auditor. Accordingly, significant scrutiny is given to non-audit engagements of the external auditor. The Company has a formal pre-approval policy that requires the pre-approval of non-audit services by the Chairman of 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 control services performed by the external auditor.

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 11 to the financial statements, do not compromise the external auditor's independence.

## 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.

## 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.

## REMUNERATION

The Remuneration Report is included beginning at page 43 and forms part of this Directors' Report.

## REVIEW OF OPERATIONS <sup>1</sup>

### 1. Overview of 2014 Operations, Safety Performance and Financial Results

Boart Longyear is the world's leading integrated provider of drilling services, drilling equipment and performance tooling for mining and mineral drilling companies globally. We conduct our business activities through two segments, Global Drilling Services and Global Products.

Our strategy is to be the "One Source" of drilling solutions in our core markets by creating value for our customers by delivering a comprehensive portfolio of technologically advanced and innovative drilling services and products. We believe that our market leading positions in the mineral drilling industry are driven by a variety of factors, including the performance, expertise, reliability and high safety standards of Global Drilling Services, the technological innovation, engineering excellence and global manufacturing capabilities of Global Products and our Company's vertically integrated business model.

We remain focused on our customer base with detailed marketing and investment plans to identify and secure additional customer opportunities at lower-cost mines. Further, while maintaining a disciplined approach to capital expenditures, we will continue to invest in safety improvements and productivity enhancements in our Global Drilling Services division that should contribute to project margins. New product development efforts in our Global Products division will remain focused, for the time being, on incremental product improvements that customers will need at any point in the mining cycle. During 2014, Global Products launched four new and competitive products which have seen moderate success given current market conditions and are well positioned for further penetration in 2015. Several other product development programs are in the current pipeline.

Central to our strategy is a clear focus on continuing to drive safety improvements, increase efficiencies, generate positive cash flow and reduce net debt. We regard safety as fundamental to our relationships with, and commitments to, our employees and customers. In addition, we consider our safety performance both to be one of our most significant opportunities as well as a major operational risk in 2015, as our current and targeted customers look to safety as a basis to differentiate their suppliers.

In 2014, the Company reported significantly improved safety performance, with a Total Case Incident Rate (TCIR) of 1.35 and Lost-Time Injury Rate (LTIR) of 0.11 compared to corresponding rates of 1.62 and 0.19 for the comparable period of 2013. (Both TCIR and LTIR are rates calculated based on 200,000 hours worked.) We are committed to providing our employees and customers with an injury-free workplace and industry-leading safety performance. Steps we have taken over the past year to employ more forward-looking safety metrics and more on-the-ground interactions between our experienced supervisors and our safety-conscious employees on our rigs around the world are contributing to this improved performance.

We also continue to prioritise net debt reduction and cash generation to deleverage the business over time and position it with a more efficient operating platform in all phases of the mining industry's cycles. Key elements of this strategy include achieving and maintaining sustainable EBITDA-to-revenue margins and improving returns on capital through disciplined variable and fixed cost management and capital spending programs.

2014 continued to be a difficult period for the industry and the Company, as declining or stagnant prices for metals and mined commodities, political and economic risks related to the development of new mines and a continued focus by mining companies on maximising near term cash flows drove most of the world's mining companies to significantly reduce their exploration, development and capital expenditures each year since 2011. Mining industry observers SNL Metals Economics Group (SNL MEG) estimate that budgets for overall global exploration spending in 2013 decreased by 29% to \$15.2 billion from the \$21.5 billion spent in 2012 and in 2014 declined a further 25% to about \$11.4 billion.

As the mining industry reduced exploration spending and capital investments, drill rig utilisation rates declined significantly in the second half of 2012 and continued during 2013 and most of 2014 for both our Global Drilling Services business and our Global Products customers. During the year ended 31 December 2014, drill rig utilisation continued to decline relative to 2012 and 2013, but at a much reduced rate compared to the declines experienced during 2013 and the first-half of 2014, but stabilised in the last quarter of 2014. However, pricing as a result of low global rig utilisation continued to adversely impact the Company's financial performance.

(1) The Review of Operations contains information sourced from our audited financial statements as well as additional supplemental information that has not been subject to audit or review.

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As global drill rig utilisation rates declined, we experienced significant price reductions beginning in the second half of 2012 and continuing through the first half of 2014. During the second half of 2014 we saw relatively flat utilisation rates with continued pricing headwinds for the Company's services. However, drill rig utilisation rates began stabilising in the last quarter of 2014.

In order to offset the negative financial and cash flow impacts associated with declining utilisation rates and ongoing pricing headwinds, we remain focused on identifying cost reduction opportunities and increases in efficiency across the Company. We have taken steps in 2014 to reduce operating costs as well as sales, general and administrative (SG&A) costs. In addition, we remain focused on generating cash through reducing inventory and controlling capital costs.

In 2014, a number of significant items impacted the Company's financial performance. The continued deterioration in revenues and profitability during 2014, combined with forecasts of reductions in demand in the industry and the compression of enterprise valuations for companies in the drilling services sector, resulted in an impairment of the carrying value of some of our assets and charges associated with business. Additionally, the Company completed its previously announced recapitalisation led by Centerbridge Partners, L.P., which resulted in significant expenses in connection with its implementation.

Primarily as a result of those asset impairments and recapitalisation costs as well as a detrimental tax rate and ongoing overhead and finance costs, the Company has reported a statutory loss for the year of \$332.7 million, which is \$287.2 million less than during the prior year (2013: \$619.9 million loss for the comparable period). Adjusted operating loss after tax for the year (adding back the significant items) was \$141.8 million, compared to an adjusted operating loss after tax for the same period of 2013 of \$94.3 million, an increase in loss of \$47.5 million, reflecting much lower average drill rig utilisation and demand for our services and products and lower pricing in Global Drilling Services in 2014. See reconciliation in Section 7 'Non-IFRS Financial Information'.

Revenue for the year of \$866.6 million was \$356.3 million, or 29.1%, lower than revenue in the same period in 2013 (2013: \$1,222.9 million for the comparable period). Global Drilling Services' average operating utilisation rates (defined as the number of rigs that have generated revenue through normal operations during the course of a week divided by the total rig count) for the first and second halves of 2014 was 36% and 39% respectively (2013: 42% and 35%). Global Products' sales of drilling equipment in 2014 totalled \$47.3 million (2013: \$73.0 million) and sales of performance tooling fell to \$183.1 million in 2014 (2013: \$232.5 million).

Total cost of goods sold (COGS) for 2014 was \$750.1 million (2013: \$1,020.7 million). COGS as a percentage of revenue increased due to fixed costs that cannot be decreased commensurately with revenue losses. For example, depreciation and amortisation costs – which are generally expensed over depreciable lives and are not tied to utilisation – did not decrease in line with the reduction in revenue in both businesses.

Total Sales and Marketing expenses for the Company for the year ended 31 December 2014 of \$40.1 million decreased 9.7%, or \$4.3 million, from the same period of the prior year (2013: \$44.4 million). Compensation and benefits as a percentage of revenue remained consistent from the prior year. As many of the costs associated with the Company's facilities are fixed in nature and have non-cancellable leases, occupancy costs remained relatively flat compared to the prior year. Professional fees decreased significantly from prior year as a result of the supply chain group insourcing certain warehousing activities which reduced its reliance on a third party.

Total general and administrative expenses for the Company for the year ended 31 December 2014 of \$124.3 million decreased 21.2%, or \$33.4 million, from the same period of the prior year (2013: \$157.7 million). Although general and administrative expenses decreased due to the aggressive cost reduction actions taken from 2012 through 2014, the amount as a percentage of revenue increased slightly with the higher fixed cost nature of our remaining general and administrative expenses, particularly as a result of the significant cost reductions that had already occurred in 2012 and 2013.

Operating cash flow, before interest and taxes, for the year ended 31 December 2014 was \$54.6 million, a decrease of 28.4% (2013: \$76.3 million).

On an accrual basis, capital expenditures (CAPEX) in 2014 totalled \$25.2 million compared to \$49.2 million for the same period of the prior year. Of the 2014 amount, \$13.0 million was spent on sustainment activities relating to refurbishing current rigs and other support equipment including rods and casings. \$5.0 million was spent on product development activities including engineering and patent maintenance. The remaining amount related to miscellaneous expenditures. The Company has continued to focus on reducing capital expenditures to minimum levels during 2014.

As at 31 December 2014, loans and borrowings and net debt totalled \$716.3 million and \$547.6 million, respectively, and total debt-to-adjusted EBITDA was 22.8 times (2013: \$585.4 million, \$526.3 million and 5.5 times). We remain committed to

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reducing our absolute level of debt, over time, by aggressively managing fixed, variable and capital costs and improving efficiencies through several ongoing initiatives, including:

1. reexamining our global operating model and underlying support costs;
2. completing the consolidation of certain financial service functions and further utilisation of our two shared services operations to consolidate other sales, general and administrative functions;
3. exiting certain loss-making drilling services projects or territories;
4. controlling SG&A and other overhead related costs and
5. capitalising on our significant investment in modernising our rig fleet from 2010 to 2012, which we believe positions us well for any market recovery and reduces our expected capital expenditure requirements over the next several years.

Ultimately, our goal is to reduce our overall net debt profile to provide for greater balance sheet flexibility through the cycle while also providing our equity holders with the significant upside that we may realise in our operations when markets improve and our operating leverage improves as a result of our significantly reduced cost structure. We note, however, that interest on the term loans we entered into with Centerbridge Partners, L.P. as part of the recapitalisation accretes and will be added to the principal balance of those loans.

## 2. Financial and Operating Highlights

	For the year ended 31 December			
	2014 US\$ Millions	2013 US\$ Millions	\$ Change	% Change
<b>Key financial data</b>				
Revenue	866.6	1,222.9	(356.3)	-29.1%
NPAT(1)	(332.7)	(619.9)	287.2	46.3%
Adjusted NPAT(1)	(141.8)	(94.3)	(47.5)	-50.4%
EBITDA(2)	(82.6)	(337.1)	254.5	75.5%
Adjusted EBITDA(2)	31.4	107.2	(75.8)	-70.7%
Cash generated from operations	54.6	76.3	(21.7)	-28.4%
Net cash flows (used in) provided by operating activities	(11.3)	11.5	(22.8)	-198.3%
Capital expenditures (accrual)	25.2	49.2	(24.0)	-48.8%
Capital expenditures (cash)	18.2	41.5	(23.3)	-56.1%
Weighted Average number of ordinary shares	469.7	455.5	14.2	3.1%
Earnings per share (basic)	(70.8) cents	(136.1) cents	65.3 cents	48.0%
Earnings per share (diluted)	(70.8) cents	(136.1) cents	65.3 cents	48.0%
Average BLY rig utilisation	37%	38%	-1%	-2.6%
Average Fleet size	948	1,037	(89)	-8.6%

(1) NPAT is 'Net profit after tax'. Adjusted NPAT is 'Net profit after tax and before significant items'. See reconciliation in section 7 'Non-IFRS Financial Information'.

(2) EBITDA is 'Earnings before interest, tax, depreciation and amortisation'. Adjusted EBITDA is 'Earnings before interest, tax, depreciation and amortisation and before significant items'. See reconciliation in section 7 'Non-IFRS Financial Information'.

### 3. Discussion and Analysis of Operational Results and the Income Statement

#### 3.1 Revenue

Total revenue for the year ended 31 December 2014 of \$866.6 million decreased by 29.1 %, or \$356.3 million, compared to revenue for the year ended 31 December 2013 of \$1,222.9 million.

	For the year ended 31 December			
	2014	2013	\$ Change	% Change
<b>Global Drilling Services Revenue (US\$ millions)</b>	636.1	917.3	(281.2)	-30.7%
Average rig utilisation rates	37%	38%	-1.0%	-2.6%
<b>Global Products Revenue (US\$ millions)</b>	230.4	305.5	(75.1)	-24.6%
Sales of Drilling Equipment (US\$ millions)	47.3	73.0	(25.7)	-35.2%
Sales of Performance Tooling (US\$ millions)	183.1	232.5	(49.4)	-21.2%

A majority of the revenue for both Global Drilling Services and Global Products is derived from providing drilling services and products to the mining industry and is dependent on mineral exploration, development and production activities. Such activities in turn are driven by several factors, including anticipated future demand for commodities, the outlook for current and projected supply and available mine productive capacity, the level of mining exploration capital and development related expenditures and availability of financing for, and the political and social risks around, mining development.

As the global economy improved in the wake of the financial crisis of 2009, the demand for drilling services and products re-emerged and the Company experienced significant top line recovery during 2010 and 2011, as revenue increased from 2009 levels of \$978.2 million to \$1,475.9 million in 2010 and to a record of \$2,020.3 million in 2011. During the half-year ended 30 June 2012, the Company achieved revenue of nearly \$1,098.8 million and was on pace to nearly match the revenue recorded in the year ended 31 December 2011. However, in mid-2012, many mining companies began to significantly reduce their exploration programs and capital expenditure budgets, which ultimately led to a slowdown in demand for our products and services in the second half of 2012. This had an adverse effect on performance, and the Company reported revenue of \$912.7 million for the second half period ended 31 December 2012. The contraction of the mining industry continued throughout 2013 and into the first-half of 2014, with volatility in the commodities market also affecting performance. These lower levels of mineral exploration, development and production continued through the end of 2014, though the rate of reduction slowed during the second half of 2014, stabilising at very low levels.



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## 3.2 Cost of Goods Sold, Sales and Marketing Expense, and General and Administrative Expense

Total Cost of Goods Sold (COGS), sales and marketing expenses (S&M) and General and Administrative expenses (G&A) for the Company for the year ended 2014 were \$914.4 million, compared to \$1,222.9 million in 2013, a decrease of \$308.4 million, or 25.2%.

	For the year ended 31 December			
	2014	2013		
	US\$ Millions	US\$ Millions	\$ Change	% Change
<b>COGS</b>				
<b>Global Drilling Services</b>				
Materials/labor/overhead/other	511.6	688.7	(177.1)	-25.7%
Depreciation and amortisation	69.9	94.6	(24.7)	-26.1%
Global Drilling Services COGS	581.5	783.3	(201.8)	-25.8%
COGS as a % of Revenue	91.4%	85.4%	6.0%	7.0%
<b>Global Products</b>				
Materials/labor/overhead/other	158.3	203.3	(45.0)	-22.1%
Inventory obsolescence	0.3	22.7	(22.4)	-98.7%
Depreciation and amortisation	10.0	11.4	(1.4)	-12.3%
Global Products COGS	168.6	237.4	(68.8)	-29.0%
COGS as a % of Revenue	73.2%	77.7%	-4.5%	-5.8%
<b>Total COGS</b>	<b>750.1</b>	<b>1,020.7</b>	<b>(270.6)</b>	<b>-26.5%</b>
COGS as a % of Revenue	86.6%	83.5%		3.7%

Total COGS for the Company for the year ended 31 December 2014 was \$750.1 million, representing a decrease of 26.5% compared to COGS of \$1,020.7 million for 2013. From 2013 to 2014, the Company's revenue declined at a further rate, 29.1%, negatively impacting the Company's profitability. COGS as a percentage of revenue increased due to fixed costs that cannot be decreased commensurately with revenue losses. In addition, depreciation and amortisation costs – which are generally expensed over depreciable lives and are not tied to utilisation – did not decrease in line with the reduction in revenue in both businesses.

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	For the year ended 31 December			
	2014	2013	\$ Change	% Change
	US\$ Millions	US\$ Millions		
<b>Sales and Marketing Expenses</b>				
Compensation and benefits expense	24.3	26.2	(1.9)	-7.3%
Occupancy costs	7.1	7.2	(0.1)	-1.4%
Travel and transportation	3.5	4.0	(0.5)	-12.5%
Professional fees	1.0	3.7	(2.7)	-73.0%
Other	4.2	3.3	0.9	27.3%
<b>Total Sales and Marketing Expenses</b>	<b>40.1</b>	<b>44.4</b>	<b>(4.3)</b>	<b>-9.7%</b>
<i>S&amp;M as a % of Revenue</i>	<i>4.6%</i>	<i>3.6%</i>		<i>27.8%</i>

Total Sales and Marketing expenses for the Company for the year ended 31 December 2014 of \$40.1 million decreased 9.7%, or \$4.3 million, from the same period of the prior year (2013: \$44.4 million). Compensation and benefits as a percentage of revenue remained consistent from the prior year. As many of the costs associated with the Company's facilities are fixed in nature and have non-cancellable leases, occupancy costs remained relatively flat compared to the prior year. Professional fees decreased significantly from prior year as a result of the supply chain group insourcing certain warehousing activities which reduced its reliance on a vendor.

	For the year ended 31 December			
	2014	2013	\$ Change	% Change
	US\$ Millions	US\$ Millions		
<b>General and Administrative Expenses</b>				
Compensation and benefits expense	69.0	81.9	(12.9)	-15.8%
Occupancy costs	21.5	26.7	(5.2)	-19.5%
Professional fees	17.7	26.5	(8.8)	-33.2%
Travel and transportation	5.9	7.2	(1.3)	-18.1%
Other	10.2	15.4	(5.2)	-33.8%
<b>Total General and Administrative Expenses</b>	<b>124.3</b>	<b>157.7</b>	<b>(33.4)</b>	<b>-21.2%</b>
<i>G&amp;A as a % of Revenue</i>	<i>14.3%</i>	<i>12.9%</i>		<i>10.9%</i>

Total General and Administrative expenses for the Company for the year ended 31 December 2014 were \$124.3 million, representing a decrease of 21.2%, or \$33.4 million, compared to \$157.7 million for the same period of 2013. General and administrative expenses decreased due to aggressive cost reduction actions taken from 2012 and continuing throughout 2013 and 2014. The increase as a percentage of revenue is mainly due to revenues decreasing more quickly than cost reductions could be implemented combined with the higher fixed cost nature of our remaining general and administrative expenses, particularly as a result of the significant cost reductions that have already occurred in 2012 and 2013.

In response to weakening industry conditions, we have taken a series of actions to reset the Company's cost base, to establish a more sustainable organisational and overhead structure, and to respond more effectively to volatile market conditions. In the second half of 2012, the industry slow-down was rapid. We aggressively implemented cost-saving initiatives that included reduction of headcount by over 2,200 people in 2012 and consolidation or migration of manufacturing into lower cost geographic areas. During 2012 and carrying into 2013, these initiatives reduced Company expenses by approximately \$70.0 million, equivalent to 20% of global overhead, with approximately \$15.0 million and \$55.0 million realised in 2012 and 2013, respectively.

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In the first-half of 2013, an operational review was concluded that resulted in recommendations for several additional restructuring initiatives to reduce overhead and operating costs across the Company, including additional rationalisation of manufacturing, inventory and administrative facilities. In August of 2013, the Company announced a \$90 million cost reduction program - in addition to the \$70 million of cost reductions announced in December 2012 – which resulted in an over 30% reduction in stocking locations globally, the consolidation of the Global Products division's aftermarket services group with the Global Drilling Services maintenance group and the consolidation of the supply chain groups for both divisions. As a result of these actions and significant reductions in our SG&A costs, the Company reduced its headcount by over 3,300 during 2013, including approximately 45% of general and administrative positions across the business. We estimate that such actions reduced fixed costs by a total of approximately \$60 million during 2013 and an additional \$28 million in 2014.

In 2014, the Company took further cost reduction actions through the initiation of a salary freeze for certain employees and other temporary reduction measures, which will result in annualised cash savings of approximately \$28 million.

	For the year ended 31 December		
	2014	2013	2012
<b>Employee headcount reduction</b>			
Sales, marketing, general and administrative	866	902	1,249
<i>% reduction from prior year</i>	<i>-4.0%</i>	<i>-27.8%</i>	<i>-14.0%</i>
<i>% reduction from 2011</i>	<i>-40.4%</i>		

	For the year ended 31 December		
	2014	2013	2012
<b>Sales, marketing, general and administrative cost reduction</b>			
Sales, marketing, general and administrative (US\$ millions)	164.4	202.1	297.7
<i>% of reduction from prior year</i>	<i>-18.7%</i>	<i>-32.1%</i>	<i>-1.6%</i>
<i>% of reduction from 2011</i>	<i>-45.7%</i>		

Despite the significant cost actions occurring over the last 18 months, the Company and its employees remain committed to driving more efficiencies across our business platform, while still delivering safe, reliable and productive drilling services and innovative products to customers.

## 3.3 Significant Items

During 2014 and 2013, the Company incurred the following restructuring, recapitalisation expenses and impairment charges related to current market conditions and cost reductions:

	For the year ended 31 December		
	2014	2013	\$
	US\$ Millions	US\$ Millions	Change
<b>Significant items</b>			
Recapitalisation costs	45.5	-	45.5
<b>Impairments</b>			
Property, plant and equipment	46.1	109.9	(63.8)
Intangible assets	1.6	9.1	(7.5)
Inventory	0.7	101.9	(101.2)
Goodwill	-	166.3	(166.3)
Development asset	-	14.6	(14.6)
Employee and related costs	12.5	44.8	(32.3)
Other restructuring expenses	7.6	14.6	(7.0)
<b>Total significant items</b>	<b>114.0</b>	<b>461.2</b>	<b>(347.2)</b>

Significant items decreased to \$114.0 million during 2014 (2013: \$461.2 million). Recapitalisation activities represented \$45.5 million of these expenses. \$20.8 million of the expenses were associated with employee separations and retention, exiting onerous leases, and impairments of inventory related to resizing the business. Impairment charges in the carrying value of certain plant and equipment following reviews of asset carrying values totaled \$46.1 million.

## 3.4 Other Income/Expenses

Other income decreased to \$7.6 million during 2014 (2013: \$18.2 million for the comparable period). During the year ended 31 December 2014, we recorded a gain on a litigation settlement of \$3.1 million, an increase due to gains on disposal of property, plant and equipment and sales of scrap of \$2.2 million and increases in other income of \$2.3 million. During 2013 we had a \$16.9 million gain related to the Company's decision to terminate a post-retirement medical plan in North America.

Other expenses, principally amortisation of intangible assets, loss on foreign exchange and sundry asset impairments, increased \$5.9 million to \$30.7 million during 2014 (2013: \$24.8 million). Amortisation of intangible assets decreased due to a lower carrying value of intangible assets resulting from prior year impairments.

The loss on foreign currency exchange increased due to strengthening of the US dollar and increased volatility of selected currencies during 2014. The Company continues to actively manage its exposure to foreign currency exchange risk which may include the use of forward exchange contracts or currency options. However, for the years ended 31 December 2014 and 2013, the Company did not employ the use of these methods in managing its currency exposures.

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## 3.5 Finance Costs and Interest Income

	For the year ended 31 December		
	2014	2013	%
	US\$ Millions	US\$ Millions	Change
Finance costs	66.1	40.9	61.6%
Average gross senior notes outstanding	584.2	378.9	54.2%
Average related interest rate	8.5%	7.6%	11.8%
Average term loans outstanding	38.5	0%	-
Average related interest rate	12.0%	0%	-
Average gross revolver outstanding	22.5	246.6	-90.9%
Average related interest rate	5.0%	2.4%	108.3%
Interest Income	5.5	2.9	89.7%

Finance costs increased to \$66.1 million during 2014 (2013: \$40.9 million) as a result of higher average debt levels and higher average interest rates, primarily associated with the run-rate impact of the company's \$300.0 million Senior Secured Notes which were issued in September 2013 (note, in November 2014 proceeds from Term Loan B, in the amount of \$105.0 million, were used to repurchase \$105.0 million of the Senior Secured Notes and had no impact on average debt outstanding) and the net impact of the \$120.0 million Term Loan A associated with the recapitalisation of which \$30 million was used to refinance the Company's prior revolving credit facility. The Company also incurred an expense associated with the write-off of debt issuance costs of \$6.1 million during 2014.

### 3.6 Income Tax Expense

	For the year ended 31 December					
	2014	Adjustments	2014	2013	Adjustments	2013
	Statutory	for Significant	Underlying	Statutory	for Significant	Underlying
	US\$ Millions	Items	US\$ Millions	US\$ Millions	Items	US\$ Millions
<b>(Loss) Profit before Taxation</b>	<b>(251.7)</b>	<b>114.0</b>	<b>(137.7)</b>	<b>(505.9)</b>	<b>444.3</b>	<b>(61.6)</b>
Tax at Australian rate of 30%	75.5	(34.2)	41.3	151.8	(133.3)	18.5
Derecognition of deferred tax assets	(68.2)	68.2	-	(92.7)	92.7	-
Unrecognised tax losses	(42.4)	42.4	-	(67.6)	67.6	-
Non deductible items related to impairments	-	-	-	(50.4)	50.4	-
Income tax in countries lower than parent tax rate	(30.7)	1.5	(29.2)	(30.1)	8.2	(21.9)
Income tax in countries higher than parent tax rate	(4.0)	(1.0)	(5.0)	1.2	(4.3)	(3.1)
Withholding tax net of foreign tax credit	(3.3)	-	(3.3)	(9.0)	-	(9.0)
Other non-assessable/deductible items	(0.6)	-	(0.6)	(8.9)	-	(8.9)
Over/under provisions	-	-	-	(4.2)	-	(4.2)
Income subject to double taxation	4.3	-	4.3	0.5	-	0.5
Other	(11.6)	-	(11.6)	(4.6)	-	(4.6)
<b>Tax per the annual financial report</b>	<b>(81.0)</b>	<b>76.9</b>	<b>(4.1)</b>	<b>(114.0)</b>	<b>81.3</b>	<b>(32.7)</b>

Income tax expense on the pre-tax loss of \$251.7 million for 2014 was \$81.0 million. This tax expense is illustrated in the table above and can largely be attributed to several factors including:

- profits in higher tax rate countries;
- significant losses in lower tax rate countries;
- withholding taxes on intercompany transactions;
- the non-recognition of current period losses; and
- the write-down of deferred tax assets.

### 3.7 Earnings (Losses)

Net operating loss after tax for the Company was \$332.7 million for the year ended 31 December 2014 (2013: net operating loss after tax of \$619.9 million). EBITDA for 2014 was a loss of \$82.6 million (2013: \$337.1 million EBITDA loss). Results were driven by the performance of Global Products and Global Drilling Services, significant restructuring and recapitalisation expenses and impairment charges.

Adjusted net operating loss after tax for the Company increased to an adjusted loss of \$141.8 million for 2014 (2013: adjusted loss \$94.3 million) and adjusted EBITDA decreased by 70.7% to \$31.4 million for 2014 (2013: \$107.2 million). See reconciliation in Section 7 'Non-IFRS Financial Information'.

### 3.8 Seasonality

The global business experiences a seasonal reduction in drilling, usually during the months of November, December and January, when mining activity is reduced and workers travel to and from their homes for holidays. A seasonal increase in drilling generally follows in the months of February and March. Working capital is generally at its highest during the second and third quarters of the year and generally decreases to a seasonal low at year-end, driven by reduced business activity during this typically slow period.

## 4. Discussion and Analysis of Cash Flow

	For the year ended 31 December			
	2014	2013	\$ Change	% Change
	US\$ Millions	US\$ Millions		
Cash generated from operations	54.6	76.3	(21.7)	-28.4%
Net cash flow s (used in) provided by operating activities	(11.3)	11.5	(22.8)	-198.3%
Net cash flow s used in investing activities	(12.0)	(2.2)	(9.8)	-445.5%
Net cash flow s provided by (used in) financing activities	143.9	(22.9)	166.8	728.4%
Net increase (decrease) in cash	120.6	(13.5)	134.1	993.3%
Cash and cash equivalents at the beginning of the year	59.1	89.6	(30.5)	-34.0%
Effects of exchange rate changes on cash	(10.8)	(17.0)	6.2	36.5%
Cash and cash equivalents at the end of the year	168.8	59.1	109.7	185.6%

### 4.1 Cash Flow from Operating Activities

Cash flows from operating activities for 2014 was negative \$11.3 million, a decrease of \$22.8 million from the prior year comparable period (2013: cash provided by operating activities \$11.5 million). The decrease in 2014 was mainly due to:

- an increase of \$47.5 million in the adjusted loss for the year;
- a decrease in cash generated from the sale of inventory from the prior year of \$61.1 million;
- an increase in interest paid during the year of \$29.1 million;
- cash generated from increasing trade and other payables balances of \$11.1 million as compared to a use of cash on decreasing balances in the prior year of \$138.7 million which represents a \$149.8 million change; and
- a decrease in cash taxes paid during the year of \$25.3 million.

**4.2 Cash Flow from Investing**

	For the year ended 31 December			
	2014	2013		
	US\$ Millions	US\$ Millions	\$ Change	% Change
Purchase of property, plant and equipment	(13.8)	(35.5)	21.7	61.1%
Proceeds from sale of property, plant and equipment	6.2	14.5	(8.3)	-57.2%
Intangible costs paid	(4.4)	(6.0)	1.6	26.7%
Proceeds on disposal of subsidiary	-	24.8	(24.8)	100.0%
Total net cash flows from investing activities	(12.0)	(2.2)	(9.8)	-445.5%

The Company continued to invest in capital equipment to support existing operations, which resulted in capital of \$13.8 million being invested, down 61.1% on the prior year (2013: \$35.5 million). In 2014, the Company continued to pursue initiatives to conserve cash, including through prudent and judicious control over capital expenditures.

Intangible costs paid relate to payments for patents, both to apply for new patents and to maintain existing patents, trademarks, software and costs incurred for development activities.

**4.3 Cash flows from Financing Activities**

In October 2014, the Company announced a recapitalisation transaction led by its largest shareholder, Centerbridge Partners, L.P., successfully completing its strategic review of recapitalisation options. As part of the recapitalisation, the Company was able to substantially improve its liquidity through equity raisings and debt refinancing.

Equity Raisings

The Company raised \$27.2 million in new equity through a series of equity transactions prior to 31 December 2014 through the Initial Equity Placement and Conditional Placement to Centerbridge Partners, L.P.. In January 2015, the Company raised an additional \$83.7 million through the Rights Offer. While non-cash, a further \$16.0 million of equity was raised in January 2015 via equitisation of \$16.0 million of 7% Notes held by Centerbridge Partners, L.P.. See Note 37 for additional discussion.

Debt Refinancing

The recapitalisation provided \$225 million of new "covenant-lite" term loans that will accrete (i.e. accumulating and compounding) interest. Structured as Term A and Term Loan B, the new loans will have an interest rate of 12% per annum, which would be reduced to 11% per annum if the Company's trailing 12 month adjusted EBITDA is greater than \$200 million. The new Term Loans provide immediate incremental liquidity as a result of accretive interest –no cash pay- and full access to funds (likely breach of former bank facilities would have prevented access to the credit facility) and extended maturities from 2016 to 2020.



### 5. Discussion of the Balance Sheet

	For the year ended 31 December			
	2014	2013	\$ Change	% Change
	US\$ Millions	US\$ Millions		
Cash and cash equivalents	168.8	59.1	109.7	185.6%
Trade and other receivables	137.4	196.9	(59.5)	-30.2%
Inventories	241.3	298.9	(57.6)	-19.3%
Prepaid expenses and other assets	18.7	25.1	(6.4)	-25.5%
Property, plant and equipment	279.3	408.3	(129.0)	-31.6%
Goodwill	102.5	104.0	(1.5)	-1.4%
Other intangible assets	77.3	92.0	(14.7)	-16.0%
Tax assets	97.6	135.4	(37.8)	-27.9%
Other assets	17.5	10.8	6.7	62.0%
<b>Total Assets</b>	<b>1,140.4</b>	<b>1,330.5</b>	<b>(190.1)</b>	<b>-14.3%</b>
Trade and other payables	167.0	153.2	13.8	9.0%
Provisions	68.9	70.4	(1.5)	-2.1%
Tax liabilities	118.0	92.9	25.1	27.0%
Loans and borrowings	716.3	585.4	130.9	22.4%
<b>Total Liabilities</b>	<b>1,070.2</b>	<b>901.9</b>	<b>168.3</b>	<b>18.7%</b>
Issued capital	1,159.1	1,129.0	30.1	2.7%
Reserves	(82.8)	(37.3)	(45.5)	-122.0%
Other equity	(137.2)	(137.2)	-	0.0%
Accumulated losses	(868.9)	(525.9)	(343.0)	-65.2%
<b>Total Equity</b>	<b>70.2</b>	<b>428.6</b>	<b>(358.4)</b>	<b>-83.6%</b>

The net assets of the Company decreased by \$358.4 million to \$70.2 million as at 31 December 2014 compared to \$428.6 million as at 31 December 2013. This decrease was a result of continued reductions of inventory, impairments of property, plant and equipment and the write-off of deferred tax assets. The Company continues to actively manage net working capital in relation to the current business cycle. In sustained periods of reduced global drill rig utilisation, inventory reductions are more difficult to achieve through business activity and the Company must evaluate inventory monthly to determine the appropriate accounting reserves for slow-moving and obsolete inventory. When the markets the Company serves begin to improve, it is likely that net working capital levels will increase as the Company increases inventory and generates additional receivables.

Cash and cash equivalents increased by \$109.7 million, or 185.6%, to \$168.8 million as at 31 December 2014 (2013: \$59.1 million). Correspondingly, trade and other receivables decreased by \$59.5 million, or 30.2%, to \$137.4 million as at 31 December 2014 (2013: \$196.9 million) reflecting decreased revenues, increased focus on cash collections by all divisions. Inventories decreased by \$57.6 million, or 19.3 %, to \$241.3 million as at 31 December 2014 (2013: \$298.9 million). Of the decrease, \$40.7 million related to third party sales and Global Drilling Services consumption, \$16.9 million of foreign currency exchange and other non-cash changes.

Other assets consist of current prepayments and deposits and VAT/GST receivables.

The net value of property, plant and equipment decreased by \$129.0 million to \$279.3 million as at 31 December 2014 (2013: \$408.3 million) mainly due to decreased capital spend, asset impairment charges of \$46.1 million, depreciation expense of \$84.6 million, offset by additions of \$19.7 million and foreign currency exchange of \$13.7 million.

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Goodwill remained relatively unchanged at \$102.5 million as at 31 December 2014 compared to 31 December 2013 (2013: \$104.0 million)

Other intangible assets decreased by \$14.7 million, or 16.0 %, to \$77.3 million as at 31 December 2014 (2013: \$92.0 million) mainly due to amortisation for the year of \$17.8 million and impairments of \$1.7 million, which was partially offset by trademark, patent, software and development asset additions of \$5.4 million and foreign currency exchange.

Tax assets decreased by \$37.8 million, or 27.9%, to \$97.6 million as at 31 December 2014 (2013: \$135.4 million) mainly due to the write down of deferred tax assets that are of uncertain benefit to the Company.

Trade and other payables increased by \$13.8 million, or 9.0% as at 31 December 2014 (2013: \$153.2). The increase is mainly due to accrued costs of \$18.4 million relating to the recapitalisation efforts that were accrued as at 31 December 2014. DSO at 31 December 2014 decreased by 7 days from the prior year comparable period. The average credit period on purchases of certain goods increasing by 2 days to 33 days. Trade payables represent 6.4% of the Company's total liabilities.

Provisions of \$68.9 million as at 31 December 2014 decreased by 2.1%, or \$1.5 million, compared to the prior year (2013: \$70.4 million), and represent 6.4% of total Company liabilities. Employee provisions (annual leave, long service leave and bonus) made up 24% of this balance, with the remainder covering restructuring provisions, onerous leases and warranty obligations.

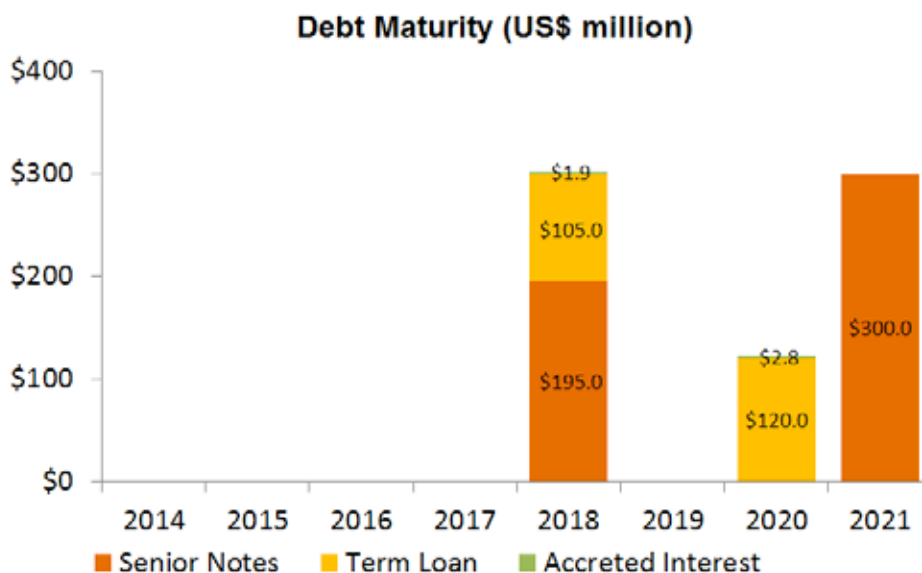
Borrowings of \$716.3 million representing 66.9% of the Company's liabilities increased by \$130.9 million during the year ended 31 December 2014 (2013: \$585.4 million) as a result of the recapitalisation transaction entered into during 2014 which provided additional cash to the Company and increased borrowings. Net debt of the Company's (gross debt less cash and cash equivalents) increased by \$21.3 million to \$547.6 million as at 31 December 2014 (2013: \$526.3 million)

## Liquidity and Debt Facilities

The Company's outstanding debt is comprised of two tranches of Senior Notes, a \$300.0 million senior unsecured note with an interest rate of 7% and a scheduled maturity date of 1 April 2021 and a \$195.0 million senior secured note with a first-priority lien on the issuer's and guarantors' tangible and intangible assets and by a second-priority lien on the issuer's and guarantors' accounts receivable, inventory and cash with an interest rate of 10% and a scheduled maturity date of 1 October 2018.

The Company also has outstanding two tranches of term loans. Structured as Term Loan A and Term Loan B, the loans carry an interest rate of 12% per annum, which may be reduced to 11% per annum if the Company's trailing 12 month adjusted EBITDA is greater than \$200.0 million. Term Loan A is a \$120.0 million secured loan with a first lien on the borrower's and guarantors' accounts receivable, inventory, and cash and a second lien on the borrower's and guarantors' tangible and intangible assets and a scheduled maturity date of 22 October 2020. As at 31 December 2014 the accreted interest on Term Loan A is \$2.8 million. Term Loan B is a \$105.0 million secured loan note that is secured by a first-priority lien on the borrower's and guarantors' tangible and intangible assets and by a second-priority lien on the borrower's and guarantors' accounts receivable, inventory and cash and a scheduled maturity date of 1 October 2018. As at 31 December 2014, the accreted interest on Term Loan B is \$1.9 million.

The following shows the outstanding debt with maturities.



Liquidity appears sufficient for the next twelve months.

Risks to liquidity include potential demand for security to challenge tax assessments and other operating conditions for which we would need to draw on liquidity to fund.

During 2014 net working capital was a key focus area; we continued to reduce accounts receivable and inventory balances, as well as delivering a reduction in trade payables (driven by the lower level of manufacturing activities and continued focus on cost control).

DSO (days sales outstanding) at 31 December 2014 decreased by 7 days from the prior year (down to 53 from 60 in 2013), driven by a global push to deliver improved collections results, combined with a strong focus on prompt customer billing by our Global Drilling Services division.

During the year, the Company has seen its debt rating downgraded by both Standard and Poors Rating Services and Moody's Investor Services. The corporate credit rating with Standard and Poor's Rating Services has been revised from a B rating to a CCC rating. The corporate credit rating with Moody's has been revised from a B2 rating to a Caa1 corporate family rating. Both rating agencies downgrades reflect expectations that the operating conditions for the Company will remain difficult for the next 12 months due to reduced exploration drilling budgets of major mining companies which will lead to further downward pressure on rig utilisations and will likely result in continued pressure on performance.

On 27 January 2015, the Company finalised the rights offering and received proceeds of A\$106.2 million. The Company also completed the acquisition of approximately 7.5 million fully paid ordinary shares at A\$0.165 per share pursuant to the off-market buyback. Those shares were cancelled and, subsequently, 7.5 million new shares were sold to Centerbridge Partners, L.P. for the same price per share. In addition, the Company also completed the equitisation of US\$16 million of its 7.00% Senior Unsecured Notes, held by Centerbridge Partners, L.P., and its affiliates and related funds through the issuance of approximately 102.8 million shares. See note 37 Subsequent Events.

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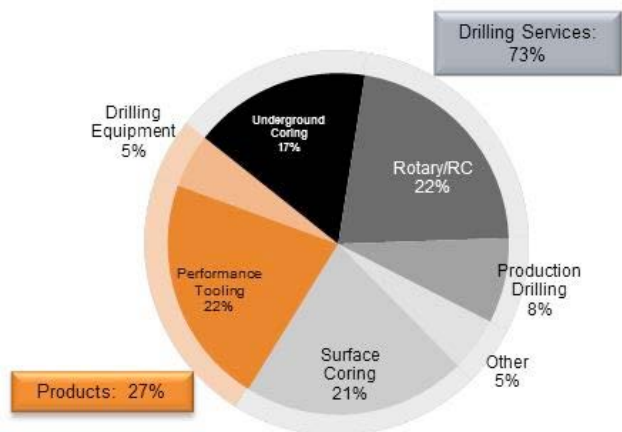
## 6. Review of Segment Operations

The following table shows our third party revenue as well as revenue inclusive of inter-segment sales from our Global Products division to our Global Drilling Services division. Segment profit represents earnings before interest and taxes.

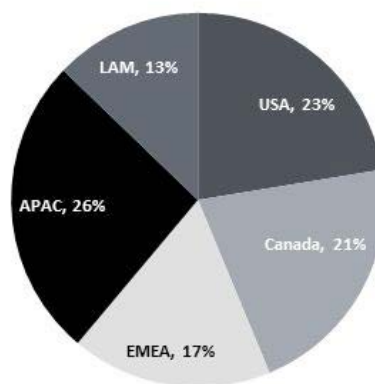
	Segment Revenue		Segment Profit	
	2014 US\$ Millions	2013 US\$ Millions	2014 US\$ Millions	2013 US\$ Millions
Drilling Services	636.1	917.3	(2.9)	40.6
Global Products revenue				
Products third party revenue	230.4	305.5		
Products inter-segment revenue <sup>1</sup>	72.4	56.6		
Total Products	302.8	362.1	4.3	2.1
Less Global Product sales to Global Drilling Services	(72.4)	(56.6)		
Total third party revenue	866.5	1,222.8		
Total segment profit			1.4	42.7

(1) Transactions between segments are carried out at arm's length and are eliminated on consolidation.

### Revenue by Type <sup>1</sup>

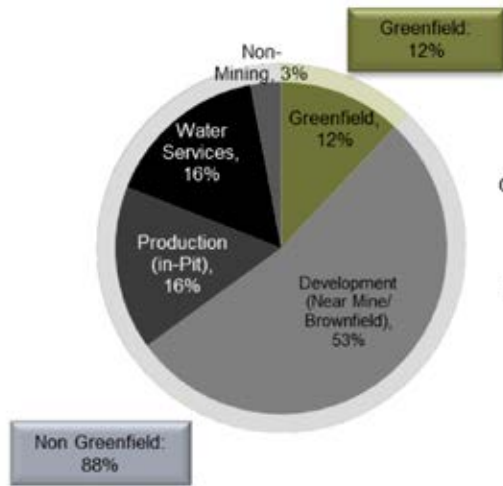


### Revenue by Geography <sup>1</sup>

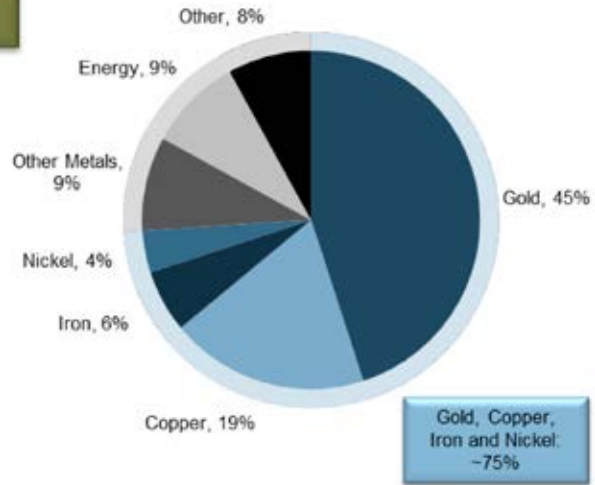


(1) Based on percentages of total Company revenue for the year ended 31 December 2014.

Revenue by Stage <sup>1</sup>



Revenue by Commodity <sup>1</sup>



(1) Based on percentages of total Company revenue for the year ended 31 December 2014.

**Review of Segment Operations - Global Drilling Services**

Safety

The Global Drilling Services division remains focused on safety knowing that safety is more than just an industry requirement, it is our moral obligation. The Global Drilling Services division’s Total Case Incident Rate (TCIR) for 2014 was 1.51 compared to 1.79 for the comparable period in 2013. Its Lost-Time Incident Rate (LTIR) for 2014 was 0.14 compared to 0.21 for the comparable period of 2013. These improvements have been realised through increased focus on actions related to leading safety indicators associated with the drilling process and include actions such as encouraging our employees to report “near miss” incidents; learning from and taking mitigating actions as a result of the root cause analysis of significant injuries and high potential near miss incidents; increasing management’s safety interactions at the drill sites; increasing supervisory competencies through training, increasing drill rig inspection frequency; and creating an environment where employees are empowered to stop work if they detect a hazard and to take other actions to assure their own safety as well as that of their fellow workers.

**Key Safety Metrics** <sup>1</sup>

	<u>2014</u>	<u>2013</u>	<u>2012</u>
TCIR	1.51	1.79	1.66
LTIR	0.14	0.21	0.11

(1) These rates are per 200,000 hours worked.

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## Rig fleet

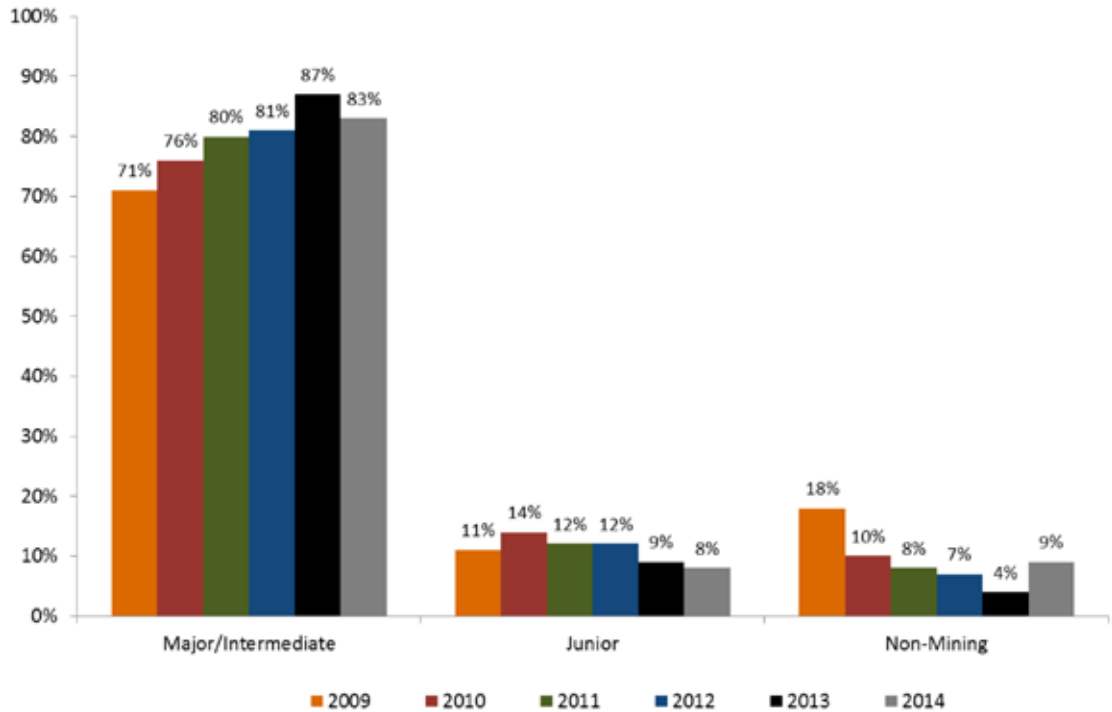
Our drill rig fleet, consisting of 942 rigs as at 31 December 2014, is the largest fleet operated by a mineral drilling services company in the world. Our drill rig packages range from small underground packages costing approximately \$250,000 to large diameter rotary packages that cost in excess of \$4.0 million. The operational life of a drill rig varies greatly. Underground rigs are depreciated over a 5 year period, while surface core rigs are depreciated over 10 years and rotary rigs over 12 years, or their estimated useful life.

## Revenue

As we experienced in the second-half of 2012 and the full year 2013, mining industry spending on exploration and development continued to decline in 2014 and, as a result, our revenue in 2014 was \$636.1 million, down 30.7% from \$917.3 million in 2013. The primary drivers of the revenue decrease were year over year price reductions in the low teens as a percentage of revenue and the changing mix among our various types of drilling services. The 2013 revenue also included \$29.6 million of revenue related to the E&I business that was sold in the second-half of 2013. Revenue for the second half of 2014 was \$327.9 million as compared to \$308.2 million in the first half of 2014, an increase of 6.4%. The half year over half year increase in revenue can be attributed to the seasonal nature of our business along with a slight increase in the number of operating rigs. Operating rig utilisation remained at approximately 40.0% through November 2014 which was more favourable than a typical year. Drilling programs typically begin to wind down at the end of the fourth quarter due to our customers' normal year-end seasonal reductions in exploration and development drilling related activities.

Approximately 83% of Global Drilling Services' revenue for the year ended 31 December 2014 was derived from major mining companies, including Barrick Gold Corporation, BHP Billiton Limited, Freeport-McMoRan Copper & Gold, Inc., GoldCorp, Inc., Newmont Mining Corporation and Rio Tinto Ltd. Our top 10 Global Drilling Services customers represented approximately 57% of Global Drilling Services' revenue for the year ended 31 December 2014, with no customer contributing more than 12% of our consolidated revenue and no contract contributing more than 5% of our consolidated revenue. We believe this diversified revenue base provides greater revenue stability.

**Revenue by Customer Type**



Revenue by Drill Type

Although each drilling type has experienced revenue declines in the past years, much of the Global Drilling Services' revenue reduction can be attributed to reduced levels of surface coring activity. Surface coring revenues for 2014 were \$202.4 million as compared to 2013 revenues of \$341.5 million, a decrease of 40.7%. For the same period rotary drilling experienced a drop in revenues of 15.3% and underground coring experienced a drop in revenues of 17.7%.

Revenue by Drill Type<sup>1</sup>

	2014		2013		2012	
	US\$	% of	US\$	% of	US\$	% of
	Millions	Total	Millions	Total	Millions	Total
Surface Coring	202.4	31.8%	341.5	37.2%	767.1	50.6%
UG Coring	154.8	24.3%	188.0	20.5%	204.6	13.5%
Rotary	109.4	17.2%	129.2	14.1%	224.8	14.8%
Water Well	98.5	15.5%	133.2	14.5%	162.5	10.7%
Percussive	45.4	7.1%	63.5	6.9%	64.9	4.3%
Sonic	25.6	4.1%	61.9	6.8%	92.3	6.1%
<b>Grand Total</b>	<b>636.1</b>		<b>917.3</b>		<b>1,516.2</b>	

- (1) Total Global Drilling Services revenue as reported in 2013 and 2012, includes revenues from the E&I environmental business of \$29.6 and \$124.3, respectively. The E&I business was sold in 2013.

Revenue by commodity

Much of the reduction in our revenue can be attributed to reduction in commodity demand and pricing and the related reduction in exploration spending and drilling activities. In particular, Global Drilling Services revenue associated with gold has decreased to \$285.7 million for 2014 as compared to \$354.9 million for the year ended 2013, a decrease of 19.5%. For the same time periods, revenue associated with copper has decreased by 38.9% and revenue associated with iron has decreased by 62.3%.

Revenue by Commodity<sup>1</sup>

	2014		2013		2012	
	US\$	% of	US\$	% of	US\$	% of
	Millions	Total	Millions	Total	Millions	Total
Gold	285.7	44.9%	354.9	38.7%	663.7	43.8%
Copper	120.8	19.0%	197.6	21.5%	351.8	23.2%
Energy	56.3	8.9%	60.5	6.6%	74.8	4.9%
Iron	39.9	6.3%	105.9	11.5%	142.0	9.4%
Water Services	42.9	6.7%	42.2	4.6%	64.5	4.3%
Nickel	26.8	4.2%	60.1	6.6%	71.9	4.7%
Environmental	8.3	1.3%	26.9	2.9%	77.2	5.1%
Other Metals	55.4	8.7%	69.2	7.6%	70.3	4.6%
<b>Grand Total</b>	<b>636.1</b>		<b>917.3</b>		<b>1516.2</b>	

- (1) Total Global Drilling Services revenue as reported in 2013 and 2012, includes revenues from the E&I environmental business of \$29.6 and \$124.3, respectively. The E&I business was sold in 2013.

Margins

Global Drilling Services continues to experience margin degradation with 2014 revenue 30.7%, or \$281.2 million, lower than the comparable period in 2013, as a result of lower utilisation rates and a negative overall pricing impact in the low-to-mid teens, both of which were partially offset by improvements in productivity. While revenues in the business were down 30.7% from 2013, COGS was down only 25.8%, as a result of the negative flow through of price reductions against the cost base required to achieve contracted drilling volumes. The 2014 margins were also negatively affected by higher depreciation as a percent of revenue. Depreciation for 2014 equated to \$69.9 million or 11.0% of revenue compared to \$94.6 million or 10.3% in 2013. Contribution margin for 2014 was \$25.5 million, down 71.4% from \$89.3 million in 2013 despite a 34.8%, or \$15.6 million, reduction in business SG&A.



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EBITDA in 2014 was \$68.8 million, down 51.7% from \$141.9 million in 2013, despite improvements in both allocated SG&A of \$11.7 million and in direct business SG&A of \$15.6 million. The primary drivers for the decrease in EBITDA were the decrease in sales volume and pricing reductions. EBITDA in the second half of 2014 was \$32.2 million compared to \$36.6 million in the first half of 2014, a decrease of 2.0%.

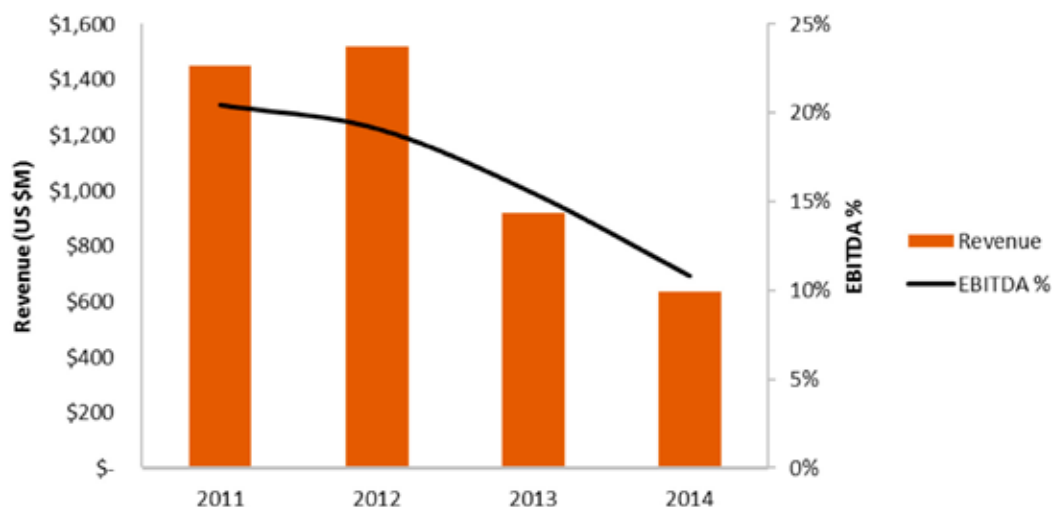
## Global Drilling Services

	For the year ended 31 December			
	2014	2013 <sup>1</sup>		
	US\$ Millions	US\$ Millions	\$ Change	% Change
<b>Financial Information</b>				
Third party revenue	636.1	917.3	(281.2)	-30.7%
COGS				
Materials/labor/overhead/other	511.6	688.7	(177.1)	-25.7%
Depreciation and amortisation	69.9	94.6	(24.7)	-26.1%
Total COGS	581.5	783.3	(201.8)	-25.8%
<i>COGS as a % of Revenue</i>	<i>91.4%</i>	<i>85.4%</i>	<i>6.0%</i>	<i>7.0%</i>
Contribution margin \$	25.5	89.3	(63.8)	-71.4%
Contribution margin %	4.0%	9.7%	-5.7%	-58.8%
Business unit SG&A	29.2	44.8	(15.6)	-34.8%
Allocated SG&A	28.3	40.1	(11.8)	-29.4%
EBITDA	68.6	141.9	(73.3)	-51.7%
Capital spend (accrual)	16.3	37.6	(21.3)	-56.6%
<b>Other Metrics</b>				
Average # of Operating Drill Rigs	354	396	(42)	-10.6%
Average # of Drill rigs	948	1,037	(89)	-8.6%
# of Employees at year-end	4,172	4,338	(166)	-3.8%

(1) Includes the operations of the US-based environmental and infrastructure drilling services business (E&I) that was sold on 15 July 2013.

Total Drilling Services<sup>1</sup>

Year ended 31 December



(1) Includes the operations of the US-based environmental and infrastructure drilling services business (E&I) that was sold on 15 July 2013.

The table below shows the pro-forma results for the Global Drilling Services business taking out results of the E&I business in 2013.

## Global Drilling Services (Excluding E&amp;I business)

	For the year ended 31 December			
	2014	2013	\$ Change	% Change
	Pro Forma US\$ Millions	Pro Forma US\$ Millions		
<b>Pro Forma Financial Information</b>				
Third party revenue	636.1	887.7	(251.6)	-28.3%
COGS				
Materials/labor/overhead/other	511.6	676.4	(164.8)	-24.4%
Depreciation and amortisation	69.9	89.2	(19.3)	-21.6%
Total COGS	581.5	765.6	(184.1)	-24.0%
<i>COGS as a % of Revenue</i>	<i>91.4%</i>	<i>86.2%</i>	<i>5.2%</i>	<i>6.0%</i>
Contribution margin \$	25.5	79.9	(54.4)	-68.1%
Contribution margin %	4.0%	9.0%	-5.0%	-55.6%
EBITDA	68.6	129.3	(60.7)	-46.9%

## Review of Segment Operations - Global Products

### Safety

Safety is fundamental to the success of our Global Products business. The Company is committed to providing our employees with a safe workplace, and our employees are committed to operating safely wherever they are located. In 2014, the Total Case Incident Rate (TCIR) was 0.75 recordable incidents per 200,000 hours worked and the Lost-Time Incident Rate (LTIR) was 0.0 lost-time injuries per 200,000 hours worked.

### Revenue

The market for the Global Products business remains soft relative to 2013. Revenue during 2014 came in at \$230.4 million, down 24.6% from \$305.5 million in 2013. The primary driver of the decrease was lower volume due to the overall slowdown in the mineral exploration market. Although revenue was down on a year-over-year basis, we saw a slight improvement in demand during the second half of the year. This is apparent when comparing second-half 2014 results to first-half 2014. Revenue in second-half 2014 came in at \$117.2 million compared to \$113.2 million in first-half 2014. We expect to see a relatively flat environment in the near-term.

Of Global Products' revenue for 2014, approximately 80% was comprised of performance tooling components. Through a worldwide network of 140 sales and customer service representatives, we primarily sell our products to drilling services contractors. No external Global Products customer represented more than 2% of our consolidated revenue for the full-year period 2014. Global Products also provides many of the products necessary for our Global Drilling Services division.

### Margins

We continue to experience margin pressure due primarily to the decrease in volume. Contribution margin in 2014 came in at \$34.4 million, down 11.8% from \$39.0 million in 2013, despite a \$3.6 million reduction in business SG&A. When comparing second-half 2014 to first-half 2014, however, we are starting to see margin improvement. Contribution margin in second-half 2014 came in at \$18.7 million compared to \$15.7 million in first-half 2014. This margin improvement is due to the flow-through of additional volume in the second half as well as greater fixed cost leverage due to production levels at the plants increasing marginally. As a result of the large reduction in inventories over the past two years, we have started producing key SKUs and this is benefitting Products' margins as manufacturing recoveries improve.

EBITDA in 2014 came in at \$14.0 million, down 13.0% from \$16.1 million in 2013, despite a \$4.4 million reduction in allocated SG&A (along with the \$3.6 million reduction in business SG&A mentioned above). The primary driver of the decrease in EBITDA was the flow through from lower volumes. When comparing second-half 2014 to first-half 2014, however, we are seeing improvement. This is due to the flow-through of additional volume in the second half along with improved manufacturing recoveries referred to above. EBITDA in the second-half 2014 came in at \$8.2 million compared to \$5.8M in the first-half 2014.

### Backlog

At 31 December 2014, we had a backlog of product orders valued at \$19.5 million. This compares to \$19.1 million at 30 June 2014 and \$16.2 million at 31 December 2013. Average backlog during second-half 2014 was \$19.8 million compared to \$16.1 million during first-half 2014. The steadiness in backlog supports the relatively flat trend we are seeing in our revenue profile. Backlog represents orders for products that we believe to be firm. However, it should be noted that there is no certainty that the backlog orders will in fact result in actual sales at the times or in the amounts ordered because our customers can cancel their orders without penalty (with some exceptions on capital equipment orders).

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## Intellectual Property

We rely on a combination of patents, trademarks, trade secrets and similar intellectual property rights to protect the proprietary technology and other intellectual property that are instrumental to our Global Products business. As at 31 December 2014, we had approximately 370 issued patents, 644 registered trademarks, 290 pending patent applications and 59 pending trademark applications. One of the most significant patents is our RQ™ coring rod. The RQ™ patented thread design withstands greater stress than all previously available coring rod designs, enabling drilling of substantially deeper holes. We do not consider our Global Products business, or our business as a whole, to be materially dependent upon any particular patent, trademark, trade secret or other intellectual property.

## Research and Development

We employ engineers and technicians to develop, design and test new and improved products. We work closely with our customers, as well as our Global Drilling Services division, to identify issues and develop technical solutions. We believe that this sharing of field data, challenges, safety requirements and best practices, accelerates innovation that also increases safety and productivity in the field. This integrated business model provides us with an advantage in product development, and we believe it enables us to bring new technology to the market with speed and quality. Prior to introduction, new products are subject to extensive testing in various environments, again with assistance from our Global Drilling Services network around the world. In the full-year period 2014, we launched 4 new products and we continue to invest in our new product pipeline. New product development efforts remain focused on incremental product changes that customers will pay for regardless of the business environment. We continue to make progress in the development of our strategic initiative in the area of instrumentation services.

## Inventory

Inventory levels continue to be reduced due to the low demand signal on our suppliers and manufacturing facilities. We reduced inventory by \$57.6 million during 2014. Of this decrease, \$40.7 million is related to third party sales and Global Drilling Services consumption. In addition, this decrease includes \$16.9 million of foreign currency and other non-cash changes. The integration of the Global Products and Global Drilling Services supply chain groups is complete and inventory is now managed by a single supply chain team. Global Drilling Services continues to consume their products at a slow pace due to low rig utilisations in their fleet and we may incur future costs related to moving inventory from certain underperforming projects or territories to other drilling services' territories to speed consumption and delay manufacturing related cost.

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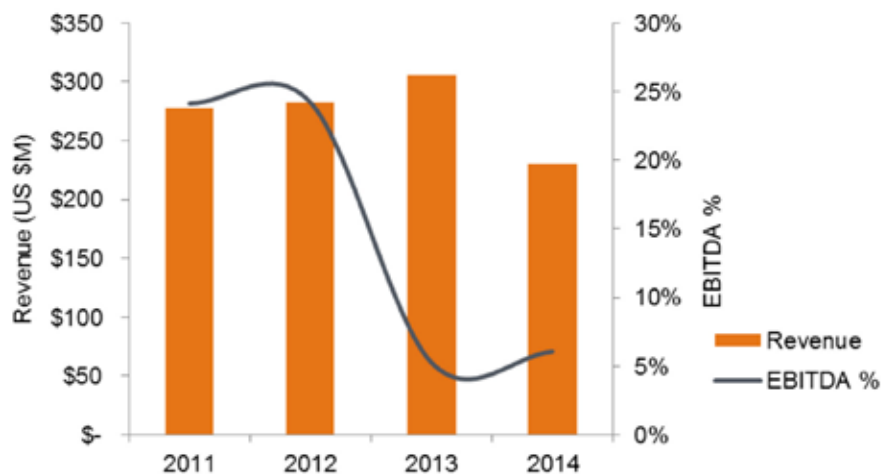
## Global Products

	For the year ended 31 December			
	2014 US\$ Millions	2013 US\$ Millions	\$ Change	% Change
<b>Financial Information</b>				
Third party revenue	230.4	305.5	(75.1)	-24.6%
COGS				
Materials/labor/overhead/other	158.3	203.3	(45.0)	-22.1%
Inventory obsolescence	0.3	22.7	(22.4)	-98.7%
Depreciation and amortisation	10.0	11.4	(1.4)	-12.3%
Total COGS	168.6	237.4	(68.8)	-29.0%
COGS as a % of Revenue	73.2%	77.7%	-4.5%	-5.8%
Contribution margin \$	34.4	39.0	(4.6)	-11.8%
Contribution margin %	14.9%	12.8%	2.1%	16.4%
Business unit SG&A	25.5	29.1	(3.6)	-12.4%
Allocated SG&A	32.0	36.4	(4.4)	-12.1%
EBITDA	14.0	16.1	(2.1)	-13.0%
Capital Spend (accrual)	3.0	6.8	(3.8)	-55.3%
<b>Other Metrics</b>				
Manufacturing plants	6	6	-	0.0%
Average backlog	17.9	28.5	(10.6)	-37.2%
Inventory <sup>2</sup>	241.3	298.9	(57.6)	-19.3%
# of Employees	1,393	910	483 <sup>(1)</sup>	53.1%

(1) Increase in Global Products employees is due to the consolidation of maintenance and supply chain operations into the Global Products division at the end of 2013.

(2) Inventory values represent total Company inventory including Global Products and Global Services.

## Total Global Products



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## 7. Non-IFRS Financial Information

US\$ Millions	For the year ended 31 December			
	2014 US\$ Millions	2014 US\$ Millions	2013 US\$ Millions	2013 US\$ Millions
<b>EBITDA<sup>(1)</sup></b>	<b>(82.6)</b>		<b>(337.1)</b>	
<b>NPAT<sup>(2)</sup></b>		<b>(332.7)</b>		<b>(619.9)</b>
Recapitalisation costs	45.5	45.5	-	-
<b>Impairments</b>				
Property, plant and equipment	46.1	46.1	109.9	109.9
Intangible assets	1.6	1.6	9.1	9.1
Inventory	0.7	0.7	101.9	101.9
Goodwill	-	-	166.3	166.3
Development asset	-	-	14.6	14.6
Employee and related costs	12.5	12.5	44.8	44.8
Other restructuring expenses	7.6	7.6	14.6	14.6
Gain on termination of post-retirement medical plan	-	-	(16.9)	(16.9)
Tax effect of significant items and other tax write offs <sup>(3)</sup>		76.9		81.3
<b>Total of significant items</b>	<b>114.0</b>	<b>190.9</b>	<b>444.3</b>	<b>525.6</b>
<b>Adjusted EBITDA<sup>(1)</sup></b>	<b>31.4</b>		<b>107.2</b>	
<b>Adjusted NPAT<sup>(2)</sup></b>		<b>(141.8)</b>		<b>(94.3)</b>

(1) EBITDA is 'Earnings before interest, tax, depreciation and amortisation'. Adjusted EBITDA is 'Earnings before interest, tax, depreciation and amortisation and significant items'.

(2) NPAT is 'Net profit after tax'. Adjusted NPAT is 'Net profit after tax and before significant items'.

(3) Includes tax expense on derecognition of deferred tax assets and unrecognised tax losses of \$110.6 million.

## 8. Outlook

### 8.1 Our 2015 Priorities

Our key priorities for 2015 are to:

- continue to eliminate job related injuries by maintaining and enhancing our culture around safety and compliance;
- expand our mining and minerals drilling customer base by focusing on efficiency and productivity;
- effectively manage pricing and contract terms;
- create new products and respond to new Global Drilling Service's customers within a constrained capital budget;
- efficiently manage costs, including capital; and
- strengthen our financial position by reducing net debt over time

#### **Continue to eliminate job related injuries by maintaining and enhancing our strong safety and compliance record.**

Safety is of critical importance to the Company, our employees, and our customers, both in determining the success of our business and in ensuring the ongoing safety of our employees and others with whom we come into contact. We are dedicated to eliminating job related injuries by providing a safe work environment for each one of our employees by implementing and adhering to high safety standards, continually seeking ways to maintain and enhance the safety of our Global Drilling Services and Products businesses and ensuring that when injuries occur we investigate those injuries and determine.

**Expand our mining and minerals drilling customer base.** The Company remains focused on providing our customers with a full range of drilling services offerings backed by 125 years of experience and innovation, improving the efficiency and productivity with which we deliver information to our customers, and operating under clear contract and pricing terms. In particular, we seek to be the driller of choice at our clients' 'flagship' projects—typically among the highest producing, lowest cost projects in their portfolios. Drilling activity at these sites tends to be less volatile, higher volume, and involve longer-term contracts, allowing Boart Longyear the opportunity to leverage its costs and to develop site-specific expertise that brings value both to the customer and to Boart Longyear.

**Effectively manage pricing and contract terms.** The Company continues to follow a rigorous internal process of evaluating potential bid opportunities, ensuring that pricing and eventual contract terms provide for safe, profitable and successful projects. As each project must succeed on its own merits, we consider the active management of pricing and contract terms to be key tools in achieving this objective. Pricing is designed to reflect the full value delivered by Global Drilling Services, within the context of the unique competitive environment for each project. Similarly, contract terms are designed to allow the Company to safely and profitably deliver value to the customer and to create lasting customer relationships.

#### **Create new products and respond to new Global Drilling Service's customers within a constrained capital budget.**

We will continue to pursue disciplined investments in our business to drive returns and to actively manage our rig fleet and capitalise on investments made in all areas of the business during the past few years. Because we have spent in excess of \$600 million in capital expenditures from 2010 through 2012 (including approximately \$430 million for drilling rigs and support equipment), we believe future capital expenditures are likely to be more moderate at an expected \$25 - \$50 million per year over the next several years, unless rig utilisation rates increase significantly. This level of capital expenditure will allow us to focus on high-value opportunities in which we can leverage distinctive competencies, such as for mine water services, or on market segments that are more resilient in industry contractions, such as underground drilling services and products. We also will continue to explore entry into geographies with favorable risk/return metrics and on technologies and high value added and more profitable activities.

**Efficiently manage our variable and fixed costs, including capital.** We believe that our variable cost structure is a key advantage that allows us to operate our business with significant flexibility in response to the market environment. We are committed to continuously reviewing our cost structure in order to maintain a relatively high percentage of our costs that are variable. We will continue to pursue manufacturing and administrative optimisation programs in order to improve our operating efficiency beyond those initiatives that we have already completed. We continue to focus on process improvements and structural changes to improve customer support and responsiveness and drive long-term efficiencies. For example, we are improving working capital management and product delivery through the consolidation of the supply chain organisations in our Global Products and Global Drilling Services divisions. Similarly, we are leveraging the extensive global maintenance organisation in our Global Drilling Services division to expand the reach, capabilities and offerings of the aftermarket services business of our Global Products division. Our objective is to continue to seek growth opportunities in our core markets while positioning our business at the top end of our peer group for profitability and cash generation. And, further, we are moving towards shared-service organisations to increase process efficiencies and to leverage our knowledge base across the global financial organisation. The Company will further examine our total cost structure and global footprint, in particular as it relates to loss making projects and or territories with our Global Drilling Services Division. The examination will include a full review of each layer of costs – beginning at the drill string through the territory and region and all the way to corporate support and

overhead costs. The Company initiated this project in February 2015, however, the analysis is still in a premature status and the extent of the associated structural changes to the organisation and the ranges of potential cost savings are unknown and will be identified as the project progresses.

**Strengthen our financial position by reducing net debt over time** – as a result of our announced recapitalisation with Centerbridge Partners, L.P., the Company has adequate liquidity to support the business’s near-term needs. Nonetheless, the Company entered the most recent cyclical downturn with too much debt and, as our revenue and EBITDA profiles have decreased over the last two and a half years, the Company’s overall net debt position remains too high. Over the next few years, we expect to focus on cash to reduce net debt as much as possible.

## 8.2 Our 2015 Outlook

While we have seen some signs of a levelling in industry demand in the second half of 2014, the Company’s financial results, especially margins, will continue to be challenged by extremely competitive industry pricing for drilling services and by other factors, such as the strengthening of the US dollar relative to many of the currencies in which we transact. We expect, however, that the primary factors driving revenue, such as rig utilisation rates and product sales volumes, will remain broadly consistent with levels experienced in 2014 and, in particular, the second half of 2014. We also expect that revenue and EBITDA will be negatively impacted by the read-through of price reductions incurred in 2014, especially in its Drilling Services division, and weakening currencies against the US dollar, the Company’s reporting currency. Profitability will also be influenced positively by other factors, such as productivity and management’s ability to further control costs.

We expect that the primary factors driving our revenue, such as rig utilisation rates and product sales volumes, will remain broadly consistent with levels experienced in the second half of 2014. Profitability will be influenced by those and other factors, such as price, productivity, our ability to further control costs, potentially lower levels of exploration and development spending by mining companies and the fact that contracts for our drilling services and products can be cancelled by our customers with little notice.

Our full-year 2015 outlook for several key business metrics is set forth below:

2015 Outlook - US\$ Millions	
<b>Revenue</b>	Volumes consistent with second-half 2014 levels, but adjusting for: > Read-through of price reductions in the low-to-mid teens realised throughout 2014 > Currency movements
<b>SG&amp;A</b>	Similar to 2014, with expectation between US\$165 million to US\$175 million
<b>Capex</b>	Similar to 2014 target of US\$25 million, but subject to changing market conditions
<b>Working Capital</b>	Further release estimated at US\$25 million to US\$50 million, primarily as a result of inventory reductions

## 8.3 Future Developments

We believe that we are well-positioned to take advantage of positive long-term mining industry fundamentals, as described further in Section 9. The mining industry is cyclical. Notwithstanding current sector challenges, the longer-term outlook for the mining industry is expected to remain attractive and to be underpinned by:

- continued industrialisation and urbanisation of developing economies, which are expected to support structural increases in demand for minerals and metals; and
- although volatile, continued high commodity prices relative to price levels over the past decade.

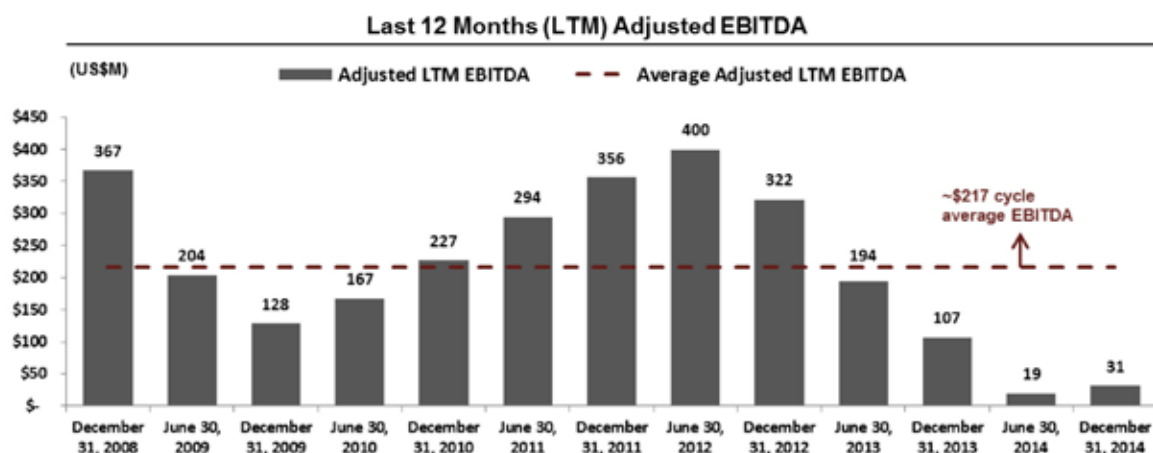
As a result, we believe natural resources companies will be compelled to produce throughout the cycle and supplement and replace their reserves over time, driving exploration, development and capital spending. As the leading drilling services provider globally with the world’s largest drilling fleet, we believe Boart Longyear is well positioned to capture expansionary opportunities in Global Drilling Services as well as increasing demand from our Global Products customers. And, as we continue to drive technological innovation and engineering excellence in both Global Drilling Services and Global Products business, we should see increased opportunities resulting from enhanced services and products offerings to our customers. For 125 years, we have pioneered and developed many of the mineral drilling techniques and products that have represented



the cutting edge of the drilling industry. Going forward, we are committed to continuing as a leader in the drilling industry in the areas of technological innovation and engineering excellence to improve productivity, efficiency, accuracy, reliability and safety. Our integrated business model uniquely positions us to do so. We aim to be the “One Source” for drilling services, drilling equipment and performance tooling for mining and drilling companies globally by offering our customers a comprehensive portfolio of technologically advanced and innovative drilling services and products.

The Company remains focused on its core mining markets and intends to continue to invest in high-potential organic growth opportunities in those markets in a selective and disciplined manner. Examples of such opportunities include ongoing expansion of the Company’s mine water drilling services activities, as well as developing the next generation of consumable products, rod-handling solutions for the entire range of drilling rigs the Company offers and other products that enhance safety and productivity. In addition, the Company continues to evaluate operational enhancements to improve operating margins, cash generation and debt reduction, such as an ongoing evaluation of its overhead cost structure and initiatives to reduce inventory and overall working capital. The Company may also elect to expand through strategic acquisitions.

As our markets improve, we expect, over time, that the Company’s EBITDA generation could return to the historical levels of “mid-cycle” EBITDA as depicted below.



As our markets improve, we also believe we can earn better margins than the Company has realised historically as a result of the significant reductions in SG&A and overhead costs realised in 2013 and 2014, most of which will not need to be replaced. In addition, the efficiencies we are generating through the consolidation of the Global Products division’s aftermarket services group with the Global Drilling Services division’s maintenance group and the supply chain groups for both divisions are significant. We also expect that as our EBITDA generation improves, along with improved management of inventory levels and overall working capital and reduced capital spending, we will be able to pay down debt.

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 have been omitted from this report because disclosure of the information would be speculative or could be prejudicial to the Company.

## 8.4 Forward Looking Statements

This report contains forward looking statements, including statements of current intention, opinion and expectation regarding the Company’s present and future operations, possible future events and future financial prospects. While these statements reflect expectations at the date of this report, they are, by their nature, not certain and are susceptible to change. The Company makes no representation, assurance or guarantee as to the accuracy of or likelihood of fulfilling any such forward looking statements (whether express or implied), and, except as required by applicable law or the Australian Securities Exchange Listing Rules, disclaims any obligation or undertaking to publicly update such forward looking statements.

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## 9 Quarterly Income Statement and Related Information

	Quarters ended 2014				Quarters ended 2013				Quarters ended 2012			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
<b>Total Company</b>												
Revenue (US\$ millions)	205.8	239.3	224.1	197.4	224.5	279.5	348.7	370.2	399.1	513.6	578.3	520.5
EBITDA (US\$ millions)	(61.9)	12.3	(31.1)	(1.9)	(100.8)	(1.2)	(269.7)	34.6	(42.2)	88.8	121.9	85.8
Adjusted EBITDA (US\$ millions)	(3.2)	15.9	14.9	3.8	8.0	18.8	40.1	40.3	24.0	89.2	122.9	85.8
Net cash flows (used by) provided by operating activities	(6.8)	10.1	(8.3)	(6.3)	4.1	36.1	17.8	(46.5)	60.3	(20.0)	65.7	(41.8)
Net Debt (US\$ millions)	547.6	550.9	555.8	544.4	526.4	523.0	563.8	571.3	512.3	469.4	373.2	328.1
SG&A (US\$ millions)	40.7	40.4	42.1	41.2	43.6	48.4	51.1	59.0	66.9	76.1	77.6	77.1
# of employees	5,933	5,972	5,871	5,593	5,681	6,020	7,270	8,283	9,162	10,970	11,426	11,087
<b>Global Drilling Services</b>												
Revenue (US\$ millions)	151.8	176.0	168.7	139.6	163.4	216.3	265.3	272.3	296.4	403.1	425.0	391.7
EBITDA (US\$ millions)	9.1	22.9	25.4	11.2	15.5	42.7	42.6	41.1	31.9	80.9	100.1	76.7
Average rig utilisation	38%	40%	39%	32%	31%	37%	43%	39%	44%	57%	61%	61%
Average # of drill rigs (with E&I)	944	953	945	950	1,031	1,037	1,139	1,146	1,182	1,176	1,180	1,175
Average # of drill rigs (without E&I)	944	953	945	950	1,031	1,037	1,037	1,044	1,011	996	990	981
# of employees	4,172	4,208	4,130	3,874	4,338	4,737	5,859	6,749	7,338	8,841	9,193	8,909
<b>Global Products</b>												
Revenue (US\$ millions)	53.9	63.3	55.4	57.8	61.1	63.2	83.3	97.9	102.7	110.5	153.4	128.7
EBITDA (US\$ millions)	1.2	7.0	5.0	0.8	2.6	(8.2)	8.7	13.0	12.0	27.0	41.7	26.5
Average backlog (US\$ millions)	19.3	20.3	16.9	15.2	19.4	19.8	31.5	43.3	41.2	48.5	71.8	82.4
# of employees <sup>1</sup>	1,393	1,407	1,382	1,363	910	899	990	1,103	1,173	1,467	1,559	1,541

(1) Increase in Global Products employees is due to the consolidation of maintenance and supply chain operations into the Global Products division at the end of 2013.

## INTRODUCTION TO REMUNERATION REPORT

It is our pleasure to introduce Boart Longyear's 2014 Remuneration Report. As was predicted, 2014 was a continuation of the very difficult conditions that have been ongoing for the mining services sector generally since the second half of 2012. In response, and as communicated to shareholders by Richard O'Brien, President and CEO, the Company's primary focus, in addition to supporting our current customers, has been to address these depressed economic conditions across the markets in which Boart Longyear operates. The primary aim of these objectives has been to improve the balance sheet by:

- reducing the Company's risk profile by improving cash flows and reducing debt;
- increasing operational and functional efficiencies and reducing costs;
- heightening the focus on margin improvement and returns; and
- conducting a strategic review of options to deliver a comprehensive recapitalisation solution that benefited shareholders and other stakeholders.

In light of the importance of these goals, the changing market conditions and heightened focus on cash generation and debt reduction, the Board determined to make changes to the Company's remuneration structure in 2014 to strengthen the alignment of the incentive structure with the Company's goals. Accordingly, the Remuneration Committee engaged its independent remuneration consultants, Frederic W. Cook & Co., Inc. to assist the Committee with its review and analysis of executive remuneration, including the design of incentive plans. Egan Associates was also retained to provide remuneration and governance advice to ensure Australian expectations and governance standards were adequately considered. The primary objective of the review was to ensure that the Company's plans addressed certain key financial, strategic and human resources objectives, including; tying total compensation to the achievement of the Company's short- and long-term financial and strategic goals; enhancing the commonality of interests between management and shareholders by encouraging executives to think and behave like owners; maximising the financial efficiency of the program; and attracting and retaining highly skilled executives. In addition, the Committee sought advice on addressing the concern for key employee retention given the high level of uncertainty involved with both the continued decline of the market and strategic review process.

The primary changes introduced by the Board following this review are as follows:

- 1) Short-term Incentive Plan
  - a. Changing the Company financial objective from operating margin to free cash flow with a payout target and range tied to the annual operating plan;
  - b. Paying the strategic objective component only after achieving a gateway threshold of overall Company financial performance;
  - c. Eliminating the revenue growth multiplier;
  - d. Adding a special provision for 2014 that, if necessary, would have allowed the Company to withhold payment of any bonus earned during the plan year unless and until the payment of bonuses would not have caused the Company to breach a covenant or other term of its former bank debt facilities.
- 2) Long-term Incentive Plan
  - a. Changing the performance metric, for performance rights granted, from return on equity to net debt targets over a three-year performance period.
  - b. Adding an additional modifier of +/- 10% to any earned performance rights based on total shareholder return performance against an appropriate comparator group.
  - c. Granting options in addition to performance and retention rights for long-term incentives to senior executive participants.

The Board believes these tailored changes are necessary and fit for purpose for the current environment, but it will continue to assess and refine the incentive plans to ensure the program design appropriately supports the Company's business objectives over time, with the goal of returning to a more standardised remuneration structure when appropriate. In particular, given the inherent volatility associated with the markets in which the Company operates, the Board considers it appropriate to maintain a portion of retention rights to keep talented executives motivated and retain their services through current and expected market turbulence. Further, the Board believes that an overweighting to performance rights actually achieves little retention value to participants because experience demonstrates that a single down-market year (as experienced in 2013) can eliminate all outstanding performance rights and create a disincentive and distraction for participants. The Board firmly believes that remuneration in the form of equity retention rights, performance rights and options provides appropriate alignment with, and incentive to increase, shareholder value over the long term and is well aligned with market practice in regions where the key executives are employed. The Remuneration Committee Chairman met with proxy advisors and Australian governance

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advisors to discuss the philosophy and intent of these changes and have incorporated their feedback for transparent disclosure to shareholders within this Report.

The Company announced in February that it had commenced a strategic review of its capital structure, as the Board and the leadership team believed the status quo was unsustainable and the Company required greater liquidity and financial flexibility to protect shareholder value until market conditions improved. This process involved significant time and commitment from the management team and the Board of Directors to explore an extensive range of recapitalisation structures and options, negotiate with potential investors, support several rigorous due diligence investigations and deliberate options in numerous board meetings. These requirements were on top of the heightened demands of continuing to operate the business in very difficult circumstances.

On 23 October 2014, Boart Longyear announced to the ASX that its largest shareholder, Centerbridge Partners, L.P., had agreed to increase its investment in the Company through a comprehensive recapitalisation plan. The recapitalisation, which was overwhelmingly supported by Boart Longyear's shareholders at the Company's Extraordinary General Meeting on 17 December 2014, is designed to improve the Company's debt structure and liquidity. The agreement with Centerbridge Partners, L.P. marks the successful completion of the strategic review process and will give Boart Longyear the liquidity to weather the challenges of the current depressed markets for our drilling services and products and the financial strength to allow more time for those markets to recover. The recapitalisation plan has now been successfully completed.

As you will see in this report, base salaries for all senior executives were frozen for 2014. In addition, the Board elected to temporarily reduce its fees in recognition of the difficulties facing the Company, notwithstanding the significant time associated with the strategic review and recapitalisation process. Incentive compensation results for the year are mixed with short-term incentive outcomes higher than last year's due primarily to critical year-over-year performance improvement on cash flow generation and safety metrics. In addition, the Board exercised its discretion to award certain executives a higher portion of their individual strategic component under the Short Term Incentive Plan due to their significant contributions to the success of the strategic review and recapitalisation process. On the other hand, there will be no vesting of performance tested long-term incentive awards that were based on return on equity metrics. The Board also exercised its discretion to prohibit any accelerated vesting of long term incentive awards, including stock options, as a result of the recapitalisation process. We believe that these outcomes are appropriate given the critical need during the year to generate cash and successfully execute the strategic review process. The Board rigorously scrutinises the performance achieved under the incentive plans and calculations are reviewed by the Company's independent auditors. We are confident that our remuneration programs are appropriately linked to financial metrics critical to the Company's objectives and consistent with shareholder's long-term interests, recognising the highly cyclical nature of the markets in which the Company operates.

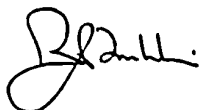
However, the Board is acutely aware of the need to ensure that the executive team remains focused and incentivised in this environment. There are some critical challenges confronting us. The depth of the downturn in the sector has exceeded all expectations and the ramifications we are confronted with are largely beyond the control of our executive team. Fortunately, we are confident that we have the right team to navigate this difficult period. Retention of the team, including of course our CEO, is a key near-term remuneration strategy imperative given our current circumstances. This challenge comes at a time when the U.S. market for executives, which is where the Company is based and where we compete for executive talent, is becoming more competitive and yet there is no near term recovery in sight for the mining services sector. We are pleased to report that although we have experienced some turnover in key positions throughout the Company as we continue to adapt our business model to our market's challenges, we have retained all of our senior executives while also successfully completing the recruitment of our new Chief Financial Officer, Mr Jeffrey Olsen.

The Board will keep the remuneration structure under review and will remain attentive to ensure the strategy and structure of remuneration at Boart Longyear continues to support near and long term business outcomes as well as shareholder and investment community expectations.

On behalf of the Board of Directors of Boart Longyear,



Barbara Jeremiah  
Board Chair



Roy Franklin  
Remuneration Committee Chair

## REMUNERATION REPORT

This remuneration report sets out Boart Longyear's remuneration policies and practices, the rationale underlying them and their outcomes for the year ended 31 December 2014 in accordance with the requirements of the Corporations Act 2001 (Commonwealth)(the Act) and its regulations. This information has been audited as required by Section 308(3C) of the Act.

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

- the overall objective of attracting, retaining, aligning 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; and
- the particular business environment in which Boart Longyear operates, recognising that:
  - o the Company's business is global and 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, that 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 complies with local corporate regulatory requirements and practices.

### Changes in 2014

Each of the changes outlined below, which were foreshadowed in last year's Remuneration Report and implemented in 2014, were carefully designed to support the key financial, strategic and human resources objectives of the Company during difficult market conditions.

1. **Change in Short Term Incentive Plan (STI) financial metric to Free Cash Flow instead of Operating Margin** - the Board modified the STI Plan to focus on cash flow generation to fund ongoing business cash needs. This strategic focus was critical in maintaining business operations and funding cash requirements necessary for continued cost reduction initiatives in response to the on-going mining sector market declines that occurred throughout 2014. In addition, the revenue multiplier component of the STI plan was eliminated and a threshold company performance metric is now required to be met prior to the payment of any STI. For 2014, this minimum threshold was defined as the requirement that none of the Company's bank covenants could be breached, offering further reinforcement to the critical need to focus on cash generation.
2. **Changes in Long Term Incentive (LTI)** – the Board adopted a new performance metric for performance rights granted in 2014 from return on equity to a net debt measure. Given the challenging business environment, the highly leveraged capital structure, and the pressures from the bank covenants, the Board believes a focus on cash generation and decrease in Net Debt over time is highly aligned to Company and shareholder interests. In addition, based on shareholder and proxy advisor feedback that performance rights should be subject to more than a single metric, the Board has added a total shareholder return (TSR) modifier to provide a relative measure of performance.
3. **Special One-time Strategic Retention Awards** - As previously disclosed in last year's Remuneration Report, in early 2014 the Board approved a special strategic retention award for certain of the Company's key employees, including the executive members of the Company's Key Management Personnel (KMP). The rationale and details of these awards were included in last year's report but, in summary, the Board recognised that steps needed to be taken to ensure that executive remuneration packages remained competitive and continued to provide meaningful incentives at a time when the retention and loyalty of high quality staff would be instrumental in achieving the Company's goals. Notwithstanding the downturn in the market for the Company's drilling products and services, the U.S. market for talent remains highly competitive
  - a) **Special Strategic Retention Award for the CEO**

As disclosed by the Company pursuant to ASX Listing Rule 3.16.4, the Board approved a special one-off strategic award to Mr O'Brien in 2014 of US\$5 million. In May of 2014 shareholders overwhelmingly approved the conversion of 50% of this award into stock options while the balance remained in the form of a cash retention award divided into three equal portions due to vest on the date of the 2014 AGM, 1 April 2015 and 1 April 2016, respectively, provided that vesting and payment would not result in the Company breaching any financial covenants (in which case vesting would be deferred until such time as the financial position would accommodate payment). In recognition of this provision, the Board determined to not vest and pay the cash award eligible to vest in May 2014 in order to

conservatively maintain sufficient headroom to the financial covenants. The Board continued to monitor the Company's financial performance and determined in September 2014 that vesting and payment of this portion of Mr O'Brien's award was appropriate. If, prior to the vesting date for the remaining tranches, Mr O'Brien is terminated for "cause" or resigns (other than for "Good Reason", as defined in his employment agreement), then any unvested options or Cash Rights will be forfeited. In addition, at the Company's 2014 AGM shareholders also approved Mr O'Brien's voluntary forfeiture of all outstanding long-term incentive awards granted in 2013. Mr O'Brien retains his commitment to purchase and hold 472,500 Company shares by 1 April 2016. As at 1 February 2015, Mr O'Brien has purchased and holds 593,940 Company shares

**b) Special Strategic Retention Awards for Key Employees (excluding the CEO)**

For similar reasons as stated above, the Board also approved special one-off awards to certain other key employees including the other executive members of the KMP. These awards are in the form of cash retention awards and will vest on the second anniversary of the award. In addition, in order for the awards to be paid following the satisfaction of the time-based vesting requirement, company financial performance must be such that the vesting and payment of the awards would not reasonably be likely to result in the Company breaching any financial covenants (in which case vesting will be deferred until such time as the financial position would accommodate payment). Unvested awards may remain outstanding until such conditions are met and the awards are paid, or until the 4th anniversary of the award grant date at which time the award will be forfeited. If, prior to the vesting date of the award, a participant is terminated for "cause" or resigns (other than for "Good Reason"), then any unvested awards will be forfeited. For the Company's executive KMP, all awards will vest in March 2016 and are in the following amounts:

Alan Sides	US\$586,000
Fabrizio Rasetti	US\$624,000
Kent Hoots	US\$511,000
Brad Baker	US\$487,000

**2014 business impacts on incentives**

The year ended 31 December 2014 continued to be another difficult year for the resources sector in general. The difficulties were amplified for mining services and support companies like Boart Longyear whose revenues rise or fall in line with the level of mining activity during the year. Reduced activity across the sector caused lower demand in the Company's key markets and lower pricing, primarily within the Company's drilling services division, have resulted in a year-over-year decline in revenues of \$356.3 million, or 29.1%, although statutory EBITDA improved during the year from an operating loss of \$337.1 million in 2013 to a loss of \$82.6 million in 2014. Although the revenues experienced a year-over-year decline, they did come in at a level consistent with our annual operating plan for the year and at the higher end of analyst estimates. Adjusted EBITDA, which excludes significant items which are largely non-cash in nature, came in within the range of analyst estimates albeit at the lower end of the range primarily due to higher than anticipated drill rig maintenance and mobilisation/demobilisation costs.

The management team continued to respond to the on-going depressed market conditions by eliminating over \$330 million in costs from the organisation (on top of the over \$800 million eliminated during 2013). In addition to the aggressive cost reduction efforts, the Company also increased its focus on net cash generation, primarily through expense, capital spending and working capital reductions. Free cash flow (defined for the purposes of Short Term Incentive (STI) calculations in section 3 of the report) for the business was \$89.4 million which was broadly flat when compared with the same metric for 2013 of \$89.3 million generated in 2013. Generating this level of cash flow on significantly reduced revenue helped keep the Company solvent by maintaining compliance to our bank covenants and sustains the Company's business operations through this year until the strategic review and recapitalisation efforts were completed with a subsequent infusion of capital. The successful focus on critical cash flow generation, coupled with the Board's recognition of the significant demands and successful completion of the strategic review and recapitalisation exercise resulted in short-term incentives awarded rising from 2013 levels of 40% (on average) to 114% in 2014.

By contrast, none of the LTI that were awarded in 2011 and were subject to a three-year return on equity performance hurdle vested in 2014. Similarly, no performance rights awarded in 2012 and which were also subject to a three-year return on equity performance hurdle, will vest in 2015. The retention rights granted in 2011, representing 50% of the long-term incentive award to the Company's executive KMP vested in 2014 as detailed in table 1.3.

## Impacts of recent recapitalisation on incentives

As discussed above, the Company successfully completed a comprehensive recapitalisation plan which has resulted in a restructure of the Company's debt, an increased amount of cash on the balance sheet and a majority shareholder, Centerbridge Partners, L.P., who as at January 2015 holds 49.9% of the Company's outstanding voting shares. The positive outcomes from these activities will not benefit participants in the incentive plans because:

a) Short-term incentive plan performance metric – Free cash flow is measured exclusive of cash from investing activities (e.g. disposals of subsidiaries) and from financing activities such as proceeds from equity raising or borrowings. See section 3.3 of this report for further detail.

b) Long-term Incentive performance metrics – the performance metric for awards granted in 2014 under this plan is a measurement of net debt (explained in detail in section 3.4 of this report). The net debt for 2014 LTI is measured exclusive of the changes in the Company's debt structure, cash received from the private placements and equity offering and fees paid as a result of the recapitalisation. The metric for outstanding performance-based LTI awards granted prior to 2014 is a measure of return on equity. Similarly, no positive improvements from the recapitalisation have benefitted this calculation. As mentioned above, no performance-based long-term incentives granted in 2012 have met the minimum performance threshold for vesting in 2015.

c) Stock Option exercise price adjustment - pursuant to the terms of the Company's Option Plan, the Board could authorise the adjustment to the exercise price of outstanding unexercised options to reflect the impact of the Company's 2014 capital restructuring program and the related issuance of additional shares subsequent thereunder. However, given the minimal impact this adjustment would have on the original exercise price, it was agreed to leave the exercise price unchanged.

d) Long-term Incentives change in control provisions – both the LTI and the stock option plans contain provisions that define what constitutes a change in control of the Company for the purposes of the plans and give the Board discretion to determine whether to accelerate all or a portion of the awards as a result of such change in control. In the case of the LTI plan, a change in control is deemed to have occurred when 30% or more of the Company's stock is acquired by a person or group within a 12 month period. In the case of the 2014 recapitalisation activities, this threshold has been met. The Board however, determined that no accelerated vesting of LTI awards were to occur and that the awards would remain on foot and subject to the original terms of the award. The stock option plan provided more discretion for the Board to make the determination of whether, in their judgment, a change in control had occurred. The Board determined that a change in control had not occurred as a result of the 2014 recapitalisation and also determined to keep the options on foot and subject to their original terms.

## Report Structure

The Remuneration Report (the "Report") is presented in seven sections, as follows:

Section		Description of content
1	<b>2014 remuneration overview</b>	<ul style="list-style-type: none"> <li>• Outlines the Company's remuneration practices and explains how executive remuneration is structured to support the Company's strategic objectives.</li> <li>• Sets out the Directors and senior executives who are covered by this Report.</li> <li>• Details the actual remuneration earned by the CEO and other senior executives during the year ended 31 December 2014.</li> </ul>
2	<b>Remuneration framework and strategy</b>	<ul style="list-style-type: none"> <li>• Sets out the Company's remuneration governance framework and explains how the Board and Remuneration Committee make remuneration decisions, including the use of external remuneration consultants.</li> <li>• Outlines the Company's remuneration strategy.</li> </ul>
3	<b>Components of executive remuneration</b>	<ul style="list-style-type: none"> <li>• Provides a breakdown of the various components of executive remuneration.</li> <li>• Details the components of executive remuneration that are fixed and therefore not "at-risk".</li> <li>• Outlines the key features of the short-term incentive plan that applies to the Company's executives.</li> <li>• Outlines the key features of the long-term incentive plan and option plan that apply to the Company's executives.</li> </ul>

4	<b>Performance and risk alignment</b>	<ul style="list-style-type: none"> <li>Explains how executive remuneration is aligned with performance and outlines short-term and long-term performance indicators and outcomes.</li> <li>Explains how executive remuneration is structured to encourage behaviour that supports long-term financial soundness and the Company's risk management framework.</li> </ul>
5	<b>Executive remuneration in detail</b>	<ul style="list-style-type: none"> <li>Sets out the total remuneration provided to executives (calculated pursuant to the accounting standards) during the years ended 31 December 2014 and 2013.</li> <li>Provides details of the Rights granted to executives during the year ended 31 December 2014 under the long-term incentive plan.</li> <li>Summarises the key terms of executive service contracts (including termination entitlements).</li> </ul>
6	<b>Remuneration actions occurring after 31 December 2014</b>	<ul style="list-style-type: none"> <li>Summarises the decisions or actions made to remuneration structure or incentive plan designs impacting the Company's executives following the end of the 2014 reporting year.</li> <li>Additional details will be provided in the 2015 remuneration report.</li> </ul>
7	<b>Non-executive Director arrangements</b>	<ul style="list-style-type: none"> <li>Explains the non-executive Directors' remuneration structure, including the basis on which non-executive Director remuneration is set and the components.</li> <li>Outlines key features of the non-executive Director Share Acquisition Plan.</li> <li>Sets out the non-executive Directors' remuneration during the years ended 31 December 2014 and 2013.</li> </ul>

## 1. 2014 REMUNERATION OVERVIEW

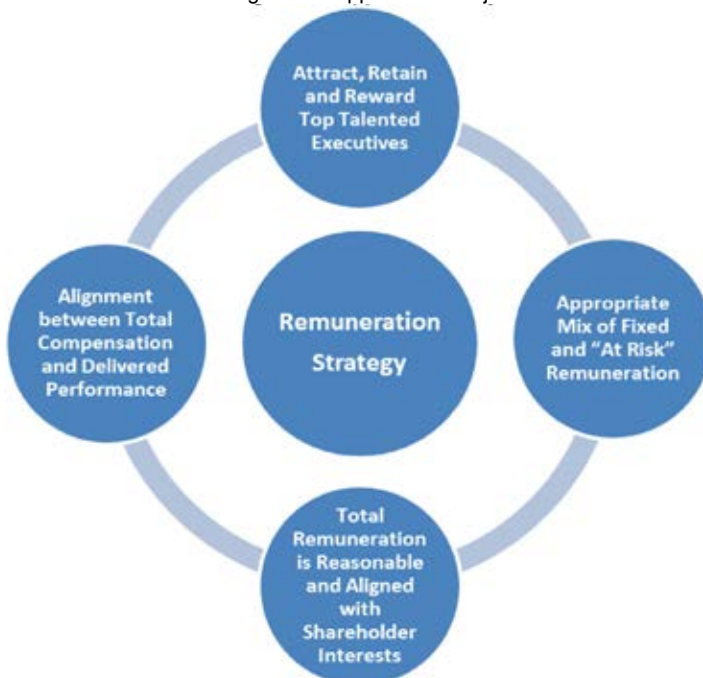
This section provides:

- an overview of the Company's executive remuneration strategy and linkages between the strategy and the design of the components of executive remuneration;
- details of the Directors and senior executives covered by this Report; and
- details of the actual remuneration outcomes for senior executives.



## 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	Alignment between Total Compensation and Delivered Performance	Appropriate Mix of Fixed and "At Risk" Remuneration	Total Remuneration is reasonable and aligned with Shareholder Interests
<ul style="list-style-type: none"> <li>• Remuneration levels are competitive with similar roles in markets in which the Company competes for talent.</li> <li>• Incentive-based compensation provides for upside potential with superior performance.</li> <li>• Long-term incentive compensation provides for a meaningful retention.</li> </ul>	<ul style="list-style-type: none"> <li>• Incentive-based compensation is designed to reward executives for delivered performance against important Company financial and strategic objectives.</li> <li>• 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.</li> </ul>	<ul style="list-style-type: none"> <li>• There is a significant amount of total executive remuneration which is at risk and dependent upon achieving challenging performance metrics.</li> <li>• Fixed remuneration is appropriately market competitive and consistently higher performing executives are rewarded through higher base compensation.</li> </ul>	<ul style="list-style-type: none"> <li>• The Remuneration Committee regularly performs executive compensation benchmarking utilising independent compensation consultants.</li> <li>• The long-term incentive component of remuneration is primarily delivered through equity share rights linked to the Company's ordinary shares.</li> <li>• Executives and Directors cannot hedge equity share rights that are unvested or subject to restrictions.</li> </ul>

## 1.2. 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 for the year ended 31 December 2014 are listed in Table 1.2 below. Unless otherwise indicated, the individuals below were KMP for the entire financial year.

Table 1.2: Directors and senior executives who were KMP during the year ended 31 December 2014

<b>Non-executive Directors</b>	<b>Position</b>
Barbara Jeremiah	Chair and Non-executive Director
Bruce Brook	Non-executive Director
Roger Brown	Non-executive Director (resigned from the Board effective 18 December 2014)
Peter Day	Non-executive Director (appointed effective 25 February 2014)
Roy Franklin	Non-executive Director
Tanya Fratto	Non-executive Director
Jonathan Lewinsohn	Non-executive Director (appointed effective 23 October 2014)
David McLemore	Non-executive Director
Rex McLennan	Non-executive Director
Conor Tochilin	Non-executive Director (appointed effective 18 December 2014)
<b>Senior executives</b>	<b>Position</b>
Richard O'Brien	Chief Executive Officer
Jeffrey Olsen	Chief Financial Officer (appointed effective 1 April 2014)
Fabrizio Rasetti	Senior Vice President, General Counsel and Secretary
Brad Baker	Senior Vice President, Human Resources
Alan Sides	Senior Vice President, Global Drilling Services
Kent Hoots	Senior Vice President, Global Products

There were no changes to KMP after the reporting date and before the date the financial report was authorised for issue.

## 1.3. REMUNERATION OUTCOMES

### Actual remuneration

Details of CEO and other senior executive remuneration for the year ended 31 December 2014, prepared in accordance with statutory obligations and accounting standards, are contained in Table 5.1 of this Report. The remuneration calculations in Table 5.1 are based on the Accounting Standards principle of “accrual accounting” and, consequently do not necessarily reflect the amount of compensation an executive actually realised in a particular year. To supplement the required disclosure we have included the additional table 1.3 below which shows the actual compensation realised by the senior executive who were KMP at the end of 2014. It illustrates how the Company’s remuneration strategy for senior executives translates into practice. It is important to note that the STI and LTI amounts are amounts earned on performance during the prior plan year(s) and vested and/or paid in the current year.

Table 1.3: Actual remuneration received by senior executives who were KMP on 31 December 2014

	Base salary US\$	STI <sup>1</sup> US\$	LTI <sup>2</sup> US\$	LTI (cash) <sup>3</sup> US\$	Other <sup>4</sup> US\$	Total US\$
Richard O'Brien	750,000	297,000	-	833,333	41,080	1,921,413
Jeffrey Olsen <sup>5</sup>	298,462	-	-	-	30,577	329,039
Fabrizio Rasetti	416,000	79,664	8,960	-	40,784	545,408
Brad Baker	324,450	67,810	7,680	-	40,776	440,716
Alan Sides	390,728	97,291	7,680	-	36,400	532,099
Kent Hoots	340,725	60,989	6,400	-	40,776	448,890

- (1) Represents the cash paid in respect of the executive's STI award earned for the prior year's performance. For further details of the STI Plan, see section 3.3 of this Report.
- (2) Represents the value of Share Rights vested during the year ended 31 December 2014 (based on the market value of shares at the vesting date: A\$0.28 on 15 March 2014 and dividends received on unvested Share Rights granted prior to 1 January 2012). Share Rights granted under the Company's LTI Plan and options granted under the Company's Option Plans during other grant years that are still in progress do not appear in this table, as they do not vest 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 Mr O'Brien's LTI cash award that vested and was paid in 2014.
- (4) Represents benefits such as US 401(k) retirement plan Company matching and/or profit sharing contributions, car allowance and tax preparation service reimbursement.
- (5) Mr Olsen was hired on 1 April 2014, as such, his actual remuneration received reflects a partial year of earnings from his date of hire.

## 2. REMUNERATION FRAMEWORK AND STRATEGY

This section outlines the Company's remuneration governance framework and strategy and explains how the Board and Remuneration Committee make remuneration decisions, including the use of external remuneration consultants 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 ensures 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 related to remuneration, the Board has established a Remuneration Committee.

#### Remuneration Committee

The 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](http://www.boartlongyear.com).

The Committee members as at the date of this Report include Mr Roy Franklin, Chairman, Ms Tanya Fratto and Mr Peter Day. 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 and external advisers

Where appropriate, the Board seeks and considers advice from independent remuneration consultants and external advisers. 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 Committee has also established a formal Protocol that summarises the policy and procedures that the Company has adopted to govern the relationship between the independent remuneration consultant, the Committee and management. The Protocol was developed in compliance with the obligations under Part 2D.8 of the *Corporations Act* and ensures that the remuneration consultant remains free from any undue influence by any member of the KMP to whom the recommendations relate. All consultant remuneration recommendations are provided directly to the Committee and are accompanied by an undue influence declaration from the consultant.

In 2014, the Committee continued to engage Frederic W. Cook & Co., Inc. as an independent compensation advisor to the Board. In making its selection, the Committee considered that Frederic W. Cook & Co., Inc. consults on executive compensation as its sole business and therefore is independent of other potential business considerations that could possibly compromise the consultant's objectivity; has been successfully performing this work since 1973; and has extensive experience with clients in the mining and natural resources industries.

The Committee also engaged an independent compensation advisor in Australia, Egan Associates, to supplement the work of Frederic W. Cook & Co., Inc., to ensure the Committee receives relevant advice from an Australian shareholder perspective.

During 2014, Frederic W. Cook & Co., Inc. made remuneration recommendations, as defined in the *Corporations Act*, with respect to the components of the remuneration package for the Company's CEO, Mr Richard O'Brien and CFO, Mr Jeffrey Olsen and the appropriate structure for the Company's incentive arrangements. The Board is satisfied that the remuneration recommendations were free of undue influence by the KMP to whom the recommendations relate in light of the arrangements explained above.

The amount paid to Frederic W. Cook & Co., Inc. for remuneration recommendations made during 2014 was US\$13,000. Frederic W. Cook & Co., Inc. performed no other services during 2014.

The table below sets out details of the remuneration consultants (and other external advisers) engaged and a summary of the services provided during the year ended 31 December 2014.

Table 2.1: Remuneration consultant and other external adviser arrangements

Remuneration consultant	Nature of services provided
<b>Frederic W. Cook &amp; Co., Inc.</b>	The Committee engaged Frederic W. Cook & Co., Inc. to assist with establishing the remuneration package for Mr O'Brien. In addition, the Committee conducted a thorough review of the Company's incentive plans with a focus on assessing the appropriateness of the structure and metrics given the significant volatility inherent in the mining drilling and exploration industry and strengthening the alignment to the Company's current business focus.
<b>Other external advisers</b>	<b>Nature of services provided</b>
<b>Herbert Smith Freehills</b>	Provided regular independent advice and counsel on various legal and governance standards related to executive remuneration.
<b>Ashurst</b>	Provided regular independent advice and counsel on various legal and governance standards related to executive remuneration.
<b>Egan Associates</b>	Provided independent advice and counsel on various Australian governance standards related to executive remuneration.

## 2.2. REMUNERATION POLICY AND STRATEGY

The Company's executive remuneration strategy is designed to attract, motivate and retain high performing individuals and align the interests of executives with shareholders.

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 meets the Company's specific business needs and objectives and are consistent with good market practice. An additional challenge that impacts on the remuneration program is the need to provide total compensation packages that are competitive in the US market, where remuneration levels and structures materially differ from standard Australian arrangements.

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

- is reasonable in the context of the definition in the *Corporations Act 2001*;
- 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 relevant contemporary market practice. The remuneration initiatives introduced in 2014, which were designed to assist the Company achieve key goals during a very challenging time, demonstrate this.

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"> <li>Provides a predictable base level of compensation commensurate with the executive's scope of responsibilities, leadership skills, values, performance and contribution to the Company.</li> <li>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.</li> <li>Variability around the median is based on the experience, performance, skills, position, business unit size and/or complexity and unique market considerations where necessary.</li> </ul>	<ul style="list-style-type: none"> <li>This component of compensation is "at-risk" and earned only if challenging performance metrics are achieved.</li> <li>Key performance metrics for 2014 include free cash flow, safety performance, and individual strategic goals.</li> <li>These metrics were designed to weight performance on free cash flow and safety to overall Company performance in order to promote collaboration and to align with shareholder interests.</li> <li>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.</li> <li>The metrics used for the CBP are reviewed annually to ensure that they continue to support the Company's business strategy.</li> <li>Awarded in cash.</li> </ul>	<ul style="list-style-type: none"> <li>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.</li> <li>The Board has determined to use three-year cumulative Net Debt targets as the key measure for performance-based long-term incentive awards in 2014. In addition, the outcomes will be adjusted +/- 10% depending how Total Shareholder Return (TSR) compares to comparator companies. The hurdle used for the LTI is reviewed annually in light of market conditions and to ensure that it encourages executives to achieve outcomes that reflect the actual long term needs and goals of the business.</li> <li>Net Debt targets used in 2014 included a minimum threshold performance, below which no value is achieved. The range of performance targets was established based on an analysis of the debt and cash profile of the Company as well as against stated analyst and shareholder expectations.</li> <li>Net Debt performance provides a strong link to shareholders as it is a measure of the capital structure employed in the business. The TSR adjustment 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.</li> <li>Awarded in equity and/or cash.</li> </ul>

## 3. COMPONENTS OF EXECUTIVE REMUNERATION

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

### 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 contributions (or the foreign equivalent such as the United States' 401(k) payments) and variable "at-risk" remuneration. The variable remuneration has two "at-risk" components:

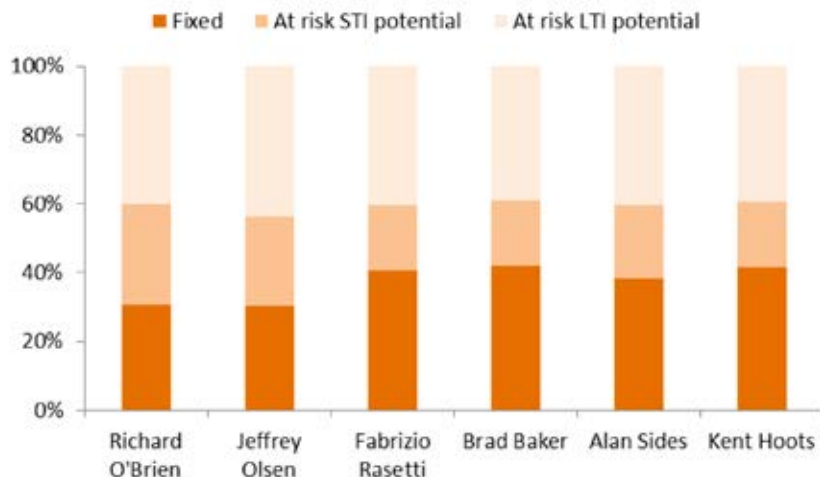
- STI – being an annual bonus granted under the Company's Corporate Bonus Plan; and
- LTI – being equity or cash grants tied to vesting conditions, such as continued employment and performance hurdles.

The Board notes that given the currently repressed market capitalisation of the Company, some shareholders and analysts may consider certain compensation components and/or total remuneration to be higher than their market comparison models would suggest. A comment to this effect was made by a shareholder at the 2014 AGM (no other comments were made by shareholders on the 2013 Remuneration Report at the AGM). While the Board does consider this issue, it also notes that the remuneration structure for the majority of the current executives was made in 2012, and since that time the Company's market capitalisation has declined. Given the volatility of the Company's markets, the Board believes that maintaining its executive compensation benchmarking to these levels is a more accurate reflection of the long-term potential and through-the-cycle market capitalisation of the Company and the remuneration levels necessary to attract and retain the calibre of talent required to operate a company in a globally complex and highly cyclical environment.

With respect to the remuneration of Mr O'Brien, the Company's President and CEO, the Board believes his skills, relevant industry experience and successful leadership record make him uniquely qualified to lead the Company through the challenging business and operating environment we are currently experiencing. In light of Mr O'Brien's compensation previous to joining the Company and that he is a later-career CEO, the Board determined to structure his fixed and short-term compensation in line with competitive market comparisons while providing an annualised long-term variable compensation at the higher end of the market comparisons. Given the strength of his qualifications, the Board believes this provides an appropriate total remuneration package that maintains a larger portion "at risk" through equity compensation that is closely aligned to shareholders.

The relevant proportions of fixed-to-at-risk components for senior executive remuneration during 2014 are shown below in table 3.1. It illustrates the annualised remuneration mix for KMP including annualised fixed salary, target STI assuming performance metrics are achieved such that 100% of target bonus is earned and LTI at the fair value at date of grant, assuming 100% performance and vesting requirements are achieved. For Mr O'Brien, the amounts reflect the annual fair value at grant date as per his employment agreement.

Table 3.1: Remuneration mix



### 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 the Short Term Incentive program

<p><b>What is the STI program?</b></p>	<p>The Short Term Incentive program or 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>
<p><b>Who participates in the STI program?</b></p>	<p>138 senior employees, including the senior executive KMP, participated in the CBP in 2014.</p>
<p><b>Why does the Board consider the STI program an appropriate incentive?</b></p>	<p>The CBP and the performance conditions set under the CBP have been designed to:</p> <ul style="list-style-type: none"> <li>• focus eligible employees on maximising Company performance in key financial, safety and operational targets;</li> <li>• align individual efforts with Company and shareholder interests; and</li> <li>• reward for superior individual and Company performance.</li> </ul>



	<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><b>What are the performance conditions?</b></p>	<p>There are three key performance components to the CBP that were used in 2014. 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 200% of that component of the bonus.</p> <p>The Company's annual financial target for the purposes of the CBP is set by the Remuneration Committee. 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 for that goal) and stretch targets that can only be met by the achievement of excellent outcomes for each goal.</p> <p>The financial metrics used for the CBP are reviewed annually. The Remuneration Committee also reviews and approves the non-financial targets for senior executives (including the CEO).</p> <p>The three performance components for 2014 and their relative weightings are:</p> <p>(1) <u>Corporate Financial Target - Free Cash Flow (FCF)</u> - 60% of an employee's CBP opportunity is linked to the Company's overall FCF performance. For purposes of calculating FCF, the statutory FCF is adjusted to eliminate the impact of items such as cash restructuring costs, pension plan pre-funding, interest and income tax receipts or payments, acquisition or disposals of subsidiaries, and cash flows from financing activities including, but not limited, to proceeds from equity raisings and borrowings.</p> <p>The free cash flow metric was selected to ensure proper alignment and focus on the critical need to generate cash to fund ongoing operations and contribute to reducing debt when access to additional capital was extremely limited during this extended market downturn.</p> <p>For 2014, the Remuneration Committee specifically recommended and the Board approved the following performance payout matrix for the Free Cash Flow component:</p> <table border="1" data-bbox="554 1136 1115 1416"> <thead> <tr> <th colspan="3" style="text-align: center;"><u>Free Cash Flow Targets</u></th> </tr> <tr> <th style="text-align: center;">Free Cash Flow (US\$)</th> <th style="text-align: center;">Free Cash Flow (% of Budget)</th> <th style="text-align: center;">Payout %</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">121,030</td> <td style="text-align: center;">&gt;145%</td> <td style="text-align: center;">200%</td> </tr> <tr> <td style="text-align: center;">113,518</td> <td style="text-align: center;">136%</td> <td style="text-align: center;">125%</td> </tr> <tr> <td style="text-align: center;">83,469 – 102,367</td> <td style="text-align: center;">100%-123%</td> <td style="text-align: center;">100%</td> </tr> <tr> <td style="text-align: center;">71,783</td> <td style="text-align: center;">86%</td> <td style="text-align: center;">50%</td> </tr> <tr> <td style="text-align: center;">&lt;71,783</td> <td style="text-align: center;">&lt;86%</td> <td style="text-align: center;">0%</td> </tr> </tbody> </table> <p>For 2014, Free Cash Flow targets were established with a target payout of 100% if actual FCF achieved fell within a "strike zone" represented by achievement of 100% to 123% of the target FCF amount. In addition, to further emphasise how critical generating FCF was during the year, a steep decelerator for under target achievement was established whereby no payout was earned if less than 86% achievement of the FCF target was achieved. Payout is linear between levels.</p> <p>(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 or customer growth,</p>	<u>Free Cash Flow Targets</u>			Free Cash Flow (US\$)	Free Cash Flow (% of Budget)	Payout %	121,030	>145%	200%	113,518	136%	125%	83,469 – 102,367	100%-123%	100%	71,783	86%	50%	<71,783	<86%	0%
<u>Free Cash Flow Targets</u>																						
Free Cash Flow (US\$)	Free Cash Flow (% of Budget)	Payout %																				
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71,783	86%	50%																				
<71,783	<86%	0%																				

	<p>new product introductions, leadership, talent retention and development, specific project or initiative progress, etc.</p> <p>Strategic objectives are utilised to reinforce continued focus on critical initiatives and business unit or functional priorities that have a positive impact on current or future business performance. Strategic objectives should be pursued regardless of the business or market pressures impacting the overall corporate financial performance. The Board has discretion to modify the amount of the strategic objective award up or down as appropriate.</p> <p>(3) <u>Safety</u> - 10% of an employee's CBP opportunity is dependent upon the Company's overall safety performance.</p> <p>The nature of the work that the majority of our employees perform on a daily business is inherently dangerous. We believe that a component of the bonus plan based on safety results is instrumental for all employees to adopt safe work practices, continuously identify ways to reduce or eliminate hazards or unsafe behaviours and to get our employees home safely every day. Our business with our customers can be won or lost due to our safety performance and they expect as much of a focus on safety as we expect of ourselves.</p> <p>For 2014, the Remuneration Committee established total case incident rates (TCIR) and lost time incident rates (LTIR) as the measurements of safety performance and specifically recommended and the Board approved the following performance payout targets for the Safety component:</p> <table border="1" data-bbox="419 855 1191 966"> <thead> <tr> <th>Safety TCIR</th> <th>Payout %</th> <th>Safety LTIR</th> <th>Payout %</th> </tr> </thead> <tbody> <tr> <td>2.00</td> <td>50%</td> <td>0.20</td> <td>50%</td> </tr> <tr> <td>1.70</td> <td>100%</td> <td>0.13</td> <td>100%</td> </tr> <tr> <td>1.45</td> <td>150%</td> <td>0.06</td> <td>150%</td> </tr> </tbody> </table> <p>Payout is linear between levels.</p> <p>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>	Safety TCIR	Payout %	Safety LTIR	Payout %	2.00	50%	0.20	50%	1.70	100%	0.13	100%	1.45	150%	0.06	150%
Safety TCIR	Payout %	Safety LTIR	Payout %														
2.00	50%	0.20	50%														
1.70	100%	0.13	100%														
1.45	150%	0.06	150%														
<p><b>How are the performance conditions measured?</b></p>	<p>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.</p> <p>The Remuneration Committee recommends the amount of bonus to be paid to the CEO for Board approval. For senior executives, the Remuneration Committee will seek recommendations from the CEO as appropriate.</p>																
<p><b>Sample calculation</b></p>	<p>Following is an example of how a bonus would be calculated assuming the following:</p> <ul style="list-style-type: none"> <li>Employee earns \$150,000 with a 40% target bonus amount</li> <li>Corporate Free Cash Flow of (93% achievement)</li> <li>Safety and strategic objectives achievement each at target performance</li> </ul> <p>Free Cash Flow of 93% = 75% component payout (per table above)                  Safety performance at target = 100% component payout                  Strategic Objectives at target = 100% component payout</p> <p>Calculation:</p>																

	<p>Step 1: Determine component subtotal</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;">Free Cash Flow = (75% x 60% weighting)</td> <td style="width: 50%; text-align: right;">= 45%</td> </tr> <tr> <td>+ Safety performance = (100% x 10% weighting)</td> <td style="text-align: right;">= 10%</td> </tr> <tr> <td>+ Strategic objectives = (100% x 30% weighting)</td> <td style="text-align: right;">= 30%</td> </tr> <tr> <td style="border-top: 1px solid black;">= Subtotal achievement</td> <td style="text-align: right; border-top: 1px solid black;">= 85%</td> </tr> </table> <p>Step 2: Calculate Bonus \$150,000 x 40% Target Bonus x 85% Bonus achievement = \$51,000 Bonus</p>	Free Cash Flow = (75% x 60% weighting)	= 45%	+ Safety performance = (100% x 10% weighting)	= 10%	+ Strategic objectives = (100% x 30% weighting)	= 30%	= Subtotal achievement	= 85%
Free Cash Flow = (75% x 60% weighting)	= 45%								
+ Safety performance = (100% x 10% weighting)	= 10%								
+ Strategic objectives = (100% x 30% weighting)	= 30%								
= Subtotal achievement	= 85%								
<b>In what form is the STI delivered?</b>	All bonuses awarded under the CBP are delivered as a cash bonus.								
<b>What STI awards did senior executives earn in 2014?</b>	Bonuses earned under the CBP during the year ended 31 December 2014 are set out in Table 4.1.3 in section 4.1 of this Report. The bonuses will be paid in or after March 2015.								
<b>What if a senior executive ceases employment?</b>	A senior executive's entitlement to a CBP payment ceases on the date that they cease employment, unless the Board determines otherwise. However, where a senior executive's employment ceases for reasons other than for cause or good reason, any earned bonus will be prorated and paid for the amount of time actually worked during the plan year.								

### 3.4. Long-term incentives

Table 3.4: Summary of the Long-term Incentive

<b>What is the purpose of the LTI?</b>	<p>The Company's LTI arrangements are designed to:</p> <ul style="list-style-type: none"> <li>• align senior executive reward with shareholder value;</li> <li>• assist in retaining key executives;</li> <li>• encourage superior performance on a sustained basis; and</li> <li>• 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 equity awards that rise and fall in value in line with the share price.</li> </ul>
<b>Who participates in the LTI?</b>	The executives eligible to participate in the LTI are senior divisional, regional and corporate executives. The target value of annual LTI grants varies depending on the participant's position, skills and contributions to the Company. The target amounts are generally based on market averages for comparable roles at similarly-sized companies. The Company made grants to approximately 86 participants during the year ended 31 December 2014. See Section 4.1 for details on LTI awards made to KMP
<b>What proportion of total remuneration does the LTI program represent?</b>	Senior executives are offered grants that represent approximately 39% - 44% (59% 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 LTI unless the performance hurdles and/or service conditions are satisfied.
<b>How is reward delivered under the LTI?</b>	Under the LTIP Rules and the Option Plan Rules, the Board has flexibility to grant various instruments (Share Rights, Cash Rights (together referred to as "Rights") and Options, or a combination of the three) as an executive's LTI award. The composition of the grants from year to year will depend on what, in the Board's view, will best incentivise and reward executives having regard to the Company's circumstances from time to time. An Option is an entitlement to purchase a share at a pre-determined share price set at grant date. A Share Right is an

	<p>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 in order to appropriately limit share dilution when the stock price was low at the time of the award. The 2014 LTI award comprised a combination of Options, Share Rights and Cash Rights. The Board considered this mix to be appropriate for 2014 as it most effectively achieved three key objectives: aligning executives' interests with shareholders'; motivating executives to focus on share price growth over the longer term; and retaining key executive talent which is critical to the Company's long term success.</p> <p>Rights and Options 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><b>Do participants pay for Options?</b></p>	<p>Options are offered at a pre-determined share price which the senior executives must pay in order to exercise the Option award after it vests. At the time the participant exercises the Option, the participant may pay the exercise price of the Shares as to which the Option is being exercised to the Company by either making a payment to the Company, executing a cashless (broker-assisted) exercise that complies with applicable laws, authorising the withholding by the Company of an equivalent number of Shares otherwise deliverable to the participant pursuant to the Option, or by a combination of the foregoing.</p>
<p><b>Do participants pay for the Share Rights or Cash Rights?</b></p>	<p>Rights are offered at no cost to the senior executives and no amount is payable if they vest.</p>
<p><b>What rights are attached to the Options or Share Rights?</b></p>	<p>Options or Share Rights do not carry voting rights; however, shares allocated upon vesting of Share Rights or exercise of Options 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.</p> <p>Senior executives are not entitled to trade or hedge their unvested Rights or Options.</p>

<b>What are the vesting conditions?</b>	For the 2014 LTI grant, the vesting conditions are as follows:			
	<b>Tranche</b>	<b>Percentage of grant</b>	<b>Vesting condition</b>	<b>Partial vesting</b>
	Performance Share Rights or Performance Cash Rights	31% for all executives including the CEO	<p>Achievement of cumulative net debt targets over a three-year period set by the Board. The targets include a minimum threshold, target and stretch amount of net debt set annually over a three-year performance period. Final net debt achieved performance will be determined by the cumulative actual achievement relative to the cumulative targets.</p> <p>Any earned Performance Rights under the net debt performance criteria will be further modified to +/- 10% based on TSR performance relative to a comparator group;</p> <p>plus,</p> <p>Continuation of employment during the three-year performance period.</p>	<p>Vesting occurs on a pro-rata basis if the minimum three-year cumulative net debt threshold is surpassed.</p> <p>At the minimum net debt threshold, 50% of Performance Rights will vest.</p> <p>Full vesting occurs only if the Company's three-year cumulative net debt and TSR meets or exceeds the stretch target for the performance period.</p>
	Retention Share Rights or Retention Cash Rights	50% for all executives including the CEO	Continuation of employment during the three-year continued service period.	No
Options	19% for all executives including the CEO	Continuation of employment during the three-year continued service period.	No	

**How are the Net Debt and Total Shareholder Return hurdles measured?**

For Performance Share Rights or Performance Cash Rights granted in 2014, two measures will be used: Net Debt and Total Shareholder Return.

Net Debt is defined as the total outstanding senior debt plus the drawn revolver debt less cash. It excludes or is adjusted to eliminate the effects of strategic asset disposals and equity raising activities such as the recapitalisation event that occurred in 2014. Each year of the performance period, a threshold, target and maximum level of Net Debt will be determined by the Board. At the end of the three-year measurement period, the cumulative actual performance over the period will be compared against the three-year cumulative targets to determine the portion of the award, if any, that will vest subject to any remaining service requirements as illustrated below.

<b>3-yr Cumulative Net Debt Performance Level</b>	<b>Payout (% of Target Performance Rights)</b>
Maximum	150%
Target	100%
Threshold	50%

The three-year average Total Shareholder Return threshold, target and maximum performance requirements are as follows:

<b>Total Shareholder Return</b>	
<b>BLY's %-ile Rank vs. Peer Group</b>	<b>Modification of Performance Rights Earned</b>
< 25 %	-10%
25% to 44%	-5%
45% to 54%	0%
55% to 74%	+5%
> 75%	+10%

The Total Shareholder Return comparator group consists of a peer group of companies selected by the Board in consultation with Frederic W. Cook & Co., Inc. which have a competitive offering in drilling products or drilling services, are publicly traded and operate in one or more major geographic areas where the Company does business. Each of the peers is weighted within the group according to its relative enterprise value.

The Bloomberg Mining Index (BBG World Mining Index) was selected due to its global representation of the addressable market for drilling and drilling services in which the Company operates. It is a market capitalisation-weighted index of the leading mining stocks in the world. This overall comparator group of peers and index fairly represents the market in which the Company operates and provides a measure of Company performance relative to peers and the industry. The Board will continue to monitor this comparator group for ongoing relevance and make adjustments as required. The peer group and index information is available at the respective peer group company sites and by accessing Bloomberg, ticker symbol BWMINING

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Type	Weight	Peer
Drilling Peers	75%	Major Drilling Group Intl
		Cabo Drilling Corp
		AJ Lucas Group LTD
		Swick Mining Services LTD
		Foraco International SA
		Ausdrill LTD
		Layne Christensen Company
		Energold Drilling LTD
		Capital Drilling LTD
		Orbit Drilling Inc
Mining Index	25%	BBG World Mining Index

<p><b>Why have the performance hurdles been chosen?</b></p>	<p>In 2014, the Board chose, based on independent consultation with Frederic W. Cook &amp; Co., Inc., to use a Net Debt and Total Shareholder Return performance hurdle for Performance Rights. Given the challenging business environment, the highly leveraged capital structure, and the pressures from the bank covenants, the Board believes a focus on cash generation and Net Debt over time is highly aligned to Company and shareholder interests. In addition, based on shareholder and proxy advisor feedback on the desire for Performance Rights to be based on more than a single metric, the Board has added TSR to provide a relative measure of performance. The peer group and index used to measure TSR was selected to provide a measure of Company performance relative to peers and the industry.</p> <p>The hurdle used for the LTI is reviewed annually in light of market conditions and to ensure that it continues to encourage executives to achieve outcomes that reflect the actual long term needs and goals of the business.</p>
<p><b>What if a senior executive ceases employment?</b></p>	<p>A senior executive's unvested Rights and Options 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 Options and 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"> <li>• where there is no performance condition attached to an Option or Right (i.e. it is an Option, Retention Share Right or Retention Cash Right), any applicable time-based condition will be waived and the number of Options, 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</li> <li>• 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.</li> </ul>
<p><b>What happens in the event of a change of control?</b></p>	<p>In the event of a takeover or change of control of the Company, any unvested Options will vest and any outstanding Rights may vest at the Board's discretion.</p>
<p><b>What Options or Rights were granted in 2014?</b></p>	<p>Rights and Options granted during the year ended 31 December 2014 are set out in Table 5.2 of this Report.</p>



## 3.5 Executive Remuneration Clawback Policy

Effective with remuneration granted, paid or credited after 31 December 2013, the Board has implemented an incentive compensation clawback policy applicable to current and former senior executives, including the KMP listed in this report, as well as any other management of the Company who participated in the Company's incentive compensation plans. The policy is applicable to incentive compensation including bonuses, awards or grants of cash or equity under any of the Company's short or long-term incentive or bonus plans where bonuses, awards or grants are based in whole or in part on the achievement of financial results. If the Board determines that a covered employee was overpaid as a result of his or her fraud or willful misconduct that requires a restatement of the reported financial results, the Board may seek to recover the amount of the overpayment by a repayment or through a reduction or cancellation of outstanding future bonus or awards. The Board can make determinations of overpayment at any time through the third fiscal year following the year for which the inaccurate performance criteria were measured.

## 3.6 Option Plans

In 2014, the Board approved the establishment of the 2014 Option Plan, which authorised the granting of stock options to certain executives and key employees of the Company. The purpose of the Option Plan was to bolster executive retention during the economic downturn by providing a grant of options to senior executives (including the CEO) as a component of the overall long-term incentive structure.

During 2014, shareholders approved that 9,104,258 options be issued to the CEO with a strike price of A\$0.192 and vesting in three equal tranches on the date of the shareholder approval at the 2014 AGM, 1 April 2015 and 1 April 2016. The options can be exercised for ten years after the vesting date. The Company granted an additional 3,937,849 options to members of management (including shareholder approval of 1,621,020 to the CEO) with a strike price of A\$0.32 which will vest on 15 March 2017 and can be exercised for seven years after the vesting date. The company also granted 324,204 shares to the CFO, Jeffery Olsen, on 1 April 2014 with a strike price of A\$.032 which will vest of 1 April 2017 and can be exercised for seven years after the vesting date. The combined fair value of all options awarded was approximately \$2.7 million.

Details of options that have been granted to senior executives can be found in Table 4.1.8.

## 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\$ <sup>1</sup>	EPS % <sup>2</sup>	Revenue US\$ millions	EBITDA US\$ millions	NPAT US\$ millions	ROE	Net Debt millions <sup>3</sup>
2014	0.17	-	(510.9%)	867	(83)	(333)	(133.4%)	551
2013	0.38	0.01	(403.7%)	1,223	(337)	(620)	(79.3%)	n/a
2012	1.88	0.12	7.7%	2,012	254	68	6.0%	n/a
2011	2.78	0.08	13.0%	2,020	356	160	14.6%	n/a
2010 <sup>4</sup>	4.56	0.02	4.0%	1,476	222	85	8.5%	n/a

(1) Dividends per share are shown based upon the cash amounts paid in each year.

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

(3) Net debt became a performance criteria beginning in 2014 and forward. (Excludes effects of recapitalisation)

(4) The closing share price for 2009 was A\$3.52

## Short-term performance indicators and outcomes

Overall, STI awarded increased from 40% (on average) in 2013 to 114% in 2014. This result was driven by solid performance against all components of the Corporate Bonus Plan in 2014. Additional details on actual performance for each of the bonus plan components follow.

In addition, the Board placed an overarching criteria on the STI plan that stipulated that the Company must remain in compliance with its bank covenants, net of earned STI payments, in order to pay any bonus and the Board is satisfied that this requirement has been met.

## Performance against 2014 financial target

For 2014, the Remuneration Committee specifically recommended and the Board approved the following performance payout matrix for the Free Cash Flow component:

<u>Free Cash Flow Targets</u>		
Free Cash Flow (US\$)	Free Cash Flow (% of Budget)	Payout %
121,030	>145%	200%
113,518	136%	125%
83,469 – 102,367	100%-123%	100%
71,783	86%	50%
<71,783	<86%	0%

Actual free cash flow generation for the year was \$89.4 million which resulted in a 100% payout of the targeted amount.

## Performance against 2014 non-financial targets

The Company exceeded its performance on its targeted Safety metrics with actual TCIR performance of 1.35 and LTIR of 0.11, representing 150% and 114% achievement, respectively. Senior Executives delivered solid overall performance against the Strategic Objectives during a particularly challenging year and in recognition of the significant demands and successful completion of the strategic review and recapitalisation exercise the Board determined that the portion of the strategic objectives relating to that initiative exceeded targeted performance. The Company understands the desire for transparency of specific targets that are represented in the Strategic Objectives portion of the STI plan. Given the Company's size and position in the industry, it believes disclosing certain detailed financial or strategic performance targets would put it at a competitive disadvantage due to commercial sensitivities. However, in 2014 the Board established and evaluated the CEO against several specific strategic and operational objectives that included, but were not limited to:

- Conducting and completing the strategic review process providing the Board with qualitative and quantitative analysis of the full range of strategic options while ensuring the Company and Board advisers receive appropriate assistance and support from Company leadership and personnel;
- Providing the Board with commercially innovative plans, and executing against those plans, for new product development pipelines and strategic services for both the Global Drilling Products and Services businesses;
- Improving the leading indicator metrics for reporting and analysing safety near miss incidents and management interactions;
- Executing the 2014 operating plan with particular focus on delivering targeted cash flow performance, maintaining price discipline, while delivering improved variable cost management in both Global Drilling Services and Products business units, and capturing identified SG&A savings;
- Completing a quantitative and qualitative analysis of our tax strategies and delivering on a plan to bring more certainty around exposures and issues with key taxing jurisdictions.

These objectives generally also pertained to other senior executives as they relate to their business, function or region.

The Board was satisfied that the progress made on these strategic initiatives for the CEO was above the targeted performance established for the year and in particular the recognition of his leadership on successfully completing the critical strategic review process. For the remaining senior executives the strategic objective component averaged 47.5% for the group which also reflected the Board's recognition of the contributions, in varying amounts by executive, to the success of the strategic review.

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Table 4.1.2: Average proportion of STI awarded, 2010 through 2014

	2010	2011	2012	2013	2014
% of target STI awarded <sup>1</sup>	88%	97%	72%	40%	122%

(1) Weighted average for senior executives.

Table 4.1.3: STI earned during the year ended 31 December 2014

As described earlier in this report, for 2014 the Company's performance on the free cash flow metric, representing 60.0% of the total, achieved 60.0% of the bonus. Company performance on the safety metrics representing 10.0% of the total achieved above the target amount at 13.2%. As explained above performance on strategic objectives which represent 30.0% of the total, were, on average, achieved at 47.5%

	STI earned US\$	Target STI <sup>1</sup> US\$	STI earned as % of target STI	% of target STI forfeited	STI as % of maximum STI <sup>2</sup>	% of maximum STI forfeited <sup>2</sup>
Richard O'Brien	900,000	750,000	120%	0%	60%	40%
Jeffrey Olsen <sup>3</sup>	348,200	280,000	124%	0%	62%	38%
Fabrizio Rasetti	277,806	208,000	134%	0%	67%	33%
Brad Baker	204,873	162,225	126%	0%	63%	37%
Alan Sides	254,390	234,437	109%	0%	54%	46%
Kent Hoots	215,949	170,363	127%	0%	63%	37%

(1) The target potential value of the 2014 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 2014 was nil.

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

(3) Mr Olsen's bonus was calculated on his annualised base salary pursuant to his new hire employment agreement on 1 April 2014.

## Long-term performance indicators and outcomes

LTI awards are provided 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.

Table 4.1.4 shows the actual ROE performance achieved during each of the three years applicable to the 2012 performance awards, as well as the actual three-year average ROE. Based on the actual performance over the period, and pursuant to the performance requirement outlined in Table 3.4, 0% (nil) of the award will be eligible to vest, even if the executive satisfies the continued service requirement, which in all cases will not occur prior to March 2015. The vesting dates for all outstanding awards are shown in Table 4.1.6 below.

Table 4.1.4: Cumulative ROE performance for 2012 grants of performance-based LTI awards

	ROE Performance
2012	6.0%
2013	(79.3%)
2014	(133.4%)
3-year Average	(68.9%)
% of Award Earned	0.0%

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Table 4.1.5 shows the actual Net Debt performance achieved in 2014 applicable to the 2014 performance awards. The actual cumulative Net Debt and resulting percentage of award eligible to vest will be calculated at the close of 2016 for a March 2017 vest date.

Table 4.1.5: Cumulative performance for 2014 grants of performance-based LTI awards

	Targets			Actual Net Debt <sup>1</sup>	Net Debt Performance
	Threshold	Target	Maximum		
2014	554,500	542,676	530,852	550,758	66%
2015 <sup>2</sup>	TBD	TBD	TBD	TBD	TBD
2016 <sup>2</sup>	TBD	TBD	TBD	TBD	TBD
Cummulative Performance	TBD	TBD	TBD	TBD	TBD
% of Award Earned	TBD	TBD	TBD	TBD	TBD

(1) Excludes impact of recapitalisation transaction.

(2) Net Debt targets for 2015 and 2016 will be determined by the Board at the beginning of each plan year.

The vested Share Rights listed in Table 4.1.6 below include the Retention Share Rights and Performance Share Rights that were granted in 2011 and vested in 2014. The Performance Share Rights were subject to the performance period ended 31 December 2013 and achieved 0% (nil) of the target award amount (as detailed in last year's remuneration report).

Table 4.1.6: Movement in Share Rights during the year ended 31 December 2014

Name	Grant date	FMV at Grant Date US\$	Vesting date	LTIP shares (Total)	Number of Share Rights vested	Value of Share Rights vested US\$ <sup>1</sup>	Number of Share Rights forfeited <sup>2</sup>	Value of Share Rights forfeited US\$ <sup>1</sup>	Number of Share Rights Outstanding
Richard O'Brien <sup>3</sup>	1-Apr-13	1.32	1-Apr-14	315,000	-	-	315,000	64,856	-
	1-Apr-13	1.32	1-Apr-15	315,000	-	-	315,000	64,856	-
	1-Apr-13	1.32	1-Apr-16	3,149,000	-	-	3,149,000	648,359	-
	15-Mar-14	0.25	15-Mar-17	4,863,060	-	-	-	-	4,863,060
Jeffrey Olsen	1-Apr-14	0.27	1-Apr-17	972,612	-	-	-	-	972,612
Fabrizio Rasetti	15-Mar-11	4.36	15-Mar-14	70,000	35,000	8,846	35,000	8,846	-
	15-Mar-12	4.50	15-Mar-15	90,000	-	-	-	-	90,000
	15-Mar-13	1.39	15-Mar-16	238,550	-	-	-	-	238,550
	15-Mar-14	0.25	15-Mar-17	972,612	-	-	-	-	972,612
Brad Baker	15-Mar-11	4.36	15-Mar-14	60,000	30,000	7,582	30,000	7,582	-
	15-Mar-12	4.50	15-Mar-15	75,000	-	-	-	-	75,000
	15-Mar-13	1.39	15-Mar-16	180,238	-	-	-	-	180,238
	15-Mar-14	0.25	15-Mar-17	729,459	-	-	-	-	729,459
Alan Sides	15-Mar-11	4.36	15-Mar-14	60,000	30,000	7,582	30,000	7,582	-
	15-Mar-12	4.50	15-Mar-15	70,000	-	-	-	-	70,000
	15-Mar-13	1.39	15-Mar-16	318,066	-	-	-	-	318,066
	15-Mar-14	0.25	15-Mar-17	972,612	-	-	-	-	972,612
Kent Hoots	15-Mar-11	4.36	15-Mar-14	50,000	25,000	6,318	25,000	6,318	-
	15-Mar-12	4.50	15-Mar-15	55,000	-	-	-	-	55,000
	15-Mar-13	1.39	15-Mar-16	265,056	-	-	-	-	265,056
	15-Mar-14	0.25	15-Mar-17	778,092	-	-	-	-	778,092

(1) Represents the value of Share Rights vested and forfeited during the year based on the market value of shares at the vesting and forfeiture date. Mr O'Brien voluntarily forfeited his Share Rights per shareholder approval at the 2014 AGM on 19 May 2014.

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- (2) A portion of the 2012 outstanding grants relate to performance Share Rights that will not vest due to performance targets not being reached. These Share Rights will show as forfeited once the vesting date has passed in March 2015.
- (3) As disclosed in 2014 the Board approved a special one-off strategic retention award to Mr O'Brien in 2014 of \$5 million. The award was in the form of a cash retention award divided into three equal tranches due to vest on the date of the 2014 AGM, 1 April 2015 and 1 April 2016, respectively. The Board received shareholder approval at the 2014 AGM to convert half of the retention grant into options in order to strengthen the alignment with shareholders. In addition, Mr O'Brien agreed to voluntarily forfeit of all outstanding long-term incentive awards granted in 2013, but further agreed to maintain his requirement to purchase and hold 472,500 shares by 1 April 2016.

The Cash Rights listed in Table 4.1.7 below include the Retention Cash Rights and Performance Cash Rights that were granted in 2014 and vest in 2014 through 2017.

Table 4.1.7: Movement in Cash Rights during the year ended 31 December 2014

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\$	Number of Cash Rights Outstanding
Richard O'Brien	31-Jan-14	19-May-14	833,333	833,333 <sup>1</sup>	833,333	-	-	-
	31-Jan-14	1-Apr-15	833,333	-	-	-	-	833,333
	31-Jan-14	1-Apr-16	833,334	-	-	-	-	833,334
	15-Mar-14	15-Mar-17	625,000	-	-	-	-	625,000
Jeffrey Olsen	1-Apr-14	1-Apr-17	125,000	-	-	-	-	125,000
Fabrizio Rasetti	15-Mar-14	15-Mar-17	125,000	-	-	-	-	125,000
Brad Baker	15-Mar-14	15-Mar-17	93,750	-	-	-	-	93,750
Alan Sides	15-Mar-14	15-Mar-17	125,000	-	-	-	-	125,000
Kent Hoots	15-Mar-14	15-Mar-17	100,000	-	-	-	-	100,000

- (1) Mr O'Brien's first tranche of Cash Rights was eligible to vest on 19 May 2014. However, due to the loan covenant restrictions, the Board exercised its discretion to not vest this award until the restrictions were deemed to have been satisfied on 30 September 2014.

Table 4.1.8: Movement in options during the year ended 31 December 2014

Name	Effective grant date	Vesting date	Options (total)	Number of options vested	Value of options vested US\$	Option price A\$	Number of options forfeited <sup>1</sup>	Number of options outstanding <sup>2</sup>
Richard O'Brien	15-Mar-14	15-Mar-17	1,621,020	-	-	0.32	-	1,621,020
	19-May-14	19-May-14	3,034,753	3,034,753	576,603	0.19	-	3,034,753
	19-May-14	1-Apr-15	3,034,753	-	-	0.19	-	3,034,753
	19-May-14	1-Apr-16	3,034,752	-	-	0.19	-	3,034,752
Jeffrey Olsen	1-Apr-14	1-Apr-17	324,204	-	-	0.32	-	324,204
Fabrizio Rasetti	18-Jun-09	18-Jun-12	27,500	-	-	2.45	27,500	-
	15-Mar-14	15-Mar-17	324,204	-	-	0.32	-	324,204
Brad Baker	18-Jun-09	18-Jun-12	27,500	-	-	2.45	27,500	-
	15-Mar-14	15-Mar-17	243,153	-	-	0.32	-	243,153
Alan Sides	15-Mar-10	15-Mar-13	25,000	-	-	3.20	-	25,000
	15-Mar-14	15-Mar-17	324,204	-	-	0.32	-	324,204
Kent Hoots	18-Jun-09	18-Jun-12	20,000	-	-	2.45	20,000	-
	15-Mar-14	15-Mar-17	259,364	-	-	0.32	-	259,364

(1) The option exercise price was determined using a 10-day VWAP following the Board approval of the option grant and for Mr O'Brien, the 10-day VWAP following shareholder approval at the AGM held on 19 May 2014

(2) All options held by executives that vested prior to 2013 have since expired without being exercised.

## 4.2. RISK ALIGNMENT

### 4.2.1 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 82 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 2014 and 2013 (calculated in accordance with applicable accounting standards) are set out in Table 5.1.  
Table 5.1: Senior executive remuneration

	Short term benefits <sup>1</sup>			Cash-based compensation			Non-cash-based compensation			Share-based %	Total US\$	
	Cash salary US\$	Annual bonus <sup>3</sup>		Post-employment benefits		Retention Cash Rights US\$	Performance Cash Rights US\$	Share-based compensation <sup>2</sup>				
		Other <sup>4</sup> US\$	Other <sup>4</sup> US\$	Super-annuation benefits <sup>5</sup> US\$	Other <sup>6</sup> US\$			Options US\$	Rights <sup>7</sup> US\$			
Richard O'Brien <sup>8</sup>												
2014	750,000	900,000	25,480	7,800	7,800	1,923,083	82,972	1,277,469	322,799 <sup>8</sup>	30.2%	5,297,403	
2013	562,500	297,000	19,110	-	-	-	-	-	572,152	39.4%	1,450,762	
Jeffrey Olsen <sup>9</sup>												
2014	298,462	348,200	15,520	7,800	7,800	15,625	15,625	20,263	65,652	10.8%	794,404	
2013	-	-	-	-	-	-	-	-	-	0.0%	-	
Fabrizio Rasetti												
2014	416,000	277,806	23,800	7,800	7,800	263,594 <sup>11</sup>	16,594	19,798	197,716	17.7%	1,230,908	
2013	416,000	89,664	24,000	7,650	-	2,226	2,226	-	58,757	9.8%	600,523	
Brad Baker												
2014	324,450	204,873	23,800	7,800	7,800	205,217 <sup>11</sup>	12,446	14,849	155,338	17.8%	956,573	
2013	324,450	67,810	24,400	7,650	-	2,226	2,226	-	45,293	9.6%	474,055	
Alan Sides												
2014	390,728	254,390	20,800	7,800	7,800	248,552 <sup>11</sup>	16,594	19,798	199,629	18.8%	1,166,091	
2013	387,301	97,291	21,400	7,650	-	2,737	2,737	3,683	55,569	10.2%	578,368	
Kent Hoobs <sup>10</sup>												
2014	340,725	215,949	23,800	7,800	7,800	215,547 <sup>11</sup>	13,276	15,839	161,706	17.7%	1,002,442	
2013	337,866	60,990	24,300	7,650	-	1,391	1,391	-	36,842	7.8%	470,430	

(1) There were no non-monetary benefits provided.

(2) 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

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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 13 to the financial statements.

- (3) The 2014 amount represents cash STI payments earned by the executive during the year ended 31 December 2014, which are expected to be paid in March 2015 and were approved by the Board on 21 February 2015. The 2013 amount represents cash STI payments earned by the executive during the year ended 31 December 2013, which was paid on 7 March 2014.
- (4) Includes automotive allowances, reimbursements of financial and tax preparation assistance, and dividends received on Share Rights.
- (5) Includes 401(k) plan matching contributions made by the employing entity in the United States.
- (6) Includes 401(k) profit sharing contributions made by the employing entity in the United States, which in 2014 was \$7,800 per KMP.
- (7) Share-based compensation amounts for 2013 were significantly reduced due to the reversal of the accrual for performance Share Rights for 2012 and 2013, based on the expectation that these rights will not vest.
- (8) Mr O'Brien's 2014 LTI Rights were also reduced due to his voluntary forfeiture of rights granted at his hire date on 1 April 2013.
- (9) Mr Olsen's employment began on 1 April 2014.
- (10) Mr Hoots was not considered a KMP until his promotion on 31 January 2013, however his remuneration reported above is inclusive of his remuneration commencing 1 January 2013.
- (11) 2014 amounts reflect the expense associated with the special one-time strategic retention awards explained and detailed at the beginning of the Remuneration Report.



## 5.2. RIGHTS AND OPTIONS GRANTED

Table 5.2.1: Rights granted during the year ended 31 December 2014

Name	Share Rights				Cash Rights			
	Number of Rights granted <sup>1</sup>	Future years payable <sup>2</sup>	Fair value per Right <sup>3</sup> US\$	Maximum value of grant <sup>4</sup> US\$	Number of Rights granted <sup>1</sup>	Future years payable <sup>2</sup>	Fair value per Right <sup>3</sup> US\$	Maximum value of grant <sup>4</sup> US\$
Richard O'Brien	4,863,060	3 yrs	0.25	1,422,445	625,000	3 yrs	1.00	781,250
Richard O'Brien <sup>5</sup>	-	-	-	-	833,333	< 1 yrs	1.00	833,333
Richard O'Brien <sup>5</sup>	-	-	-	-	833,333	> 1 yrs	1.00	833,333
Richard O'Brien <sup>5</sup>	-	-	-	-	833,334	> 2 yrs	1.00	833,334
Jeffrey Olsen	972,612	3 yrs	0.27	307,248	125,000	3 yrs	1.00	156,250
Fabrizio Rasetti	972,612	3 yrs	0.25	284,489	125,000	3 yrs	1.00	156,250
Brad Baker	729,459	3 yrs	0.25	213,367	93,750	3 yrs	1.00	117,188
Alan Sides	972,612	3 yrs	0.25	284,489	125,000	3 yrs	1.00	156,250
Kent Hoots	778,092	3 yrs	0.25	227,592	100,000	3 yrs	1.00	125,000

- (1) The grants made to senior executives along with the options in table 5.2.2 below constituted 100% of their full LTI entitlement for 2014 and were made on 15 March 2014. Any Rights that do not vest on the vesting date will be forfeited.
- (2) Rights vest on 15 March 2017 subject to performance over the period from 1 January 2014 to 31 December 2016 and/or continued service until the vesting date. For Mr O'Brien 833,333 million of the Cash Rights above are eligible to vest in 2015 and an additional 833,333 to vest in 2016 if service and shareholding requirements have been met.
- (3) The fair value was calculated as at the grant date of 15 March 2014 for all except Mr Olsen which was calculated on his grant date of 1 April 2014.
- (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.
- (5) For Mr O'Brien, the number of Rights granted was approved by shareholders at the 2014 AGM on 19 May 2014.

Table 5.2.2: Options granted during the year ended 31 December 2014 table:

Name	Options				
	Number of options granted <sup>1</sup>	Future years payable	Exercise price per option A\$	Fair value per option <sup>2</sup> US\$	Maximum value of grant <sup>3</sup> US\$
Richard O'Brien	1,621,020	3 yrs	0.32	0.23	372,835
Richard O'Brien	3,034,753	< 1 yrs	0.19	0.19	576,603
Richard O'Brien	3,034,753	> 1 yrs	0.19	0.19	576,603
Richard O'Brien	3,034,752	3 yrs	0.19	0.19	576,603
Jeffrey Olsen	324,204	3 yrs	0.32	0.25	81,051
Fabrizio Rasetti	324,204	3 yrs	0.32	0.23	74,567
Brad Baker	243,153	3 yrs	0.32	0.23	55,925
Alan Sides	324,204	3 yrs	0.32	0.23	74,567
Kent Hoots	259,364	3 yrs	0.32	0.23	59,654

- (1) For Mr O'Brien, the number of Options granted was approved by shareholders at the 2014 AGM on 19 May 2014.
- (2) The fair value was calculated as at the grant date of 15 March 2014 for all except Mr O'Brien's A\$0.19 options that were calculated on his grant date of 19 May 2014 and for Mr Olsen which was calculated on his grant date of 1 April 2014. An explanation of the pricing model used to calculate these values is set out in Note 13 to the financial statements.
- (3) The maximum fair value of the grant is based on the fair value per instrument and full vesting.

The Board desired not to accelerate the vesting of outstanding Options in connection with the 2014 recapitalisation and reached an agreement with participants that accelerated vesting of Options granted prior to the recapitalisation should only occur if a participant is terminated for reasons other than cause during the 24 month period following the date of the completion of the recapitalisation (27 January 2015).

## 5.3. SHARES, RIGHTS AND OPTIONS HOLDINGS

### Shares

Table 5.3.1: Share holdings as at the end of the financial year and activity during the financial year, are as follows:

	<b>Balance 1 January</b>	<b>Net change during year</b>	<b>Balance 31 December</b>	<b>Balance held nominally</b>
<b>2014</b>				
Barbara Jeremiah	455,000	-	455,000	-
Bruce Brook	220,000	-	220,000	-
Roger Brown	100,000	-	N/A <sup>1</sup>	-
Peter Day	-	175,000	175,000	-
Roy Franklin	165,000	135,000	300,000	-
Tanya Fratto	120,000	-	120,000	-
Jonathan Lew insohn	-	-	-	-
David McLemore	1,155,861	-	1,155,861	-
Rex McLennan	100,000	-	100,000	-
Conor Tohillin	-	-	-	-
Richard O'Brien	300,000	-	300,000	-
Jeffrey Olsen	-	135,000	135,000	-
Fabrizio Rasetti	210,582	24,389	234,971	-
Brad Baker	95,329	20,727	116,056	-
Alan Sides	69,606	18,833	88,439	-
Kent Hoots	36,663	17,247	53,910	-

(1) The 31 December 2014 share balances for Mr Brown are not reported due to his resignation on 18 December 2014. His net change for the year is reflected through the termination date.

### Share Rights and restricted shares

Table 5.3.2: Rights holdings as at the end of the financial year and activity during the financial year, are as follows:

	<b>Held at the beginning of the financial year</b>	<b>Granted as remun- eration</b>	<b>Vested and issued during the year</b>	<b>Forfeited during the year</b>	<b>Held at the end of the financial year</b>
<b>2014</b>					
Richard O'Brien	3,779,000	4,863,060	-	(3,779,000)	4,863,060
Jeffrey Olsen	-	972,612	-	-	972,612
Fabrizio Rasetti	398,550	972,612	(35,000)	(35,000)	1,301,162
Brad Baker	315,238	729,459	(30,000)	(30,000)	984,697
Alan Sides	448,066	972,612	(30,000)	(30,000)	1,360,678
Kent Hoots	370,056	778,092	(25,000)	(25,000)	1,098,148

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## Cash Rights

Table 5.3.3: Cash Rights holdings as at the end of the financial year and activity during the financial year, are as follows:

2014	Held at the beginning of the financial year US\$	Granted as remuneration US\$	Vested and issued during the year US\$	Forfeited during the year US\$	Held at the end of the financial year US\$
Richard O'Brien	-	3,125,000	(833,333)	-	2,291,667
Jeffrey Olsen	-	125,000	-	-	125,000
Fabrizio Rasetti	-	125,000	-	-	125,000
Brad Baker	-	93,750	-	-	93,750
Alan Sides	-	125,000	-	-	125,000
Kent Hoots	-	100,000	-	-	100,000

## Options

Table 5.3.4: Options holdings as at the end of the financial year and activity during the financial year, are as follows:

2014	Held at the beginning of the financial Year	Granted as remuneration	Vested during the year	Forfeited during the year	Held at the end of the financial year	Vested and exercisable as at 31 December 2014
Richard O'Brien	-	10,725,278	(3,034,753)	-	7,690,525	3,034,753
Jeffrey Olsen	-	324,204	-	-	324,204	-
Fabrizio Rasetti	-	324,204	-	-	324,204	-
Brad Baker	-	243,153	-	-	243,153	-
Alan Sides	-	324,204	-	-	324,204	25,000
Kent Hoots	-	259,364	-	-	259,364	-

During the year ended 31 December 2014, no shares were issued on the exercise of options previously granted as compensation to the above individuals.

## 5.4 SERVICE CONTRACTS AND TERMINATION PROVISIONS

Name and position held at the end of the financial year	Duration of contract	Notice period by Company	Notice period by executive	Termination payments (where these are in addition to statutory entitlements)
<b>Richard O'Brien</b> 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"> <li>• 12 months' salary</li> <li>• Pro-rata bonus to termination date</li> <li>• Waiver of medical insurance premiums for 12 months or 1 April 2015, whichever is later</li> <li>• Up to \$50,000 relocation expense reimbursement</li> </ul>
<b>Jeffrey Olsen</b>	No fixed term	None required	90 days	For termination with cause,

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Name and position held at the end of the financial year	Duration of contract	Notice period by Company	Notice period by executive	Termination payments (where these are in addition to statutory entitlements)
Chief Financial Officer (employment began 1 April 2014)				statutory entitlements only For termination without cause: <ul style="list-style-type: none"> <li>• 12 months' salary</li> <li>• Pro-rata bonus to termination date</li> <li>• Waiver of medical insurance premiums for 12 months</li> </ul>
<b>Fabrizio Rasetti</b> 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"> <li>• 12 months' salary</li> <li>• Pro-rata bonus to termination date</li> <li>• Waiver of medical insurance premiums for 12 months</li> </ul>
<b>Brad Baker</b> 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"> <li>• 12 months' salary</li> <li>• Pro-rata bonus to termination date</li> <li>• Waiver of medical insurance premiums for 12 months</li> </ul>
<b>Alan Sides</b> Senior Vice President, Global Drilling Services	No fixed term	None required	90 days	For termination with cause, statutory entitlements only For termination without cause: <ul style="list-style-type: none"> <li>• 12 months' salary</li> <li>• Pro-rata bonus to termination date</li> <li>• Waiver of medical insurance premiums for 12 months</li> </ul>
<b>Kent Hoots</b> Senior Vice President, Global Products and Supply Chain	No fixed term	None required	90 days	For termination with cause, statutory entitlement only For termination without cause: <ul style="list-style-type: none"> <li>• 12 months' salary</li> <li>• Pro-rata bonus to termination date</li> <li>• Waiver of medical insurance premiums for 12 months</li> </ul>

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 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 (NED) are remunerated by a fixed annual base fee with additional fees paid for serving on Board committees. NED who are also employees of Centerbridge Partners, L.P. do not receive any director fees. The payment of committee fees recognises the additional time commitment required by NED who serve on board committees. The Chair may attend any committee meetings but does not receive any additional committee fees in addition to base fees.

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\$2.0 million, which has not changed since the Company's initial public offering in 2007. During the financial year, \$1,295,435 of the pool was utilised for non-executive Director fees, being approximately 64% of the fee pool limit.

The Board elected to temporarily reduce its fees effective 1 June 2014 in recognition of the difficulties facing the Company, notwithstanding the significant time and commitment associated with the successful completion of the strategic review and recapitalisation process. The Board will not seek any increase to the current NED approved fee pool limit at the 2015 AGM.

Table 6.1: Components of non-executive Director remuneration

<u>Component</u>	<u>Explanation</u>
Board fees	Current base fees per annum are: <ul style="list-style-type: none"> <li>US\$120,000 for non-executive Directors other than the Board Chair; and</li> <li>US\$300,000 for the Board Chair</li> </ul>
Committee fees	Current committee fees for non-executive Directors (other than the Board Chair) are: <ul style="list-style-type: none"> <li>US\$15,000 annually for committee members; and</li> <li>US\$30,000 annually for committee chairs.</li> </ul> <p>Where the Board Chair sits on a committee, he or she does not receive any additional fee.</p>
Interim fee structure	Given the difficult market and financial conditions the Company is experiencing, effective 1 June 2014 the Board has established an interim reduction to certain fees as follows: <ul style="list-style-type: none"> <li>Board Chair fee has been reduced to US\$275,000</li> <li>Committee member fees are reduced to US\$7,500</li> </ul>
Other fees/benefits	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 Board Chair also is entitled to reimbursement for office and secretarial support. <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	Compulsory superannuation contributions for Australian-resident non-executive Directors are included in the base fee and additional committee fees set out above. <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. All non-executive Directors who held office as at 31 December 2014 have satisfied the shareholding guideline.

## 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 2014.

## 6.4. DETAILS OF REMUNERATION PAID TO NON-EXECUTIVE DIRECTORS

Details of non-executive Directors' remuneration for the year ended 31 December 2014 and 2013 are set out in the table below.

Table 6.4: Non-executive Director remuneration

	Fees (incl. committee fees) <sup>1</sup>	Superannuation contributions <sup>2</sup>	Shares	Total
	US\$	US\$	US\$	US\$
Barbara Jeremiah				
2014	285,417	-	-	285,417
2013	275,000	-	-	275,000
Bruce Brook				
2014	141,140	13,235	-	154,375
2013	148,915	13,585	-	162,500
Roger Brown <sup>3</sup>				
2014	143,125	-	-	143,125
2013	165,000	-	-	165,000
Peter Day <sup>4</sup>				
2014	104,893	9,857	-	114,750
2013	-	-	-	-
Roy Franklin				
2014	160,625	-	-	160,625
2013	165,000	-	-	165,000
Tanya Fratto				
2014	154,375	-	-	154,375
2013	150,000	-	-	150,000
Jonathan Lewinsohn <sup>5</sup>				
2014	-	-	-	-
2013	-	-	-	-
David McLemore				
2014	136,875	-	-	136,875
2013	365,000	-	-	365,000
Rex McLennan				
2014	145,893	-	-	145,893
2013	44,681	-	-	44,681
Conor Tochilin <sup>6</sup>				
2014	-	-	-	-
2013	-	-	-	-

(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) Mr Brown retired from the Board effective 18 December 2014.

(4) Mr Day was appointed a Director effective 25 February 2014.

(5) Mr Lewinsohn was appointed a Director effective 23 October 2014 and is an employee of Centerbridge Partners, L.P. Mr Lewinsohn receives no director fees.

(6) Mr Tochilin was appointed a Director effective 18 December 2014 and is an employee of Centerbridge Partners, L.P. Mr Tochilin receives no director fees.

## BOARD OF DIRECTORS

A brief summary of the Directors' work experience and qualifications is as follows.

### **Barbara Jeremiah**

Barbara Jeremiah has been a Director of the Company since 1 October 2011 and was appointed Chair of the Board effective 1 March 2013. She is a member of the Finance Committee. Ms Jeremiah has announced her retirement from the Board effective 25 February 2015.

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

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.

Ms. Jeremiah received her J.D. from the University of Virginia School of Law and BA in Political Science from Brown University.

### **Bruce Brook**

Bruce Brook was appointed a Director of the Company on 21 February 2007. He is Chairman of the Audit, Compliance and Risk Committee and a member of the Finance 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 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.

### **Peter Day**

Peter Day was appointed a Director of the Company on 25 February 2014. He is a member of the Audit, Compliance and Risk and Remuneration Committees.

Mr Day currently serves as a non-executive Director of, Alumina Limited, Ansell Limited and SAI Global Limited.

Mr Day was formerly a Chairman and Director of Orbital Corporation Limited, a Director of Federation Centres Limited. He was Chief Financial Officer for Amcor Limited for seven years and has also held senior executive positions with Bonlac Foods, the Australian Securities and Investments Commission, Rio Tinto, CRA and Comalco. He has a background in finance and general management across diverse industries.

Mr Day received his LL.B (hons.) from the Queen Victoria University of Manchester (UK) and MBA from Monash University (Australia). He also holds FCPA, FCA and FAICD designations.



## Roy Franklin

Roy Franklin was appointed a Director of the Company on 15 October 2010. He is the Chairman of the Remuneration Committee and a member of the Finance Committee. Mr. Franklin has announced his retirement from the Board effective 25 February 2015.

Mr Franklin currently serves as Chairman of the Board of Keller Group PLC (London Stock Exchange) and is a director of Santos Ltd (Australian Securities Exchange) and privately held Cuadrilla Resources. He is also a member of Austrian-listed OMV A.G.

Mr Franklin 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 received his BS in Geology from the University of Southampton.

## Tanya Fratto

Tanya Fratto was appointed a Director of the Company on 1 June 2011 and is Chairman of the Environmental, Health and Safety Committee and a member of the Remuneration Committee.

Ms Fratto 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.

## Jonathan Lewinsohn

Jonathan Lewinsohn was appointed a Director of the Company on 23 October 2014. Mr Lewinsohn is a Partner at Centerbridge Partners, L.P., a major shareholder in the Company that manages approximately \$25 billion of assets with a focus on credit, special situations, and private equity.

Prior to joining Centerbridge Partners, L.P., Mr Lewinsohn was Head of Research and a permanent member of the Investment Committee at Anchorage Capital Group. He was previously a law clerk to Judge Richard A. Posner of the US Court of Appeals and began his career at Morgan Stanley in the Mergers & Acquisitions Group.

Mr Lewinsohn received his J.D. from Yale Law School, where he was an editor of the Yale Law Journal, and his BA, summa cum laude, from Cornell University's College of Arts and Sciences as a Merrill Presidential Scholar. He is a Term Member of the Council on Foreign Relations and a member of Economic Club of New York. He previously served on the board of Martinrea-Honsel BV.

## David McLemore

David McLemore was appointed a Director on 21 February 2007 and served as Chair of the Board from 23 August 2010 to 1 March 2013. He also acted as Interim Chief Executive Officer of the Company for approximately six months until 1 April 2013, when Richard O'Brien was appointed Chief Executive Officer.

Mr McLemore is a member of the Audit, Compliance and Risk Committee.

Mr McLemore has more than 35 years of industrial and broad operational experience. He has held a number of positions with various Advent International portfolio companies for more than fifteen 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. He 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.

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## Rex McLennan

Mr McLennan was appointed a Director of the Company on 24 August 2013. He serves as Chairman of the Finance Committee and also is a member of the Audit, Compliance & Risk Committee and Environmental, Health and Safety Committee.

Mr McLennan currently serves on the Board of Endeavour Silver Corp. (TSX, NYSE) and is Chairman of its Audit Committee. He most recently served as Chief Financial Officer for Viterra, Inc., a leading global agricultural products company primarily involved in the distribution, marketing and processing of grain and oilseeds, which was acquired by Glencore International in December 2012. He has held finance roles in the resources and other industries, including serving as Executive Vice President and Chief Financial Officer for Placer Dome, Inc. prior to its acquisition by Barrick Gold Company, and the Vancouver Organising Committee (VANOC) for the 2010 Olympic Winter Games. He also has significant experience in the energy resources industry, having held progressive leadership roles earlier in his career at Imperial Oil Limited, Exxon's Canadian public oil company.

Mr McLennan received his Master of Business Administration from McGill University in Finance/Accounting, and a Bachelor of Science in Mathematics/Economics from the University of British Columbia. He is also a member of the Institute of Corporate Directors (Canada) and received his ICD.D designation in June 2013 having completed all of the institution's certification requirements.

## Richard O'Brien

Mr O'Brien was appointed as President and Chief Executive Officer on 1 April 2013 and a Director on 21 May 2013. He brings over 25 years of operational, financial and leadership experience from the natural resources, energy and power industries. He was employed in various capacities between 2005 and March 2013 by NYSE-listed Newmont Mining Corporation, serving as President and CEO since 2007 and Executive Vice President and Chief Financial Officer prior to that time. Before Newmont Mining, Mr O'Brien's executive roles included Chief Financial Officer of US-based natural gas utility company AGL Resources and Chief Operating Officer and Chief Financial Officer at PacifiCorp, an electric power company.

Mr O'Brien holds a Bachelor of Arts in economics from the University of Chicago and a Doctor of Jurisprudence degree from Lewis and Clark Law School. He has been a director of Xcel Energy Inc. since August 2012 and a director of Vulcan Materials Company since October 2008.

## Conor Tochilin

Conor Tochilin was appointed a Director of the Company on 18 December 2014. Mr Tochilin is a Principal at Centerbridge Partners, L.P., a major shareholder in the Company. Centerbridge Partners, L.P. manages approximately \$25 billion of assets with a focus on credit, special situations, and private equity. Prior to joining Centerbridge Partners, L.P., Mr. Tochilin was an Associate at TPG-Axon Capital Management in New York and London and a Business Analyst in McKinsey's Corporate Finance Practice in New York.

Mr. Tochilin holds an A.B. in Economics and Philosophy, magna cum laude, from Harvard College, where he was elected to Phi Beta Kappa, a J.D. from Harvard Law School, and an M.B.A. from Harvard Business School.

## COMPANY SECRETARIES

Fabrizio Rasetti was appointed Company Secretary on 26 February 2007. He joined Boart Longyear in April 2006. Prior to that time, he worked at SPX Corporation (New York Stock Exchange), where he held various management roles in the legal department and for business development over a period of almost nine years. He also worked in the private law firms of Howrey & Simon and Towey & Associates in Washington, DC. He received his BS in Foreign Service and J.D. from Georgetown University.

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.

## EXECUTIVE MANAGEMENT TEAM

A brief summary of the Executive Management Team's work experience and qualifications is as follows.

### Jeffrey Olsen

Jeffrey Olsen joined Boart Longyear and was appointed Chief Financial Officer on 1 April 2014. Prior to Boart Longyear, he worked for Rio Tinto for 18 years in a variety of locations and roles. Most recently, he was the Chief Commercial Officer for Rio Tinto Iron & Titanium in London. Prior roles at Rio Tinto included chief financial officer roles for Rio Tinto Minerals in Denver, Colorado, and Rio Tinto Borax in Los Angeles, California. Mr. Olsen's earlier roles at Rio Tinto include Manager of Rio Tinto's Financial Planning and Analysis Group and Financial Executive for Rio Tinto's global Copper Group. Earlier in his career, Mr. Olsen worked in various financial roles for General Chemical Corporation and Xerox Corporation.

Mr. Olsen received his Bachelor of Arts degree in International Politics from the University of Utah, and his Master of Business Administration from the University of Rochester.

### M. Bradley Baker

Mr Baker was appointed Senior Vice President, Human Resources in 2008. Prior to joining Boart Longyear he worked for Milacron Inc. in Cincinnati, Ohio for 17 years in a variety of operational, divisional and global human resources roles including: Vice President of Human Resources, Director of Human Resources, North America, Director of Human Resources for the Plastics Technologies Group and leading the human resources and leadership integration of multiple acquisitions including the Michigan-based consumable tooling manufacturer, Valenite Inc.

Mr Baker received his Bachelor of Science in Business Administration from Bowling Green State University and his Master of Business Administration from Xavier University.

### Kent Hoots

Mr Hoots was appointed Senior Vice President of Global Products in January 2013 in addition to his responsibilities of Global Supply Chain and IT, which he took over in July of 2012. He joined Boart Longyear in April 2007 as Vice President – Asia Pacific located in Adelaide, Australia. Prior to joining Boart Longyear, Mr Hoots was employed by General Electric for over 20 years where he held various positions of increasing responsibility in both the Aviation and Energy divisions including Sourcing Director for GE's Power Generation Operations, Asia Sourcing Director, Customer Quality Leader for GE Energy, and Quality Director for GE Energy's European Operations. In addition, he has held several international positions including assignments in Dubai, United Arab Emirates, Belfort, France and Shanghai, China.

Mr Hoots is a graduate of GE's Manufacturing Management Program and received his Bachelors of Science in Industrial Engineering from North Carolina State University and his Master's degree in Mechanical Engineering from the University of Cincinnati.

### Fabrizio Rasetti

Mr Rasetti's experience and qualifications are summarised above.

### Alan Sides

Mr Sides was appointed as Senior Vice President of Global Drilling Services in January 2013 after successfully leading the Global Products division since 2010. He spent over 25 years with the General Electric Company in the energy business. Mr Sides was employed in various leadership capacities in both services and capital equipment globally. Just prior to joining Boart Longyear, he was the global commercial leader for the Aero Energy business in Houston, Texas, USA. Other 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.

Mr Sides received his Bachelors of Science in Mechanical Engineering from the Georgia Institute of Technology and earned a Master's of Business Administration from Emory University.

## 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 (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](http://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 periodically 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 nine non-executive Directors and one Executive Director. Marcus Randolph and Bret Clayton will join the Board effective 25 February 2015 as independent, non-executive Directors, contemporaneously with the retirement of Barbara Jeremiah and Roy Franklin from the Board. Mr. Randolph will also assume the responsibilities of Board Chairman from Ms. Jeremiah.

The foregoing changes to the Company's Board arise from, the Centerbridge Partners, L.P.-led recapitalisation of the Company. As noted in the Company's 23 October 2014 announcement of the recapitalisation, the Board agreed that Centerbridge Partners, L.P. may appoint up to four directors, including the right to nominate the Board Chairman subject to the approval of a majority of the independent directors. Messrs. Clayton and Randolph, along with Messrs. Lewinsohn and Tochilin, comprise Centerbridge Partners, L.P.'s nominated Board appointees.

### 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 and the ASX Guidelines 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;
- has close family ties with any person who falls within any of the categories described above; or
- has been a director of the entity for such a period that his or her independence may have been compromised.

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 ASX Guidelines, as a majority of the Board is comprised of non-executive Directors. Further, a majority of Directors, including the Chairman of the Board and the chairmen of the four Board committees, meet the independence criteria listed above. Messrs Lewinsohn and Tochilin are not considered independent due to their employment with Centerbridge Partners, L.P., a significant shareholder in the Company.

The Board has considered whether Mr McLemore's temporary assumption of the chief executive officer's duties from October 2012 through March 2013 compromised his independence or status as a non-executive director and determined that, save for the period of his service as Interim CEO, it did not, given the temporary nature of the assignment. During such period, McLemore also temporarily relinquished his responsibilities as Chairman to Ms Jeremiah and attended the November 2012 and February 2013 meetings of the Remuneration Committee in an ex officio capacity, as permitted in the committee's charter. Further, although Mr McLemore received additional fees of \$37,500 per month while acting as Interim CEO, he was not eligible to participate in the Company's short term incentive or long term incentive programs.

The Board also has considered certain Directors' previous and current relationships with the Company's customers, suppliers, consultants, professional advisors and substantial shareholders. The Board notes that Messrs Brook, Franklin and McLennan are non-executive directors, respectively, of Newmont Mining Corporation (Newmont), Santos and Endeavor Silver, each of which was a customer of the Company in 2014 or 2013. The Board has considered each Director's affiliation with those customers and has concluded that such relationship is not material, does not interfere with the Director's exercise of independent judgment and does not affect his ability to act in the best interests of the Company's shareholders and other stakeholders, as the Company's relationship with each such customer is an arm's length customer-supplier relationship based on normal commercial terms. None of Messrs Brook, Franklin or McLennan participates directly or indirectly in the terms on which the Company conducts business with Newmont, Santos or Endeavour Silver. 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. When possible, 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 assisted by the following four committees in discharging its responsibilities:

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

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 subsequent Board meeting 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 and the Company's Code of Conduct and policies. 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 or its affiliates.

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
- Peter Day (appointed to Committee effective 25 February 2014)
- Roy Franklin (resigned from Committee effective 1 June 2014)
- David McLemore (appointed to Committee effective 1 June 2014)
- Rex McLennan

## **Remuneration Committee**

The Remuneration 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 key executive positions; and
- promoting workforce diversity and monitoring the Company's performance against established diversity objectives.

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

- Roy Franklin - Chairman (appointed to Committee and as Chairman effective 1 June 2014)
- Roger Brown (resigned as Chairman and from the Committee effective 1 June 2014)
- Peter Day (appointed to Committee effective 1 June 2014)
- Tanya Fratto
- David McLemore (resigned from Committee effective 1 June 2014)

## **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.

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

- Tanya Fratto – Chairman (appointed as Chairman effective 1 June 2014)
- Roger Brown (resigned from Committee effective 18 December 2014)
- Roy Franklin (resigned as Chairman and from Committee effective 1 June 2014)
- David McLemore (resigned from Committee effective 1 June 2014)
- Rex McLennan (appointed to Committee effective 1 June 2014)

## Finance Committee

The Board established the Finance Committee effective 1 November 2013 to assist with the review and management of financial risks and funding requirements at the Company. The Committee's responsibilities have included:

- overseeing the strategic review of recapitalisation options conducted by the Company in 2014;
- assisting the Board with the effective discharge of its responsibilities in relation to the Company's capital structure, funding requirements and sources of funding;
- monitoring and advising the Board on capital expenditure plans; and
- reviewing treasury risks and practices (including hedging and risk management), insurance requirements and employee benefit plan investment policies, performance and funding requirements.

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

- Rex McLennan – Chairman
- Bruce Brook
- Roy Franklin
- Barbara Jeremiah
- David McLemore (resigned from Committee effective 1 June 2014)

With completion of the Company's strategic review of recapitalisation option in January 2015, the Company expects to disband the Finance Committee.

## Board and Director nominations and selection

Contrary to the ASX Guidelines, the Board currently does not have a separate nominations committee responsible for managing director succession planning or recruiting new directors, although the Remuneration Committee has been responsible for those duties in recent years. Currently, those responsibilities reside with the Board and are managed by the Board Chairman. The Board notes that Centerbridge Partners, L.P., the Company's largest shareholder, is contractually entitled to appoint directors not to equal or exceed half of the Board and to nominate the Chairman (subject to Board approval) as a condition of its investment in the Company pursuant to the recapitalisation transaction agreement entered into with the Company on 23 October 2014.

## Board and Director performance

The Board has a formal assessment process that includes performance assessments of the Board committees and individual Directors that is conducted on a regular basis. As part of the assessment process, each Director and executive 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.

The most recent Board and committee performance evaluations were completed at the end of 2013 and reviewed at the February 2014 Board and committee meetings. The Board expects that the next Board and committee performance review will occur in the second half of the 2015 calendar year.

## 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 judgment, 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 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 strategic personal objectives impacts the potential incentive an executive may receive under the Company's short-term incentive plan, which also sets corporate financial performance and safety objectives that must be met. Individuals are advised annually of their target bonuses, which in 2014 ranged from 40% to an additional 100% of base pay for senior executives. Certain other corporate executives and managers also participate in the corporate bonus plan at lower target levels.

Exceptional individual and corporate performance can increase actual bonuses paid under the Corporate Bonus Plan to up to 200% of a participant's target bonus amount. The Company's executive performance assessment process for 2014 and goal-setting process for 2015 commenced in January 2015 and will be completed in March 2015.

## Risk Management

The Board recognises that disciplined risk management and sound 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, regularly regional and corporate risk identification and mitigation reviews and the findings of Company audits and investigations.

The Board reviews on an annual basis the risk registers prepared by business unit and corporate management. It also is assisted and advised in its oversight of the Company's risk management system by three of its committees: the Environment, Health & Safety Committee with respect to health safety and operational risks generally, the Audit, Compliance & Risk Committee with respect to controls and compliance risks and the Finance Committee with respect to financial and funding risks. Those committees consider the risks identified by senior management and confirm the implementation of corrective actions to mitigate identified risks and deficiencies. The Company recently implemented changes to its risk management system in 2014 to reflect changes in the Company's operating environment and structure since the initial implementation of its risk management program in 2007 and to enhance the Company's ability to quantify risks.



## 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 2014:
  - (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 2014:
  - (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 2014 that would indicate any material change to the statements made in 2(i) and 2(ii) above.

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](http://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

The Board of Directors has established a workforce diversity policy for the Company. The complete policy can be found under the governance section on the Company's website ([www.boartlongyear.com](http://www.boartlongyear.com)).

The policy sets out the Company's commitment to creating a diverse workforce that is representative of the diverse communities in which the Company operates and 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 Committee of the Board of Directors has responsibility for oversight of the policy. The Committee also reviews the policy at least annually and oversees its implementation, including progress made toward measurable objectives for achieving desired diversity representation and the continued relevance of those objectives.

Diversity objectives achieved in 2014 include:

- Continued progress in increasing female representation among senior managers from 5% in 2010 to 13% in 2014; and
- A specific review of women in senior management positions as part of the Company's formal leadership assessment, development and succession management process.
- Total female representation in the Company when excluding our drillers and driller helpers has risen from 17% in 2012 to 21% in 2014.
- During 2014, two new Board members were appointed by Centerbridge Partners, L.P. as a part of the successful conclusion of our strategic review process. Both Board members chosen by Centerbridge Partners, L.P. were male which reduced our overall female representation from 25% in 2013 to 22% in 2014.

The levels of gender diversity as at 31 December 2014 are:

Gender Diversity	Male	Female
Total Employees	90%	10%
Total Employees (excl. Drillers and Driller Helpers)	79%	21%
Senior Managers	87%	13%
Board of Directors	78%	22%

## 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.

The Board has 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 several years. Additional information about the program, including some of the early results it has yielded, is available on the Company's website at [www.boartlongyear.com](http://www.boartlongyear.com).

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 also can be reviewed on the Company's website.

## 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. In addition, the Company endeavours to provide key operational and financial performance indicators on a regular basis throughout the year. Shareholders have the right to attend the Annual General Meeting in May and are provided with an explanatory memorandum

# Annual Financial Report

31 DECEMBER 2014

BOART LONGYEAR LIMITED

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](http://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's Charitable Giving Policy 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 overseen by its Executive Committee.

Signed in accordance with a resolution of the Directors.

On behalf of the Directors



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Barbara Jeremiah  
Chair

23 February 2015

The Directors  
Boart Longyear Limited  
26 Butler Boulevard  
Adelaide Airport SA 5650  
Australia

23 February 2015

Dear Directors

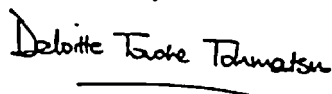
### **Boart Longyear Limited**

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.

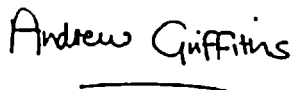
As lead audit partner for the audit of the financial statements of Boart Longyear Limited for the financial year ended 31 December 2014, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (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

## **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 2014, the statement of profit or loss and other 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 93 to 157.

#### *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 gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 2, 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 judgement, 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 company'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 company'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.

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Touche Tohmatsu Limited

## *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:

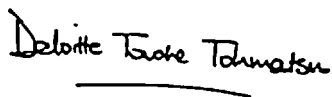
- (a) the financial report of Boart Longyear Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the year ended on that date; and
  - (ii) complying 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 2.

## **Report on the Remuneration Report**

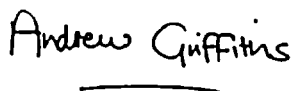
We have audited the Remuneration Report included in pages 43 to 77 of the directors' report for the year ended 31 December 2014. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. 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 2014, complies with section 300A of the *Corporations Act 2001*.

  
Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

  
Andrew Griffiths

A V Griffiths  
Partner  
Chartered Accountants  
Sydney, 23 February 2015

## 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 2 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.

On behalf of the Directors



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Barbara Jeremiah  
Chair

23 February 2015

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the financial year ended 31 DECEMBER 2014

BOART LONGYEAR LIMITED

	Note	2014 US\$'000	2013 US\$'000
<b>Continuing operations</b>			
Revenue	6	866,588	1,222,853
Cost of goods sold		<u>(750,115)</u>	<u>(1,020,718)</u>
Gross margin		116,473	202,135
Other income	7	7,565	18,151
General and administrative expenses		(124,281)	(157,728)
Sales and marketing expenses		(40,053)	(44,405)
Significant items	10	(114,005)	(461,165)
Other expenses	7	<u>(30,728)</u>	<u>(24,828)</u>
Operating loss		(185,029)	(467,840)
Interest income	8	5,487	2,851
Finance costs	8	<u>(72,158)</u>	<u>(40,914)</u>
Loss before taxation		(251,700)	(505,903)
Income tax expense	14	<u>(81,018)</u>	<u>(114,040)</u>
<b>Loss for the year attributable to equity holders of the parent</b>		<u>(332,718)</u>	<u>(619,943)</u>
<b>Loss per share:</b>			
Basic loss per share	15	(70.8) cents	(136.1) cents
Diluted loss per share	15	(70.8) cents	(136.1) cents
<b>Other comprehensive loss</b>			
Loss for the year attributable to equity holders of the parent		(332,718)	(619,943)
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange loss arising on translation of foreign operations	27	(46,826)	(102,631)
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Actuarial (loss) gain related to defined benefit plans	25	(14,280)	28,008
Income tax on income and expense recognised directly through equity	25	4,038	(8,874)
Other comprehensive loss for the year (net of tax)		<u>(57,068)</u>	<u>(83,497)</u>
<b>Total comprehensive loss for the year attributed to equity holders of the parent</b>		<u>(389,786)</u>	<u>(703,440)</u>

See accompanying Notes to the Consolidated Financial Statements included on pages 99 -157



# Consolidated Statement of Financial Position

As at 31 DECEMBER 2014

BOART LONGYEAR LIMITED

	Note	2014 US\$'000	2013 US\$'000
<b>Current assets</b>			
Cash and cash equivalents	35a	168,784	59,053
Trade and other receivables	16	137,442	196,912
Inventories	17	241,260	298,947
Current tax receivable	14	15,446	18,253
Prepaid expenses and other assets		18,723	25,054
<b>Total current assets</b>		<b>581,655</b>	<b>598,219</b>
<b>Non-current assets</b>			
Property, plant and equipment	19	279,306	408,311
Goodwill	20	102,471	103,974
Other intangible assets	21	77,268	92,028
Deferred tax assets	14	68,427	110,243
Non-current tax receivable	14	13,710	6,882
Other assets		17,530	10,824
<b>Total non-current assets</b>		<b>558,712</b>	<b>732,262</b>
<b>Total assets</b>		<b>1,140,367</b>	<b>1,330,481</b>
<b>Current liabilities</b>			
Trade and other payables	22	167,024	153,152
Provisions	24	23,941	33,263
Current tax payable	14	100,223	91,649
Loans and borrowings	23	-	84
<b>Total current liabilities</b>		<b>291,188</b>	<b>278,148</b>
<b>Non-current liabilities</b>			
Loans and borrowings	23	716,344	585,375
Deferred tax liabilities	14	17,715	1,179
Provisions	24	44,903	37,184
<b>Total non-current liabilities</b>		<b>778,962</b>	<b>623,738</b>
<b>Total liabilities</b>		<b>1,070,150</b>	<b>901,886</b>
<b>Net assets</b>		<b>70,217</b>	<b>428,595</b>
<b>Equity</b>			
Issued capital	26	1,159,069	1,129,014
Reserves	27	(82,785)	(37,312)
Other equity		(137,182)	(137,182)
Accumulated losses	28	(868,885)	(525,925)
<b>Total equity</b>		<b>70,217</b>	<b>428,595</b>

See accompanying Notes to the Consolidated Financial Statements included on pages 99 -157

# Consolidated Statement of Changes in Equity

For the financial year ended 31 December 2014

BOART LONGYEAR LIMITED

	Issued capital US\$'000	Foreign currency translation reserve US\$'000	Equity-settled compensation 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 2013	1,122,189	56,658	14,256	(137,182)	79,496	1,135,417
Loss for the period	-	-	-	-	(619,943)	(619,943)
Other comprehensive (loss) income for the period	-	(102,631)	-	-	19,134	(83,497)
Total other comprehensive loss	-	(102,631)	-	-	(600,809)	(703,440)
Payment of dividends	-	-	-	-	(4,612)	(4,612)
Vesting of LTIP rights, restricted shares	6,825	-	(6,825)	-	-	-
Share-based compensation	-	-	1,230	-	-	1,230
<b>Balance at 31 December 2013</b>	<b>1,129,014</b>	<b>(45,973)</b>	<b>8,661</b>	<b>(137,182)</b>	<b>(525,925)</b>	<b>428,595</b>
Balance at 1 January 2014	1,129,014	(45,973)	8,661	(137,182)	(525,925)	428,595
Loss for the period	-	-	-	-	(332,718)	(332,718)
Other comprehensive loss for the period	-	(46,826)	-	-	(10,242)	(57,068)
Total other comprehensive loss	-	(46,826)	-	-	(342,960)	(389,786)
Issued under recapitalisation program	27,158	-	-	-	-	27,158
Vesting of LTIP rights, restricted shares	2,897	-	(2,897)	-	-	-
Share-based compensation	-	-	4,250	-	-	4,250
<b>Balance at 31 December 2014</b>	<b>1,159,069</b>	<b>(92,799)</b>	<b>10,014</b>	<b>(137,182)</b>	<b>(868,885)</b>	<b>70,217</b>

See accompanying Notes to the Consolidated Financial Statements included on pages 99 -157

# Consolidated Statement of Cash Flows

For the financial year ended 31 December 2014

BOART LONGYEAR LIMITED

	Note	2014 US\$'000	2013 US\$'000
<b>Cash flows from operating activities</b>			
Loss for the year		(332,718)	(619,943)
<i>Adjustments provided by operating activities:</i>			
Income tax expense recognised in profit		81,018	114,040
Finance costs recognised in profit	8	72,158	40,914
Depreciation and amortisation	9	102,398	130,724
Interest income recognised in profit	8	(5,487)	(2,851)
Gain on sale or disposal of non-current assets	9	(1,716)	(364)
Loss on disposal of business	34	-	1,962
Impairment of current and non-current assets		48,491	405,016
Non-cash foreign exchange loss		5,626	2,888
Equity-settled share-based payments	9b, 13	4,250	1,230
Long-term compensation - cash rights	9b	4,535	(31)
<i>Changes in net assets and liabilities, net of effects from acquisition and disposal of business:</i>			
Decrease (increase) in assets:			
Trade and other receivables		44,385	45,851
Inventories		40,677	101,791
Other assets		(3,353)	16,427
Increase (decrease) in liabilities:			
Trade and other payables		11,054	(138,746)
Provisions		(16,688)	(22,629)
Cash generated from operations		<u>54,630</u>	<u>76,279</u>
Interest paid		(60,696)	(31,616)
Interest received	8	5,487	2,851
Income taxes paid		(10,674)	(36,012)
Net cash flows (used in) provided by operating activities		<u>(11,253)</u>	<u>11,502</u>

See accompanying Notes to the Consolidated Financial Statements included on pages 99 -157

# Consolidated Statement of Cash Flows

For the financial year ended 31 December 2014

BOART LONGYEAR LIMITED

	<u>Note</u>	<u>2014 US\$'000</u>	<u>2013 US\$'000</u>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(13,827)	(35,528)
Proceeds from sale of property, plant and equipment		6,192	14,522
Intangible costs paid		(4,395)	(5,956)
Proceeds on disposal of subsidiary, net of cash disposed	<b>34</b>	-	24,810
Net cash flows used in investing activities		<u>(12,030)</u>	<u>(2,152)</u>
<b>Cash flows from financing activities</b>			
Proceeds from issuance of shares		27,158	-
Payments for debt issuance costs		(3,208)	(10,137)
Proceeds from borrowings		281,000	453,006
Repayment of borrowings		(161,090)	(461,139)
Dividends paid	<b>29</b>	-	(4,612)
Net cash flows provided by (used in) financing activities		<u>143,860</u>	<u>(22,882)</u>
Net increase (decrease) in cash and cash equivalents		120,577	(13,532)
Cash and cash equivalents at the beginning of the year		59,053	89,628
Effects of exchange rate changes on the balance of cash held in foreign currencies		<u>(10,846)</u>	<u>(17,043)</u>
<b>Cash and cash equivalents at the end of the year</b>	<b>35a</b>	<u>168,784</u>	<u>59,053</u>

See accompanying Notes to the Consolidated Financial Statements included on pages 99 -157

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2014

BOART LONGYEAR LIMITED

## 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 400  
10808 South River Front Parkway  
South Jordan, Utah 84095  
United States of America  
Tel: +1 (801) 972 6430

## 2. 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. For purposes of preparing the consolidated financial statements, the Company is a for-profit entity.

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 23 February 2015.

### 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.

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 10 'Consolidated 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 (a) has power over the investee (b) is exposed or has rights, to variable returns from involvement with the investee and (c) has the ability to use its power to affect its return. All three of these criteria must be met for the Company to have control over the investee. 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.

Except for the adoptions of new and revised accounting standards as described in Note 3, 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.

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2014

BOART LONGYEAR LIMITED

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Basis of preparation (continued)

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 2014 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.

#### (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.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (e) Property, plant and equipment (continued)

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.

### (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.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (f) Goodwill and other intangible assets (continued)

#### 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, are 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.

### (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) and is recognised in profit or loss except to the extent that 1) amounts relate to items recognised directly in equity, in which case the income tax expense (benefit) is also recognised in equity, or 2) amounts that relate to a business combination, in which case the income tax expense (benefit) is recognised in goodwill.

Current income 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. Management periodically evaluates provisions taken in tax returns with respect to situations in which applicable tax regulation is open to interpretation. The Company establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.



## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (h) Current and deferred taxation (continued)

Deferred income tax is provided on 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.

Deferred tax assets are 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 sufficient taxable profit will be available to all or part of the deferred tax asset to be realised.

#### 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) 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.

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.

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.

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2014

BOART LONGYEAR LIMITED

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (i) Impairment (continued)

#### Non-financial assets (continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

#### 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.

### (j) 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.

### (k) 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.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (k) Provisions (continued)

#### Contingencies

The recognition of provisions for legal disputes is subject to a significant degree of judgment. 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.

### (l) 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.

#### Defined benefit 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.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (l) Employee benefits (continued)

#### Share-based payment transactions (continued)

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.

### (m) 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.

### (n) 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 2(p).

### (o) 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.

### (p) 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.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (q) 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.

### (r) 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 at the acquisition date that, if known, would have affected the amounts recognised as at 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 at the acquisition date, and is subject to a maximum of one year.

### (s) 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.

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2014

BOART LONGYEAR LIMITED

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (s) Goods and services tax (continued)

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.

## 3. 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. These standards and interpretations are set forth below. The adoption of each standard individually did not have a significant impact on the Company's financial results or consolidated statement of financial position.

### Individual Key Management Personnel Disclosure

AASB 2011 - 4 'Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirement' removes the requirements to include individual key management personnel disclosures in the Notes to the Financial Statements, in relation to equity holdings, loans, and other related party transactions. The application of the amendments did not have any impact on the Financial Statements, other than removal of duplicated disclosures, as the Company is still required to produce these disclosures in the Remuneration Report under section 300A of the Corporations Act 2001.

### Offsetting Financial Assets and Financial Liabilities

AASB 2011 - 3 'Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities' clarifies the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. The application of the amendment does not have any impact on the amounts recognised in the Financial Statements.

The Company did not early adopt any accounting standards during the year. 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.

### **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

A finalised version of AASB 9 which contains accounting requirements for financial instruments, replacing AASB 139 Financial Instruments: Recognition and Measurements. The Standard contains requirements in the areas of classification and measurement, impairment, hedge accounting and derecognition.

### Amendments to Australian Accounting Standards

AASB 2010 - 7 'Amendments to Australian Accounting Standards arising from AASB 9' (December 2010) (AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127). This Standard makes amendments to other Australian Accounting Standards and Interpretations arising from the introduction of AASB 9 Financial Instruments.

### Defined Benefit

AASB 119 – Defined Benefit Plans: Employee contributions. This Standard makes amendments relating to the requirement for contributions from employees or third parties that are linked to service.

## 3. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS (CONTINUED)

### Standards and Interpretations issued not yet effective (continued)

#### Presentation of Financial Statements

Disclosure Initiative Amendments to IAS1. This initiative amends AASB 101 Presentation of Financial Statements to address perceived impediments to prepares exercising their judgement in presenting their financial report by making the following changes:

- Clarification the information should not be obscured by aggregating or by providing immaterial information;
- Clarification that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant; and
- Additional examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes.

#### Revenue from Contracts with Customers

AASB 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. AASB 15 supersedes the current revenue recognition guidance including AASB 118 'Revenue,' AASB 111 'Construction Contracts' and the related Interpretations when it becomes effective. The core principle of AASB 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under AASB 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. AASB effective date is 1 January 2017. These amendments will be adopted for the year ending 31 December 2017. Management has not yet assessed the impact of adoption of these amendments.

## 4. CRITICAL ACCOUNTING POLICIES

In applying A-IFRS, management is required to make judgments, estimates and form assumptions that affect the application of accounting policies and reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements, and the reported revenue and expenses during the periods presented herein. On an ongoing basis, management evaluates its judgments and estimates in relation to asset, liabilities, contingent liabilities, revenues 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 judgments 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.

The key judgments, estimates and assumptions that have or could have the most significant effect on the amounts recognised in the financial statements relate to the following areas:

## 4. CRITICAL ACCOUNTING POLICIES (CONTINUED)

### (a) Goodwill, intangible assets and property, plant and equipment

The Company determines whether goodwill is impaired on an annual basis and assesses impairment of all other assets at each reporting date by evaluating whether indicators of impairment exist. This evaluation includes consideration of the market conditions specific to the industry in which the group operates, the decline in demand for our drilling services and low rig utilisation rates, the political environment in countries in which the group operates, technological changes, expectations in relation to future cash flows and the Company's market capitalisation. Where an indication of impairment exists the recoverable amount of the asset is determined. Recoverable amount is the greater of fair value less costs to sell and value in use. Impairment is considered for individual assets, or cash generating units (CGU). Judgments are made in determining appropriate cash generating units. When considering whether impairments exist at a CGU, the Company uses the value in use methodology.

The value in use calculation requires the Company to estimate the future cash flows expected to arise from a cash-generating unit and a suitable discount rate in order to calculate present value. These estimates are subject to risk and uncertainty; hence there is a possibility that changes in circumstances will alter these projections, which may impact the recoverable amount of the assets.

See Note 10 for details relating to expenses arising as a result of the impairment process and a description of the key assumptions made.

### (b) Recoverability of Inventories

The Company measures inventory at the lower of cost or net realisable value. Due to the decline in the demand for products, and consumables used in our Global Drilling Services business, and the high inventory balances across the group and the speed at which inventory is turning in the current market, significant judgment is required in determining net realisable value of inventory. During the current financial year the Company recorded an impairment of inventory to bring the remaining inventory down to management's estimate of net realisable value. See Note 10 for details relating to the expenses arising as a result of the inventory impairment process.

### (c) Property, Plant and Equipment

The Company's assets are held in various differing geographical, political and physical environments across the world, therefore, the estimation of useful lives of assets is an area of significant judgment. Our current estimate has been based on historical experience. In addition, the condition of the assets is assessed at least annually and considered against the remaining useful life. Adjustments to useful lives are made when considered necessary.

### (d) Income Taxes

The Company is subject to income taxes in Australia and other jurisdictions around the world in which the Company operates. Significant judgment is required in determining the Company's current tax assets and liabilities. Judgments are required about the application of income tax legislation and its interaction with income tax accounting principles. Tax positions taken by the Company are subject to challenge and audit by various income tax authorities in jurisdictions in which the group operates.

Judgment is also required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the balance sheet. Deferred tax assets, including those arising from unrecouped tax losses, capital losses, foreign tax credits and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits. Assumptions about the generation of future taxable profits and repatriation of retained earnings depend on management's estimates of future cash flows.

These judgments and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and tax liabilities recognised on the balance sheet. In such circumstances, some or all of the carrying amount of recognised deferred tax assets and tax liabilities may require adjustment, resulting in a corresponding credit or charge to the income statement.



# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2014

BOART LONGYEAR LIMITED

## 4. CRITICAL ACCOUNTING POLICIES (CONTINUED)

### (e) Defined Benefit Pension Plans

The Company's accounting policy for defined benefit pension plans requires management to make annual estimates and assumptions about future returns on classes of assets, future remuneration changes, employee attrition rates, administration costs, changes in benefits, inflation rates, exchange rates, life expectancy and expected remaining periods of service of employees. In making these estimates and assumptions, management considers advice provided by external advisers, such as actuaries. Where actual experience differs to these estimates, actuarial gains and losses are recognised directly in equity.

## 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: providing drilling services and products. The Global Drilling Services segment provides a broad range of drilling services to companies in mining, energy and other industries. The Global Products segment manufactures and sells drilling equipment and performance tooling 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 profit shown below is consistent with the income reported to the chief operation decision maker for the purposes of resource allocation and assessment of segment performance. Segment profit represents earnings before interest and taxes.

### Segment revenue and results

	Segment Revenue		Segment Profit	
	2014	2013	2014	2013
	US\$'000	US\$'000	US\$'000	US\$'000
Drilling Services	636,142	917,348	(2,907)	40,605
Global Products revenue				
Products third party revenue	230,446	305,505		
Products inter-segment revenue <sup>1</sup>	72,390	56,569		
Total Products	302,836	362,074	4,322	2,145
Less Global Product sales to Global Drilling Services	(72,390)	(56,569)		
Total third party revenue	866,588	1,222,853		
Total segment profit			1,415	42,750
Unallocated costs <sup>2</sup>			(72,439)	(49,425)
Significant items			(114,005)	(461,165)
Finance costs			(72,158)	(40,914)
Interest income			5,487	2,851
Loss before taxation			(251,700)	(505,903)

(1) Transactions between segments are carried out at arm's length and are eliminated on consolidation.

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

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2014

BOART LONGYEAR LIMITED

## 5. SEGMENT REPORTING (CONTINUED)

### Other segment information

	Depreciation and amortisation of segment assets		Additions to non-current assets <sup>2</sup>	
	2014 US\$'000	2013 US\$'000	2014 US\$'000	2013 US\$'000
Global Drilling Services	74,176	101,316	16,421	35,063
Global Products	11,505	13,923	6,506	6,814
Total of all segments	85,681	115,239	22,927	41,877
Unallocated <sup>1</sup>	16,717	15,485	2,240	7,316
Total	102,398	130,724	25,167	49,193

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

### Geographic information

The Company's two business segments operate in five principal geographic areas – North America, Asia Pacific, Latin America, Europe, Middle East and Africa. 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 <sup>1</sup>	
	2014 US\$'000	2013 US\$'000	2014 US\$'000	2013 US\$'000
North America	378,608	489,037	279,939	319,505
Asia Pacific	225,777	349,030	119,749	147,761
Latin America	111,865	153,648	48,251	51,646
EMEA	150,338	231,138	42,346	103,107
Total	866,588	1,222,853	490,285	622,019

- (1) Non-current assets excluding deferred tax assets.

## 6. REVENUE

The components of revenue are as follows:

	2014 US\$'000	2013 US\$'000
Revenue from the rendering of services	636,142	917,348
Revenue from the sale of goods	230,446	305,505
	866,588	1,222,853

Included in revenues arising from rendering of services are revenues of \$141,792,000 (2013: \$126,118,000) which arose from sales to the Company's two largest customers. No other customer(s) contributed 10% or more to the Company's revenue in either 2014 or 2013.

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2014

**BOART LONGYEAR LIMITED**

## 7. OTHER INCOME / EXPENSE

The components of other income are as follows:

	Note	2014 US\$'000	2013 US\$'000
Litigation settlement		3,050	-
Gain on disposal of property, plant and equipment		1,716	364
Scrap sales		528	651
Gain on termination of post-retirement medical plan	25	-	16,871
Other		2,271	265
<b>Total other income</b>		<b>7,565</b>	<b>18,151</b>

The components of other expense are as follows:

	2014 US\$'000	2013 US\$'000
Amortisation of intangible assets	16,785	18,276
Loss on foreign currency exchange differences	5,758	986
VAT write-off	4,478	1,429
Sundry asset impairments	-	3,195
Other	3,707	942
<b>Total other expenses</b>	<b>30,728</b>	<b>24,828</b>

## 8. INTEREST INCOME / FINANCE COSTS

Interest income is as follows:

	2014 US\$'000	2013 US\$'000
Interest income:		
Bank deposits	4,850	2,807
Other	637	44
<b>Total interest income</b>	<b>5,487</b>	<b>2,851</b>

Finance costs are as follows:

	2014 US\$'000	2013 US\$'000
Finance costs:		
Interest on loans and bank overdrafts	62,658	39,022
Amortisation of debt issuance costs	3,416	1,839
Interest on obligations under finance leases	8	53
<b>Total finance costs</b>	<b>66,082</b>	<b>40,914</b>
Finance costs due to debt repayment:		
Write-off of debt issuance costs	6,076	-
	6,076	-
<b>Total finance costs</b>	<b>72,158</b>	<b>40,914</b>

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2014

BOART LONGYEAR LIMITED

## 9. PROFIT (LOSS) FOR THE YEAR

Profit (loss) for the year includes the following:

### (a) Gains and losses

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

	<u>2014</u> <u>US\$'000</u>	<u>2013</u> <u>US\$'000</u>
Gain on disposal of property, plant and equipment	1,716	364
Net foreign exchange losses	(5,758)	(986)
Net expense reversal of bad debt	(1,497)	(266)

### (b) Employee benefits expenses

	<u>2014</u> <u>US\$'000</u>	<u>2013</u> <u>US\$'000</u>
Salaries and wages	(311,570)	(394,179)
Post-employment benefits:		
Defined contribution plans	(12,228)	(16,627)
Defined benefit plans	(1,825)	11,519
Long-term incentive plans:		
Equity-settled share-based payments	(4,250)	(1,230)
Cash rights compensation	(4,535)	31
Termination benefits	(9,234)	(35,923)
Other employee benefits <sup>1</sup>	<u>(87,881)</u>	<u>(120,877)</u>
	<u>(431,523)</u>	<u>(557,286)</u>

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

### (c) Other

	<u>2014</u> <u>US\$'000</u>	<u>2013</u> <u>US\$'000</u>
Depreciation of non-current assets	(84,581)	(111,455)
Amortisation of non-current assets	(17,817)	(19,269)
Operating lease rental expense	(24,687)	(35,803)
Loss on disposal of business	-	(1,962)

## 10. SIGNIFICANT ITEMS

During 2014, the Company continued to reduce operating costs through a series of restructuring activities. The Company's continuing restructuring efforts include:

- Consolidation of Global Drilling Services zones into larger territories;
- Rationalisation of manufacturing, inventory and administrative facilities;
- Consolidation of the Global Products division's aftermarket services group with the Global Drilling Services maintenance group as well as the supply chain groups for both divisions; and
- Consolidation of certain regional financial support services into two shared service locations.

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2014

BOART LONGYEAR LIMITED

## 10. SIGNIFICANT ITEMS (CONTINUED)

The Company has incurred costs related to executing its restructuring and cost-reduction plans. These costs include employee separations, exiting leased facilities and impairments of inventory and capital equipment related to relocating certain manufacturing activities and resizing the business.

In addition, due to the significant deterioration in revenues and profitability as well as a forecasted global slowdown in the demand for drilling services and products, the Company has reassessed the carrying value of certain assets, including goodwill, intangibles, plant and equipment and inventory, resulting in additional impairment charges and provisions. A description of the impairment process is provided below.

Also, in February 2014, the Company commenced strategic review process and ultimately entered into a recapitalisation transaction with Centerbridge Partners, L.P., in order to provide a more sustainable capital structure and secure additional liquidity to weather the current mining business cycle. This review process and transaction incurred significant costs, which are presented separately.

Significant items for the years ended 31 December 2014 and 2013 are, as follows:

	Note	2014 US\$'000	2013 US\$'000
Recapitalisation costs		45,521	-
Impairments:			
Equipment	19	45,975	104,347
Intangible asset		1,647	9,090
Inventory	17	687	101,916
Goodwill	20	-	166,313
Development asset	19, 21	-	14,595
Land & buildings	19	112	5,561
Employee and related costs <sup>1</sup>		12,491	44,752
Other restructuring costs		6,778	9,919
Onerous leases		794	2,710
Loss on disposal of business	34	-	1,962
		<u>114,005</u>	<u>461,165</u>
Net of tax <sup>2</sup>		<u>80,236</u>	<u>375,284</u>

(1) Employee and related costs include separation costs, retention and other employee-related costs.

(2) The tax effect was calculated using applicable local country tax rates before application of excess of net operating losses.

Classification of significant items on the income statement for the years ended 31 December 2014 and 2013 are, as follows:

	2014 US\$'000	2013 US\$'000
General and administrative expenses	71,064	59,725
Cost of goods sold	40,164	218,282
Research and development	1,562	14,595
Selling and marketing expenses	1,215	2,250
Other expense	-	166,313
	<u>114,005</u>	<u>461,165</u>

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2014

BOART LONGYEAR LIMITED

## 10. SIGNIFICANT ITEMS (CONTINUED)

Significant items for the years ended 31 December 2014 and 2013 by business segment are, as follows:

	2014 US\$'000	2013 US\$'000
Global Drilling Services	57,217	394,604
Global Products	2,072	54,824
Unallocated	54,716	11,737
	<u>114,005</u>	<u>461,165</u>

### Impairment Process

In its impairment assessment, the Company calculates the recoverable amounts based on value-in-use calculations. Cash flow projections are based on the Company's expected performance over a nine-year period, which approximates the length of a typical mining business cycle based on historical industry experience, with a terminal value. In assessing value in use, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects the current market assessments of the time value of money and risks specific to the asset. The post-tax discount rate is applied to post tax cash flows that include an allowance for tax based on the respective jurisdictions' tax rate, no allowance is made for existing timing differences or carry-forward losses. This method is used to approximate the requirement of the accounting standards to apply a pre-tax discount rate to pre-tax cash flows as the company determined it was not feasible to calculate a stand-alone pre-tax discount rate.

In performing its impairment analysis the Company takes the following approach:

- Assets are first considered individually to determine whether there is any impairment related to specific assets due to factors such as technical obsolescence, declining market value, physical condition or salability within a reasonable timeframe.
- The Company also assesses the recoverability of its assets collectively across cash generating units ("CGUs"), where assets are not fully covered by the individual analysis above. In assessing the appropriate CGUs to test the Company takes the following approach:
  - Whilst not operating its full asset pool on an individual country basis, where goodwill exists the Company assesses the recoverability of goodwill within the region in which the original acquisition generating the goodwill was incurred;
  - For the Global Drilling Services segment, as the Company operates the business on a regional basis and the primary assets being rigs and associated equipment and inventory, are considered to be mobile between countries within a region, the Company assesses for impairment at a regional CGU level.

As a result of this process, the Company has recorded impairment charges of \$41,200,000 against property, plant and equipment. These impairments were mainly as a result of the impairment assessment of the Europe and Africa Drilling services CGU. This CGU contains no goodwill and therefore the impairment was allocated to property, plant and equipment.

### Key Assumptions

Certain key assumptions are used for CGU impairment testing and are described below.

As noted above cash flow projections are based on the Company's expected performance over a nine-year period, which approximates the length of a typical mining business cycle based on historical industry experience, with a terminal value. Central to the approach adopted is the assumption that the mining industry will continue to follow its historical trend of cycles and that we are currently at or near the bottom of the current cycle.

In considering the appropriateness of the assumptions used in the value in use analysis, the Company has considered the fact that the implied enterprise value implicit in its market capitalisation is below its internal models. This factor is one of many indicators of impairment that the Company has considered.

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2014

BOART LONGYEAR LIMITED

## 10. SIGNIFICANT ITEMS (CONTINUED)

### Key Assumptions (continued)

#### Revenue

The growth rates applied to revenue through the mining-cycle are based on the compound average growth rate for the various cash-generating units being tested for impairment over the mining cycle from the mid-point of the cycle (which is set based on historical experience), and do not exceed the historical rates of inflation in the regions where the Company does business.

#### Expenses

In determining gross margin and SG&A expenses management has used historical performance trends, overlaying the impacts of recent programs and other initiatives taken within the business to reduce costs.

#### Working capital and capital expenditure

Working capital and capital expenditure assumptions are assumed to be in line with historic trends given the level of utilisation and operating activity.

#### Discount rate

A global discount rate of 11.5% is used and adjusted on a case-by-case basis for regional variations in the required equity rate of return. Based on information published by Bloomberg, the adjusted post-tax discount rates ranged from 10.2% to 23.3%, as shown in the table below.

#### Other economic factors

The assumed growth rates are based on the compound average growth rate for the various CGU's being tested for impairment over the mining cycle from the mid-point of the cycle. The growth rates do not exceed the historical rates of inflation in the countries where the Company does business and have been sourced from Bloomberg forecasts.

### Key assumptions - impairment model

	<u>Post-Tax Discount Rate</u>	<u>Growth Rate</u>
Global	11.5%	3.0%
North America	10.2%	2.2%
Asia Pacific	12.1%	3.6%
Latin America	12.5%	4.2%
EMEA	23.3%	6.7%

Sensitivity analyses were performed to determine whether carrying values are supported by different assumptions. Key variables of the sensitivity analysis include:

- near term and terminal growth rates; and
- inflation assumptions.

Each of these variables in the analysis has been examined at levels above and below expected values. The expected values are based on forecasted inflation rates for each respective region with a global rate assumed at 3% based on historic inflation trends. The growth rates were increased by 1% and decreased by 3%, with a floor of 0% actual growth in the upside and downside sensitivity scenarios respectively. In the downside sensitivity scenario, with assumed growth rates 3% lower than forecast inflation, there would be additional impairments as follows:

	<u>US\$'000</u>
North America	8,000
Asia Pacific	14,000
Latin America	11,000
EMEA	17,000

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2014

BOART LONGYEAR LIMITED

## 11. REMUNERATION OF AUDITORS

	2014 US\$'000	2013 US\$'000
<b>Company auditor's remuneration</b>		
Audit and review of the financial report:		
Auditor of the parent entity	1,347	1,607
Related practices of the parent entity auditor	1,024	1,422
	<u>2,371</u>	<u>3,029</u>
Non-audit services:		
Review of tax returns	631	581
Tax services	644	1,841
Assurance	-	174
Other non-audit services	42	21
	<u>1,317</u>	<u>2,617</u>
Total remuneration to Company auditor	<u>3,688</u>	<u>5,646</u>
<b>Remuneration to other accounting firms</b>		
Audit services	415	418
Non-audit services:		
Tax services	2,491	1,246
Global mobility	1,386	1,798
Internal audit	284	122
Accounting and payroll services	175	166
Other	168	702
Total remuneration to other accounting firms	<u>4,919</u>	<u>4,452</u>

Boart Longyear Limited's auditor 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 tax compliance services, the magnitude of which is impacted by the global reach of the Company.

The Board and its Audit, Compliance & Risk Committee (Audit Committee) are committed to ensuring the independence of the external auditor. 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. 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.



# Notes to the Consolidated Financial Statements

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BOART LONGYEAR LIMITED

## 12. KEY MANAGEMENT PERSONNEL COMPENSATION

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

	<b>2014</b>	<b>2013</b>
	<b>US\$</b>	<b>US\$</b>
Short-term employee benefits	6,127,126	4,354,012
Post-employment benefits	116,149	56,089
Other long-term benefits	3,029,125	22,726
Termination benefits	-	467,145
Share-based payments	2,470,856	859,650
	<u>11,743,256</u>	<u>5,759,622</u>

## 13. SHARE-BASED PAYMENTS

The Company provides long term equity incentives to assist in retaining key employees and encouraging superior performance on a sustained basis. Annual long term incentive grants generally are made through the Company's Long-term Incentive Plan (LTIP), which allows for annual grants of share rights to management that will vest based on the satisfaction of either time-based conditions or both performance-based and time-based conditions. Vested share rights convert to ordinary fully paid shares on a one-for-one basis.

Under the terms of the LTIP, performance-based share rights vest upon the achievement of performance targets set by the Board. Awards granted to management KMP beginning in 2010 through 2013 have performance targets based on three-year average ROE targets. The Board has set threshold and maximum targets for ROE performance awards during each three-year performance period for those grants and vesting will be determined by the Company's actual performance against the targets.

Awards granted to KMP for 2014 are comprised of a combination of options as well as Share Rights and Cash Rights under the LTIP. The performance Share Rights vest upon the achievement of three-year cumulative net debt reduction targets in addition to total shareholder return targets set by the Board. Vesting occurs on a linear basis beginning at 50% of a participant's grant once minimum "threshold" performance objectives are met, and vesting up to 150% of a participant's target grant amount is possible if the Company's actual results exceed the targets established for the three-year period. Participants must also remain continuously employed with the Company during the performance period. 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 LTIP Share Right 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 share right grants made beginning in 2012, dividends paid on unvested Share Rights will be held in trust and paid when vesting occurs. None of the performance Share Rights awarded in 2010 through 2013 will vest, as the performance targets will not be achieved.

The total share-based expense associated with Share Rights granted under the LTIP for the years ended 31 December 2014 and 2013 was \$2,799,000 and \$1,219,000, respectively.

The Board has, on certain occasions, granted Share Options to certain senior management in order to attract, retain and properly incentivise those individuals. 345,000 Options granted in June 2009 vested in accordance with their terms and expired in June 2014. 25,000 Options granted in March 2010 vested in accordance with their terms and expire in March 2015. During 2014 new Options were granted to Mr O'Brien as part of a special one-off strategic award as well as new options granted to senior executives as part of the long-term incentive plan. The share-based expense associated with Share Options for the years ended 31 December 2014 and 2013 was \$1,451,000 and \$11,000, respectively. No shares or interests have been issued during the 2014 or 2013 financial years as a result of the exercise of options.

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2014

BOART LONGYEAR LIMITED

## 13. SHARE-BASED PAYMENTS (CONTINUED)

### Share Rights

The following table reflects the Share Rights arrangements that were in existence at 31 December 2014:

Series - Share Rights	Number	Effective grant date	Vesting date	Fair value at grant date US\$
1 - Issued 15 March 2012	1,152,699	15-Mar-12	15-Mar-15	4.50
2 - Issued 15 March 2013	2,499,946	15-Mar-13	15-Mar-16	1.39
3 - Issued 1 June 2013	50,000	1-Jun-13	1-Jun-15	0.67
4 - Issued 1 June 2013	281,500	1-Jun-13	1-Jun-16	0.67
5 - Issued 15 March 2014	17,184,215	15-Mar-14	15-Mar-17	0.25
6 - Issued 15 April 2014	972,612	1-Apr-14	1-Apr-17	0.27

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

	2014 Number of rights '000	2013 Number of rights '000
Share rights		
Balance at beginning of year	10,101	5,280
Granted	19,454	8,228
Forfeited	(6,631)	(1,162)
Vested	(783)	(2,245)
Balance at end of year	22,141	10,101

The following Share Rights vested during 2014:

Grant date	Vest date range		Number of shares	Fair value at vest date range A\$	
	Start	End		Low	High
14-Oct-11	14-Oct-14	14-Oct-14	85,000	0.14	0.14
11-Jul-11	11-Jul-14	11-Jul-14	13,375	0.16	0.16
15-Mar-11	15-Mar-14	15-Mar-14	527,169	0.28	0.28
15-Mar-12	3-Feb-14	1-Aug-14	39,854	0.09	0.49
15-Mar-13	3-Feb-14	1-Oct-14	61,237	0.09	0.49
1-Jun-13	23-Jun-14	23-Jun-14	7,074	0.20	0.20
15-Mar-14	1-Aug-14	1-Oct-14	48,823	0.14	0.20

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2014

BOART LONGYEAR LIMITED

## 13. SHARE-BASED PAYMENTS (CONTINUED)

### Options

The following table reflects the Options arrangements that were in existence at 31 December 2014:

Series - Options	Number	Effective grant date	Vesting date	Fair value at grant date US\$
1 - Issued 15 March 2010	25,000	15-Mar-10	15-Mar-13	2.24
2 - Issued 15 March 2014	3,937,849	15-Mar-14	15-Mar-17	0.23
3 - Issued 1 April 2014	324,204	1-Apr-14	1-Apr-17	0.25
4 - Issued 19 May 2014	3,034,753	19-May-14	19-May-14	0.19
5 - Issued 19 May 2014	3,034,753	19-May-14	1-Apr-15	0.19
6 - Issued 19 May 2014	3,034,752	19-May-14	1-Apr-16	0.19

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	2.93	92.14%	60 months	0.00%	5.25%
Series 2	0.25	115.00%	120 months	0.00%	0.74%
Series 3	0.27	114.00%	120 months	0.00%	0.91%
Series 4	0.21	114.00%	120 months	0.00%	0.01%
Series 5	0.21	114.00%	120 months	0.00%	0.09%
Series 6	0.21	114.00%	120 months	0.00%	0.36%

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

Options	2014		2013	
	Number of options '000	Weighted average exercise price US\$	Number of options '000	Weighted average exercise price US\$
Balance at beginning of year	342	2.43	592	4.88
Granted	13,366	0.24	-	-
Forfeited	(317)	2.39	(250)	8.24
Exercised	-	-	-	-
Balance at end of year	13,391	0.18	342	2.43
Exercisable at end of year	13,391	0.18	342	2.43

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2014

BOART LONGYEAR LIMITED

## 14. INCOME TAXES

Income tax expense is as follows:

	2014 US\$'000	2013 US\$'000
<b>Income tax expense:</b>		
Current tax expense	21,517	42,926
Adjustments recognised in the current year in relation to the current tax of prior years	(3)	4,227
Deferred tax expense	59,504	66,887
	<u>81,018</u>	<u>114,040</u>

### (a) Reconciliation of the prima facie income tax expense on pre-tax accounting profit to the income tax expense in the financial statements:

Loss before taxation	(251,700)	(505,903)
Income tax benefit calculated at Australian rate of 30%	(75,510)	(151,772)
Impact of higher rate tax countries	4,040	(1,223)
Impact of lower rate tax countries	30,659	30,083
Net non-deductible/non-assessable items other	617	8,967
Net non-deductible/non assessable items related to impairments <sup>1</sup>	-	50,423
Unrecognised tax losses <sup>2</sup>	42,423	67,565
Profit/Losses subject to double taxation in the US	(4,310)	(519)
Withholding tax net of foreign tax credit	3,339	9,017
Derecognition of net prior year deferred tax assets <sup>2</sup>	68,218	92,653
Other	11,545	4,619
	<u>81,021</u>	<u>109,813</u>
(Over) under provision from prior years	(3)	4,227
Income tax expense per the Consolidated Statement of Profit or Loss and Other Comprehensive Income	<u>81,018</u>	<u>114,040</u>

- (1) Certain of the impairment and restructuring items will not be assessable for tax, primarily relating to goodwill in certain jurisdictions.
- (2) Due to the group being in a tax loss position in many jurisdictions during the current financial year the Company has not recognised current period losses and has derecognised a number of losses and deferred tax assets recognised in prior periods.

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2014

BOART LONGYEAR LIMITED

## 14. INCOME TAXES (CONTINUED)

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

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

	2014 US\$'000	2013 US\$'000
Deferred tax:		
Actuarial movements on defined benefit plans	4,038	(8,874)

### (c) Current tax assets and liabilities

#### Current tax assets:

Income tax receivable attributable to:

Parent	(78,248)	(47,753)
Other entities in the tax consolidated group	78,519	48,727
Other entities	28,885	24,161
	<u>29,156</u> <sup>1</sup>	<u>25,135</u>

#### Current tax liabilities:

Income tax payable attributable to:

Entities other than parent and entities in the consolidated group	100,223	91,649
	<u>100,223</u>	<u>91,649</u>

### (d) Deferred tax balances

Deferred tax comprises:

Temporary differences	37,078	94,299
Unused tax losses and credits	13,634	14,765
	<u>50,712</u>	<u>109,064</u>

- (1) The income tax receivable for 2014 is \$29,156,000 (2013: \$25,135,000) of which \$15,446,000 is classified as current tax receivable and \$13,710,000 is classified as non-current tax receivable (2013: \$18,253,000 and \$6,882,000 respectively).

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2014

BOART LONGYEAR LIMITED

## 14. INCOME TAXES (CONTINUED)

2014	Opening balance US\$'000	Recognised in income US\$'000	FX differences US\$'000	Other US\$'000	Recognised in equity US\$'000	Closing balance US\$'000
<b>Deferred tax assets (liabilities)</b>						
<b>temporary differences</b>						
Property, plant and equipment	34,902	(11,308)	(1,286)	-	-	22,308
Provisions	16,080	(3,799)	(592)	-	-	11,689
Doubtful debts	275	(9)	(10)	-	-	256
Other intangible assets	(15,606)	(1,537)	575	-	-	(16,568)
Share-issue expenses	1	(1)	-	-	-	-
Accrued liabilities	1,407	(254)	(52)	-	-	1,101
Pension	4,122	(6,851)	(152)	-	4,038	1,157
Inventories	33,645	(18,283)	(1,239)	-	-	14,123
Investments in subsidiaries	(1,500)	-	-	-	-	(1,500)
Unrealised foreign exchange	17,521	(17,057)	-	-	-	464
Other	3,452	726	(130)	-	-	4,048
	<u>94,299</u>	<u>(58,373)</u>	<u>(2,886)</u>	-	<u>4,038</u>	<u>37,078</u>
<b>Unused tax losses and credits:</b>						
Tax losses	-	-	-	-	-	-
Foreign tax credits	14,765	(1,131)	-	-	-	13,634
	<u>109,064</u>	<u>(59,504)</u>	<u>(2,886)</u>	-	<u>4,038</u>	<u>50,712</u>

Presented in the statement of financial position as follows:

Deferred tax asset	68,427
Deferred tax liability	<u>(17,715)</u>
	<u>50,712</u>

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2014

BOART LONGYEAR LIMITED

## 14. INCOME TAXES (CONTINUED)

2013	Opening balance US\$'000	Recognised in income US\$'000	FX differences US\$'000	Other US\$'000	Recognised in equity US\$'000	Closing balance US\$'000
<b>Deferred tax assets (liabilities)</b>						
<b>temporary differences</b>						
Property, plant and equipment	(4,264)	39,163	3	-	-	34,902
Provisions	10,414	5,680	(14)	-	-	16,080
Doubtful debts	352	(77)	-	-	-	275
Other intangible assets	(9,227)	(6,392)	13	-	-	(15,606)
Share-issue expenses	2,448	(2,447)	-	-	-	1
Accrued liabilities	4,540	(3,127)	(6)	-	-	1,407
Pension	15,275	(2,258)	(21)	-	(8,874)	4,122
Debt and interest	24,386	(20,550)	(3,836)	-	-	-
Inventories	24,496	9,183	(34)	-	-	33,645
Investments in subsidiaries	(1,500)	-	-	-	-	(1,500)
Unrealised foreign exchange	42,269	(24,748)	-	-	-	17,521
Other	9,612	(6,144)	(16)	-	-	3,452
	<u>118,801</u>	<u>(11,717)</u>	<u>(3,911)</u>	<u>-</u>	<u>(8,874)</u>	<u>94,299</u>
<b>Unused tax losses and credits:</b>						
Tax losses	22,129	(26,270)	-	4,141	-	-
Foreign tax credits	43,665	(28,900)	-	-	-	14,765
	<u>65,794</u>	<u>(55,170)</u>	<u>-</u>	<u>4,141</u>	<u>-</u>	<u>14,765</u>
	<u>184,595</u>	<u>(66,887)</u>	<u>(3,911)</u>	<u>4,141</u>	<u>(8,874)</u>	<u>109,064</u>

Presented in the statement of financial position as follows:

Deferred tax asset	110,243
Deferred tax liability	(1,179)
	<u>109,064</u>

	2014 US\$'000	2013 US\$'000
Unrecognised deferred tax assets		
Tax losses - revenue	130,050	93,276
Unused tax credits	50,236	61,966
Temporary differences	114,394	47,910
	<u>294,680</u>	<u>203,152</u>

The Parent Entity 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.

Entities within the Australian tax-consolidated group have entered into tax-funding arrangements with the head entity. Under the terms of the tax-funding arrangements, the tax-consolidated groups and each of the entities within the tax-consolidated group agrees 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 or payable to other entities in the tax-consolidated group.

## 14. INCOME TAXES (CONTINUED)

### Canadian Income Tax Assessments

As previously reported, the Company's Canadian tax returns since 2005 have been subject to review by the Canada Revenue Agency (CRA). Assessments have been issued or determined for the tax years between 2005 and 2009, with the most significant contested areas of the CRA's reviews relating to three issues: (1) the transfer pricing structure and methodology used by Longyear Canada ULC and Boart Longyear Canada Partnership for sales of products to international affiliates; (2) management fees paid to a United States affiliate; and (3) intellectual property royalties paid to a United States affiliate. The CRA also has commenced field work for the tax years from 2010 through 2012. The field work is ongoing and no assessments have been issued for the period.

#### 2005 – 2006 Audit Periods

On 24 December 2013, the Company received written notice that the CRA's Competent Authority division had decided to withdraw substantially all of the assessments the Company had disputed for the 2005 and 2006 tax years. The Company has received the final reduced assessments for the period from the CRA's Audit division and the audit has largely been concluded. As a result of the reversal, the security of approximately C\$24,500,000 provided to the CRA to support the Company's appeals of the assessments has been released.

The CRA's decision concerning the 2005 through 2006 audit period resulted in the reversal of provincial tax assessments totaling approximately C\$11,000,000 for the same period. The security of approximately C\$11,000,000 provided to provincial tax authorities to challenge the provincial assessments was also released.

#### 2007 – 2009 Audit Periods

The Company received income adjustments by the CRA's Audit Division for the 2007 through 2009 tax years on 23 December 2013 and projects that those proposed adjustments, if upheld, would result in federal and provincial tax liabilities, including interest, of approximately C\$70,000,000. In the third quarter of 2014, the CRA notified the company that it does not intend to pursue penalties related to the proposed adjustment.

The Company notes that the proposed adjustments for the 2007 through 2009 audit period were determined on substantially the same basis as the assessments for the 2005 to 2006 period that were subsequently reversed by the CRA. The Company therefore has disputed the assessments through the competent authority resolution process as well as all other available methods of appeal. The Company also believes that the reversal of the assessments for 2005 and 2006 provides a favourable background for a positive resolution of such appeals, but the outcome and timing of any resolution of the 2007 through 2009 assessments are unknown. Interest will continue to accrue on all disputed and unpaid amounts until they are paid, or, alternatively, unless the disputes are resolved in the Company's favor.

#### 2010 – 2012 Audit Periods

The CRA has commenced its field work for the audit of 2010 through 2012 taxation years. The Company has no information about the timing to conclude the audit or its likely outcome.



# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2014

BOART LONGYEAR LIMITED

## 15. LOSS / EARNINGS PER SHARE

	<b>2014</b> <b>US cents</b> <b>per share</b>	<b>2013</b> <b>US cents</b> <b>per share</b>
Basic loss per share	(70.8)	(136.1)
Diluted loss per share	(70.8)	(136.1)

### Basic loss per share

The loss and weighted average number of ordinary shares used in the calculation of basic loss per share are as follows:

	<b>2014</b> <b>US\$'000</b>	<b>2013</b> <b>US\$'000</b>
Loss used in the calculation of basic EPS	(332,718)	(619,943)

	<b>2014</b> <b>'000</b>	<b>2013</b> <b>'000</b>
Weighted average number of ordinary shares for the purposes of basic loss per share	469,663	455,508

### Diluted loss per share

The loss used in the calculation of diluted loss per share are as follows:

	<b>2014</b> <b>US\$'000</b>	<b>2013</b> <b>US\$'000</b>
Loss used in the calculation of diluted EPS	(332,718)	(619,943)

	<b>2014</b> <b>'000</b>	<b>2013</b> <b>'000</b>
Weighted average number of ordinary shares used in the calculation of basic EPS	469,663	455,508
Shares deemed to be issued for no consideration in respect of LTIP share rights	-	-
Weighted average number of ordinary shares used in the calculation of diluted EPS	469,663	455,508

The following potential shares are anti-dilutive and are therefore excluded from the weighted average number of ordinary shares for the purposes of diluted earnings per share.

	<b>2014</b> <b>'000</b>	<b>2013</b> <b>'000</b>
Shares deemed to be issued for no consideration in respect of LTIP share rights	2,865	1,404

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2014

BOART LONGYEAR LIMITED

## 16. TRADE AND OTHER RECEIVABLES

	<b>2014</b>	<b>2013</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Trade receivables	122,391	151,076
Allowance for doubtful accounts	(2,313)	(1,374)
Goods and services tax receivable	13,831	41,110
Other receivables	3,533	6,100
	<u>137,442</u>	<u>196,912</u>

The ageing of trade receivables is detailed below:

	<b>2014</b>	<b>2013</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Current	90,637	105,591
Past due 0 - 30 days	16,415	23,620
Past due 31 - 60 days	5,912	6,362
Past due 61-90 days	5,545	7,196
Past due 90 days	3,882	8,307
	<u>122,391</u>	<u>151,076</u>

The ageing of impaired trade receivables is detailed below:

	<b>2014</b>	<b>2013</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Current	-	-
Past due 0 - 30 days	-	-
Past due 31 - 60 days	-	-
Past due 61-90 days	-	-
Past due 90 days	(2,313)	(1,374)
	<u>(2,313)</u>	<u>(1,374)</u>

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

	<b>2014</b>	<b>2013</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Opening balance	1,374	1,841
Additional provisions	1,781	1,256
Amounts used	(394)	(680)
Amounts reversed	(284)	(990)
Foreign currency exchange differences	(164)	(53)
Closing balance	<u>2,313</u>	<u>1,374</u>

The average credit period on sales of goods is 53 days as at 31 December 2014, compared to 60 days as at 31 December 2013. 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.

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2014

BOART LONGYEAR LIMITED

## 16. TRADE AND OTHER RECEIVABLES (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. No derivative financial instruments were entered into during 2014 or 2013.

## 17. INVENTORIES

	2014 US\$'000	2013 US\$'000
Raw materials	31,092	43,630
Work in progress	2,416	3,458
Finished products	207,752	251,859
	<u>241,260</u>	<u>298,947</u>

The Company recorded impairment provisions against inventory of \$687,000 and \$101,916,000 for the years ended 31 December 2014 and 2013, respectively. Obsolescence provisions were \$102,613,000 and \$129,263,000 as at 31 December 2014 and 2013, respectively.

## 18. FINANCIAL RISK MANAGEMENT

### 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 23, cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued capital, reserves, and accumulated losses/retained earnings as disclosed in Notes 26, 27, and 28, 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 2.

### Categories of financial instruments

		2014 US\$'000	2013 US\$'000
<b>Financial assets</b>	<b>Note</b>		
<i>Current</i>			
Cash and cash equivalents		168,784	59,053
Trade and other receivables	16	<u>137,442</u>	<u>196,912</u>
		306,226	255,965

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2014

BOART LONGYEAR LIMITED

## 18. FINANCIAL RISK MANAGEMENT (CONTINUED)

		2014 US\$'000	2013 US\$'000
<b>Financial liabilities</b>			
<i>Current</i>			
Amortised cost:			
Trade and other payables	22	167,024	153,152
Loans and borrowings	23	-	84
		<u>167,024</u>	<u>153,236</u>
<i>Non-current</i>			
Amortised cost:			
Loans and borrowings	23	716,344	585,375
		<u>716,344</u>	<u>585,375</u>

Of the outstanding loans and borrowings, Centerbridge Partners, L.P. accounted for \$225,000,000 of Term Loans outstanding and accreted interest of \$4,690,000. 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 and other non-derivative strategies to manage 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. The Company seeks to minimise the effects of these risks, where deemed appropriate, by using derivative financial instruments and other non-derivative strategies to manage these risk exposures 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,
- interest rate swaps to mitigate the risk of rising interest rates; and
- other non-derivative strategies.

The Company did not utilise any derivative instruments during the years ended 31 December 2014 or 2013.

### 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 as well as options in addition to non-derivative strategies.

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2014

BOART LONGYEAR LIMITED

## 18. FINANCIAL RISK MANAGEMENT (CONTINUED)

### Foreign currency risk management (continued)

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	
	2014	2013	2014	2013
	US\$'000	US\$'000	US\$'000	US\$'000
Australian Dollar	488,274	566,664	47,350	54,294
Canadian Dollar	331	8,575	78,179	93,443
Euro	608	3,588	81,318	91,399
US Dollar	269,993	303,429	624,879	622,144

### 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% decrease in AUD		10% decrease in CAD	
	2014	2013	2014	2013
	US\$'000	US\$'000	US\$'000	US\$'000
Net profit	(5,675)	(5,589)	4,077	5,211
Net assets	(40,208)	(46,579)	6,447	7,715

	10% decrease in EUR		10% decrease in USD	
	2014	2013	2014	2013
	US\$'000	US\$'000	US\$'000	US\$'000
Net profit	3,557	7,983	4,059	(787)
Net assets	7,142	7,983	32,262	28,974

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

### Forward foreign exchange contracts

There were no open forward foreign currency contracts as at 31 December 2014 or 2013.

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2014

BOART LONGYEAR LIMITED

## 18. FINANCIAL RISK MANAGEMENT (CONTINUED)

### Interest rate risk management

The Company is not exposed to interest rate risk as entities within the Company borrow funds at fixed interest rates.

### Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Company's Treasurer and Board.

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.

### Liquidity risk

The following tables reflect the expected maturities of non-derivative financial liabilities as at 31 December 2014. These are based on the undiscounted expected cash flows of financial liabilities based on the maturity profile per the loan agreement. 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
<b>31 December 2014</b>								
Non-interest bearing payables	-	124,209	42,815	-	-	-	-	167,024
Fixed interest rate instruments	9.4%	-	-	40,500	504,031	584,356	(404,198)	724,690
		<u>124,209</u>	<u>42,815</u>	<u>40,500</u>	<u>504,031</u>	<u>584,356</u>	<u>(404,198)</u>	<u>891,714</u>
<b>31 December 2013</b>								
Non-interest bearing payables		126,632	26,520	-	-	-	-	153,152
Finance lease liability	8.1%	8	16	70	2	-	(8)	88
Fixed interest rate instruments	8.5%	4,250	8,500	38,250	496,603	347,351	(294,954)	600,000
		<u>130,890</u>	<u>35,036</u>	<u>38,320</u>	<u>496,605</u>	<u>347,351</u>	<u>(294,962)</u>	<u>753,240</u>

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2014

BOART LONGYEAR LIMITED

## 18. FINANCIAL RISK MANAGEMENT (CONTINUED)

### Liquidity risk (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
<b>2014</b>				
Non-interest bearing receivables	68,854	52,788	15,800	137,442
Cash	168,784	-	-	168,784
	<u>237,638</u>	<u>52,788</u>	<u>15,800</u>	<u>306,226</u>
<b>2013</b>				
Non-interest bearing receivables	77,275	76,035	43,602	196,912
Cash	59,053	-	-	59,053
	<u>136,328</u>	<u>76,035</u>	<u>43,602</u>	<u>255,965</u>

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

### 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 materially approximate their fair values, except for the Company's senior secured notes that are trading below their carrying value.

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2014

BOART LONGYEAR LIMITED

## 19. PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings US\$'000	Plant and Equipment US\$'000	Construction in Progress US\$'000	Total US\$'000
<b>Balance at 1 January 2013</b>	75,441	949,148	55,805	1,080,394
Additions	678	5,521	32,402	38,601
Disposal	(9,360)	(25,686)	-	(35,046)
Transfer to/from CIP	3,055	36,275	(39,330)	-
Transfer from intangible assets	22	2,336	(1,091)	1,267
Currency movements	(2,786)	(85,434)	(1,235)	(89,455)
<b>Balance at 1 January 2014</b>	67,050	882,160	46,551	995,761
Additions	133	4,885	14,686	19,704
Disposal	(331)	(29,012)	-	(29,343)
Transfer to/from CIP	1,905	30,924	(32,829)	-
Transfer from intangible assets	-	542	(384)	158
Currency movements	(2,946)	(57,884)	(2,840)	(63,670)
<b>Balance at 31 December 2014</b>	65,811	831,615	25,184	922,610
<b>Accumulated depreciation and impairment:</b>				
<b>Balance at 1 January 2013</b>	(13,992)	(437,711)	-	(451,703)
Depreciation	(3,276)	(108,179)	-	(111,455)
Impairment	(5,561)	(100,607)	-	(106,168)
Disposal	503	20,385	-	20,888
Currency movements	1,444	59,544	-	60,988
<b>Balance at 1 January 2014</b>	(20,882)	(566,568)	-	(587,450)
Depreciation	(2,632)	(81,949)	-	(84,581)
Impairment	(112)	(45,975)	-	(46,087)
Disposal	317	24,550	-	24,867
Currency movements	1,340	48,607	-	49,947
<b>Balance at 31 December 2014</b>	(21,969)	(621,335)	-	(643,304)
<b>Net book value at 31 December 2013</b>	<b>46,168</b>	<b>315,592</b>	<b>46,551</b>	<b>408,311</b>
<b>Net book value at 31 December 2014</b>	<b>43,842</b>	<b>210,280</b>	<b>25,184</b>	<b>279,306</b>

Property, plant and equipment is reviewed at each reporting date to determine whether there is any indication of impairment. Due to the decline in demand for our drilling services and low rig utilisation rates, the Company reviewed specific assets for impairment. As a result of this exercise, the Company recorded an impairment loss at 31 December 2014 and 31 December 2013 of \$4,887,000 and \$89,908,000 respectively on property, plant and equipment, including assets held for sale. The Company also assesses the recoverability of its assets across CGU's. As a result of this process, the Company recorded additional impairment losses of \$41,200,000 and \$20,000,000 at 31 December 2014 and 31 December 2013, respectively. See Note 10 for details of other assumptions used as part of this impairment testing.



# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2014

BOART LONGYEAR LIMITED

## 20. GOODWILL

	<u>US\$'000</u>
<b>Gross carrying amount:</b>	
Balance at 1 January 2013	290,786
Impairment loss	(166,313)
Currency movements	(20,499)
<b>Balance at 31 December 2013</b>	<u>103,974</u>
Balance at 1 January 2014	103,974
Currency movements	(1,503)
<b>Balance at 31 December 2014</b>	<u>102,471</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. All of the carrying amount of goodwill is included in the North America Drilling Services cash-generating unit

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 goodwill is impaired, it is written down to its recoverable amount. Due to potential indicators of impairment at both the 30 June 2014 and 31 December 2014 reporting periods, the company performed impairment testing at those dates.

Based on the impairment testing performed during 2014, the recoverable amount from each cash-generating unit exceeded the goodwill carrying amount. Consequently, no impairments were recorded in 2014.

Impairment tests were also performed at 30 June 2013 and 31 December 2013 and as a result the Company recognised an impairment loss of \$166,313,000 due to the financial performance of various cash-generating units as well as the expected financial performance of the business at that time.

### Goodwill Impairment by cash-generating units

	<u>2014</u> <u>US\$'000</u>	<u>2013</u> <u>US\$'000</u>
Argentina	-	12,226
Australia	-	139,751
Chile	-	12,776
New Zealand	-	1,560
	<u>-</u>	<u>166,313</u>

Goodwill and intangible assets in Australia, New Zealand, Chile and Argentina have been fully impaired as at 31 December 2013. For the cash-generating units with remaining goodwill and intangible assets being the North America Drilling Services CGU, there could be potential impairments under certain changes in key assumptions, as described further in Note 10.

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2014

BOART LONGYEAR LIMITED

## 21. OTHER INTANGIBLE ASSETS

	Trademarks US\$'000	Patents US\$'000	Customer relationships and other US\$'000	Software US\$'000	Develop- ment assets US\$'000	Total US\$'000
<b>Gross carrying amount:</b>						
Balance at 1 January 2013	3,983	5,943	57,237	80,923	47,390	195,476
Additions	164	1,368	-	5,369	3,691	10,592
Transfer to PP&E	-	-	-	-	(1,267)	(1,267)
Currency movements	-	-	(4,352)	(36)	(2,904)	(7,292)
<b>Balance at 31 December 2013</b>	<b>4,147</b>	<b>7,311</b>	<b>52,885</b>	<b>86,256</b>	<b>46,910</b>	<b>197,509</b>
Balance at 1 January 2014	4,147	7,311	52,885	86,256	46,910	197,509
Additions	77	1,100	-	1,072	3,214	5,463
Disposals	-	(2,692)	(306)	-	-	(2,998)
Transfer to PP&E	-	-	-	-	(158)	(158)
Currency movements	-	5	(2,501)	(21)	(344)	(2,861)
<b>Balance at 31 December 2014</b>	<b>4,224</b>	<b>5,724</b>	<b>50,078</b>	<b>87,307</b>	<b>49,622</b>	<b>196,955</b>
<b>Accumulated amortisation:</b>						
Balance at 1 January 2013	(1,270)	(1,507)	(30,060)	(22,856)	(11,625)	(67,318)
Amortisation for the period	-	(283)	(4,044)	(13,976)	(966)	(19,269)
Impairment for the period	-	-	(9,090)	-	(13,822)	(22,912)
Currency movements	-	-	3,240	23	755	4,018
<b>Balance at 31 December 2013</b>	<b>(1,270)</b>	<b>(1,790)</b>	<b>(39,954)</b>	<b>(36,809)</b>	<b>(25,658)</b>	<b>(105,481)</b>
Balance at 1 January 2014	(1,270)	(1,790)	(39,954)	(36,809)	(25,658)	(105,481)
Amortisation for the period	-	(303)	(1,730)	(14,754)	(1,030)	(17,817)
Disposals	-	2,692	306	-	-	2,998
Impairment for the period	-	(1,338)	(89)	-	(290)	(1,717)
Currency movements	-	2	2,291	19	18	2,330
<b>Balance at 31 December 2014</b>	<b>(1,270)</b>	<b>(737)</b>	<b>(39,176)</b>	<b>(51,544)</b>	<b>(26,960)</b>	<b>(119,687)</b>
<b>Net book value at 31 December 2013</b>	<b>2,877</b>	<b>5,521</b>	<b>12,931</b>	<b>49,447</b>	<b>21,252</b>	<b>92,028</b>
<b>Net book value at 31 December 2014</b>	<b>2,954</b>	<b>4,987</b>	<b>10,902</b>	<b>35,763</b>	<b>22,662</b>	<b>77,268</b>

Other intangible assets are reviewed at each reporting date to determine whether there is any indication of impairment. As a result of the Company's review of specific intangible assets, an impairment of \$1,717,000 was recorded at 31 December 2014. In addition, the Company performed impairment tests as at 30 June 2014 and at 31 December 2014 which did not result in additional impairments. Based upon the impairment analysis performed at 31 December 2013 the Company recognised an intangible asset impairment loss of \$9,090,000 for the year ended 31 December 2013 due to the most recent financial performance of various cash-generating units as well as the expected financial performance of the business at that time. In its impairment assessment, the Company assumes the recoverable amount based on a value-in-use calculation. Cash flow projections are 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. See Note 10 for details of other assumptions used as part of this impairment testing.

The Company has reassessed the carrying value of certain development assets relating to its Global Products business. The review led to the recognition of an impairment loss of \$13,822,000, during the period ended 31 December 2013 which has been recognised in the consolidated statement of profit or loss and other comprehensive income.

The Company recognised \$8,072,000 of research and development expenses in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2014 (2013: \$8,427,000).

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2014

BOART LONGYEAR LIMITED

## 22. TRADE AND OTHER PAYABLES

	<b>2014</b>	<b>2013</b>
	<b>US\$'000</b>	<b>US\$'000</b>
<b>Current</b>		
Trade payables	68,648	68,962
Accrued payroll and benefits	31,188	22,685
Accrued recapitalisation costs	18,144	-
Goods and services tax payable	13,342	17,017
Accrued interest	10,371	13,091
Accrued legal and environmental	6,023	9,596
Professional fees	5,350	5,822
Accrued drilling costs	3,443	3,518
Other sundry payables and accruals	10,515	12,461
	<u>167,024</u>	<u>153,152</u>

The average credit period on purchases of certain goods is 34 days (2013: 31 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.

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2014

BOART LONGYEAR LIMITED

## 23. LOANS AND BORROWINGS

	<b>2014</b>	<b>2013</b>
	<b>US\$'000</b>	<b>US\$'000</b>
<b>Unsecured - at amortised cost</b>		
<i>Non-current</i>		
Senior notes	300,000	300,000
Debt issuance costs	(3,637)	(4,219)
<b>Secured - at amortised cost</b>		
<i>Current</i>		
Finance lease liabilities	-	84
<i>Non-current</i>		
Senior notes	195,000	300,000
Term loans	225,000	-
Accreted interest	4,690	-
Debt issuance costs	(4,709)	(10,410)
Finance lease liabilities	-	4
	<u>716,344</u>	<u>585,459</u>

Disclosed in the financial statements as:

Current borrowings	-	84
Non-current borrowings	716,344	585,375
	<u>716,344</u>	<u>585,459</u>

A summary of the maturity of the Company's borrowings is as follows:

Less than 1 year	-	84
Between 1 and 2 years	-	4
Between 2 and 3 years	-	-
Between 3 and 4 years	300,000	-
More than 4 years	420,000	600,000
	<u>720,000</u>	<u>600,088</u>
Accreted Interest	4,690	-
Debt issuance costs	(8,346)	(14,629)
	<u>716,344</u>	<u>585,459</u>

## 23. LOANS AND BORROWINGS (CONTINUED)

### Senior notes

The Company has \$300,000,000 of senior unsecured notes at an interest rate of 7% with a scheduled maturity date of 1 April 2021. 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. Obligors for the senior notes are the Company's Australian, Canadian, United States, Chilean, Peruvian and Swiss subsidiaries. See Note 37 on Subsequent Events.

As at 31 December 2014 the Company has \$195,000,000 of senior secured notes at an interest rate of 10% with a scheduled maturity date of 1 October 2018. 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. On 7 November 2014 the company used proceeds from Tranche B of its new term loan to repay \$105,000,000 of the senior secured notes in addition to paying \$8,400,000 and \$1,050,000 for a bond premium and accrued interest on the tendered notes. As at 31 December 2013 the Company had \$300,000,000 of senior secured notes outstanding. Obligors for the senior notes are the Company's Australian, Canadian, United States, Chilean, Peruvian and Swiss subsidiaries. The secured notes are secured by a first priority lien on substantially all of the issuer's and the guarantors' tangible and intangible assets, including the outstanding capital stock held by the Company, the issuer and the guarantors, and by certain owned real property and also secured by a second priority lien on the issuer's and the guarantors' accounts receivable, inventories and cash.

### Bank Credit Facility

On 22 October 2014 the Company repaid and closed its bank credit facility, which provided a \$140,000,000 secured revolving bank loan, with proceeds from the new term loan.

### Term Loans

As part of the Company recapitalisation in October 2014, the Company entered into a new term loan facility with Centerbridge Partners, L.P.. The new term loans accrete interest. Structured as Tranche A and Tranche B loans, the new loans have an interest rate of 12% per annum, which would be reduced to 11% per annum if the Company's trailing 12 month adjusted EBITDA is greater than \$200,000,000. Obligors for the term loans are the Company's Australian, Canadian, United States, Chilean, Peruvian and Swiss subsidiaries.

On 22 October 2014 the \$120,000,000 of proceeds from Tranche A term loan were received. Approximately \$30,000,000 of the net proceeds was used to repay borrowings under the Company's revolving loan facility. This Tranche contains a maturity of 22 October 2020 and is non-callable for 4 years. It is secured by a first lien on issuer's and the guarantors' accounts receivable, inventories, deposit accounts and cash and a second lien on substantially all of the issuer's and the guarantors' tangible and intangible assets, including equipment intellectual property, the capital stock of subsidiaries and certain owned real property and contains a provision that allows, under certain conditions, a portion of the Tranche A to be replaced dollar-for-dollar up to \$50,000,000, with no penalties, by a new asset backed loan.

On 7 November 2014 the \$105,000,000 of proceeds from Tranche B term loan were received. This Tranche contains a maturity of 1 October, 2018 and is non-callable for the life of the loan. It is secured by a first priority lien on substantially all of the issuer's and the guarantors' tangible and intangible assets, including equipment, intellectual property, the capital stock of subsidiaries and certain owned real property and also secured by a second priority lien on the issuer's and the guarantors' accounts receivable, inventories, deposit accounts and cash.

The accreted interest payable to Centerbridge Partners, L.P., a related party, is guaranteed by an unrestricted subsidiary funded with assets not to exceed \$44 million.

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2014

BOART LONGYEAR LIMITED

## 23. LOANS AND BORROWINGS (CONTINUED)

### Covenants and other material items – bank credit facility and senior notes

The Company's revolver that was repaid on 22 October 2014 contained 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.

With respect to the senior notes issued by the Company, the indenture governing those senior notes includes covenants that restrict the Company's ability to engage in certain activities, including incurring additional indebtedness and making certain restricted payments as well as a limitation on the amount of secured debt the Company may incur. The senior notes contain certain provisions that provide the note holders with the ability to declare a default, and accelerate the notes, should a default occur under either of the Term Loans that results in acceleration of such Term Loans. The senior notes do not require maintenance or testing of financial covenant ratios.

The Term Loans do not require maintenance or testing of financial covenant ratios.

As at 31 December 2014 and 31 December 2013 the Company was in compliance with all of its debt covenants.

### Finance leases

The Company's 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 had interest rates ranging from 7.65% to 9.0%, with repayment periods not exceeding two years. As at 31 December 2014 they have been paid off.

## 24. PROVISIONS

	2014 US\$'000	2013 US\$'000
<b>Current</b>		
Employee benefits	11,084	13,802
Restructuring and termination costs <sup>1</sup>	8,790	14,235
Warranty <sup>2</sup>	190	293
Onerous leases	3,877	4,933
	<u>23,941</u>	<u>33,263</u>
<b>Non-current</b>		
Employee benefits	5,425	2,171
Pension and post-retirement benefits (Note 25)	38,329	32,284
Onerous leases	1,149	2,729
	<u>44,903</u>	<u>37,184</u>
	<u>68,844</u>	<u>70,447</u>

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2014

BOART LONGYEAR LIMITED

## 24. PROVISIONS (CONTINUED)

The changes in the provisions for the year ended 31 December 2014 are as follows:

	<b>Restructuring and termination costs <sup>1</sup></b>	<b>Warranty <sup>2</sup></b>	<b>Onerous lease costs <sup>3</sup></b>
	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>
<b>Balance at 1 January 2014</b>	14,235	293	7,662
Additional provisions recognised	169	5,153	772
Reductions arising from payments	(3,753)	(317)	(2,997)
Reductions resulting from remeasurement	(647)	(72)	-
Foreign exchange	(1,214)	(4,867)	(411)
<b>Balance at 31 December 2014</b>	<b>8,790</b>	<b>190</b>	<b>5,026</b>

- (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.
- (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.
- (3) Includes current and non-current.

## 25. PENSION AND POST-RETIREMENT BENEFITS

The Company provides defined contribution and defined benefit pension plans for the majority of its employees. It also provides post-retirement medical arrangements in North America. The policy for accounting for pensions and post-retirement benefits is included in Note 2(l).

### Post-retirement medical commitments

The post-retirement medical arrangements provide health benefits to retired employees and certain dependents. Eligibility for coverage is dependent upon certain criteria. Historically, most of these plans were unfunded and had been provided for by the Company. In August 2013, the Company made the decision to terminate the US retiree medical program. Effective 1 January 2014 retiree medical coverage is no longer offered to newly retiring US employees. Effective 1 March 2014 retirees and dependents over age 65 lost retiree medical coverage. The Company has partnered with a Towers Watson company, Extend Health, to provide benefit advisory services to Medicare-eligible retirees who desire replacement coverage on the open market. Effective 31 December 2014 retirees and dependents under age 65 lose retiree medical coverage. They are eligible to transition to the US federal healthcare exchange for medical insurance. As a result of the changes described above, the Company has recorded a gain of \$16,871,000 for the year ended 31 December 2013.

### Defined contribution plans

Pension costs represent actual contributions paid or payable by the Company to the various plans. At 31 December 2014, and 2013, there were no significant outstanding/prepaid contributions. Company contributions to these plans were \$12,228,000 and \$16,627,000 for the years ended 31 December 2014 and 2013, respectively.

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.

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2014

BOART LONGYEAR LIMITED

## 25. PENSION AND POST-RETIREMENT BENEFITS (CONTINUED)

### Defined benefit pension plans

Full actuarial valuations of the defined benefit pension plans were performed as at various dates and updated to 31 December 2014 by qualified independent actuaries. The estimated market value of the assets of the funded pension plans was \$200,405,000 and \$194,937,000 at 31 December 2014, and 2013, 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 84% in 2014 and 88% in 2013, 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.

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.

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 \$7,933,000 and \$6,844,000 during the years ended 31 December 2014 and 2013, respectively. Contributions in 2015 are expected to be \$7,835,000.

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

	2014		2013	
	North America	Europe	North America	Europe
Discount rates	3.9%	1.8%	4.7%	3.4%
Expected average rate of increase in salaries	3.5%	4.0%	3.5%	4.0%
Expected average rate of increase of pensions in payment	-	1.6%	-	1.8%
Expected average increase in healthcare costs (initial)	5.0%	-	6.8%	-
Expected average increase in healthcare costs (ultimate)	5.0%	-	5.0%	-

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

	2014			2013		
	Pension Plan	Post-retirement medical Plan	Total	Pension Plan	Post-retirement medical Plan	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Current service cost	1,022	-	1,022	1,359	1,246	2,605
Net Interest Expense	1,062	16	1,078	2,172	797	2,969
Past service cost	(275)	-	(275)	(222)	(16,871)	(17,093)
Total charge (credit) to profit and loss account	1,809	16	1,825	3,309	(14,828)	(11,519)

For the financial years ended 31 December 2014 and 2013, charges of approximately \$1,395,000 and \$4,218,000, respectively, have been included in cost of goods sold and the remainder in general and administrative or sales and marketing expenses.



# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2014

BOART LONGYEAR LIMITED

## 25. PENSION AND POST-RETIREMENT BENEFITS (CONTINUED)

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

	2014			2013		
	Post-			Post-		
	Pension Plan	retirement Medical Plan	Total	Pension Plan	retirement Medical Plan	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Actuarial losses (gains) during the year, net of taxes	10,216	26	10,242	<sup>1</sup> (17,404)	(1,730)	(19,134)

(1) Amount is the gross actuarial loss of \$14,280,000 less \$4,038,000 tax.

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

	2014			2013		
	Post-			Post-		
	Pension Plan	retirement Medical Plan	Total	Pension plan	retirement medical plan	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Present value of funded defined benefit obligations	232,198	-	232,198	220,594	-	220,594
Fair value of plan assets	(200,405)	-	(200,405)	(194,937)	-	(194,937)
	31,793	-	31,793	25,657	-	25,657
Present value of unfunded defined benefit obligations	6,060	476	6,536	5,770	857	6,627
Deficit	37,853	476	38,329	31,427	857	32,284
Net liability arising from defined benefit obligations	37,853	476	38,329	31,427	857	32,284

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

	2014			2013		
	Post-			Post-		
	Pension Plan	retirement Medical Plan	Total	Pension plan	retirement medical plan	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Opening defined benefit obligation	226,364	857	227,221	252,531	19,098	271,629
Current service cost	1,022	-	1,022	1,359	1,246	2,605
Interest cost	9,132	16	9,148	9,409	797	10,206
Contributions from plan participants	-	174	174	-	367	367
Actuarial losses (gains) arising from demographic assumptions	3,737	18	3,755	71	(1,008)	(937)
Actuarial losses (gains) arising from financial assumptions	27,553	9	27,562	(10,892)	(1,655)	(12,547)
Assets distributed on settlements	-	-	-	(10,340)	-	(10,340)
Past service cost	(275)	-	(275)	(222)	(16,871)	(17,093)
Exchange differences on foreign plans	(17,588)	(37)	(17,625)	(4,383)	(33)	(4,416)
Benefits paid	(11,687)	(707)	(12,394)	(11,169)	(1,162)	(12,331)
Federal subsidy on benefits paid	-	146	146	-	78	78
Closing defined benefit obligation	238,258	476	238,734	226,364	857	227,221

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2014

BOART LONGYEAR LIMITED

## 25. PENSION AND POST-RETIREMENT BENEFITS (CONTINUED)

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

	2014			2013		
	Post-			Post-		
	Pension Plan	retirement Medical Plan	Total	Pension Plan	retirement Medical Plan	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Opening fair value plan of assets	194,937	-	194,937	191,207	-	191,207
Expected return on plan assets	8,070	-	8,070	7,237	-	7,237
Actuarial gains arising from financial assumptions	17,037	-	17,037	14,524	-	14,524
Administrative expenses paid from the trust	(803)	-	(803)	-	-	-
Assets distributed on settlements	-	-	-	(9,619)	-	(9,619)
Exchange differences on foreign plans	(15,082)	-	(15,082)	(4,087)	-	(4,087)
Contributions from the employer	7,933	533	8,466	6,844	795	7,639
Contributions from plan participants	-	174	174	-	367	367
Benefits paid	(11,687)	(707)	(12,394)	(11,169)	(1,162)	(12,331)
Closing fair value of plan assets	200,405	-	200,405	194,937	-	194,937

The allocation of the plan assets for each asset class at the balance sheet date are as follows:

	2014			2013		
	North America	Europe	Total	North America	Europe	Total
	Fair Value	Fair Value	Fair Value	Fair Value	Fair Value	Fair Value
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
<b>At 31 December 2014</b>						
Equity	52,028	20,328	72,356	82,211	19,459	101,670
Bonds	81,557	36,471	118,028	47,376	34,470	81,846
Property	2,812	598	3,410	2,787	1,112	3,899
Structured Debt	2,812	-	2,812	2,787	-	2,787
Cash	-	598	598	2,787	556	3,343
Other	1,407	1,794	3,201	1,392	-	1,392
	140,616	59,789	200,405	139,340	55,597	194,937

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2014

BOART LONGYEAR LIMITED

## 25. PENSION AND POST-RETIREMENT BENEFITS (CONTINUED)

The pension and post retirement deficit by geographic region are as follows:

	31 December 2014			31 December 2013		
	North America	Europe	Total	North America	Europe	Total
Postretirement medical plan deficit	476	-	476	857	-	857
Pension plan deficit	19,089	18,764	37,853	10,006	21,421	31,427
Total deficit	19,565	18,764	38,329	10,863	21,421	32,284

The history of experience adjustments is as follows:

	2014			2013		
	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
Fair value of plan assets	200,405	-	200,405	194,937	-	194,937
Present value of defined benefit obligation	(238,258)	(476)	(238,734)	(226,364)	(857)	(227,221)
Deficit	(37,853)	(476)	(38,329)	(31,427)	(857)	(32,284)
Experience adjustments on plan liabilities	1,183	(18)	1,165	3,377	1,360	4,737
Experience adjustments on plan assets	17,037	-	17,037	14,524	-	14,524

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2014

BOART LONGYEAR LIMITED

## 25. PENSION AND POST-RETIREMENT BENEFITS (CONTINUED)

	2012			2011		
	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
Fair value of plan assets	191,207	-	191,207	173,776	-	173,776
Present value of defined benefit obligation	(252,531)	(19,098)	(271,629)	(225,616)	(17,238)	(242,854)
Deficit	(61,324)	(19,098)	(80,422)	(51,840)	(17,238)	(69,078)
Experience adjustments on plan liabilities	3,341	-	3,341	141	85	226
Experience adjustments on plan assets	4,615 <sup>1</sup>	-	4,615	(8,520)	-	(8,520)
Effect of Standard change <sup>1</sup>	3,077	-	3,077			
Adjusted experience adjustments on plan assets	7,692	-	7,692			

- (1) During 2013, the Company implemented the amendments to AASB119 'Employee Benefits' which required changes to the calculation of the net defined benefit liability and pension expense and requires retroactive restatement of the periods presented. As this application of this standard did not have a significant impact on the Company's financial results or consolidated statement of financial position, the Company decided to show the effect of restatement in this note and not restate the 2012 financial results and statement of financial position.

	2010		
	Pension plan US\$'000	Post-retirement medical plan US\$'000	Total US\$'000
Fair value of plan assets	194,620	-	194,620
Present value of defined benefit obligation	(209,750)	(14,879)	(224,629)
Deficit	(15,130)	(14,879)	(30,009)
Experience adjustments on plan liabilities	(643)	106	(537)
Experience adjustments on plan assets	3,867	-	3,867

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2014

BOART LONGYEAR LIMITED

## 25. 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>2014</u> US\$'000	<u>2013</u> US\$'000
<i>One percentage point increase</i>		
Effect on the aggregate of the service cost and interest cost	-	307
Effect on accumulated post-employment benefit obligation	10	28
<i>One percentage point decrease</i>		
Effect on the aggregate of the service cost and interest cost	-	(257)
Effect on accumulated post-employment benefit obligation	(10)	(28)

## 26. ISSUED CAPITAL

	<u>2014</u>		<u>2013</u>	
	Shares '000	US\$'000	Shares '000	US\$'000
Share capital				
Ordinary shares, fully paid	634,065	1,159,069	456,955	1,129,014
Movements in ordinary shares				
Balance at beginning of year	456,955	1,129,014	454,710	1,122,189
Issued under capital raising program	176,327	27,158	-	-
Vesting of LTIP rights, restricted shares	783	2,897	2,245	6,825
Balance at end of the year	634,065	1,159,069	456,955	1,129,014
Total shares outstanding	637,491	1,175,946	461,163	1,148,245
Shares held in trust	(3,426)	(16,877)	(4,208)	(19,231)
Balance at end of the year	634,065	1,159,069	456,955	1,129,014

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2014

BOART LONGYEAR LIMITED

## 27. RESERVES

	<b>2014</b>	<b>2013</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Foreign currency translation	(92,799)	(45,973)
Equity-settled employee benefits	10,014	8,661
	<u>(82,785)</u>	<u>(37,312)</u>

During the years ended 31 December 2014 and 2013, the changes in each of the respective reserve accounts were as follows:

	<b>2014</b>	<b>2013</b>
	<b>US\$'000</b>	<b>US\$'000</b>
<b>Foreign currency translation</b>		
Balance at beginning of year	(45,973)	56,658
Exchange losses arising on translation of foreign operations	(46,826)	(102,631)
Balance at end of year	<u>(92,799)</u>	<u>(45,973)</u>

Exchange gain or loss 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.

	<b>2014</b>	<b>2013</b>
	<b>US\$'000</b>	<b>US\$'000</b>
<b>Equity-settled employee benefits</b>		
Balance at beginning of year	8,661	14,256
Share-based compensation	4,250	1,230
Vesting of LTIP rights	(2,897)	(6,825)
Balance at end of year	<u>10,014</u>	<u>8,661</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.

## 28. ACCUMULATED LOSSES/RETAINED EARNINGS

During the years ended 31 December 2014 and 2013, the changes in (accumulated losses) retained earnings consist of:

	<b>2014</b>	<b>2013</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Balance at beginning of year	(525,925)	79,496
Loss for the period attributable to equity holders of the Parent	(332,718)	(619,943)
Dividends paid	-	(4,612)
Actuarial (losses) gains on defined benefit plans (net of tax)	(10,242)	19,134
Balance at end of year	<u>(868,885)</u>	<u>(525,925)</u>

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2014

BOART LONGYEAR LIMITED

## 29. DIVIDENDS

No dividend has been determined for any of the half-years ended 30 June 2014, 31 December 2014, 30 June 2013 or 31 December 2013.

The following dividend was paid during the year ended 31 December 2013:

	2013	
	US cents per share	Total US\$'000
<b>Fully paid ordinary shares</b>		
Final 2012 dividend 35% franked	1.0	4,612
	<u>1.0</u>	<u>4,612</u>

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

	2014 US\$'000	2013 US\$'000
Adjusted combined franking balance	<u>842</u>	<u>4,295</u>

## 30. COMMITMENTS FOR EXPENDITURE

### Commitments

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

	2014 US\$'000	2013 US\$'000
<b>Capital commitments</b>		
Purchase commitments for capital expenditures	<u>155</u>	<u>511</u>

The Company entered into a purchase commitment effective 10 July 2014 with an outsourced capital equipment manufacturer to purchase, over time, \$23,500,000 of inventory. The Company expects to purchase and consume this inventory in the normal course of business. The purchase commitment could be accelerated by the supplier in the event of a Company change of control.

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2014

BOART LONGYEAR LIMITED

## 30. COMMITMENTS FOR EXPENDITURE (CONTINUED)

Non-cancellable future operating lease commitments as at 31 December 2014 and 2013 consist of the following:

	31 December 2014		31 December 2013	
	Land and buildings US\$'000	Plant and equipment US\$'000	Land and buildings US\$'000	Plant and equipment US\$'000
<b>Payments due within:</b>				
1 year	6,327	3,544	12,556	6,467
2 to 5 years	21,026	729	25,406	2,034
After 5 years	4,249	95	4,156	21
	<u>31,602</u>	<u>4,368</u>	<u>42,118</u>	<u>8,522</u>

### Description of operating leases

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

- 1 – 20 years for land and buildings with an average lease term of five years
- 1 – 7 years for machinery and equipment with an average lease term of four 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.

## 31. CONTINGENT LIABILITIES

### Letters of credit

Standby letters of credit primarily issued in support of commitments or other obligations as at 31 December 2014 are as follows:

Subsidiary	Purpose	Expiration Date	Amount US \$'000
Australia	Secure a performance bond	February 2015	719
Australia	Secure a facility rental	August 2015	94
Australia	Secure a facility rental	March 2015	159
Australia	Secure a facility rental	September 2016	604
United States	Secure workers compensation program	January 2015	405
Zambia	Support Products inventory	December 2014	1,000
			<u>2,981</u>



# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2014

BOART LONGYEAR LIMITED

## 31. CONTINGENT LIABILITIES (CONTINUED)

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

	2014 US\$'000	2013 US\$'000
Less than 1 year	2,377	7,337
1 to 3 years	604	3,055
	<u>2,981</u>	<u>10,392</u>

### 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. See Note 23.

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 Boart Longyear Manufacturing Canada Ltd.
United States	Longyear Holdings, Inc. Longyear TM, Inc. Boart Longyear Manufacturing USA, Inc. Boart Longyear Company
Australia	Boart Longyear Limited Boart Longyear Management Pty Limited Votrait No. 1609 Pty Limited Boart Longyear Australia Pty Limited
Switzerland	Boart Longyear Suisse Sarl
Peru	Boart Longyear S.A.C.
Chile	Boart Longyear Comercializadora Limitada Boart Longyear Chile Limitada

### 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.

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2014

BOART LONGYEAR LIMITED

## 31. CONTINGENT LIABILITIES (CONTINUED)

### Tax and customs audits

The Company is subject to certain tax and customs audits that arise in the normal course of its business. Management believes that the ultimate amount of liability, if any, for any pending assessments (either alone or combined) would not materially affect the Company's operations, liquidity, or financial position taken as a whole. However, the ultimate outcome of these audits is uncertain and unfavourable outcomes could have a material adverse impact. See additional disclosure in Note 14.

The Zambian Revenue Authority (ZRA) completed a customs clearance audit in January 2013 and issued a proposed assessment (assessment) of approximately \$9,900,000 against Boart Longyear International Zambia Limited, a fully owned subsidiary of the Company. The Company has already paid approximately \$225,000 to resolve some aspects of the assessment. The balance of the assessment primarily relates to the ZRA's contentions that: (1) the declared value of imported goods was not accurate and was less than actual value; and (2) goods destined for other countries stored in a Zambian bonded warehouse did not exit the country within the legally stipulated period of time.

The ZRA's assessment was based on an extrapolation of findings from a sample of transactions. The Company performed its own detailed analysis of the transactions, with the results showing there is some substance to the ZRA's claims, but the potential amount of any liability would be considerably less than the assessment. The Company has shared those findings with the ZRA in a series of discussions resulting in the ZRA reducing its proposed assessment substantially. The Company still disagrees with the ZRA's revised assessment and will continue to work with the ZRA to share the appropriate data supporting its detailed analysis. The Company expects additional discussions with the ZRA to attempt to resolve the open areas and believes it is appropriately reserved in respect to this matter.

### Other contingencies

Other contingent liabilities as at 31 December 2014 and 2013 consist of the following:

	<b>2014</b>	<b>2013</b>
	<b>US\$'000</b>	<b>US\$'000</b>
<b>Contingent liabilities</b>		
Guarantees/counter-guarantees to outside parties	23,398	46,989

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 18.

	<b>Maximum credit risk</b>	
	<b>2014</b>	<b>2013</b>
	<b>US\$'000</b>	<b>US\$'000</b>
<b>Financial assets and other credit exposure</b>		
Performance guarantees provided, including letters of credit	26,379	57,381

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2014

BOART LONGYEAR LIMITED

## 32. PARENT ENTITY DISCLOSURES

### Financial position

	<b>2014</b>	<b>2013</b>
	<b>US\$'000</b>	<b>US\$'000</b>
<b>Assets</b>		
Current assets	479,785	844,962
Non-current assets	10,507	142,354
<b>Total assets</b>	<b>490,292</b>	<b>987,316</b>
<b>Liabilities</b>		
Current liabilities	201,991	146,013
Non-current liabilities	3,010	582
<b>Total liabilities</b>	<b>205,001</b>	<b>146,595</b>
<b>Net Assets</b>	<b>285,291</b>	<b>840,721</b>
<b>Equity</b>		
Issued capital	2,915,600	2,887,901
Reserves	3,859	253
(Accumulated losses) Retained earnings	(2,634,168)	(2,047,433)
<b>Total equity</b>	<b>285,291</b>	<b>840,721</b>

### Financial performance

	<b>2014</b>	<b>2013</b>
	<b>US\$'000</b>	<b>US\$'000</b>
(Loss) Profit for the year	(586,735)	(1,157,469)
Other comprehensive income	-	-
<b>Total comprehensive (loss) income</b>	<b>(586,735)</b>	<b>(1,157,469)</b>

During the year ended 31 December 2014, Boart Longyear Limited recorded a provision against intercompany accounts of \$586,697,000 (2013: \$1,200,000,000). This provision has no impact on the consolidated financial statements.

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

Other guarantees are described in Note 31.

### Contingent liabilities

As at 31 December 2014 and 2013 Boart Longyear Limited did not have any contingent liabilities.

### Contractual obligations

As at 31 December 2014 and 2013 Boart Longyear Limited did not have any contractual obligations.

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2014

**BOART LONGYEAR LIMITED**

## 33. COMPANY SUBSIDIARIES

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

Subsidiaries	Country of incorporation	Business	31 Dec 2014	31 Dec 2013
A.C.N. 066 301 531 Pty Ltd	Australia	Drilling Products	100	100
Aqua Drilling & Grouting Pty Ltd.	Australia	Drilling Services	100	100
BLI Zambia Ltd.	Zambia	Drilling Services	100	100
BLY Drilling Private Limited Company	Ethiopia	Drilling Services	100	100
BLY EMEA UK Holdings Ltd.	United Kingdom	Holding Company	100	100
BLY Gabon S.A.	Gabon	Drilling Services	100	100
BLY Ghana Limited	Ghana	Drilling Services	100	100
BLY Guinea S.A.	Guinea	Drilling Services	100	100
BLY Madagascar S.A.	Madagascar	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 Products Mali S.A. <sup>1</sup>	Mali	Products	-	100
BLY Senegal S.A.	Senegal	Drilling Services	100	100
BLY Sierra Leone Ltd.	Sierra Leone	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. <sup>2</sup>	United Kingdom	Holding Company	100	100
Boart Longyear (Hong Kong) Limited	Hong Kong	Drilling Services	100	100
Boart Longyear (NZ) Limited	New Zealand	Drilling Services	100	100
Boart Longyear (Pty) Ltd <sup>1</sup>	Botswana	Drilling Products	-	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.	Colombia	Drilling Services	100	100
Boart Longyear Comercializadora Limitada	Chile	Drilling Products	100	100
Boart Longyear Company	USA	Drilling Products and Services	100	100
Boart Longyear Consolidated Holdings, Inc.	USA	Holding Company	100	100
Boart Longyear Cote d'Ivoire S.A.	Ivory Coast	Drilling Services	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.	Mexico	Drilling Products and Services	100	100
Boart Longyear Drilling Products (Wuxi) Co., 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 Eritrea Ltd.	Eritrea	Drilling Services	100	100
Boart Longyear Financial Services SARL <sup>1</sup>	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 <sup>1</sup>	India	Drilling Products	-	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 Limitada	Brazil	Drilling Products	100	100
Boart Longyear Limited	Ireland	Drilling Products	100	100
Boart Longyear Limited	Thailand	Drilling Services	100	100

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2014

**BOART LONGYEAR LIMITED**

## 33. COMPANY SUBSIDIARIES (CONTINUED)

Subsidiaries	Country of incorporation	Business	31 Dec 2014	31 Dec 2013
Boart Longyear LLC	Russia Federation	Drilling Products	100	100
Boart Longyear Ltd	Ghana	Dormant	100	100
Boart Longyear Management Pty Ltd	Australia	Holding Company	100	100
Boart Longyear Manufacturing Canada Ltd.	Canada	Drilling Products	100	100
Boart Longyear Manufacturing USA Inc.	USA	Drilling Products	100	100
Boart Longyear Netherlands BV	Netherlands	Holding Company	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.r.l. <sup>1</sup>	France	Holding Company	-	100
Boart Longyear SAC	Peru	Drilling Products and Services	100	100
Boart Longyear Saudi Arabia LLC	Saudi Arabia	Drilling Services	100	100
Boart Longyear Sole Co., Limited	Laos	Drilling Services	100	100
Boart Longyear Suisse SARL	Switzerland	Holding Company	100	100
Boart Longyear Vermögensverwaltung GmbH	Germany	Dormant	100	100
Boart Longyear Zambia Ltd.	Zambia	Drilling Services	100	100
Cooperatief Longyear Holdings UA	Netherlands	Holding Company	100	100
Dongray Industrial Limited <sup>2</sup>	United Kingdom	Dormant	100	100
Drillcorp Pty Ltd	Australia	Drilling Services	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 <sup>1</sup>	Netherlands	Drilling Services	-	100
Longyear Canada, ULC	Canada	Drilling Products	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 <sup>1</sup>	South Africa	Dormant	-	100
Prosonic Corporation	USA	Drilling Services	100	100
Prosonic International, Inc.	USA	Drilling Services	100	100
Resources Services Holdco, Inc	USA	Holding Company	100	100
Votrant No. 1609 Pty Ltd	Australia	Drilling Services	100	100

(1) This entity was liquidated and dissolved in 2014

(2) This entity is currently in liquidation status

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2014

BOART LONGYEAR LIMITED

## 34. DISPOSAL OF OPERATIONS

On 15 July 2013, the Company sold its US-based environmental and infrastructure drilling services operations. The sale was consistent with the Company's desire to focus resources and efforts on its core markets and on higher margin drilling services segments. An impairment charge of \$7,707,000 was recorded at 30 June 2013 to decrease the assets held for sale to their fair value less cost to sell. Settlements occurring subsequent to the transaction date have given rise to additional payments and a loss on the sale of subsidiary has been recognised in the amount of \$1,962,000. The disposal of this business is related to the Company's restructuring activities and the loss has been included in the total significant items (See Note 10).

<b>Book value of net assets sold</b>	<b>2013 US\$'000</b>
Assets	26,698
Liabilities	(298)
Net assets disposed	26,400
Disposal costs	2,065
Loss on disposal	(1,962)
Total proceeds	26,503
Cash paid - closing costs	(1,693)
Net cash inflow from disposal of subsidiaries	24,810

There were no disposals of operations in the current financial year.

## 35. 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.

	<b>2014 US\$'000</b>	<b>2013 US\$'000</b>
Cash and cash equivalents	168,784	59,053

Of the cash balance at 31 December 2014, \$13,795,000 was considered restricted cash. At 31 December 2013, \$4,510,000 was considered restricted cash.

### (b) Businesses acquired

During the years ended 31 December 2014 and 2013 there were no business acquisitions.

### (c) Businesses disposed

During the year ended 31 December 2014 there were no business dispositions. During the year ended 31 December 2013 the Company disposed of its United States environmental and infrastructure drilling services operations. The net cash inflow from disposals was \$24,810,000. See Note 34.

## 36. RELATED PARTY TRANSACTIONS

### Transactions with key management personnel

- (i) Key management personnel compensation

Details of key management personnel compensation are disclosed in Note 12.

- (ii) Other transactions with key management personnel of the Company

None.

### Transactions with related parties

As a result of the recapitalisation transaction, the Company reimbursed Centerbridge Partners, L.P. \$12,647,000 in fees incurred as a result of the transaction.

## 37. SUBSEQUENT EVENTS

### Events subsequent to reporting date

On 27 January 2015, the Company finalised the rights offering and received additional proceeds of A\$106.2 million. The Company also completed the acquisition of approximately 7.5 million fully paid ordinary shares at A\$0.165 per share pursuant to the off-market buyback. The Company cancelled the repurchased shares and subsequently sold an equivalent number of new shares to Centerbridge Partners, L.P. for the same price per share. In addition, the Company also completed the equitisation of US\$16 million of its 7.00% Senior Unsecured Notes, held by Centerbridge Partners, L.P., and its affiliates and related funds through the issuance of approximately 102.8 million shares.

Following the completion of the recapitalisation transactions, the Company has 930.9 million fully paid ordinary shares and 434.0 million fully paid convertible preference shares on issue. Centerbridge Partners, L.P.'s holding in ordinary shares increased to 49.9% or 464.1 million shares and now also includes 434.0 convertible preference shares at a value of approximately A\$71.6 million. Additionally, as all recapitalisation transactions have been completed, the Company paid the remaining \$18.9 million of costs accrued for in 2014 related to the Strategic Review.

The Company announced changes in the composition of its Board on 23 February 2015. The changes, which will take effect on 25 February 2015, include the retirement of Barbara Jeremiah and Roy Franklin from the Board and the appointment of Bret Clayton and Marcus Randolph as new directors. Mr. Randolph will also assume the role of Chairman from Ms. Jeremiah. The foregoing changes to the Company's Board arise from the recapitalisation agreements, in which the Board agreed that Centerbridge Partners, L.P. may appoint up to four directors, including the right to nominate the Board Chairman subject to the approval of a majority of the independent directors. Messrs. Clayton and Randolph join the Board as independent, non-executive directors and, with Messrs. Lewinsohn and Tochilin, who were appointed in 2014, comprise Centerbridge Partners, L.P. nominated Board appointees.

## SUPPLEMENTARY INFORMATION

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### ADDITIONAL INFORMATION as at 18 March 2015.

#### Substantial shareholders

The substantial shareholders as disclosed to the Company in substantial holders notices are:

Holder	Number of Ordinary Shares in which relevant interest held
Centerbridge Partners group of Companies (as set out in Change in Substantial Holding Notice lodged 29 January 2015)	464,501,606

#### (a) Ordinary share capital

There are 930,864,944 fully paid ordinary shares on issue, held by 14,343 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

There are 13,127,532 share options held by 14 individual option holders. Options do not carry rights to vote.

#### (c) Preference Shares

There are 434,001,968 preference shares on issue, held by CCP II DUTCH ACQUISITION – E2 B.V. The preference shares do not carry rights to vote.

#### Distribution of holders of equity securities

Range	Holders – Fully Paid Ordinary Shares
1 to 1,000	5,318
1,001 to 5,000	4,516
5,001 to 10,000	1,799
10,001 to 100,000	2,387
100,001 and Over	323
<b>Total</b>	<b>14,343</b>

The number of security investors holding less than a marketable parcel of 2,381 securities (\$.210 on 18/03/2015) is 7,427 and they hold 5,535,303 securities.



## SUPPLEMENTARY INFORMATION

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### TOP 20 HOLDERS

No.	Holder	Fully Paid Ordinary Shares	Percent of Issued Capital Held
1	CCP II DUTCH ACQUISITION - E2 B.V.	245,589,162	26.38
2	CCP CREDIT SC II DUTCH ACQUISITION – E B.V.	160,242,553	17.21
3	J P MORGAN NOMINEES AUSTRALIA	107,709,800	11.57
4	HSBC CUSTODY NOMINEES (AUSTRALIA)	85,845,639	9.22
5	CITICORP NOMINEES PTY LIMITED	72,854,010	7.83
6	SNOWSIDE PTY LTD	25,204,788	2.71
7	NATIONAL NOMINEES LIMITED	14,211,131	1.53
8	DARRELL JAMES PTY LTD	6,264,493	0.67
9	NATIONAL NOMINEES LIMITED	5,868,090	0.63
10	CS FOURTH NOMINEES PTY LTD	4,389,393	0.47
11	QIC LIMITED	3,103,474	0.33
12	BAND AND CO	2,950,653	0.32
13	WARBONT NOMINEES PTY LTD	2,914,654	0.31
14	MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	2,645,281	0.28
15	KEONG LIM PTY LIMITED	2,291,926	0.25
16	WARATAH CAPITAL PARTNERS PTY LIMITED	1,900,000	0.20
17	GREEN JADE INVESTMENTS PTY LTD	1,750,000	0.19
18	MS YING GE	1,700,000	0.18
19	PACIFIC CUSTODIANS PTY LTD	1,647,914	0.18
20	MR ANTHONY MAURICI	1,568,393	0.17
	<b>TOTAL FOR TOP 20</b>	<b>750,651,354</b>	<b>80.64</b>

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## CORPORATE INFORMATION

### Headquarters

Principal Administrative Office  
10808 South River Front  
Parkway #400  
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 River Front  
Parkway #400  
South Jordan, Utah 84095

Australia: +61 8 8375 8300

Others: +1 801 401 3712

email: [ir@boartlongyear.com](mailto:ir@boartlongyear.com)

### Listing

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

### Share Registry

Link Market Services Limited  
Level 12, 680 George Street  
Sydney NSW 2000

Tel: +61 1800 781 633

### Annual Meeting

The Annual General Meeting of  
Boart Longyear will be held at:

1.00pm (Melbourne time)  
on Tuesday, 26 May 2015  
in the Clarendon Room A,  
Melbourne Exhibition  
Centre, 2 Clarendon Street,  
South Wharf, Melbourne,  
Victoria 3006, Australia

### Website

[www.boartlongyear.com](http://www.boartlongyear.com)

[www.precinct.com.au](http://www.precinct.com.au)

### 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.



Drillers in the field, USA