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**BOART LONGYEAR LIMITED**

**A.B.N. 49 123 052 728**

INTERIM FINANCIAL REPORT

AND

APPENDIX 4D

HALF-YEAR ENDED 30 JUNE 2007

*This interim financial report is the first financial report prepared by Boart Longyear Limited following its incorporation on 2 January 2007. This report should be read in conjunction with any public announcements made by Boart Longyear Limited during or since the interim reporting period in accordance with the continuous disclosure requirements of the ASX listing rules.*

**CONTENTS**

RESULTS FOR ANNOUNCEMENT TO THE MARKET .....	3
DIRECTORS' REPORT .....	4
AUDITOR'S INDEPENDENCE DECLARATION .....	7
INDEPENDENT AUDITOR'S REVIEW REPORT .....	8
DIRECTORS' DECLARATION .....	10
CONDENSED CONSOLIDATED INCOME STATEMENT .....	11
CONDENSED CONSOLIDATED BALANCE SHEET .....	12
CONDENSED CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE .....	13
CONDENSED CONSOLIDATED CASH FLOW STATEMENT .....	14
NOTES TO THE FINANCIAL STATEMENTS .....	15

**BOART LONGYEAR LIMITED**  
**HALF-YEAR FINANCIAL REPORT**  
**30 JUNE 2007**

Name of entity: **BOART LONGYEAR LIMITED**

ABN or equivalent company reference: **49 123 052 728**

Half year ended ('current period'): **30 June 2007**

Half year ended ('previous corresponding period'): **30 June 2006**

**RESULTS FOR ANNOUNCEMENT TO THE MARKET**

	<b>% change</b>	<b>US\$'000</b>
Revenue from ordinary activities	Up 42.6%	749,985
Net profit from ordinary activities after tax attributable to members	N/A	17,350
Net profit after tax attributable to members	N/A	17,350

*Brief explanation of any figures reported above:*

Refer to the Directors' Report

Net profit after tax for the first half of 2007 calculated on a statutory basis was US\$17 million. Statutory net profit after tax includes expenses and income associated with non-recurring items such as non-recurring professional and IPO related fees, finance costs related to higher debt levels in place prior to the listing of the Company, and certain foreign exchange gains. On a pro forma basis, net profit after tax for the first half of 2007 was US\$72 million.

**As noted in the Boart Longyear Prospectus, Boart Longyear does not intend to declare an interim dividend.**

**Net Tangible Assets per share:**

Current period:	(9.31) cents
Previous corresponding period:	(63.16) cents

## **DIRECTORS' REPORT**

The directors of Boart Longyear Limited submit herewith the financial report, presented in United States ("US") dollars, for the half-year ended 30 June 2007. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

### **DIRECTORS**

The names of directors of Boart Longyear Limited during or since the end of the half-year are:

#### **Name**

Graham Bradley	Appointed 21 February 2007
Bruce Brook	Appointed 21 February 2007
Paul Brunner	Appointed 28 February 2007
Geoffrey Handley	Appointed 21 February 2007
David McLemore	Appointed 21 February 2007
Peter St George	Appointed 21 February 2007

Neil Upfold	Appointed 2 January 2007 and resigned 21 February 2007
Robin Bishop	Appointed 2 January 2007 and resigned 21 February 2007
Nicholas Atkins	Appointed 2 January 2007 and resigned 21 February 2007

### **PRINCIPAL ACTIVITIES**

The principal activities of the consolidated entity, Boart Longyear Limited and subsidiaries, ("Boart Longyear Group" or the "Company") during the half-year ended 30 June 2007 were to provide contract drilling services and to manufacture and distribute related drilling products for the natural resource industry, including minerals, energy and water. The Boart Longyear Group operates in four geographic regions which are defined as Americas, Europe, Asia Pacific and Sub Saharan Africa.

### **REVIEW OF OPERATIONS**

#### **Overview**

The Boart Longyear Group is the world's leading integrated drilling services provider and products manufacturer for the Minerals industry, with a presence in the Environmental & Infrastructure and Energy industries. Boart Longyear Limited was incorporated on 2 January 2007 and was listed on the Australian Securities Exchange on 5 April 2007.

The Drilling Services division operates in 30 countries and provides drilling services to Mining clients predominantly in the exploration and development stage, as well as to clients in the Environmental & Infrastructure and Energy Industries.

The Products division manufactures and distributes coring tools, drilling capital equipment, percussive tools, mining capital equipment and products for the construction and stone industries. These products are sold to customers in more than 100 countries, and used in the Minerals, Environmental & Infrastructure and Energy Industries.

#### **Financial performance**

Drilling Services and Products demand across all regions was solid resulting in strong improvement in both revenue and earnings.

Total revenue for the period was \$750 million, an increase of 42.6% over the prior period. Of the \$224 million period on period increase in revenue, \$155 million was attributable to Drilling Services and \$69 million to Products.

Drilling Services generated revenue of \$460 million, up 50.8% on the same period last year. \$66 million of this revenue growth is attributable to organic growth during the period and \$89 million is attributable to the acquisitions made in 2006 and the first quarter of 2007.

Products generated revenue of \$290 million, up 31.2% on the same period last year. \$60 million of this revenue growth is attributable to volume growth, \$6 million to real price increases and \$3 million to the positive impact of currency movements.

Capacity was significantly increased in the first half of the year through additions to the Boart Longyear Group's manufacturing facilities and de-bottlenecking efforts. Despite these improvements, the backlog for all products has continued to increase and further capacity expansion initiatives are currently being evaluated.

Net profit after tax for the first half of the year was \$17 million. This result includes the impact of non-recurring professional and IPO related fees (\$12 million), acquisition related adjustments (\$6 million), and other non-recurring items including restructuring costs (\$10 million), offset by a foreign exchange gain of \$12 million.

The net profit after tax also includes the impact of finance costs relating to the higher debt levels in place prior to the listing of the Company, including the amortisation of financing fees of \$26 million, largely related to pre-IPO debt.

The effective tax rate of 41% is the blended annual rate for 2007, which takes into account the tax weighting of the corporate structure prior to the IPO and post the IPO. In subsequent periods, the tax rate is expected to be approximately 32%.

Earnings per share in the first half of 2007 were 1.17 cents, compared to (0.01) cents for the same period in 2006.

#### **ENTITIES OVER WHICH CONTROL HAS BEEN GAINED OR LOST DURING THE PERIOD**

##### **Acquisition of Resources Services Holdco, Inc. by Boart Longyear Limited**

Effective 12 April 2007, Boart Longyear Limited, through its wholly owned subsidiary, Boart Longyear Investments Pty Limited, acquired 100% of the equity in Resources Services Holdco, Inc. ("RSHI"), the then legal parent entity of the Boart Longyear Group, for \$1,361 million through the issuance of Convertible Redeemable Notes and Exchangeable Notes. Pursuant to its IPO on the Australian Securities Exchange, Boart Longyear Limited issued 1,269,158,552 ordinary shares for \$1,923 million (AU\$2,360 million). The proceeds from the IPO were used to reduce debt and redeem the Convertible Redeemable Notes of RSHI. In addition, 216,091,448 ordinary shares were issued to redeem the Exchangeable Notes.

In accordance with AASB 3 'Business Combinations' the acquisition of RSHI by Boart Longyear Limited was accounted for as a reverse acquisition and the consolidated financial statements have therefore been prepared as a continuation of the consolidated financial statements of RSHI. Accordingly, RSHI is considered to be the 'acquirer' for accounting purposes and as a result:

- the retained earnings and issued equity instruments recognised in the consolidated financial statements are the continuation of the retained earnings and issued equity instruments of RSHI,
- the assets and liabilities recognised and measured in the consolidated financial statements are at the carrying amounts of RSHI rather than at their fair values,
- the amount recognised as other equity balances in the consolidated financial statements were determined by adding the notional cost of the combination to the other equity balances of RSHI prior to the combination,
- the comparative information presented in the consolidated financial statements is that of RSHI, and
- the retained earnings of RSHI prior to the combination are not available for the payment of dividends to the shareholders of Boart Longyear Limited.

##### **Acquisition of Other Entities and Operations**

During the half-year, the Boart Longyear Group completed the acquisitions of KWL Drill Rig Engineering Pty Limited and Grimwood Davies Pty Limited, which are both in Australia, as well as the Connors Drilling businesses in Chile and Argentina.

##### **Future Developments**

Due to the ongoing strength in world commodity markets Boart Longyear remains on track to deliver its forecasts for its Drilling Services and Products business units for the 2007 financial year as detailed in the IPO Prospectus.

The focus remains on identifying accretive opportunities to consolidate its position and as the leader in the mineral exploration drilling industry and is assessing capacity expansion initiatives, as well as a select number of potential acquisitions. Operating improvements, expansion of the Environmental & Infrastructure and Energy business units, and new product development also remain important areas of focus for the Group.

**BOART LONGYEAR LIMITED**  
**HALF-YEAR FINANCIAL REPORT**  
**30 JUNE 2007**

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**Events After the Balance Sheet Date**

There has been no matter or circumstance that has arisen since the end of the half-year that has significantly affected, or may significantly affect, the operations of the Boart Longyear Group, its results of those operations, or its operations or results in future financial years

**AUDITOR'S INDEPENDENCE DECLARATION**

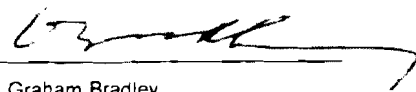
The auditor's independence declaration is included on page 7 of the half-year financial report

**ROUNDING OF AMOUNTS**

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

Signed in accordance with a resolution of the directors.

On behalf of the Directors



Graham Bradley  
Chairman

Sydney, 22 August 2007



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

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The Directors  
Boart Longyear Limited  
Level 25, Chifley Tower  
Sydney NSW 2000

22 August 2007

Dear Directors

**AUDITOR'S INDEPENDENCE DECLARATION TO 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 review of the consolidated financial statements of Boart Longyear Limited for the half-year ended 30 June 2007, 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 review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours faithfully

*Deloitte Touche Tohmatsu*

DELOITTE TOUCHE TOHMATSU

*R. Smith*

Rod Smith  
Partner  
Chartered Accountants

Liability limited by a scheme approved under Professional Standards Legislation.

## **Independent Auditor's Review Report to the members of Boart Longyear Limited**

### **Report on the Half-Year Financial Report**

We have reviewed the accompanying half-year financial report of Boart Longyear Limited, which comprises the balance sheet as at 30 June 2007, and the income statement, cash flow statement, statement of recognised income and expense for the half-year ended on that date, selected explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year.

#### *Directors' Responsibility for the Half-Year Financial Report*

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### *Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of Boart Longyear Limited's financial position as at 30 June 2007 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Boart Longyear Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

#### *Auditor's Independence Declaration*

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Liability limited by a scheme approved under Professional Standards Legislation

## *Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Boart Longyear Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2007 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

*Deloitte Touche Tohmatsu*

DELOITTE TOUCHE TOHMATSU

*R. Smith*

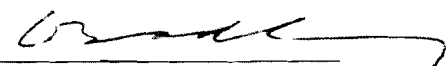
Rod Smith  
Partner  
Chartered Accountants  
Sydney, 22 August 2007

**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, and
- (b) 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.

Signed in accordance with a resolution of the directors.



Graham Bradley  
Chairman

Sydney, 22 August 2007

**BOART LONGYEAR LIMITED**  
**HALF-YEAR FINANCIAL REPORT**  
**30 JUNE 2007**

**CONDENSED CONSOLIDATED INCOME STATEMENT**

	Note	Half-year ended 30 June 2007 US\$'000	Half-year ended 30 June 2006 US\$'000
<b>Continuing operations</b>			
Revenue		749,985	525,935
Cost of goods sold		(504,144)	(365,444)
Gross margin		245,841	160,491
Operating expenses:			
Selling, general and administration expenses		(146,194)	(115,847)
Other operating income	3	10,811	8,961
Operating profit		110,458	53,605
Investment and interest income		2,247	6,703
Interest expense	4	(83,264)	(26,601)
Profit before taxation		29,441	33,707
Income tax expense	5	(12,091)	(27,489)
Profit for the period from continuing operations		17,350	6,218
<b>Discontinued operations (net of tax)</b>			
Loss for the period from discontinued operations	6	-	(706)
Loss on sale of discontinued operations	6	-	(5,617)
<b>Profit (loss) for the period</b>		17,350	(105)
<b>Earnings (loss) per share:</b>			
From continuing and discontinued operations:			
Basic and diluted earnings per share		1.17 cents	(0.01) cents
From continuing operations:			
Basic and diluted earnings per share		1.17 cents	0.42 cents

See accompanying notes to the condensed consolidated financial statements.

**BOART LONGYEAR LIMITED**  
**HALF-YEAR FINANCIAL REPORT**  
**30 JUNE 2007**

**CONDENSED CONSOLIDATED BALANCE SHEET**

		30 June 2007 US\$'000	31 December 2006 US\$'000
	Note		
<b>Current assets</b>			
Cash and cash equivalents		43,322	26,547
Trade and other receivables		250,448	226,885
Inventories		152,827	134,339
Other financial assets		725	2,222
Prepaid expenses and other current assets		21,412	22,116
		468,734	412,109
Assets classified as held for sale	7	9,244	-
<b>Total current assets</b>		477,978	412,109
<b>Non-current assets</b>			
Property, plant and equipment		294,774	243,383
Goodwill and other intangible assets	14	231,218	158,115
Deferred tax assets		51,024	17,991
Other financial assets		3,415	3,911
Other assets		432	1,303
<b>Total non-current assets</b>		580,863	424,703
<b>Total assets</b>		1,058,841	836,812
<b>Current liabilities</b>			
Trade and other payables		188,207	237,554
Provisions	8	24,063	28,542
Current tax payable		5,144	20,090
Loans and borrowings		4,417	11,884
		221,831	298,070
Liabilities directly associated with non-current assets classified as held for sale	7	2,399	-
<b>Total current liabilities</b>		224,230	298,070
<b>Non-current liabilities</b>			
Trade and other payables		624	686
Loans and borrowings		696,016	1,275,697
Other financial liabilities		-	2,300
Deferred tax liabilities		19,647	2,247
Provisions	8	25,402	37,786
<b>Total non-current liabilities</b>		741,689	1,318,716
<b>Total liabilities</b>		965,919	1,616,786
<b>Net assets (liabilities)</b>		92,922	(779,974)
<b>Equity</b>			
Issued capital	9	452,331	452,331
Reserves	10	6,600	5,189
Other equity	11	(143,236)	(991,546)
Accumulated losses	12	(222,773)	(245,948)
<b>Total equity (deficit)</b>		92,922	(779,974)

See accompanying notes to the condensed consolidated financial statements.

**BOART LONGYEAR LIMITED**  
**HALF-YEAR FINANCIAL REPORT**  
**30 JUNE 2007**

**CONDENSED CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE**

		Half-year ended 30 June 2007	Half-year ended 30 June 2006
	Note	US\$'000	US\$'000
Unrealised gains on cash flow hedges recorded in equity	10	3,829	-
Tax impact on unrealised gains on cash flow hedges recorded in equity		(1,570)	-
Exchange differences arising on translation of foreign operations	10	6,567	(3,840)
Unrealised actuarial gains (losses) related to defined benefit plans		9,860	(2,828)
Tax impact on unrealised actuarial gains (losses) related to defined benefit plans		(4,035)	1,140
Net income recognised directly in equity		14,651	(5,528)
Profit (loss) for the period		17,350	(105)
<b>Total recognised income and expense for the period</b>		<b>32,001</b>	<b>(5,633)</b>

See accompanying notes to the condensed consolidated financial statements.

**BOART LONGYEAR LIMITED**  
**HALF-YEAR FINANCIAL REPORT**  
**30 JUNE 2007**

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

	Half-year ended 30 June 2007	Half-year ended 30 June 2006
Note	US\$'000	US\$'000
Receipts from customers	727,163	491,335
Payments to suppliers and employees	(639,830)	(457,390)
Interest and other costs of finance related to post-IPO debt structure	4 (20,604)	(24,338)
Investment and interest income received	2,333	1,275
Income tax paid	(33,232)	(15,761)
<b>Net cash flows provided by (used in) operating activities</b>	<b>35,830</b>	<b>(4,879)</b>
Payments for acquisitions of businesses	(116,296)	-
Purchase of property, plant and equipment	(67,044)	(22,893)
Proceeds on disposal of subsidiary, net of cash disposed	-	65,382
Adjustment to purchase price	-	21,219
Proceeds from sale of property, plant and equipment	5,337	1,920
Proceeds from settlement (purchase) of gold hedge	1,762	(7,757)
<b>Net cash flows (used in) provided by investing activities</b>	<b>(176,241)</b>	<b>57,871</b>
Proceeds from issuance of shares	1,923,452	-
Payments for share issuance costs	(76,025)	-
Proceeds from borrowings	1,016,955	25,950
Payments for debt issuance costs	(16,811)	-
Interest and other costs of finance related to pre-IPO debt structure	4 (37,332)	-
Repayment of borrowings	(1,622,598)	(38,726)
Payment to redeemable note holders	(1,030,829)	-
<b>Net cash flows provided by (used in) financing activities</b>	<b>156,812</b>	<b>(12,776)</b>
<b>Net increase in cash and cash equivalents</b>	<b>16,401</b>	<b>40,216</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>26,547</b>	<b>27,816</b>
<b>Effects of exchange rate changes on the balance of cash held in foreign currencies</b>	<b>374</b>	<b>(354)</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>43,322</b>	<b>67,678</b>

See accompanying notes to the condensed consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF ACCOUNTING POLICIES

**Statement of compliance**

The half-year financial report is a general purpose financial report prepared in accordance with the Corporation Act 2001 and AASB 134 'Interim Financial Reporting' ("AASB 134"). Compliance with AASB 134 ensures compliance with International Accounting Standard 34 'Interim Financial Reporting' ("IAS 34"). The half-year financial report does not include notes of the type normally included in an annual financial report, but additional notes have been included where such notes are deemed relevant to the understanding of the half-year financial report.

It is recommended that the half-year financial report be considered together with any public announcements made by Boart Longyear Limited and its controlled entities during the half-year ended 30 June 2007 in accordance with continuous disclosure obligations arising under the ASX listing rules.

This is the first consolidated financial report to be prepared for Boart Longyear Limited following its incorporation on 2 January 2007. As Boart Longyear Limited was incorporated after the date of transition to the Australian equivalents to International Financial Reporting Standards ("A-IFRS"), all financial statements and information presented in this financial report are in accordance with A-IFRS. As no prior financial report has been prepared, no reconciliation from superseded Australian generally accepted accounting principles to A-IFRS has been presented.

In accordance with AASB 3 'Business Combinations' ("AASB 3"), the acquisition of Resources Services Holdco, Inc. ("RSHI") by Boart Longyear Investments Pty Limited, a wholly owned subsidiary of Boart Longyear Limited, was accounted for as a reverse acquisition, and the consolidated financial statements have therefore been prepared as a continuation of the financial statements of RSHI, the accounting acquirer. Accordingly, the comparative information provided for the balance sheet and related information as at 31 December 2006 as well as the income statement, statement of cash flows, statement of recognised income and expense and related information for the half-year to 30 June 2006 is that of RSHI and its wholly owned subsidiaries.

Except where indicated otherwise, all amounts are presented in United States dollars.

**Basis of preparation**

For the purpose of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

The financial report has been prepared on a historical cost basis, except for the revaluation of certain financial instruments. In applying A-IFRS, management is required to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about 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 period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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

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

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

The significant accounting policies set out below have been applied in the preparation of the consolidated financial statements for the half-year ended 30 June 2007 and the comparative information.

**Significant accounting policies**

**(a) Basis of consolidation**

The consolidated financial statements are prepared by combining the financial statements of all of the entities that comprise the consolidated entity, Boart Longyear Limited (the legal parent entity), RSHI (the accounting acquirer), and subsidiaries as defined in AASB 127 'Consolidated and Separate Financial Statements' ("AASB 127"). 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 Boart Longyear Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Company until such time as the Boart Longyear Group ceases to control such entity.

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

**(b) Presentation currency**

Results of the major operating businesses are recorded in their functional currencies, which are generally their local currency. The Boart Longyear Group's US dollar denominated revenue represents the most predominant currency. Accordingly, under A-IFRS, management believes that US dollar reporting represents the best indicator of the results of the Boart Longyear Group and therefore the consolidated financial information is presented in US dollars.

**(c) Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and deposits repayable on demand with a financial institution. Cash balances and overdrafts in the balance sheet are stated at gross amounts within current assets and current liabilities, unless there is a legal right of offset at the bank. The cash and cash equivalents balance primarily consists of bank term deposits with original maturity at time of purchase of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

**(d) Trade and other receivables**

Trade receivables are recorded at the invoiced amount and do not bear interest. The Boart Longyear Group reviews collectability of trade receivables on an ongoing basis and makes judgments as to its ability to collect outstanding receivables and provides an allowance for credit losses when there is objective evidence that the Boart Longyear Group will not be able to collect the debt. The amount of the loss is 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 debts. Subsequent recoveries of amounts previously written off are recorded in other income in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(e) Inventories

**Products**

Inventories are measured at the lower of cost or net realisable value. The cost of 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 overheads (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.

**Drilling Services**

The Boart Longyear Group maintains an inventory of core drilling rods and casings for use in the rendering of services. Such inventories are measured at the lower of cost or net realisable value. Core drilling rods and casings are initially recognised at cost and are expensed over their estimated useful life. A regular and ongoing review is undertaken to establish whether any items are obsolete or damaged, and if so their carrying amount is written down to its net realisable value.

Allowances are recorded for inventory considered to be excess or obsolete.

(f) Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset, including the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the present value at acquisition of the costs of dismantling and removing the items and restoring the site on which they are located. 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 are recognised in the carrying amount of an item of property, plant and equipment, as appropriate, only when it is probable that the future economic benefits embodied within the item will flow to the consolidated entity and the cost of the item can be measured reliably. All other costs, including repairs and maintenance, are recognised in the income statement as an expense as incurred.

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

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

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

Depreciation methods, useful lives and residual values are reassessed at each reporting date. Estimates in respect of the useful life and residual value of certain items of plant and equipment and drill rigs were revised effective 6 October 2006 for annual financial reporting purposes.

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(f) Property, plant and equipment (continued)

Leases in terms of which the Boart Longyear Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are classified as operating leases and are expensed as payment is due.

(g) Intangible assets

**Goodwill**

Goodwill represents the excess of the cost of an acquisition over the fair value of the attributable net assets and is not amortised, but tested for impairment annually. If there is an indication that the goodwill may be impaired, the impairment is recognised in income and is not subsequently reversed. When the excess of the cost of an acquisition over the fair value of the attributable net assets is negative (a surplus on acquisition), it is recognised immediately in profit or loss.

As part of its transition to A-IFRS, the Boart Longyear Group has restated only those business combinations that occurred on or after 1 January 2006. In respect of acquisitions prior to 1 January 2006, goodwill represents the unamortised amount recognised under the Boart Longyear Group's previous accounting framework, UK GAAP, at 1 January 2006.

In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment.

**Trademarks and trade names**

Trademarks and trade names recognised by the Boart Longyear Group are considered to have indefinite useful lives and 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. 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 a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. Contractual customer relationships have a finite useful life and are carried at cost less accumulated amortisation and accumulated impairment losses.

Contractual customer relationships are amortised over a 10 year period on a straight line basis. The estimated useful life and amortisation method is reviewed at the end of each annual reporting period, with any changes being recognised as a change in accounting estimate.

**Patents**

Patents are measured at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight line basis over their estimated useful lives of 10 years. The estimated useful life and amortisation method is reviewed at the end of each annual reporting period, with any changes being recognised as a change in accounting estimate.

**Research and development costs**

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

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(g) Intangible assets (continued)

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is 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 Boart Longyear Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognised in profit or loss when incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised in profit or loss on a straight line basis over the estimated useful lives.

**Other intangible assets**

Other intangible assets that are acquired by the Boart Longyear Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss when incurred.

(h) Assets classified as held for sale

Non-current assets (and disposal groups) classified as held for sale and liabilities directly associated are measured at the lower of carrying amount or fair value less costs to sell.

The Boart Longyear Group classifies non-current assets and disposal groups as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for such a sale and the sale is highly probable. The sale of the asset (or disposal group) must be expected to be completed within one year from the date of classification, except in the circumstances where sale is delayed by events or circumstances outside the Boart Longyear Group's control but it remains committed to a sale.

The Boart Longyear Group discloses the results of these disposal groups as discontinued operations on the face of the income statement only if they meet the following requirements:

- represent a separate major line of business or geographical area of operations;
- are part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- are a subsidiary acquired exclusively with a view to resale.

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(i) Current and deferred taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

Deferred tax is recognised using the balance sheet method, in respect of all temporary differences that have originated but not reversed at the balance sheet date where 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 at the balance sheet date. Temporary differences are differences between the Boart Longyear Group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

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 probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

(j) Derivative financial instruments

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

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Boart Longyear Group designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges).

The fair value of hedging derivatives is classified as a non-current asset or a non-current liability if the remaining maturity of the hedge relationship is more than 12 months and as a current asset or a current liability if the remaining maturity of the hedge relationship is less than 12 months.

Derivatives not designated into an effective hedge relationship are classified as a current asset or a current liability regardless of their remaining maturities.

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(j) Derivative financial instruments (continued)

**Hedge accounting**

The Boart Longyear Group designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges or cash flow hedges.

Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

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

Furthermore, at the inception of the hedge and on an ongoing basis, the Boart Longyear Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

**Fair value hedge**

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

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

**Cash flow hedge**

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

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

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

**Embedded derivatives**

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(k) Impairment

**Non-financial assets**

The Boart Longyear Group'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 asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, a recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. 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 on a pro rata basis.

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 pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**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 in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

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.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

(l) 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 Boart Longyear Group prior to the end of the financial period that are unpaid and arise when the Boart Longyear Group becomes obligated to make future payments.

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(m) Provisions

A provision is recognised if, as a result of a past event, the Boart Longyear Group 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 Boart Longyear Group maintains warranty reserves for consumable type products manufactured or sold by its various companies. Based on past experience, warranty returns have not been significant. A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

**Restructuring**

A provision for restructuring is recognised when the Boart Longyear Group has approved a detailed and formal restructuring plan, and the Boart Longyear Group 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 entity will carry out the restructuring. The Boart Longyear Group'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 of the entity.

**Onerous contracts**

A provision for onerous contracts is recognised when the expected benefits to be derived by the Boart Longyear Group from a contract are lower 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. Before a provision is established, the Boart Longyear Group recognises any impairment loss on the assets associated with that contract.

(n) 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 to the reporting date and are calculated at discounted amounts based on remuneration wage and salary rates that the Boart Longyear Group expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax, when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

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 Boart Longyear Group 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 Boart Longyear Group as the benefits are taken by the employees.

A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Boart Longyear Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(n) Employee benefits (continued)

**Defined contribution pension plans and postretirement benefits**

A defined contribution plan is a pension plan under which the Boart Longyear Group pays fixed contributions into a separate entity. The Boart Longyear Group 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 the income statement 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 balance sheet.

**Defined benefit pension plans**

The Boart Longyear Group'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 to the terms of the Boart Longyear Group's defined benefit obligations. Where there is no deep market in such bonds, the market yields at the reporting date on government bonds are used. 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.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in profit or loss.

Where the calculation results in a benefit to the Boart Longyear Group, the recognised asset is limited to the net total of any unrecognised past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan. Past service cost is the increase in the present value of the defined benefit obligation for employee services in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service costs may either be positive (where benefits are introduced or improved) or negative (where existing benefits are reduced).

**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. Fair value is measured by use of a Black-Scholes-Merton model. The Black-Scholes-Merton model 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 Boart Longyear Group's estimate of shares that will eventually vest.

The above policy is applied to all equity-settled share-based payments that were granted after 7 November 2002 that vest after 1 January 2006. No amount has been recognised in the financial statements in respect of the other equity-settled share-based payments.

Equity-settled share-based payment transactions with other parties are measured at the fair value of the goods and services received, except where the fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

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.

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(n) Employee benefits (continued)

**Earn-out and bonus agreements**

In certain circumstances, previous owners of acquired businesses may become employees of the Boart Longyear Group. A business combination agreement may include earn-out or bonus clauses which provide for an adjustment to the cost of the combination contingent upon future events. If contingent consideration is, in substance, compensation for services or profit sharing (e.g., clauses requiring that the individual remain employed by the Boart Longyear Group), those payments are recognised as an expense over the period of services provided. If the substance of the consideration is payment for the business acquired, the amount is treated as an adjustment to the cost of the business combination.

(o) 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. For refinancing or restructuring of liabilities which are not considered a substantial modification, all costs incurred related to the refinancing or restructuring are amortised to profit and loss in the period of refinancing. For refinancing or restructuring of liabilities which are considered a substantial modification, a gain (loss) is recognised and the initial issue costs are written off, while any issuance costs related to the refinancing are recorded against the liabilities.

Borrowings are classified as current liabilities unless the Boart Longyear Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(p) Debt and equity instruments

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

(q) 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.

(r) 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, value added tax and other sales taxes. 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 profit or loss 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:

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(r) Revenue Recognition (continued)

- Revenue from drilling services contracts is recognised on the basis of actual meters drilled 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.

Investment income is accrued over time, by reference to the principal outstanding and at the effective applicable interest rate.

(s) Foreign currency transactions

The financial statements of the Boart Longyear Group and its international subsidiaries have been translated into US dollars using the exchange rate at each balance sheet date for assets and liabilities of foreign operations and at an average exchange rate for revenues 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 Boart Longyear Group's presentation currency is the US dollar. The Boart Longyear Group 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 unrealized translation gains and losses on short-term intercompany and operating receivables and payables denominated in a currency other than the functional currency, are included in SG&A expenses in the consolidated income statement.

(t) Contingencies

The recognition of accruals for legal disputes is subject to a significant degree of estimation. Accruals are made for loss contingencies when it is deemed probable that an adverse outcome will occur and the amount of the loss can be reasonably estimated. Accruals are recognised when (a) the Boart Longyear Group 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.

(u) Segment reporting

A segment is a distinguishable component of the Boart Longyear Group that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Boart Longyear Group's primary format for segment reporting is based on business segments.

## NOTES TO THE FINANCIAL STATEMENTS

## BOART LONGYEAR LIMITED HALF-YEAR FINANCIAL REPORT 30 JUNE 2007

### 2. SEGMENT REPORTING

The Boart Longyear Group has two operating segments – Drilling Services and Products – which provide services and products to mining companies, energy companies (coal, oil, gas and geothermal), water utilities, environmental and geotechnical engineering firms, government agencies and other mining services companies.

	Consolidated Half-Year 30 June 2007	
	Revenue	Profit / (loss)
	US\$'000	US\$'000
Drilling Services	459,711	87,464
Products	290,274	46,687
Other	-	(116,801)
Total	749,985	17,350

	Consolidated Half-Year 30 June 2006	
	Revenue	Profit / (loss)
	US\$'000	US\$'000
Drilling Services	304,985	41,316
Products	220,950	31,758
Discontinued Operations	25,512	(6,323)
Other	-	(66,856)
Total	551,447	(105)

Included in the "Other" category above are corporate selling, general and administrative expenses; other operating income; net interest expense; and income tax expense.

### 3. OTHER OPERATING INCOME

During the half-year ended 30 June 2007 and 30 June 2006, other operating income consisted of:

	Consolidated	
	2007 US\$'000	2006 US\$'000
Gain (loss) on foreign currency translation	12,494	(418)
Gain (loss) on gold hedge	(272)	8,915
Other income (expenses), net	(1,411)	464
	10,811	8,961

The majority of the gain on foreign currency translation during the half-year ended 30 June 2007 related to foreign currency movement on:

- Short-term intercompany loan balances which were ultimately settled during the half-year; and
- US dollar denominated debt held by a Canadian subsidiary which has been subsequently hedged.

**NOTES TO THE FINANCIAL STATEMENTS**

**4. INTEREST EXPENSE**

During the half-year ended 30 June 2007 and 30 June 2006, interest expense consisted of:

	<b>Consolidated</b>	
	<b>2007</b>	<b>2006</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Interest on loans and borrowings	56,926	25,651
Amortisation of debt issuance costs	26,338	950
	<b>83,264</b>	<b>26,601</b>

Interest on loans and borrowings and amortisation of debt issuance costs for the half-year ended 30 June 2007 reflect significantly higher debt levels in place prior to the listing of the Company. In the Condensed Consolidated Cash Flow Statement for the half-year ended 30 June 2007, interest and other finance costs paid related to debt levels consistent with the post-IPO debt structure are classified as operating activities, while the remaining interest and other finance costs (which would be the result of the incremental pre-IPO debt) are classified as financing activities.

**5. INCOME TAX EXPENSE**

During the half-year ended 30 June 2006, the Company's effective income tax rate for continuing operations of 82% reflects limitations on foreign tax credits in the United States, as well as un-benefited foreign losses. The Boart Longyear Group is executing plans, including the group restructuring described in Note 15, to address the limitations on foreign tax credits as well as other tax limitations, which has resulted in an estimated effective income tax rate of 41% during the half-year ended 30 June 2007.

## NOTES TO THE FINANCIAL STATEMENTS

## BOART LONGYEAR LIMITED HALF-YEAR FINANCIAL REPORT 30 JUNE 2007

### 6. DISCONTINUED OPERATIONS

During the half-year ended 30 June 2006, the Boart Longyear Group disposed of the Hardmaterials and Softrock tools division and reported them as discontinued operations within the 2006 comparative information disclosed herein. The aggregate results for the half-year ended 30 June 2006 are set out below.

	<b>Consolidated</b>
	<b>30 June</b>
	<b>2006</b>
	<b>US\$'000</b>
Revenue	25,512
Expenses	(26,218)
Loss before income tax	(706)
Loss after income tax for discontinued operations	(706)
Loss on sale of the division before income tax	(7,391)
Income tax benefit	1,774
Loss on sale of the division after income tax	(5,617)
Loss from discontinued operations	(6,323)
The net assets of the Hardmaterials and Softrock division at the date of disposal were as follows:	
Net assets disposed of	70,532
Disposal costs	3,384
	73,916
Loss on disposal	(7,391)
Total consideration	66,525
Net cash disposed	(1,143)
Satisfied by cash, and net cash inflow arising on disposal	65,382

### 7. ASSETS CLASSIFIED AS HELD FOR SALE

On 1 August 2007, the Boart Longyear Group announced the sale of the Mining Capital Equipment ("MCE") division in Australia for \$8.8 million. The disposal is consistent with the Boart Longyear Group's long-term policy to focus its activities on higher return, core business opportunities. The MCE Australia division is not considered a core business and earned lower returns than the core business lines.

On reclassification of these operations to assets held for sale, the Boart Longyear Group has not recognised any impairment losses.

The MCE Australia division has been classified and accounted for at 30 June 2007 as a disposal group held for sale.

**8. PROVISIONS**

The current provisions balances as at 30 June 2007 and 31 December 2006 are as follows:

	Consolidated	
	30 June 2007 US\$'000	31 December 2006 US\$'000
Employee benefits	11,300	8,830
Earmout agreements	8,003	11,415
Restructuring accrual	3,612	7,512
Warranty reserve	1,148	785
<b>Current provisions</b>	<b>24,063</b>	<b>28,542</b>

The non-current provisions balances as at 30 June 2007 and 31 December 2006 are as follows:

	Consolidated	
	30 June 2007 US\$'000	31 December 2006 US\$'000
Pension and post-retirement benefits	23,820	36,423
Employee benefits	1,582	1,363
<b>Non-current provisions</b>	<b>25,402</b>	<b>37,786</b>

**9. ISSUED CAPITAL**

Pursuant to its IPO on the Australian Securities Exchange, the Boart Longyear Limited issued 1,269,158,552 ordinary shares. An additional 216,091,448 ordinary shares were issued to redeem exchangeable notes. No additional shares have been issued during the half-year ended 30 June 2007. As a result, total ordinary shares issued as at 30 June 2007 were 1,485,250,000.

As the acquisition of RSHI by Boart Longyear Limited was accounted for as a reverse acquisition, the amount recognised for the newly issued equity is equal to the value of the issued equity of RSHI prior to the combination. The difference between the value of the issued equity of RSHI prior to the combination and the actual net proceeds received for the issue of Boart Longyear Limited shares is included within other equity amounts on the balance sheet.

No shares were issued by RSHI during the comparative period or the period between 1 January 2007 and the date of acquisition by Boart Longyear Limited.

# NOTES TO THE FINANCIAL STATEMENTS

BOART LONGYEAR LIMITED  
HALF-YEAR FINANCIAL REPORT  
30 JUNE 2007

## 10. RESERVES

The reserve balances as at 30 June 2007 and 31 December 2006 are as follows:

	Consolidated	
	30 June 2007 US\$'000	31 December 2006 US\$'000
Foreign currency translation	6,218	(349)
Equity-settled employee benefits	328	7,743
Unrealised gains (losses) related to hedging instruments	54	(2,205)
	<u>6,600</u>	<u>5,189</u>

During the interim periods, changes in the reserve balances consisted of:

Foreign currency translation	2007	2006
Balance at 1 January	(349)	27
Exchange differences arising on translation of foreign operations	<u>6,567</u>	<u>(3,840)</u>
Balance at 30 June	<u>6,218</u>	<u>(3,813)</u>

Equity-settled employee benefits	2007	2006
Balance at 1 January	7,743	515
Cancellation of shares	(7,743)	-
Share-based compensation expense	<u>328</u>	<u>1,105</u>
Balance at 30 June	<u>328</u>	<u>1,620</u>

Unrealised gains (losses) related to hedging instruments	2007	2006
Balance at 1 January	(2,205)	-
Net unrealised gain on cash flow hedges (net of tax)	<u>2,259</u>	<u>-</u>
Balance at 30 June	<u>54</u>	<u>-</u>

**NOTES TO THE FINANCIAL STATEMENTS**

**11. OTHER EQUITY**

During the half-year ended 30 June 2007 and 30 June 2006, the changes in other equity consisted of:

	<b>Consolidated</b>	
	<b>30 June</b>	<b>30 June</b>
	<b>2007</b>	<b>2006</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Balance at 1 January	(991,546)	-
Cancellation of shares	7,743	-
Proceeds from issuance of shares	1,923,452	-
IPO transaction costs capitalised (net of tax)	(52,059)	-
Payment to redeemable note holders	(1,030,829)	-
Balance at 30 June	(143,239)	-

**12. ACCUMULATED LOSSES**

During the half-year ended 30 June 2007 and 30 June 2006, the changes in accumulated losses consisted of:

	<b>Consolidated</b>	
	<b>30 June</b>	<b>30 June</b>
	<b>2007</b>	<b>2006</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Balance at 1 January	(245,948)	(164,199)
Profit (loss) for the period attributable to equity holders of the parent	17,350	(105)
Unrealised actuarial gains (losses) on defined benefit pension plans (net of tax)	5,825	(1,688)
Balance at 30 June	(222,773)	(165,992)

**13. DIVIDENDS**

During the half-year ended 30 June 2007, there were no dividends declared or paid.

**14. ACQUISITIONS**

**During the half-year ended 30 June 2007 the Boart Longyear Group acquired the following entities:**

On 10 January 2007, the Boart Longyear Group acquired certain assets of KWL Drillrig Engineering Pty Limited ("KWL"). KWL is located in Australia and its principal activity is designing and manufacturing reverse circulation rigs for use in the mining industry. Accounting for the acquisition has been determined provisionally at 30 June 2007.

On 23 January 2007, the Boart Longyear Group acquired 100% of issued share capital of Grimwood Davies Pty Limited. Grimwood Davies Pty Limited's principal activity is providing reverse circulation exploration drilling services, primarily in Western Australia. Accounting for the acquisition has been determined provisionally at 30 June 2007.

**NOTES TO THE FINANCIAL STATEMENTS**

**14. ACQUISITIONS (CONTINUED)**

On 31 January 2007, the Boart Longyear Group acquired 100% of the issued share capital of Connors S.A. ("Connors Chile") and Connors Argentina S.A. ("Connors Argentina"). Connors Chile is a mineral exploration drilling service provider in Chile operating with 25 rigs in both the underground and surface markets. Connors Argentina is a mineral exploration drilling service provider in the Argentine market operating with 9 rigs. Accounting for the acquisition has been determined provisionally at 30 June 2007.

The net assets acquired in these business combinations, and the goodwill arising, are as follows:

	Acquiree's carrying amount before business combination US\$'000	Fair value adjustments US\$'000	Fair value US\$'000
<b>Net assets acquired</b>			
Cash and cash equivalents	4,147	-	4,147
Trade and other receivables	8,131	-	8,131
Inventories	4,713	-	4,713
Other assets	1,466	-	1,466
Intangible assets	-	10,461	10,461
Property, plant and equipment	11,950	4,882	16,832
Trade and other payables	(8,111)	-	(8,111)
Deferred tax liabilities	(520)	(4,322)	(4,842)
Finance lease	(2,929)	-	(2,929)
	<u>18,847</u>	<u>11,021</u>	<u>29,868</u>
<b>Goodwill arising on the acquisition</b>			<b>53,424</b>
Total consideration, satisfied by cash			<u>83,292</u>
<b>Net cash outflow arising on acquisition:</b>			
Cash consideration paid			(83,292)
Cash and cash equivalents acquired			4,147
Deferred purchase price payment			<u>1,213</u>
			<u>(77,932)</u>

The goodwill arising on the acquisition of KWL is attributable to the capability it provides the Boart Longyear Group to manufacture reverse circulation rigs and allow the Boart Longyear Group to expand the capacity of the reverse circulation operations in Western Australia.

The goodwill arising on the acquisition of Grimwood Davies Pty Limited is attributable to the position it occupies as a significant reverse circulation driller in Western Australia, which provides the Boart Longyear Group with a tremendous opportunity to expand these services with other key accounts of the Boart Longyear Group, building on Boart Longyear Group's already significant reverse circulation drilling services presence in Western Australia.

The goodwill arising on the acquisition of Connors Chile is attributable to the entry it provides the Boart Longyear Group into the Chilean underground market and the opportunity to consolidate the Boart Longyear Group's operation in Chile into Connors Chile. The goodwill arising on the acquisition of Connors Argentina is attributable to the entry it provides the Boart Longyear Group into the Argentine surface exploration market, and is an excellent opportunity for the Boart Longyear Group to expand these services and further penetrate the Argentine exploration market.

**NOTES TO THE FINANCIAL STATEMENTS**

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**14. ACQUISITIONS (CONTINUED)**

The results contributed by these acquisitions in the period between the dates of acquisition and the reporting date were approximately \$4.4 million. Had the acquisitions been completed on 1 January 2007, total consolidated revenue for the period would have been \$753.3 million, and consolidated profit for the period would have been \$17.6 million.

During the interim period ended 30 June 2007, the final purchase price payment for Prosonic of \$38.4 million was made.

**15. GROUP RESTRUCTURING**

During the half-year ended 30 June 2007, the Boart Longyear Group completed a group restructuring that resulted in a new corporate structure. In summary, the group restructuring consisted of:

- Certain entities located in the United States of America selling wholly owned subsidiaries to wholly owned Australian subsidiaries of Boart Longyear Limited; and
- Repayment of existing external borrowings and drawdown of new borrowings in Canada and Australia.

As at 30 June 2007, all critical steps in the group restructuring have been completed.

**16. CONTINGENCIES**

**Legal claims**

The Boart Longyear Group is subject to certain routine legal proceedings that arise in the normal course of its business. The Boart Longyear Group believes that the ultimate amount of liability, if any, for any pending claims of any type (either alone or combined), including the legal proceedings described above, will not materially affect the Boart Longyear Groups' 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.

**17. SUBSEQUENT EVENTS**

There has been no matter or circumstance that has arisen since the end of the financial period that has significantly affected, or may significantly affect, the operations of the consolidated entity or the results of those operations.