BOART LONGYEAR LIMITED
A.B.N. 49 123 052 728

ANNUAL FINANCIAL REPORT

YEAR ENDED 31 DECEMBER 2013

CONTENTS

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 2013 (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

The Company implemented a series of restructuring actions and cost reductions during 2012 and 2013 to address declining revenues in many of its core markets. The restructuring charges and related impairments associated with those actions totalled approximately $461.2 million during the 2013 financial year and included significant costs associated with the reduction of approximately 3,300 overhead and direct positions and the closure of several facilities. Nearly $190 million in total cost savings will be achieved through three cost reduction programmes initiated in December 2012, August 2013 and January 2014.

EVENTS SUBSEQUENT TO REPORTING DATE

On 7 January 2014, the Company announced the appointment of Mr Jeffrey Olsen as Chief Financial Officer of the Company effective 1 April 2014. Mr. Olsen currently serves as Chief Commercial Officer for Rio Tinto's Iron & Titanium business. He brings over 17 years of experience in various finance management roles during his tenure with Rio Tinto.

On 31 January 2014, the Company issued a $5,000,000 cash retention grant to Richard O'Brien. The cash rights will be divided into three equal portions vesting on 19 May 2014, 1 April 2015 and 1 April 2016.

Based on the Company's view that market conditions may not significantly recover over the next twelve months, the Company negotiated an amendment to its Credit Agreement that is intended to provide continued access to the revolving credit facility and additional head room under the Credit Agreement's financial covenants. The amendment, which became effective on 22 February 2014, eliminates the Minimum Asset Coverage financial covenant and suspends the following financial covenants through the 31 March 2015 compliance testing date:

- Minimum Liquidity of US$30 million (tested monthly)
- Minimum Interest Coverage Ratio of 1.55x (tested quarterly)

New financial covenants have been added, which require:

- minimum cumulative last-twelve-months EBITDA of US$45 million through 31 March 2015 (tested quarterly); and
- maximum Total Debt, at the levels set out below, to be tested quarterly through the maturity date of the Credit Agreement, which remains unchanged at 29 July 2016:
  (i) US$700 million at 30 June 2014
  (ii) US$700 million at 30 September 2014
  (iii) US$670 million at 31 December 2014
  (iv) US$720 million at 31 March 2015
  (v) US$725 million at 30 June 2015 and for each quarterly testing date thereafter.

The specified maximum Total Debt levels may vary upon the occurrence of certain events. In addition, the amendment adjusts fees and pricing, introduces new financial reporting requirements, establishes a monthly borrowing base of specified assets to allowed borrowings, limits annual capital expenditures and requires the Company, by 30 September 2014, to present a plan to the banks that proposes full repayment of the facility by the maturity date, which will be subject to an independent review. "Total Debt" means, as of any date, the Total Revolving Outstandings and any other Finance Debt of the Group outstanding (whether actually or contingently) on that date, but excluding (to the extent otherwise included): (i) contingent exposures under hedge or derivative transactions other than currency hedge or derivative transactions that hedge Finance Debt; (ii) Finance Debt owed by a Group member to another Group member; (iii) contingent liability under any letters of credit (other than those issued under this Agreement) which support performance obligations of a Group member, performance bonds or performance guaranties (or bank guaranties or letters of credit in lieu thereof) occurring within the ordinary course of business but not obligations in respect of Finance Debt; and (iv) to avoid double counting, contingent liability under any other letters of credit issued to secure external Finance Debt of a Group member to a financier to the extent such Finance Debt is already included in the calculation of the definition.

DIVIDENDS

The Company paid aggregate dividends of US 1.0 cent per share during the financial year.

- A dividend of US 1.0 cent per share (for a total of $4,612,412) was paid during the year ended 31 December 2013. The dividend, which was for the second half of 2012, was paid on 12 April 2013 and was 35% franked at the Australian corporate taxation rate of 30%. The entire unfranked portion of the dividend was conduit foreign income.

- No dividend was determined for either of the half-years ended 30 June 2013 or 31 December 2013.

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
- Roger Brown
- Roy Franklin
- Tanya Fratto
- Barbara Jeremiah
- David McLemore
- Rex McLennan (appointed effective 24 August 2013)
- Richard O'Brien (appointed effective 21 May 2013)

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

- Peter St. George (appointed effective 21 February 2007; resigned effective 21 May 2013)

COMPANY SECRETARIES

- Fabrizio Rasetti
- Paul Blewett

DIRECTORS' MEETINGS

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

	Board of Directors		Remuneration Committee		Audit, Compliance & Risk Committee		Environment, Health & Safety Committee		Finance Committee [1]	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Bruce Brook [2]	7	7			4	4	3	3	1	1
Roger Brown	7	7	5	5			4	4		
Roy Franklin	7	7			4	4	4	4	1	1
Tanya Fratto	7	7	5	5			4	4		
Barbara Jeremiah	7	7			3	3	3	2	1	1
David McLemore [3]	7	7	4	4			1	1		
Rex McLennan [4]	2	2			1	1			1	1
Richard O'Brien [5]	5	5								
Peter St. George [6]	3	3	1	1	1	1				

(1) The Finance Committee was created effective 1 November 2013.
(2) Mr Brook resigned from the Environment, Health & Safety Committee effective 1 November 2013.
(3) Mr McLemore attended Remuneration Committee meetings in an ex officio capacity while serving as interim CEO.
(4) Mr McLennan joined the Board effective 24 August 2013 and the Audit, Compliance & Risk Committee effective 1 November 2013.
(5) Mr O'Brien joined the Board effective 21 May 2013.
(6) Mr St George resigned from the Board effective 21 May 2013 and from the Remuneration Committee and the Audit, Compliance & Risk Committee effective 1 March 2013.

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

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 and options	Total
Bruce Brook	220,000	-	220,000
Roger Brown	100,000	-	100,000
Roy Franklin	165,000	-	165,000
Tanya Fratto	120,000	-	120,000
Barbara Jeremiah	455,000	-	455,000
David McLemore	1,155,861	-	1,155,861
Rex McLennan	100,000	-	100,000
Richard O'Brien	300,000	-	300,000

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 2008, 2009 and 2010 granted options to the former chief executive officer (CEO), Mr Kipp, and other members of senior management. 250,000 options granted to the former CEO in April 2008 vested in accordance with their terms and expired in April 2013. A further 345,000 options granted to the former CEO and nine other senior executives in June 2009 vested in 2012 and will expire in June 2014. None of those vested options were exercised during the financial year by the option holder, and 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 37 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 86 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 are 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 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 control services performed by the external auditor.

Consistent with the approach outlined above, the Audit Committee approved Deloitte Touche Tohmatsu's services on a tax-related business improvement project for the years ended 31 December 2011 through 31 December 2013. This project has largely concluded during the year ended 31 December 2013. The Company expects that the level of non-audit services will remain below the audit fee threshold in future years.

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

The Directors are satisfied that the provision of non-audit services during the year by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001 and are of the opinion that the services, as disclosed in Note 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 41 and forms part of this Directors' Report.

REVIEW OF OPERATIONS[1]

1. Overview of 2013 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 operating divisions, 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 and through the delivery of 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 vertically integrated business model.

We remain focused on our customer base with detailed action plans identifying select customers and lower-cost mines on which to focus investment and efforts. 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 will 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. New product launches will continue over the short and long term.

(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.

Central to our strategy is a clear focus on continuing to drive safety improvements and reducing debt. We regard safety as fundamental to our relationships with, and commitments to, our employees and customers. In addition, we consider our safety performance to be one of our most significant opportunities and operational risks in 2014, as the customers we are targeting are increasingly looking to safety as a basis to differentiate their suppliers.

In 2013, we achieved a Total Case Incident Rate (TCIR) of 1.62 recordable incidents per 200,000 hours worked and a Lost-Time Injury Rate of 0.19 lost-time injuries per 200,000 hours worked. Both results represent superior performance for our industry, but reflect slight decreases in performance from 2012, which saw our TCIR at 1.59 and LTIR at 0.10. Our safety performance was impacted by significantly reduced hours worked throughout our business, as well as by disruptions caused by the significant restructuring we undertook to reduce cost.

Tragically, on 1 October 2013, we lost one of our North American employees from fatal injuries he sustained in a motor vehicle accident in Alaska while driving to work with his crew in icy road conditions. The employee was a 39-year old resident of Idaho who had been a member of the Boart Longyear family for approximately two years. The loss, which was our first work-related fatality since 2008, redoubles our commitment to invest in safety and to continue to pursue several key initiatives to address our key safety risks, such as driving risks and hand and finger injuries, and to reinforce individual and leader accountability for safety.

We also continue to prioritise debt reduction to deleverage the business and position it with a more efficient operating platform for increased cash flow flexibility through the mining industry cycles. Key elements of this strategy include achieving and maintaining industry leading EBITDA-to-revenue margins and improving returns on capital through disciplined variable and fixed cost management.

2013 was a difficult year for the industry and the Company, as declining prices for metals and mined commodities together with increased levels of political and economic risk related to the development of new mines and a focus on maximising near term cash flows resulted in most of the world's mining companies significantly reducing their exploration, development and capital expenditures from 2011 and 2012 levels. Mining industry observers SNL Metals Economics Group (SNL MEG) estimate that overall global exploration spending in 2013 decreased by 30-35% from the $21.5 billion spent in 2012. As the mining industry reduced exploration spending and capital investments, drill rig utilisation rates declined significantly during 2013 for both our Global Drilling Services business and our Global Products customers.

In response to declining revenues, we took steps to significantly reduce operating and capital costs as well as sales, general and administrative (SG&A) costs. In addition, we generated cash through reducing inventory. However, reduced levels of operating cash flow led us to amend several key terms of our bank debt facility effective 29 June 2013 to provide additional financial flexibility and covenant headroom. A significant industry decline in demand continued into July and August, and certain of our projections indicated a further amendment of our financial covenants would be prudent. In September 2013, therefore, the Company issued $300 million of senior secured notes and used the net proceeds to pay down substantially all of the loans outstanding under the bank debt facility and secure modifications to provide further flexibility in our covenant structure.

Based on the Company's view that market conditions may not significantly recover over the next twelve months, the Company negotiated an amendment to its Credit Agreement that is intended to provide continued access to the revolving credit facility and additional head room under the Credit Agreement's financial covenants. The amendment became effective on 22 February 2014 and its specific terms are separately disclosed in Note 38 to the financial statements.

The significant deterioration in revenues and profitability throughout 2013, combined with forecasted further industry reductions in demand and the compression of valuations in the drilling services sector, resulted in the impairment of the carrying value of some of our assets and charges associated with business restructuring. As a result, the Company has reported a loss for the year of $619.9 million which is a decrease of $688.1 million from the prior year (2012: $68.2 million profit). Adjusted operating loss after tax for the year (adding back the significant items) for 2013 was $94.3 million compared to adjusted NPAT for 2012 of $116.1 million, a decrease of $210.4 million, reflecting much lower average drill rig utilisations and demand for our services and products in 2013.

Revenue for the year of $1,222.9 million was $788.6 million, or 39%, lower than 2012 revenue (2012: $2,011.5 million). Global Drilling Services' average operating utilisation rates (defined as a rig that has generated revenue through normal operations during the course of a week divided by the total rig count) for the first and second halves of 2013 were 42% and 35%, respectively, (2012: 61% and 53%). Global Products' sales of drilling equipment in 2013 totalled $73.0 million (2012: $141.9) and sales of performance tooling fell to $232.5 million in 2013 (2012: $353.4).
Total cost of goods sold (COGS) for 2013 was $1,020.7 million (2012: $1,499.1). COGS as a percentage of revenue increased, due to a timing lag between declining revenues and the achievement of cost reductions in both Global Drilling Services and Global Products, and results were adversely impacted by inventory obsolescence charges and fixed

manufacturing costs not covered through revenues in the Global Products business. In addition, depreciation and amortisation costs did not decrease in line with the reduction in revenue in both businesses.

Total Sales and Marketing expenses for the Company for 2013 of $44.4 million represented a decrease of 27.8%, or $17.1 million, from the prior year (2012: $61.5 million). Compensation and benefits as a percentage of revenue increased from the prior year, as we retained personnel in the supply chain group to prioritise inventory reductions and warehouse consolidations. In addition, occupancy cost reductions lagged revenue reductions, as many facilities have non-cancellable leases.

Total General and Administrative expenses for the Company for the year ended 31 December 2013 of $157.7 million represented a decrease of 33.2%, or $78.5 million (2012: $236.2 million). General and Administrative expenses decreased significantly due to aggressive cost reduction actions taken in the last half of 2012 and throughout 2013. The slight increase as a percentage of revenue is mainly due to revenues decreasing more quickly than cost reductions could be implemented.

Operating cash flow, before interest and taxes, for the year ended 31 December 2013 was $76.3 million, a decrease of 51% (2012: $155.7 million). The reduction was mainly due to the operating loss of $619.9 million in the current year and the decrease in accounts payable offset by the generation of cash from inventory, non-cash impairment charges and lower cash taxes paid during the year.

On an accrual basis, capital expenditures (CAPEX) in 2013 totaled $49.2 million (2012: $290.1 million). Of that amount, we spent $18.6 million on development activities to complete investment in several water rig packages initiated in 2012 and in several underground rigs. In addition, $18.5 million was spent on sustainment activities relating to refurbishing current rigs and other support equipment, $5.4 million was spent on software and $3.7 million related to product engineering development activities. The remaining amount related to miscellaneous expenditures.

As at 31 December 2013, our debt totaled $585.5 million and our total debt-to-adjusted EBITDA was 5.5 times (31 December 2012: $601.9 million and 1.9 times). We remain committed to reducing our absolute level of debt by aggressively managing fixed and variable costs and improving efficiencies through several ongoing initiatives, including: 1) the consolidation of our Global Products division's aftermarket service function with our Global Drilling Services division's maintenance function and similar integration initiatives across the Company; 2) the consolidation of separate supply chain groups for Global Products and Global Drilling Services and improved inventory management to reduce inventory levels and release working capital; and 3) 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 CAPEX requirments over the next several years. Overall, our goal is to drive down our overall leverage profile to provide for greater flexibility through the cycle.

2. Financial and Operating Highlights

	For the year ended 31 December			
	2013	**2012**		
	US$ Millions	**US$ Millions**	**$ Change**	**% Change**
Key financial data				
Revenue	1,222.9	2,011.5	(788.6)	-39%
NPAT[1]	(619.9)	68.2	(688.1)	-1009%
Adjusted NPAT[1]	(94.3)	116.1	(210.4)	-181%
EBITDA[2]	(337.1)	254.3	(591.4)	-233%
Adjusted EBITDA[2]	107.2	321.9	(214.7)	-67%
Cash from Operations (before interest and tax)	76.3	155.7	(79.4)	-51%
Cash from Operating Activities	11.5	64.2	(52.7)	-82%
Capital expenditures (accrual)	49.2	290.1	(240.9)	-83%
Capital expenditures (cash)	41.5	282.8	(241.3)	-85%
Earnings per share (basic)	(136.1) cents	15.0 cents	(151.1) cents	-1010%
Earnings per share (diluted)	(136.1) cents	14.8 cents	(150.5) cents	-1017%
Average BLY rig utilisation	38%	56%	-18%	-32.7%
Year end fleet size	951	1,165	(214)	-18.4%

[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 Company for the year ended 31 December 2013 of $1,222.9 million was a decrease of 39.2%, or $788.6 million, as compared to revenue for the year ended 31 December 2012 of $2,011.5 million.

	For the year ended 31 December			
	2013	**2012**	**$ Change**	**% Change**
Global Drilling Services Revenue (US$ millions)	917.3	1,516.2	(598.9)	-40%
Average rig utilisation rates	38%	56%	-18%	-33%
Change in price				-6.0%
Global Products Revenue (US$ millions)	305.5	495.3	(189.8)	-38%
Sales of Drilling Equipment (US$ millions)	73.0	141.9	(68.9)	-49%
Sales of Performance Tooling (US$ millions)	232.5	353.4	(120.9)	-34%
Change in price				-3.4%

A majority of the revenue of both Global Drilling Services and Global Products is derived from sales to the mining industry and is dependent on mineral exploration, development and production activity. Mineral exploration, development and production activity is driven by several factors, including anticipated future demand for commodities, the outlook for current and projected supply and available mine productive capacity, mining exploration capital expenditure levels and availability of financing for mining development.

As the global economy improved in the wake of the financial crisis of 2009, the demand for drilling products re-emerged and we 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, we achieved revenue of nearly $1,098.8 million and were on pace to nearly match the revenue recorded in the year ended 31 December 2011. However, in mid-2012, many mining companies began to announce reductions in their exploration programs and capital expenditure budgets, which ultimately led to a slowdown in the second half of 2012. This had an adverse effect on our performance and we reported revenue of $912.7 million for the half-year ended 31 December 2012. The contraction of the mining industry continued through 2013, with volatility in the commodities market also affecting our performance.

3.2 Cost of Goods Sold, Selling and Marketing Expense, and General and Administrative Expense

Total Cost of Goods Sold (COGS), Selling and Marketing expenses (S&M) and General and Administrative expenses (G&A) for the Company were $1,222.9 million in 2013 as compared to $1,796.7 million in 2012, a decrease of $573.8 million or 32%.

	For the year ended 31 December			
	2013 US$ Millions	2012 US$ Millions	$ Change	% Change
COGS				
Drilling Services				
Materials/labor/overhead/other	688.7	1,093.5	(404.8)	-37%
Depreciation and amortisation	94.6	93.7	0.9	1%
Drilling Services COGS	783.3	1,187.2	(403.9)	-34%
COGS as a % of Revenue	*85.4%*	*78.3%*	*7.1%*	*9%*
Products				
Materials/labor/overhead/other	203.3	295.3	(92.0)	-31%
Inventory obsolescence	22.7	4.6		
Depreciation and amortisation	11.4	12.0	(0.6)	-5%
Products COGS	237.4	311.9	(74.5)	-24%
COGS as a % of Revenue	*77.7%*	*63.0%*	*14.7%*	*23%*
Total COGS	**1,020.7**	**1,499.1**	**(478.4)**	**-32%**
COGS as a % of Revenue	*83.5%*	*74.5%*	*8.9%*	*12%*

Total COGS for the Company for the year ended 31 December 2013 was $1,020.7 million representing a decrease of 32.0%, compared to COGS of $1,499.1 million for 2012. COGS as a percentage of revenue increased due to the lag between declining revenues and the achievement of cost reductions in both Global Drilling Services and Global Products, and results were adversely impacted by inventory obsolescence charges and fixed manufacturing costs not covered through revenues in the Global Products business. In addition, depreciation and amortisation costs did not decrease in line with the reduction in revenue in both businesses.

	For the year ended 31 December			
	2013 US$ Millions	2012 US$ Millions	$ Change	% Change
Sales and Marketing Expenses				
Compensation and benefits expense	26.2	28.6	(2.4)	-8%
Occupancy costs	7.2	6.1	1.1	18%
Travel and transportation	4.0	6.3	(2.3)	-37%
Professional fees	3.7	2.3	1.4	61%
Other	3.3	18.2	(14.9)	-82%
Total Sales and Marketing Expenses	**44.4**	**61.5**	**(17.1)**	**-28%**
S&M as a % of revenue	*3.6%*	*3.1%*	*0.5%*	*15%*

Total Sales and Marketing expenses for the Company for the year ended 31 December 2013 were $44.4 million, representing a decrease of 27.8%, or $17.1 million, from Sales and Marketing expenses for 2012 of $61.5 million. Compensation and benefits as a percentage of revenue increased from the prior year, as we retained personnel in the supply chain group to prioritise inventory reductions and warehouse consolidations. In addition, occupancy cost reductions lagged behind revenue reductions, as many facilities have non-cancellable leases.

	For the year ended 31 December			
	2013 US$ Millions	2012 US$ Millions	$ Change	% Change
General and Administrative Expenses				
Compensation and benefits expense	81.9	126.4	(44.5)	-35%
Occupancy costs	26.7	35.7	(9.0)	-25%
Professional fees	26.5	37.4	(10.9)	-29%
Travel and transportation	7.2	15.1	(7.9)	-52%
Other	15.4	21.6	(6.2)	-29%
Total General and Administrative Expenses	**157.7**	**236.2**	**(78.5)**	**-33%**
G&A as a % of revenue	*12.9%*	*11.7%*	*1.2%*	*10%*

Total General and Administrative expenses for the Company for the year ended 31 December 2013 were $157.7 million, representing a decrease of 33.2%, or $78.5 million, from General and Adminstrative expenses for 2012 of $236.2 million. General and Administrative expenses decreased significantly due to aggressive cost reduction actions taken in the last half of 2012 and throughout 2013. The slight increase as a percentage of revenue is mainly due to revenues decreasing more quickly than cost reductions could be implemented.

In response to weakening industry conditions, we took a series of actions to reset our cost base, to establish a more nimble 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 which 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 2013, these initiatives reduced our expenses by approximately $70 million, equivalent to 20% of global overhead.

Further cost reductions were implemented in 2013. We have reduced our employee headcount by over 3,300 personnel since 1 January 2013, including approximately 25% of general and administrative positions across the business. In April 2013, an operational review took place 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. This resulted in a reduction of over 30% of stocking locations globally and also resulted in the consolidation of the Global Products division's aftermarket services group with the Global Drilling Services maintenance group. The supply chain groups for both divisions were also consolidated. We estimate that such actions, and others we have more recently initiated, will reduce fixed costs by approximately $90 million during 2013 and 2014. These cost reductions are in addition to the cost reductions announced in December 2012. The Company has also initiated a salary freeze and decided to eliminate certain retirement benefits, which will result in a cash savings in 2014 and 2015 of approximately $28 million.

3.3 Restructuring Expenses and Related Impairments Charges

During 2013 and 2012, the Company incurred the following restructuring expenses and impairment charges related to the current market conditions and cost reductions:

	For the year ended 31 December		
	2013 US$ Millions	2012 US$ Millions	$ Change
Restructuring expenses and related impairments			
Goodwill impairment	166.3	6.8	159.5
Property, plant and equipment impairment	109.9	6.0	103.9
Inventory impairment	101.9	7.7	94.2
Employee separation and related costs	44.8	23.0	21.8
Development asset impairment	14.6	8.4	6.2
Intangible assets impairment	9.1	3.5	5.6
Software impairment	-	3.6	(3.6)
Other restructuring expenses	14.6	8.6	6.0
Total restructuring expenses and related impairments	461.2	67.6	393.6

Restructuring expenses and impairment charges increased to $461.2 million during 2013 (2012: $67.6 million). The Company's cost reductions were a continuation of the cost-reduction program that began in the second-half of 2012 in response to the slowdown in the global mining services industry and were part of a focused effort toward more efficiency across the business while still delivering safe, reliable and productive drilling services and products to customers. The restructuring expenses and impairment charges of $461.2 million were associated with employee separations, exiting onerous leases, and impairments of inventory and capital equipment related to relocating certain manufacturing activities and resizing the business. The $461.2 million charge also included impairment charges in the carrying value of certain assets, including goodwill, intangibles, inventory and plant and equipment following a year end review of asset carrying values.

3.4 Other Income/Expenses

	For the year ended 31 December		
	2013 US$ Millions	2012 US$ Millions	$ Change
Other Income			
Gain on termination of post-retirement medical plan	16.9	-	16.9
Scrap sales	0.7	1.8	(1.1)
Gain on disposal of property, plant and equipment	0.4	-	0.4
Other	0.2	1.3	(1.1)
Total other income	18.2	3.1	15.1

Other income increased to $18.2 million during 2013 (2012: $3.1 million). The increase is mainly due to the gain of $16.9 million related to the decision to terminate a post-retirement medical plan in North America. Details of this transaction are disclosed in Note 25 to the financial statements.

	For the year ended 31 December		
	2013 US$ Millions	2012 US$ Millions	$ Change
Other Expenses			
Amortisation of intangible assets	18.3	15.7	2.6
Asset impairments	3.2	0.2	3.0
Loss on foreign currency exchange differences	1.0	5.9	(4.9)
Loss on disposal of property, plant and equipment	-	0.9	(0.9)
VAT write off	1.4	-	1.4
Other	0.9	0.8	0.1
Total other expenses	24.8	23.5	1.3

Other expenses, principally amortisation of intangible assets, asset impairments and net losses on foreign currency exchange, increased $1.3 million to $24.8 million in 2013 (2012: $23.5 million). Amortisation of intangible assets increase, as the Oracle software implementation was completed in 2012 and there was a full twelve months of amortisation during 2013 as compared to 2012. The loss on foreign currency exchange differences decreased, as the Company continues to actively manage our exposure to foreign currency exchange risk.

3.5 Finance Costs and Interest Income

	For the year ended 31 December		
	2013 US$ Millions	2012 US$ Millions	% Change
Finance costs	40.9	30.1	36%
Average gross senior notes outstanding	378.9	300.0	26%
Average related interest rate	7.6%	7.0%	1%
Average gross revolver outstanding	246.6	181.9	36%
Average related interest rate	2.4%	2.1%	0%
Interest Income	2.9	3.1	-6%

Finance costs increased to $40.9 million during 2013 (2012: $30.1 million) as a result of higher average debt levels combined with increased interest rates.

3.6 Income Tax Expense

	For the year ended 31 December					
	2013 Statutory US$ Millions	Adjustments for Significant Items	2013 Underlying US$ Millions	2012 Statutory US$ Millions	Adjustments for Significant Items	2012 Underlying US$ Millions
(Loss) Profit before Taxation	**(505.9)**	**444.3**	**(61.6)**	**99.9**	**67.6**	**167.5**
Tax at Australian rate of 30%	151.8	(133.3)	18.5	(30.0)	(20.3)	(50.3)
Derecognition of net deferred tax assets arising in prior years	(92.7)	92.7	-	16.8	-	16.8
Unrecognised tax losses in current year	(67.6)	67.6	-	(0.2)	-	(0.2)
Non deductible items related to impairments	(50.4)	50.4	-	(1.5)	1.5	-
Income tax in countries lower than parent tax rate	(30.1)	8.2	(21.9)	0.7	0.8	1.5
Income tax in countries higher than parent tax rate	1.2	(4.3)	(3.1)	(4.9)	(1.7)	(6.6)
Unutilised foreign tax credit	(9.0)	-	(9.0)	(7.1)	-	(7.1)
Other non-assessable/deductible items	(8.9)	-	(8.9)	(1.5)	-	(1.5)
Over (under) provisions	(4.2)	-	(4.2)	(2.2)	-	(2.2)
Income subject to double taxation	0.5	-	0.5	2.5	-	2.5
Other	(4.6)	-	(4.6)	(4.3)	-	(0.3)
Tax per the statement of profit and loss	**(114.0)**	**81.3**	**(32.7)**	**(31.7)**	**(19.7)**	**(47.4)**

Income tax expense on a pre-tax loss of $505.9 million for 2013 financial year was $114.0 million. This tax expense can largely be attributed to several factors including:

- the impact of certain impairment and restructuring items that will not be assessable for tax (primarily goodwill),
- the non-recognition of current period losses, and
- de-recognition of certain prior period deferred tax assets due to the group being in a tax loss position in many jurisdictions during the current financial year.

These results are illustrated in the table above.

3.7 Earnings

NPAT for the Company decreased to a loss of $619.9 million for the year ended 31 December 2013 (2012: profit of $68.2 million) and EBITDA decreased to a negative $337.1 million for the year ended 31 December 2013 (2012: $254.3 million), with both results driven by the performance of Global Products and Global Drilling Services, significant restructuring expenses and impairment charges and a number of related tax expenses.

Adjusted NPAT for the Company decreased to an adjusted loss of $94.3 million for the year ended 31 December 2013 (2012: adjusted profit $116.1 million) and adjusted EBITDA decreased by 67% to $107.2 million for the year ended 31 December 2013 (2012: $321.9 million).

3.8 Seasonality

The global business experiences seasonality in the months of November, December and January, when mining activity is reduced and workers travel to and from their homes for holidays. Working capital is generally at its highest during the second and third quarters of the year. Working capital 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			
	2013 US$ Millions	2012 US$ Millions	$ Change	% Change
Cash flow from operations (before interest and tax)	76.3	155.7	(79.4)	-51%
Cash flow from operating activities	11.5	64.2	(52.7)	-82%
Cash flow from investing	(2.2)	(279.5)	277.3	-99%
Cash flow from financing activities	(22.9)	223.6	(246.5)	-110%
Net change in cash	(13.5)	8.3	(21.8)	-263%
Cash at beginning of period	89.6	82.3	7.3	9%
Effects of exchange rate changes on cash	(17.0)	(0.9)	(16.1)	1789%
Cash at end of period	59.1	89.6	(30.5)	-34%

4.1 Cash Flow from Operating Activities

Operating cash flow for the year ended 31 December 2013 was $11.5 million, a decrease of 82% from the prior year (2012: $64.2 million). The reduction was mainly due to:

- A decrease of $210.4 million in adjusted loss/profit for the year, and
- A decrease in accounts payable during the year of $138.7 million, as compared to a decrease of $39.7 million the prior year,

The decrease during the year of operating cash flow was partially offset by:

- Cash generation from the sale of inventory of $102.0 million during 2013, as compared to additional cash purchases in inventory of $140.3 million during 2012, and
- non-cash tax expense of $78.0 million, along with a decrease in cash taxes paid of $29.7 million from the prior year as many of the entities in the consolidated group experienced losses for the year.

4.2 Cash Flow from Investing

	For the year ended 31 December			
	2013 US$ Millions	2012 US$ Millions	$ Change	% Change
Purchase of property, plant and equipment	(35.5)	(247.7)	(212.2)	-85.7%
Proceeds from sale of property, plant and equipment	14.5	3.3	11.2	339.4%
Intangible costs paid	(6.0)	(35.1)	(29.1)	-82.9%
Proceeds on disposal of subsidiary	24.8	-	24.8	100.0%
Total net cash flows from investing activities	(2.2)	(279.5)	277.3	99.2%

The Company continued to invest in capital equipment to support existing operations, which resulted in net capital of $35.5 million being invested, down 85.7% on the prior year (2012: $247.7 million). In 2013 the Company implemented a plan to conserve cash, limiting capital expenditures to essential capital maintenance, and decided not to pursue any business acquisitions.

The proceeds from the sale of property, plant and equipment relates mainly to a parcel of land that was sold in Chile for $7.8 million and was originally intended to be used to build new Global Drilling Services offices, including a warehouse and maintenance shop. The parcel was sold during 2013 as a part of the effort to rationalise and consolidate rooftops. The remaining $6.7 million included in proceeds from the sale of property, plant and equipment related to the sale of trucks and other support equipment globally.

During 2013, the Company sold its US-based environmental and infrastructure drilling services operations. The sale is consistent with the Company's desire to focus resources and efforts on its core markets. The net cash proceeds after transaction related costs were $24.8 million. See Note 34 to the financial statements.

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

4.3 Cash flows from Financing Activities

In September 2013, the Company completed a $300.0 million senior secured debt offering due in 2018. The Secured Notes will pay interest at a rate of 10.0% per annum and will mature on 1 October 2018. The Secured Notes are guaranteed by Boart Longyear Limited and certain of its subsidiaries. The net proceeds of the offering were used to substantially pay down loans outstanding under the Company's revolving credit facility and to pay fees and expenses related to the offering.
The Company also completed several amendment to its revolving credit facility. See Note 23 and Note 38 to the financial statements for discussion of the amendments.

5. Discussion of the Balance Sheet

	For the year ended 31 December			
	2013	2012		
	US$ Millions	US$ Millions	$ Change	% Change
Cash and cash equivalents	59.1	89.6	(30.5)	-34%
Trade and other receivables	196.9	260.5	(63.6)	-24%
Inventories	298.9	533.7	(234.8)	-44%
Prepaid expenses and other assets	25.1	42.0	(16.9)	-40%
Assets classified as held for sale	-	34.0	(34.0)	-100%
Property, plant and equipment	408.3	628.7	(220.4)	-35%
Goodwill	104.0	290.8	(186.8)	-64%
Other intangible assets	92.0	128.1	(36.1)	-28%
Tax assets	135.4	231.7	(96.3)	-42%
Other assets	10.8	11.6	(0.8)	-7%
Total Assets	**1,330.5**	**2,250.7**	**(920.2)**	**-41%**
Trade and other payables	153.2	284.3	(131.1)	-46%
Provisions	70.4	123.8	(53.4)	-43%
Tax Liabilities	92.9	105.3	(12.4)	-12%
Loans and borrowings	585.4	601.9	(16.5)	-3%
Total Liabilities	**901.9**	**1,115.3**	**(213.4)**	**-19%**
Issued capital	1,129.0	1,122.2	6.8	1%
Reserves	(37.3)	70.9	(108.2)	-153%
Other equity	(137.2)	(137.2)	-	0%
(Accumulated losses) retained earnings	(525.9)	79.5	(605.4)	-762%
Total Equity	**428.6**	**1,135.4**	**(706.8)**	**-62%**

The net assets of the Company decreased by $706.8 million to $428.6 million as at 31 December 2013 (2012: $1,135.4 million). This decrease was a result of significant impairments of inventory, property, plant and equipment, goodwill, other intangibles and deferred tax assets, as well as the Company actively managing net working capital in relation to the current business cycle. In sustained periods of reduced global drill rig utilisation, inventory levels do not shrink as quickly 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 decreased by $30.5 million, or 34%, to $59.1 million as at 31 December 2013 (2012: $89.6 million) as the Company had an operating loss for the year. Correspondingly, trade and other receivables decreased by $63.6 million, or 24%, to $196.9 million as at 31 December 2013 (2012: $260.5 million) reflecting decreased revenues, increased focus on cash collections by all divisions and the resolution of certain customer disputes in both divisions. Days sales outstanding (DSO) at 31 December 2013 increased on average by 7 days from 2012 mainly due to timing. The average DSO over the full year showed an improvement compared to 2012 of 2 days.

The net debt of the Company (gross debt less available cash) increased by $14.0 million to $526.3 million as at 31 December 2013 (2012: $512.3 million).

Inventories decreased by $234.8 million, or 44%, to $298.9 million as at 31 December 2013 (2012: $533.7 million). Of the decrease, $124.6 million related to an increase in the provision for impairment and obsolescence, $102.0 million sale and consumption and foreign currency exchange differences.

Other assets are substantially current prepayments and deposits.

The net value of property, plant and equipment decreased by $220.4 million to $408.3 million as at 31 December 2013 (2012 $628.7 million) mainly due to decreased capital spend, an asset impairment charge of $106.2 million and depreciation expense of $111.5 million.

Goodwill decreased by $186.8 million, or 64%, to $104.0 million as at 31 December 2013 (2012: $ 290.8 million) mainly due to an impairment recorded during the year of $166.3 million. The remaining decrease was due to foreign currency exchange rate impacts as the United States dollar strengthened against other currencies.

Other intangible assets decreased by $36.1 million, or 28%, to $92.0 million as at 31 December 2013 (2012: $128.1 milion) mainly due to amortisation for the year of $19.3 million and an impairment of $22.9 million, which was partially offset by trademark, patent, software and development asset additions of $10.6 million and foreign currency exchange differences.

Tax assets decreased by $96.3 million, or 42%, to $135.4 million as at 31 December 2013 (2012: $231.7 million) mainly due to the write down of deferred tax assets that are of uncertain benefit to the Company.

Trade and other payables decreased by $131.1 million, or 46%, to $153.2 million as at 31 December 2013 (2012: $284.3 million) with the average credit period on purchases of certain goods decreasing by 12 days to 31 days. Trade payables represents 8% of the Company's total liabilities.

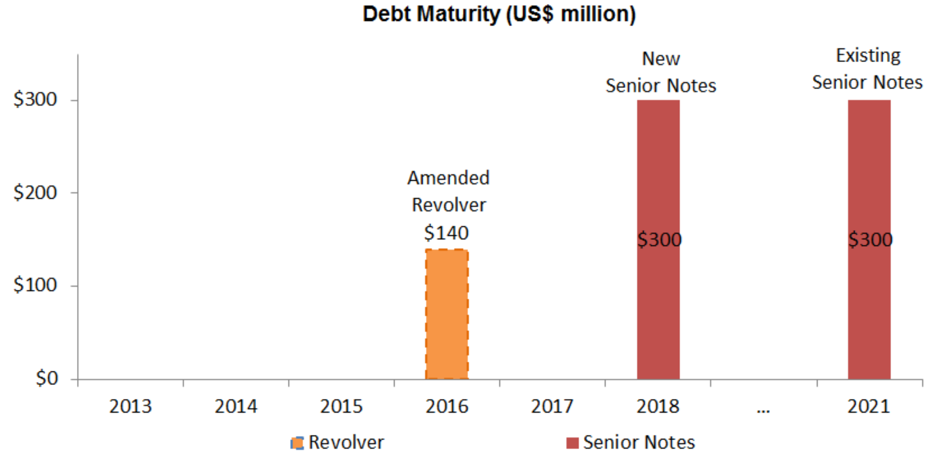
Total net drawn borrowings of $585.4 million representing 64% of the Company's liabilities, decreased by $16.5 million during the year (2012: $601.9 million).

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 $300.0 million senior note that is secured by a first-priority lien on the issuer and guarantors' tangible and intangible assets and by a second-priority lien on the issuer and guarantors' accounts receivable, inventory and cash with an interest rate of 10% and a scheduled maturity date of 1 October 2018.

The Company's bank credit facility provides a $140.0 million revolving bank loan, of which, up to $120.0 million is available in the form of revolving loans or letters of credit with the remaining $20.0 million being available only for the issuance of letters of credit. The credit facility has certain convenants, including a minimum interest coverage covenant to a ratio of 1.55 to 1.0, which is tested quarterly, as well as a covenant requiring maintenance of at least $30.0 million in liquidity and a minimum asset coverage ratio of 1.25 to 1.0, both tested monthly. In addition, see Note 38 to the financial statements for discussion of amendment to these covenants.

The following shows the outstanding debt with maturities.



Liquidity, appears sufficient for the next twelve months but, as discussed in Note 2 to the financial statements, depends upon the Company having continued access to draw funds under its bank revolver. As at 31 December, 2013 there were no drawn borrowings under the bank revolver. However, there were outstanding letters of credit totaling $10.4 million.

Risks to liquidity include potential demand for security to challenge Canadian, and other jursidictions, tax assessments and other operating conditions for which we would need to draw on liquidity to fund. Although we decreased accounts receivable and inventory balances, they were largely offset by lower accounts payable balances. The lower accounts payable balances were driven by the reduction in manufacturing activities and additional focus on cost controls. We do not expect payables to negatively affect working capital significantly in the near future. DSO at 31 December 2013 increased by 7 days from the prior year. November 2013 sales were stronger than anticipated, driving an increased accounts receivable balance at year end. This, combined with some temporary billing delays, drove year-end closing DSO higher than anticipated; however, the average DSO over the full year (60 days) actually showed an improvement over 2012 (62 days).

Based on the Company's view that market conditions may not significantly recover over the next twelve months, the Company negotiated an amendment to its Credit Agreement that is intended to provide continued access to the revolving credit facility and additional head room under the Credit Agreement's financial covenants. The amendment became effective on 22 February 2014 and its specific terms are separately disclosed in Note 38 to the financial statements. As disclosed in Note 2, the amendment does not guarantee the Company's ability to comply with the financial covenants and terms of the Credit Agreement. Difficulties with covenant compliance could arise on or after the June 2014 testing date depending on actual market conditions.

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 BB- rating to a B rating. The corporate credit rating with Moody's has been revised from a Ba2 rating to B2 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.

Provisions of $70.4 million as at 31 December 2013 decreased by 43.1%, or $53.4 million as compared to the prior year (2012: $123.8 million), and represent 7.8% of total Company liabilities. Employee provisions (annual leave, long service leave and bonus) made up 68.6% of this balance with the remainder covering restructuring provisions, onerous leases and warranty obligations.

Shareholders' equity decreased mainly due to the operating loss of $619.9 million. In addition, the devaluation of the foreign currencies against the US dollar reduced the cumulative foreign currency translation reserve by $102.6 million during 2013.

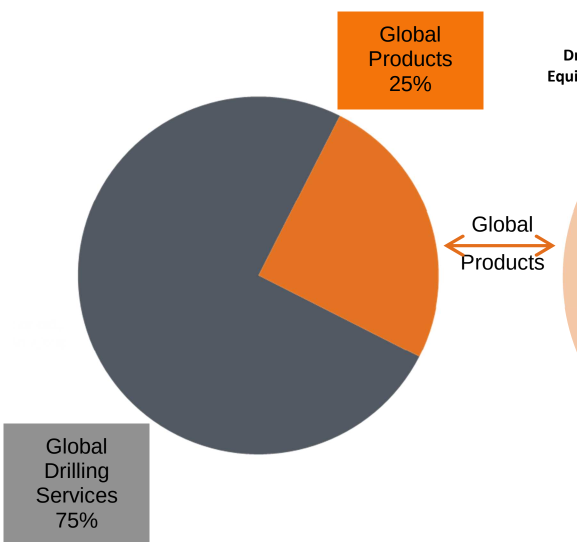
6. Review of Segment Operations

The following table shows our revenue by third party as well as revenue from our Global Products division to our Global Drilling Services division.

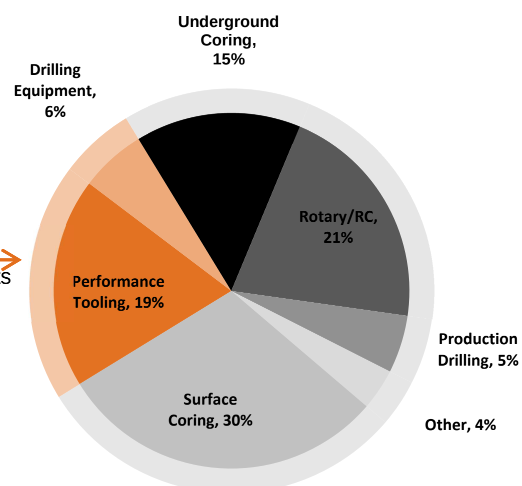
	Segment revenue	
	2013 US$'000	2012 US$'000
Drilling Services	917,348	1,516,203
Products total revenue	362,074	643,552
Products inter-segment revenue [1]	(56,569)	(148,248)
Products external revenue	305,505	495,304
Total external revenue	1,222,853	2,011,507

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

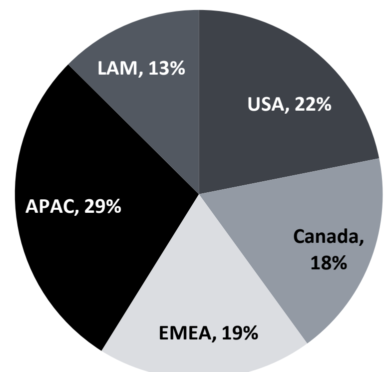
Operating Division[1]



Revenue by Type[1]



Geography[1]



(1) Based on percentages of total Company revenue for the year ended 31 December 2013.

The Global Drilling Services division operates in approximately 35 countries on five continents for a diverse mining customer base spanning a wide range of commodities, including copper, gold, iron, nickel, zinc, uranium, and other metals and minerals. Among other advantages, Global Drilling Services is able to offer the broadest range in its market segments of drilling technologies to suit its customers' requirements. Those technologies include surface and underground diamond coring, reverse circulation, rotary and sonic drilling, as well as mine water services. With its global footprint, a commitment to providing employees and customers a safe work environment and industry leading drilling expertise, the Global Drilling Services business supports all phases of its customers' operations, from greenfield exploration through mine development to production to mine closure.

The Global Products division designs, manufactures and sells drilling equipment and performance tooling to customers in over 100 countries. These products are used by the Company's own Global Drilling Services division, as well as other drilling services companies in the mineral exploration, mining, and energy industries and by mining companies. The Global Products division has positioned itself as an innovation leader in the segments in which it competes and offers a full range of products within those segments. The division also has invested in recent years in developing a stronger aftermarket service and support business to provide its customers with drill equipment commissioning, training, maintenance programs, spare parts and emergency parts kits.

Global Drilling Services

Global Drilling Services performs contract drilling work for a diverse mining customer base, operating across a wide range of commodities, including gold, copper, nickel, zinc, uranium and other metals and minerals. Our contract drilling services include, but are not limited to, providing core samples and completed holes to clients as an integral part of their evaluation of subsurface ground composition. As an example, clients in the mining industry use our contract drilling services as a key component in their mineral exploration, evaluation and resource delineation activities. As at 31 December 2013, we had 951 drilling rigs deployed around the world and provided contract drilling services in approximately 35 countries.

We have global reach and longstanding relationships with a customer base worldwide. We specialise in a full suite of drilling services technology including surface and underground diamond core drilling, and underground percussive drilling, surface rotary drilling, surface geotechnical drilling, sonic drilling and surface and underground reverse circulation drilling.

Global Drilling Services generates the majority of its revenue from the minerals industry but in recent years we have continued to develop drilling capabilities for energy and other industries. In the energy industry, we provide earth and rock core samples for analysis purposes, as well as holes for the installation of gas well casings.

Our Global Drilling Services division is International Standard Organisation 14001 (Environmental) (ISO 14001) and Occupational Health and Safety Association Standard 18001 (Safety) (OHSAS 18001) accredited. We believe our ISO 14001 and OHSAS 18001 accreditation are factors considered by majors when selecting a drilling services provider and by potential employees for the Company when trying to attract skilled labor.

Global Drilling Services operates across North America, South America, Asia Pacific, Europe and Africa, with a worldwide network that maintains and mobilises equipment close to key geographic markets. To extend our service offering to remote locations, we also operate fly-in fly-out rigs and drilling crews to provide drilling services in remote areas.

<u>Drilling services offered</u>

Mining - Drilling services for minerals primarily involves the extraction of solid rock core or chip samples for technical analysis. This is regarded as a noncore activity by mining companies and is typically contracted to third party service providers, such as Boart Longyear. The samples extracted provide the mining companies with critical information over the life of a mining project. Drilling services are used in each stage of the life cycle of the mining operation: exploration, development and production and mine closure.

- Exploration stage drilling - This stage of mining, also known as the "greenfield" stage is primarily focused on the discovery of mineral deposits. It is the first stage of the mining operation and precedes the development and production stages. In this stage, equipment and crews are deployed to often remote locations to undertake exploration drilling on undeveloped land to determine whether sufficient reserves exist within a region to justify development of a mining project. Crews drill into the underlying rock to recover rock chips or core samples to ascertain the existence or quality of a mineral deposit. The integrity of the core samples supplied by drilling services providers for analysis is extremely important for the accurate determination of the feasibility of a particular prospect. For this reason, our experience is that mining companies will typically engage experienced drilling services providers with a track record of producing high quality core samples. Following the discovery of a mineral deposit, substantial drilling is typically required to characterise the size and quality of the deposit and to assess the feasibility of developing the deposit.

- Development stage drilling - Development stage exploration drilling is typically undertaken to enable resource definition required for the expansion of an existing mining project and also to aid in the planning and construction of new mine sites. This is refered to as "brownfield" drilling. The "brownfield" stage of mining is less susceptible to fluctuations in demand for commodities than the exploration, or "greenfield," stage. This is because miners are more likely to be able to access and develop high quality deposits in close proximity to existing mining operations than through "greenfield" exploration. This type of exploration is more efficient for mining companies since they can process new reserves using existing mine infrastructure.

- Production stage drilling - Production stage drilling takes place within the mine boundaries and includes both surface and underground services. Operating mines require drilling services to delineate the ore body for planning and grade control over the life of the mine. Drilling is also required to control or obtain water within the mine. Large diameter water production wells are often bored either to supply the mine with process water, or to extract water from the vicinity of the mine to improve mining conditions. In the production stage, percussive drills are used to conduct blast hole drilling in underground mines for extraction of ore for removal to the surface. Demand for production stage drilling for mine planning and production is relatively stable despite fluctuations in commodity prices. When production ceases and a mine is closed, remedial action is undertaken to restore the site to pre-mining condition. Drilling services required at this stage include environmental testing to install monitoring wells within and around the mine.

- Mine closure drilling - Drilling related to a mine closure takes place when the activities involved with extracting ore have ceased and final decommissioning and mine reclamation are completed. Our drilling services are focused on assisting with decommissioning, well abandonment and any service related boreholes. In addition we may install monitor wells, piezometric wells, and wells associated with leach pad decommissioning. Finally, we will conduct drilling for final leach enhancement and neutralising fluid injection and drainage. Sonic drilling will be used anywhere the soil is unconsolidated. We are well-positioned in the drilling industry for this specialised and growing technology.

Energy - The energy drilling services we provide, relate to the exploration and development of nonconventional energy sources such as oil sands, oil shale, coal and coal bed methane. We do not drill production wells for conventional oil or gas, but do provide specialised gas well pre-collaring services. We provide earth and rock core samples for analysis, as well as completed holes for the installation of gas well casings.

<u>Drilling technologies</u>

Our Global Drilling Services division offers its mining customers a wide variety of drilling technologies tailored to meet clients' needs. All methods require purpose-built equipment, tooling and skilled operators to perform the drilling safely, efficiently and to a high standard of quality.

- Diamond core drilling (surface and underground) - Diamond core drilling uses an industrial-grade diamond crown drill bit to cut a cylindrical core through solid rock. This is the most sophisticated form of drilling due to the information that it yields and it commands a higher service margin than other forms of drilling. The core barrel assembly used in diamond core drilling enables core samples to be retrieved through the hollow drill rods with a wireline device. The wireline device allows the core sample to be extracted without having to remove the entire string of drill rods from the hole to reach the sample. The benefits of this device are of particular importance for deep drilling.

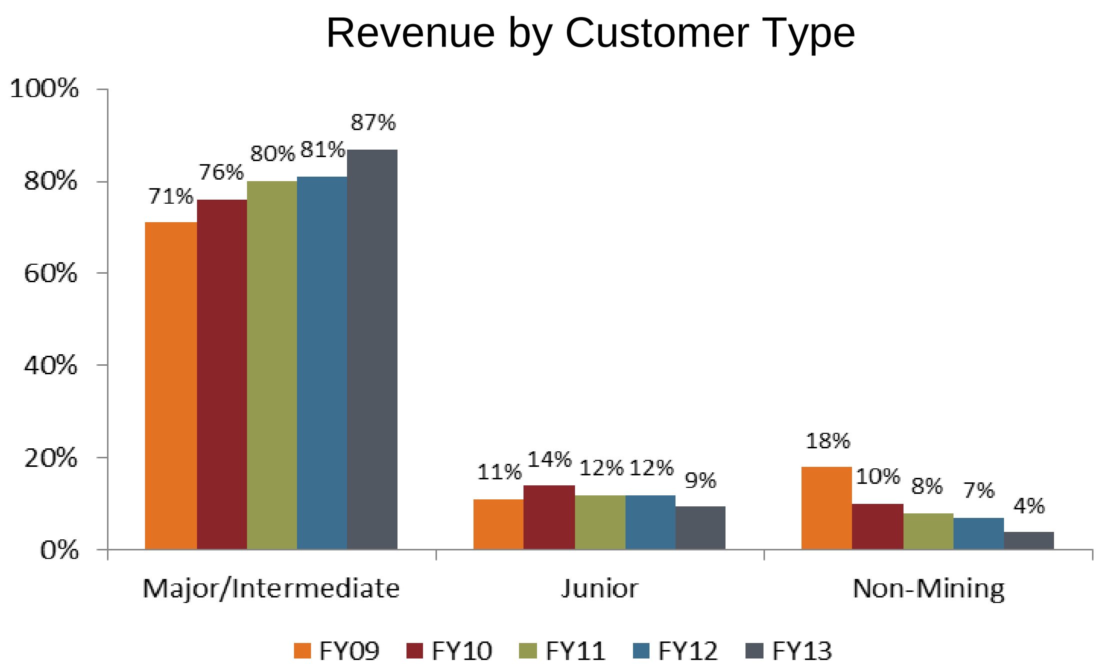
- Production drilling - Production drilling is a fast and effective method to quickly remove earth and obtain ore. Holes are drilled with a pneumatic/hydraulic top hammer or an in-the-hole hammer with a carbide percussive bit. Once the hole is drilled into the rock, it is filled with explosives. After detonation, the debris is cleared and the process is repeated. This method of drilling is sometimes referred to as long-hole drill-and-blast. This method of drilling is also used when holes are needed to connect from level to level in an underground mine or when up-holes are drilled in the back of underground tunnels to install cables for structural support in the tunnels.

- Rotary drilling - Rotary drilling involves a continuous rotation of a drill bit to bore through earth and rock. As cuttings are created, they are circulated out of the borehole with either air or drilling fluids. There are several technologies used to perform rotary drilling including reverse circulation, flooded reverse, and conventional rotary. Reverse circulation drilling is used to collect rock samples quickly and efficiently using a large rotary drill and air compressor. This method is ideal for obtaining mineral samples in the early phases of an exploration project. In addition, rotary drilling is used in the development and production stages of mining. Our dual-tube flooded reverse technology allows us to install dewatering wells in existing mines. This method can also be used to drill "service holes" in underground mines to supply utilities and air shafts to the mine. In addition, rotary drilling is also used where pockets of water near the walls of an open pit mine create pressure against the wall making it unstable. Horizontal holes are drilled in the wall to create an outlet for water to drain and relieve wall pressure.

- Sonic drilling - Sonic drilling produces a continuous, in-situ, sample providing close to 100% recovery in almost any overburden formation. Sonic drilling relies upon sending a frequency from the head into the rod. The sonic tooling penetrates the surface with minimal rotation, friction and disruption. This method of drilling provides a continuous sample, and is ideal in both overburden and environmentally sensitive areas. Mining companies will utilise sonic drilling to examine leach pads, ore bodies just prior to processing, and pre-collars in unconsolidated formations. The technology does not require water or mud consumables, which makes it an environmentally friendly form of drilling that offers an uncontaminated sample.

<u>Global Drilling Services – Customers and Contracts</u>

Approximately 87% of Global Drilling Services' revenue for the year ended 31 December 2013 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 55% of Global Drilling Services' revenue for the year ended 31 December 2013, with no customer contributing more than 11% of our consolidated revenue and no contract contributing more than 4% of our consolidated revenue. We believe this diversified income base provides greater revenue stability.



Drilling services contracts are typically awarded following a tender process. Drilling services providers tend to quote following a detailed costing and pricing process that ensures that projects are properly planned and take into account the geography, geology, timeframe, staffing and equipment and tooling costs.

A typical drilling contract specifies the depth of drilling required, the duration of the project and the scope and conditions of work. Customers are typically charged on a rate per-meter drilled basis. Profitability is therefore a function not only of price, but also of productivity, which is driven by the drilling method, technology, efficiency of the equipment and skill and experience of the drill operators. The majority of our drilling services contracts are short term in duration and typically can be cancelled by our customers with a short notice period, which is in line with industry standards.

In the minerals industry, some mining exploration stage contracts are as short as three months, but mining production stage contracts are generally longer and typically last up to 12 months. Despite their relatively short duration, minerals industry drilling services contracts are generally reviewed annually following a negotiation or re-bid. In the case of exploration stage contracts, such work is often renewed or extended to the completion of the project following a successful strike or discovery. In such cases, and particularly on the more remote contracts, mining companies will often prefer to leave the incumbent drilling services contractor on site to continue drilling so that the project continues with minimal disruption and the mobilisation and demobilisation costs are kept to a minimum.

In the energy industry, the scope of work tends to be larger and contract duration is typically three to six months but can extend up to 12 months.

Drilling Services pricing is measured by calculating the 2013 revenue-per-meter by drilling discipline by territory and comparing this figure to the same calculated figure for 2012. The difference is the year-over-year price change for the respective territory and drilling discipline. The calculated pricing changes for each territory and drilling discipline are then weighted to calculate the overall global pricing change. The calculated pricing change is then tested against the contract database pricing where comparable contract pricing for 2013 (total contract revenue / total meters) is compared to 2012 pricing. The pricing result for 2013 versus 2012 was a decrease of 6%.

Rig fleet

Our drill rig fleet, consisting of 951 rigs as at 31 December 2013, is the largest fleet operated by a mineral drilling services company in the world. Our drill rigs range from small underground drills costing approximately $250,000 to large diameter rotary rigs that cost in excess of $4 million. The operational life of a drill rig varies greatly. Underground rigs depreciate over a five year period, while surface core rigs are depreciated over 10 years and rotary rigs over 12 years, or their estimated useful life.

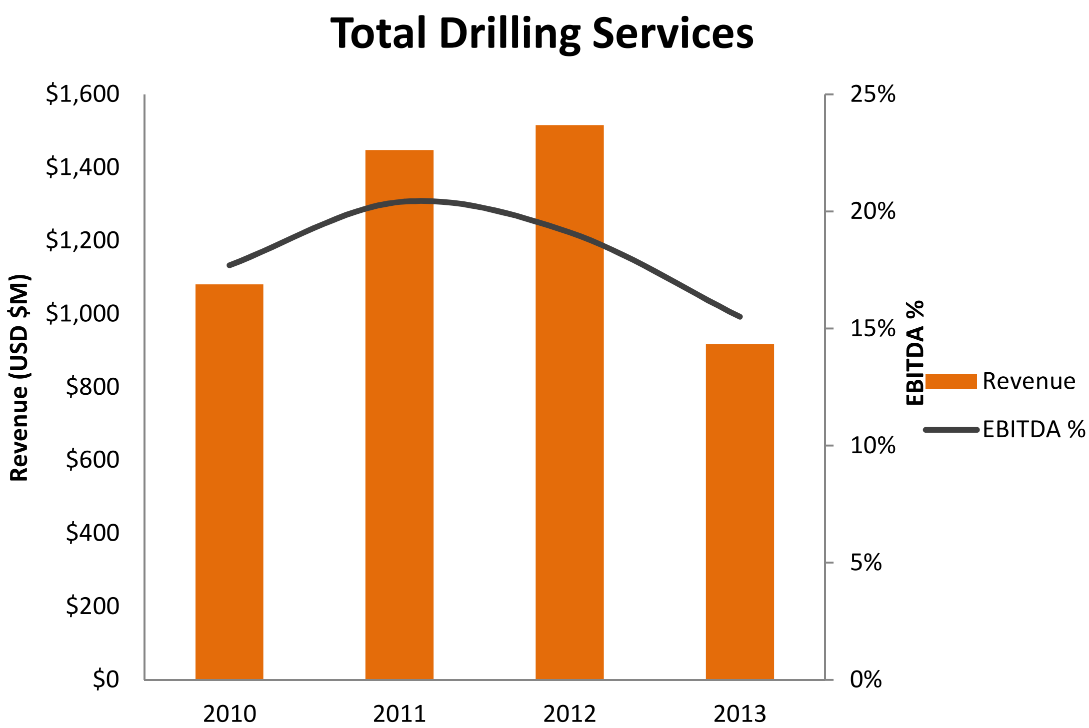
Safety and risk management

A crucial consideration for mining companies in the selection of drilling service providers is their respective safety track record. We believe we have established a reputation as an industry leader in the application of safe operating practices and products, which provides a competitive advantage when bidding for customer contracts.

We are focused on effectively managing safety performance and building a solid safety culture. By quantifying hazards, risks and awareness levels and measuring against appropriate goals, we have gained a competitive advantage of delivering on our strategy safely. Our focus on improving safety has avoided significant costs being incurred through accidents and resulted in more efficient operations.

In addition, we have established an enterprise risk management function (ERM) that periodically assesses likelihood and potential impact of a variety of operational, industry and financial risks to the Company on a regional basis. The ERM function also oversees the development and implementation of mitigation plans for the most significant identified risks.

	For the year ended 31 December			
	2013	2012		
	US$ Millions	US$ Millions	$ Change	% Change
Financial Information				
Third party revenue	917.3	1,516.2	(598.9)	-40%
COGS				
Materials/labor/overhead/other	688.7	1,093.5	(404.8)	-37%
Depreciation and amortisation	94.6	93.7	0.9	1%
Total COGS	783.3	1,187.2	(403.9)	-34%
COGS as a % of Revenue	*85%*	*78%*	*7%*	*9%*
Contribution margin $	89.3	250.2	(160.9)	-64%
Contribution margin %	10%	17%	-7%	-41%
Business unit SG&A	44.8	78.9	(34.1)	-43%
Allocated SG&A	40.1	58.0	(17.9)	-31%
EBITDA	141.9	289.6	(147.7)	-51%
Capital spend (accrual)	37.6	234.8	(197.2)	-84%
Other Metrics				
# of Drill rigs at 31 December	951	1,165	(214)	-18%
# of Employees at 31 December	4,338	7,338	(3,000)	-41%

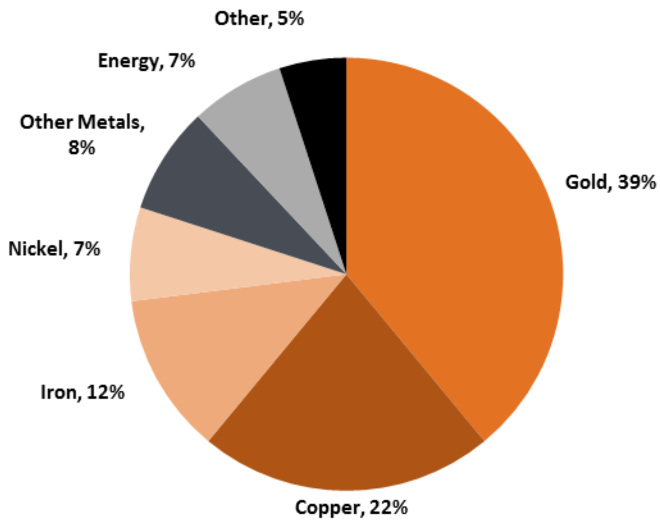


Included in the chart and table above is the operations of the US-based environmental and infrastructure drilling services business (E&I) that was sold on 15 July 2013. The table below shows the pro-forma results for the Global Drilling Services business taking out the 2012 results and first half 2013 results of the E&I business.

	For the year ended 31 December			
	2013 Pro Forma US$ Millions	2012 Pro Forma US$ Millions	$ Change	% Change
Pro Forma Financial Information				
Third party revenue	887.7	1,391.9	(504.2)	-36%
COGS				
Materials/labor/overhead/other	676.4	882.7	(206.3)	-23%
Depreciation and amortisation	89.2	200.2	(111.0)	-55%
Total COGS	765.6	1,082.9	(317.3)	-29%
COGS as a % of Revenue	*86%*	*78%*	*8%*	*11%*
Contribution margin $	79.9	244.7	(164.8)	-67%
Contribution margin %	9%	18%	-9%	-49%
EBITDA	129.3	275.5	(146.2)	-53%

After several years of strong revenue growth, current market conditions have proven to be a challenge with customers reducing their exploration, development and capital spending. Although underground drilling and production related drilling services have remained flat to slightly down, the drilling services industry has experienced significant reductions due to reduced demand. Much of the spending reduction has been attributed to reduction in commodity demand and pricing. In particular, gold exploration spending has waned over the last year.

Drilling Services Commodity Breakdown[1]



(1) Based on percentages of revenue for the year ended 31 December 2013.

Boart Longyear has experienced significant revenue reductions in 2013 due to contract cancellations or reductions in drilling scope. To offset the drop in revenue, the Global Drilling Services group reduced fixed costs through the consolidation of 23 zones into 10 territories in 4 global regions. The restructuring enabled the division to reduce fixed costs by eliminating headcount and operating facilities. The consolidation has not only reduced costs but it has also driven efficiencies, thus better positioning the Global Drilling Services for the future.

Global Products

Global Products is a leading manufacturer, marketer and distributor of a wide range of drilling equipment and performance tooling, including diamond drill bits, drill rods, wireline core extraction systems, drilling rigs and other products used in mineral exploration, mine development, mine production and environmental and infrastructure drilling. Our extensive experience in the drilling industry and broad portfolio of patents and innovations have enabled us to develop and deliver a comprehensive line of technologically advanced drilling products to meet the drilling industry's needs for safety, reliability and productivity.

Of Global Products' revenue for the year ended 31 December 2013, approximately 75% was comprised of performance tooling components. Through a worldwide network of approximately 150 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 year ended 31 December 2013. Global Products also provides the products necessary for our Global Drilling Services division.

For the past several years, we have continuously enhanced our manufacturing flexibility and lowered our cost base by rationalising our global manufacturing footprint and optimising our global sourcing and distribution channels. From 2005 to 2013, we have successfully reduced our manufacturing facilities from 25 to 6. At the same time, we have significantly increased our manufacturing capacity by concentrating on fewer, larger facilities and through the implementation of several manufacturing process improvement initiatives. By managing assets within fewer manufacturing facilities, we are able to more efficiently leverage our asset base and our production, manufacturing and supply chain process. In addition, we have recently combined the aftermarket service function of our Global Products division with the maintenance function of our Global Drilling Services division. We have manufacturing facilities located in Europe, North America and China that currently employ approximately 470 manufacturing employees.

Drilling products offered

Global Products supplies drilling equipment (surface and underground) and performance tooling (diamond drill bits, percussive drill bits, core barrels, drill rods and casings and other products) to the minerals, environmental and infrastructure and energy industries. Below is a summary of the primary products we sell.

- Coring tools - Coring tools include advanced wireline and conventional diamond drill coring systems used in minerals drilling, including diamond drill bits, core barrels, rods and casings. These products are designed and used to extract rock and other core samples drilled.

- Rigs - We manufacture a wide range of rigs for use by the minerals, environmental and infrastructure and energy industries. Each rig type is designed and manufactured for specific applications. The parameters used to design rigs include hole depth, hole diameter, hole use/ maintenance and ground conditions.

- Percussive tools - Percussive tools include drill-mounted and hand-held hammers used to produce the rotation and impact forces, shank adaptors to transmit the energy to the drill string, drill rods and couplings for various hole depths and bits, which are fitted with tungsten carbide inserts to fracture the rock.

- Aftermarket services – We support our customers through experienced teams of service technicians. In-house and field-based repair services are available, as well as technical advice and support. Parts repair and rebuild services are offered as a more efficient replacement parts option for major components.

Sales, marketing and distribution

Through a worldwide network of approximately 150 sales and customer service representatives, we primarily sell our products to drilling services contractors. Global Products' sales are made either directly to the end user or through distributors who then on-sell to end users. In regions where sales volumes are large, individuals may have product-specific sales responsibility, whereas in smaller countries and regions, sales efforts may be the responsibility of one individual. Distribution methods vary depending on the type of product and customer. Large-scale products such as drill rigs are delivered directly to the end user. For other tools, equipment and consumables, we operate a network of distribution centers located in North America, South America, EMEA and Asia Pacific.

Product backlog

At 31 December 2013, we had a backlog of orders of products valued at $16.2 million (2012: $36.8 million). Backlog represents orders for products that we believe to be firm. However, 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. Backlog is not applicable to our Global Drilling Services business.

Our customers

The customers of the drilling products industry are numerous and diverse. The customer base participates in a range of mining, environmental, infrastructure and energy activities. Global Products has a diversified customer base, the majority of whom are drilling contractors (including Global Drilling Services) and mine operators. Key Global Products' customers, listed alphabetically, include:

- Barminco Limited
- Capital Drilling
- Cascade Drilling, L.P.
- Foraco International SA
- Layne Christensen Company
- Major Drilling Group International Inc.
- Swick Mining Services

During the year ended 31 December 2013, no third-party customer of Global Products accounted for greater than 2% of our consolidated revenue. We estimate that approximately 20-30% of Global Products' manufacturing output is used by Global Drilling Services.

Our competitors

Boart Longyear, Atlas Copco Group, Sandvik AB and Schramm are key global participants in the minerals exploration drilling products industry. A large number of local and regional participants also serve the industry.

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 2013, we had approximately 383 issued patents, 626 registered trademarks, 342 pending patent applications and 90 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. Prior to introduction, new products are subject to extensive testing in various environments, again with assistance from our Global Drilling Services operator network around the world. In 2013, we launched 6 new products and we continue to invest in our new product pipeline.

Competitive Strengths

Our variable cost structure offers operational flexibility. Within Global Products, we have rationalised non-core manufacturing facilities and implemented a low-cost, global sourcing model. Despite reducing the number of our manufacturing facilities from 25 in 2005 to 6 in 2013, we have significantly increased our manufacturing capacity. Many of the manufacturing facilities we have recently eliminated were small facilities that were not as efficient as our current facilities. Also, by managing assets within fewer manufacturing facilities, we are able to more efficiently leverage our asset base and our production, manufacturing and supply chain process. In addition, we have added further capacity and variability to our manufacturing footprint through the use of contract manufacturers for both our capital equipment and performance tooling offerings.

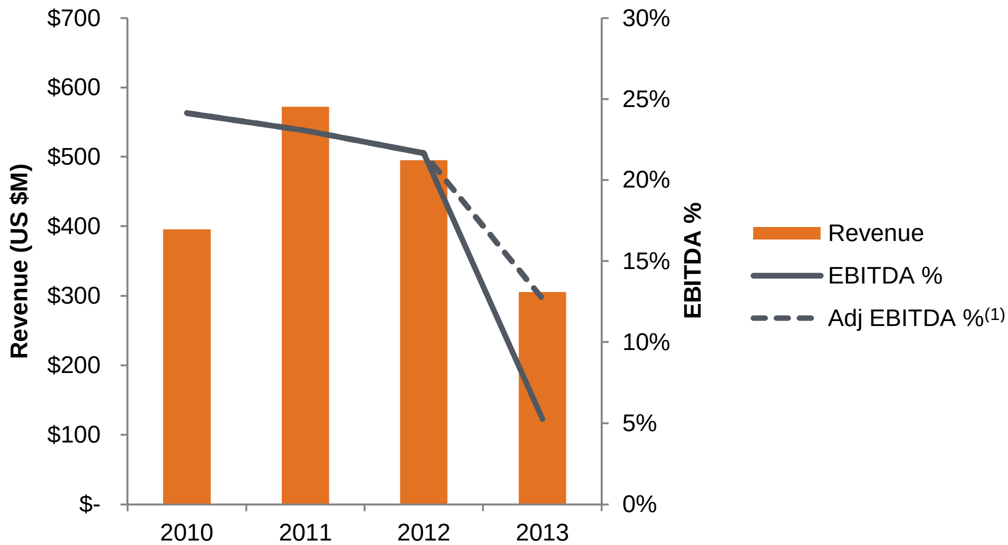
We have been successful in scaling up quickly in response to mining market growth cycles. For example, we increased revenues in Global Products by 138% from 2009 to 2011. Our variable cost structure, in conjunction with a predominantly discretionary capital expenditure program and countercyclical working capital requirements, provides us with significant operational flexibility and several operating “levers” to successfully manage our business through industry cycles. In turn, this helps to partially mitigate the impact of reduced revenues on our cash flow profile during industry down cycles, and gives us the ability to quickly respond to improvements in mining industry conditions.

Our integrated business model provides industry insights and fuels technological innovation. As a leading global integrated provider of both mineral drilling services and products, we are well positioned to act upon market and customer feedback. We have access to comprehensive and differentiated market insights that enable us to more efficiently conduct our drilling products research and development efforts to develop cutting-edge drilling technologies and produce innovative new products that are responsive to customer demands. Global Drilling Services routinely field tests of our new products before the products are launched to third-party customers, allowing Global Products to incorporate suggested improvements into the final product design.

In addition, the global reach of Global Drilling Services allows Global Products to develop and conduct field tests for applications throughout the world, while its competitors typically focus on one region due to resource limitations and access to drill sites. As the segments become increasingly integrated (for example, the consolidation of the Global Products division’s aftermarket service function with the Global Drilling Services division’s maintenance function), we expect to see further efficiencies, reduced fixed costs and release of working capital through better management of total company inventory.

	For the year ended 31 December			
	2013 US$ Millions	2012 US$ Millions	$ Change	% Change
Financial Information				
Third party revenue	305.5	495.3	(189.8)	-38%
COGS				
Materials/labor/overhead/other	203.3	295.2	(91.9)	-31%
Inventory obsolescence	22.7	4.6		
Depreciation and amortisation	11.4	12.0	(0.6)	-5%
Total COGS	237.4	311.8	(74.4)	-24%
COGS as a % of Revenue	*78%*	*63%*	*15%*	*23%*
Contribution margin $	39.0	143.5	(104.5)	-73%
Contribution margin %	12.8%	29.0%	-16%	-56%
Business unit SG&A	29.1	40.2	(11.1)	-28%
Allocated SG&A	36.4	50.5	(14.1)	-28%
EBITDA	16.1	107.2	(91.1)	-85%
Capital Spend (accrual)	6.8	27.6	(20.8)	-75.4%
Other Metrics				
Manufacturing plants	6	6	-	0%
Average backlog	28.5	61.0	(32.5)	-53%
# of Employees at 31 December	910	1,173	(263)	-22%

2013 contribution margin and EBITDA were adversely affected by $22.7 million of non-cash expense related to the company's policy for slow-moving inventory.



(1) Adjusted EBITDA does not include the $22.7 million of expense related to the Company's policy for slow-moving inventory.

7. Non-IFRS Financial Information

	For the year ended 31 December			
	2013	2013	2012	2012
US$ Millions	US$ Millions	US$ Millions	US$ Millions	US$ Millions
EBITDA [1]	**(337.1)**		254.3	
NPAT [2]		**(619.9)**		**68.2**
Goodwill impairment	166.3	166.3	6.8	6.8
Property, plant and equipment impairment	109.9	109.9	6.0	6.0
Inventory impairment	101.9	101.9	7.7	7.7
Employee separation and related costs	44.8	44.8	23.0	31.6
Development asset impairment	14.6	14.6	8.4	8.4
Intangible assets impairment	9.1	9.1	3.5	3.5
Other restructuring and impairment costs	14.6	14.6	12.2	3.6
Gain on termination of post-retirement medical plan	(16.9)	(16.9)	-	-
Tax effect of significant items and other tax write offs [3]		81.3		(19.7)
Total of significant items	444.3	525.6	67.6	47.9
Adjusted EBITDA [1]	**107.2**		**321.9**	
Adjusted NPAT [2]		**(94.3)**		**116.1**

(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 significant items'.

(3) Includes tax expense on derecognition of deferred tax assets arising in prior year and unrecognised tax losses in the current year ($160.3 million).

8. Outlook and Risks

8.1 Our prospects are highly correlated with the environment for Mineral Exploration, Development and Production and the related level of spending which determines drill rig utilisation rates

Our prospects in the short- to medium- term are driven, in large part, by the level of mineral exploration, development and production activity which is affected by factors including:

- the level and volatility of commodity prices, in particular gold, copper and iron ore (which accounted for approximately 73% of Global Drilling Services 2013 revenue);
- anticipated future prices for commodities and the outlook for commodity demand;
- the outlook for current and projected commodity supply and available mine production capacity;
- the underlying costs associated with the extraction and production of commodities, mainly, gold, copper and iron ore;
- the level of mining industry exploration, development and capital expenditures;
- the sovereign and geo-political risks related to mining development activities;
- availability of financing for mining exploration and development, particularly for junior mining companies.

The recent downturn in the mining services industry began in the second half of 2012 and persists today. Global utilisation and activity rates for our Company, and those publicly reported by certain of our drilling services customers and competitors, appear to be at or below levels experienced during the 2009 downturn. The key differentiator between the 2009 downturn and the present downturn is that activity levels in the sector during 2009 were directly related to the stagnation of the global credit markets. Once the credit markets reopened, the industry witnessed accelerated recovery from 2010 to mid-2012. As the current downturn is not credit related, our expectation is that the downturn will be more prolonged than that of 2009 and that any recovery may be drawn out over several years.

Commodity prices still remain volatile and junior miners, which serve as one barometer of health for mineral exploration, appear to be constrained by low levels of cash on-hand and reduced access to the capital markets. Once commodity prices stabilise and major mining houses are able to achieve lower production costs through the benefits of previously initiated cost reduction programs we expect that these companies will increase their exploration activities by allocating increased capital and resources to mineral exploration in order to replenish and augment their existing reserve base.

According to SNL MEG analysis of exploration spending over the last few years, mineral exploration cycles can span several years. Prior to the 2009 downturn of exploration spending which was largely driven by the Global Financial Crisis, mineral exploration spend increased for 6 consecutive years from 2002 to 2008 representing a compounded average growth rate of 39%. Conversely, the same data set illustrates a sustained downturn from 1997 to 2002 in which mineral exploration spend decreased for 5 consecutive years respresenting a compounded average decline rate of 17%. While mineral exploration cycles are very difficult to predict, we believe the long-term fundamentals of mining and commodity supply and demand are in place to support an eventual recovery in mineral exploration.

As such, the demand for our Company's services and products may increase. Based on industry and analyst forecasts, we do not expect to see the resumption of these activities until at least the second half of 2014 and, more likely, into 2015.

8.2 Our prospects are also impacted by the competitive pressures among Global Drilling Services and its peers and Global Products and its peers.

With current global rig utilisation rates approaching the levels of the 2008 and 2009 period of global financial crisis, there are a significant number of unused or under-utilised drill rigs. Competition among drilling services providers for a more limited number of projects may lead to price competition. Persistence of these or similar pricing pressures could have a material adverse effect on our revenues and profitability. The resulting decline in demand for our products and services has caused our revenue to decrease significantly since that time. Both the utilisation level for our drilling rigs and the backlog for our products business are back to, or below, the depressed levels seen in the 2008-2009 global economic downturn. Further decreased demand for our products and services could result from general economic downturn arising from currently unforeseen political or economic events leading to a decline in the demand for minerals.

8.3 We face increased risks of doing business due to the extent of our international operations.

Our international operations are subject to business risks, including political instability, war or civil disturbance, expropriation, import and export restrictions, exchange controls, inflationary economies, currency risks and risks related to the restrictions on repatriation of earnings or proceeds from liquidated assets or foreign subsidiaries. In addition, because we report our earnings in US dollars, unfavorable fluctuations in currency values and exchange rates may have a significant effect on our business. We closely monitor these risks to mitigate adverse effects. For example, we suspended operations in Mali for several months in 2012 as civil war and violence in that country threatened our employees and assets.

8.4 We are subject to tax regimes of many different countries and are subject to risks of changes in taxes, or interpretation or enforcement.

We operate and sell products in countries that have tax regimes in which the rules are not clear, are not consistently applied and are subject to sudden change. This is especially true with regard to international transfer pricing. Our earnings could be reduced by the uncertain and changing nature of these risks in foreign locations. We currently have government audits in process in several countries. While we are confident in our positions in these audits, there is the risk that the government may take a position contrary to that which we have concluded. In addition, requirements to post security with the dispute of Canadian tax assessments may adversely affect our liquidity.

8.5 Our 2014 Prioirites

Our key priorities for 2014 are to:

- maintain and enhance our culture around safety and compliance;
- expand our mining and minerals drilling customer base;
- effectively manage the related pricing and contract terms;
- improve the quality of our customer service;
- create new products and respond to new Global Drilling Service's customers within a constrained capital budget;
- efficiently manage variable and fixed costs;
- strengthen our financial position.

Maintain and enhance 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 implementing and adhering to high safety standards, and we continually seek ways to maintain and enhance the safety of our drilling services and products.

Expand our mining and minerals drilling customer base by offering superior service. The company remains focused on providing our customers with a full range of drilling services offerings backed by 120 years of experience and innovation, improving the efficiency 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.

Creating new products and respond to new Global Drilling Service's customers within a constrained capital budget. Disciplined investments in our business to drive returns. We will continue 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 in 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. 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. In addition, we are committed to delivering on the $28 million cost out program initiated in January 2014. We will continue to pursue manufacturing and administrative optimisation programs in order to improve our operating efficiency beyond those initiatives that have already been announced. 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. We also intend to continue our disciplined focus on customer relationships and to seek mutually favorable contract terms. And, further, we are moving towards shared-service organisations to increase the process efficiencies and to leverage our knowledge base across the global financial organisation.

Strengthen our financial position - provide continued access to liquidity under the terms and conditions of our borrowing arrangements. The Company currently has a higher than desired gearing level which impacts the costs and terms upon which we can access the debt and equity markets. Access to borrowings under our bank debt facility are conditional upon meeting certain financial covenants and those covenants are set at levels that, under certain of our projections, may not be met. As such, we have entered into a series of amendments to our credit agreement in June and September 2013 and in February 2014. See details in Note 23 and Note 38 to the financial statements.

In addition to pursuing continued access to liquidity through capital markets and banking arrangements, the Company will continue to focus on organic cash generating activities, such as filling customer orders with existing stock on-hand and increasing overall inventory turnover.

8.6 Our 2014 Outlook

We are not providing market guidance for 2014 revenue or EBITDA given current market uncertainty. We expect, however, 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 fourth quarter of 2013. Profitability will be influenced by those and other factors, such as price, productivity and our ability to further control costs. We believe current market expectations for 2014 revenue and EBITDA, including even at the low end of 2014 analyst estimates compiled by Bloomberg of $979.0 million in revenue and $77.0 million in EBITDA, may not be based on the most current available market information regarding industry conditions.

Given the significant and continuing downward pressure on demand for our services and products from July 2012 to now and recognising that most mining industry observers are predicting continued, lower levels of exploration spending combined with the fact that contracts for our drilling services and products can be cancelled by our customers with little notice, we are not providing a specific outlook for 2014 Revenue and EBITDA this early in the calendar year.

Our 2014 outlook for several other metrics is as follows:

	2014 Outlook (US$ million unless noted)
Sales, general and adminstrative expenses	$165 to $170
Net interest expense	$50 to $55
Capital spending	$25 to $50

8.9 Future Developments

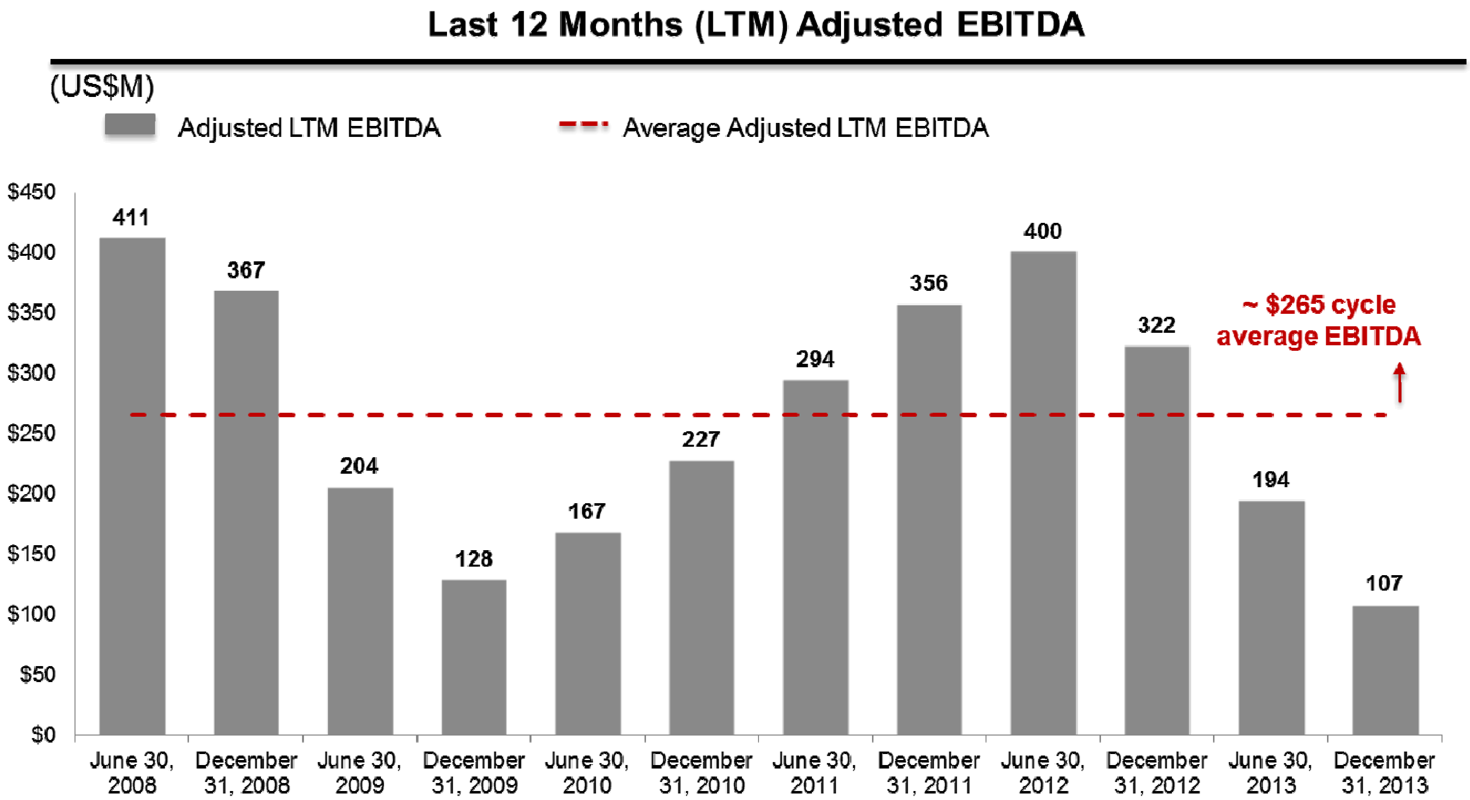
We believe that we are well-positioned to take advantage of positive long-term mining industry fundamentals*.* The mining industry is cyclical. Notwithstanding the current sector challenges, the longer-term outlook for the mining industry is expected to remain attractive underpinned by:

- 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, Boart Longyear is well positioned to capture expansionary opportunities to drive technological innovation and engineering excellence. For over 120 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 business, 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 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.



And, as our markets improve, we 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, 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 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.

9. Quarterly Income Statement and Related Information

	Quarters ended 2013				Quarters ended 2012			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Total Company								
Revenue (US$ millions)	224.5	279.5	348.7	370.2	399.1	513.6	578.3	520.5
EBITDA (US$ millions)	(100.8)	(1.2)	(269.7)	34.6	(42.2)	88.8	121.9	85.8
Adjusted EBITDA (US$ millions)	8.0	18.8	40.1	40.3	24.0	89.2	122.9	85.8
Net Debt (US$ millions)	526.4	523.0	563.8	571.3	512.3	469.4	373.2	328.1
SG&A (US$ millions)	28.7	33.2	30.0	36.4	42.0	43.6	46.2	46.6
# of employees	5,681	6,020	7,270	8,283	9,162	10,970	11,426	11,087
Global Drilling Services								
Revenue (US$ millions)	163.4	216.3	265.3	272.3	296.4	403.1	425.0	391.7
EBITDA (US$ millions)	15.5	42.7	42.6	41.1	31.9	80.9	100.1	76.7
Average rig utilisation	31%	37%	43%	39%	44%	57%	61%	61%
Average # of drill rigs (with E&I)	1,031	1,037	1,139	1,146	1,182	1,176	1,180	1,175
Average # of drill rigs (without E&I)	1,031	1,037	1,037	1,044	1,011	996	990	981
# of employees	4,338	4,737	5,859	6,749	7,338	8,841	9,193	8,909
Global Products								
Revenue (US$ millions)	61.1	63.1	83.4	97.9	102.7	110.5	153.4	128.7
EBITDA (US$ millions)	2.6	(8.2)	8.7	13.0	12.0	27.0	41.7	26.5
Average backlog (US$ millions)	19.4	19.8	31.5	43.3	41.2	48.5	71.8	82.4
# of employees	910	899	990	1,103	1,173	1,467	1,559	1,541

It is our pleasure to introduce Boart Longyear's 2013 Remuneration Report. 2013 was a particularly challenging year for the mining services sector generally. This was clearly reflected in Boart Longyear's bottom line and remuneration outcomes. We introduced a number of shareholder focused changes in 2013, including adopting a clawback policy that will apply to new incentive awards and changing the long-term incentive metrics to a straight linear calculation between achievement levels. Both measures were intended to help mitigate the potential for inappropriate risk-taking.

Short-term incentive outcomes were significantly lower than last year and there will be no vesting of performance tested long-term incentive awards. On average, executives received 19% of the short-term incentives and 0% (zero) of the performance-based long-term incentives that could have vested or been paid in 2013. We recognise that these outcomes are appropriate and that executives, like shareholders, will inevitably be impacted by the current challenging environment, and therefore our remuneration programs have evidenced a strong link with Company and shareholder performance.

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 new CEO, is a key near-term remuneration strategy imperative given our current circumstances. This challenge comes at 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.

The Board's other key current area of focus for the remuneration strategy is to properly incentivise our executive team to successfully address our debt and free cash flow situation and position the Company to manage through the current challenges. Only then will we be in a position to take advantage of the new opportunities which will arise when our resources client base has implemented the ongoing (and unprecedented) winding back of capital expenditure commitments and investments. In this context we recently conducted a review of our remuneration arrangements. The Board concluded that Boart Longyear needs to introduce tailored and fit for purpose incentives for 2014 that both support retention and drive the executive team to implement a strategy focused on cash flows and debt reduction. These changes affect both the short term and long term incentive awards because of the timeframe and criticality of the challenges with which we are confronted. We have described these changes for 2014 in more detail in section 6 of our report.

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 business outcomes as well as shareholder and investment community expectations.

On behalf of the Board of Directors of Boart Longyear,

Barbara Jeremiah
Board Chair

Roger Brown
Remuneration Committee Chair

REMUNERATION REPORT

INTRODUCTION

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

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

- the overall objective of attracting, retaining, 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;
- the particular business environment in which Boart Longyear operates, recognising that:
  - the Company's business is global and, consequently, the senior executive team is based primarily outside of Australia and is recruited internationally;
  - 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
  - importantly, the Company is incorporated and listed in Australia and must comply with local corporate regulatory requirements and practices.

Changes in 2013

- **CEO Transition:** In April 2013, Richard O'Brien was hired as President and Chief Executive Officer. He replaced David McLemore who had been serving as Interim Chief Executive Officer since October 2012. The terms of Mr O'Brien's employment arrangements were disclosed at the time of his hiring and are discussed elsewhere in this report. Mr O'Brien's appointment was a key success for the Company in 2013. With his considerable expertise and industry experience, the Board firmly believes that Mr O'Brien is the right person to steer the Company as CEO through the current challenging environment. Making sure Mr O'Brien's remuneration package remains relevant and attractive, especially in the context of the mining downturn and the highly competitive US market for talent, is an important balancing exercise for the Remuneration Committee and Board on an ongoing basis. See remuneration actions described in Section 6.2.1 of this report.

- **Change of LTI Plan Return on Equity (ROE) performance payout to a linear calculation:** In response to proxy adviser and shareholder comments, the Board modified the three-year average ROE payout matrix for awards made under the LTI Plan in 2013 from payouts based on achieving certain ranges of average ROE to a straight linear calculation within a range between minimum and maximum levels. The change in methodology for calculating achievement of plan targets better aligns management actions with shareholder interests by mitigating the potential for risk-taking that may be inconsistent with long-term value creation in order to get to the "next level" of payout.

- **Clawback policy:** In 2013, the Board resolved to implement a clawback policy that will apply to performance-based incentive remuneration granted, paid or credited after 31 December 2013. The clawback policy provides scope for the Board to take action to reduce or recover overpaid remuneration in certain circumstances.

Impact of challenging market conditions on incentives

The year ended 31 December 2013 was a particularly 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 resulted in lower demand in the Company's key markets and, as a result, Boart Longyear experienced a significant decline in both revenues of $788.6 million, or (39.2%), and operating loss of $688.1 million.

The management team responded to these market conditions by eliminating over US $800 million in costs from the organisation. In addition to the aggressive cost reduction efforts, the Company also increased its focus on cash generation, primarily through working capital reductions. Unfortunately, costs were not able to be reduced as quickly as revenues declined due to statutory employee notice periods and other factors, and operating margin fell from 10.8% in 2012 to 0.0% in 2013. Short-term incentives (STIs) awarded fell significantly from 72% (on average) in 2012 to 40% in 2013.

In addition, none of the long-term incentives (LTIs) that were awarded in 2011 and which were subject to a three-year ROE performance hurdle, will vest.

Review of remuneration structure

Ongoing challenging market conditions have caused the Company to review its remuneration arrangements to ensure that they continue to meet the Company's specific business needs and objectives, while also recognising and encouraging the continued hard work, dedication and loyalty of the management team. This review has led to a number of changes that will be implemented in 2014, including changes to the performance metrics used for the Company's STI and LTI arrangements to focus on cash flow generation and debt reduction. The review was conducted with the assistance of the Board's independent remuneration advisor, Frederic W. Cook & Co., Inc.

Although the remuneration structure changes resulting from the review are not applicable to the year ended 31 December 2013, section 6.0 provides an overview of some of the key changes.

Report Structure

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

Section		Description of content
1	**2013 remuneration overview**	• Outlines the Company's remuneration practices and explains how executive remuneration is structured to support the Company's strategic objectives. • Sets out the Directors and senior executives who are covered by this Report. • Details the actual remuneration earned by the CEO and other senior executives during the year ended 31 December 2013.
2	**Remuneration framework and strategy**	• 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. • Outlines the Company's remuneration strategy.
3	**Components of executive remuneration**	• Provides a breakdown of the various components of executive remuneration. • Details the components of executive remuneration that are fixed and therefore not "at-risk". • Outlines the key features of the short-term incentive plan that applies to the Company's executives. • Outlines the key features of the long-term incentive plan and option plan that apply to the Company's executives.
4	**Performance and risk alignment**	• Explains how executive remuneration is aligned with performance and outlines short-term and long-term performance indicators and outcomes. • Explains how executive remuneration is structured to encourage behaviour that supports long-term financial soundness and the Company's risk management framework.
5	**Executive remuneration in detail**	• Sets out the total remuneration provided to executives (calculated pursuant to the accounting standards) during the years ended 31 December 2013 and 2012. • Provides details of the Rights granted to executives during the year ended 31 December 2013 under the long-term incentive plan. • Summarises the key terms of executive service contracts (including termination entitlements).
6	**Remuneration actions occurring after 31 December 2013**	• Summarises the decisions or actions made to remuneration structure or incentive plan designs impacting the Company's executives following the end of the 2013 reporting year. • Additional details will be provided in the 2014 remuneration report.
7	**Non-executive Director arrangements**	• Explains the non-executive Directors' remuneration structure, including the basis on which non-executive Director remuneration is set and the components. • Outlines key features of the non-executive Director Share Acquisition Plan. • Sets out the non-executive Directors' remuneration during the years ended 31 December 2013 and 2012.

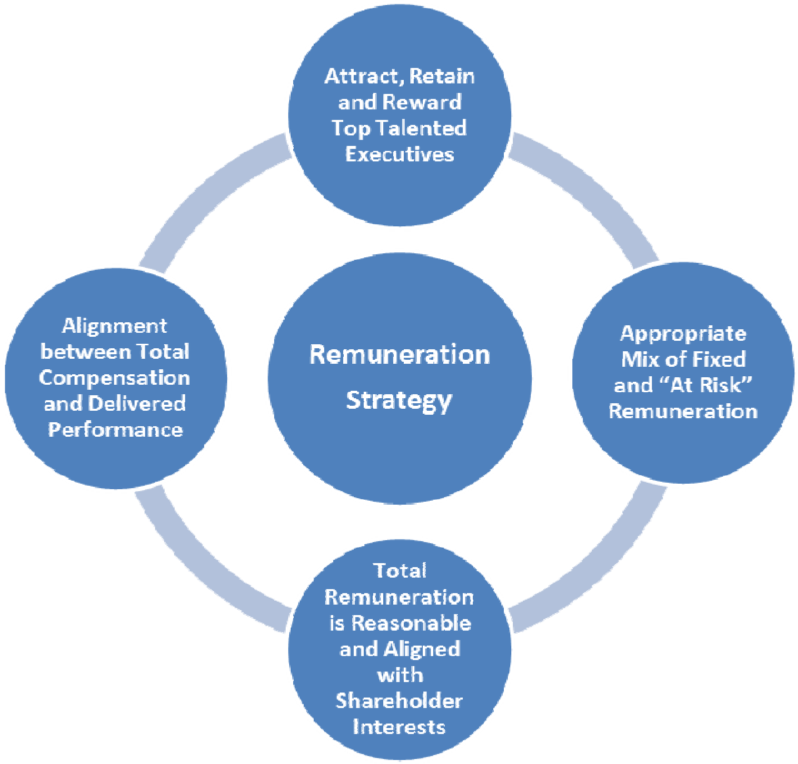
1. 2013 REMUNERATION OVERVIEW

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
• Remuneration levels are competitive with similar roles in markets in which the Company competes for talent. • Incentive-based compensation provides for upside potential with superior performance. • Long-term incentive compensation provides for a meaningful retention.	• Incentive-based compensation is designed to reward executives for delivered performance against important Company financial and strategic objectives. • Incentive plans utilise an appropriate mix of challenging performance measures designed to only deliver value to executives if target performance is achieved over both the short and long terms.	• There is a significant amount of total executive remuneration which is at risk and dependent upon achieving challenging performance metrics. • Fixed remuneration is appropriately market competitive and consistently higher performing executives are rewarded through higher base compensation.	• The Remuneration Committee regularly performs executive compensation benchmarking utilising independent compensation consultants. • The long-term incentive component of remuneration is primarily delivered through equity share rights linked to the Company's ordinary shares. • Executives and Directors cannot hedge equity share rights that are unvested or subject to restrictions.

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 2013 are listed in Table 1.2 below:

Table 1.2: Directors and senior executives who were KMP during the year ended 31 December 2013

Non-executive Directors	Position
Barbara Jeremiah	Chair and Non-executive Director (appointed Chair effective 1 March 2013)
Bruce Brook	Non-executive Director
Roger Brown	Non-executive Director
Roy Franklin	Non-executive Director
Tanya Fratto	Non-executive Director
David McLemore [1]	Non-executive Director
Rex McLennan	Non-executive Director (appointed effective 24 August 2013)
Peter St. George	Non-executive Director (resigned from the Board effective 21 May 2013)

Senior executives	Position
Richard O'Brien	Chief Executive Officer (appointed effective 1 April 2013)
Joe Ragan III	Chief Financial Officer (terminated employment effective 18 May 2013)
Fabrizio Rasetti	Senior Vice President, General Counsel and Secretary
Brad Baker	Senior Vice President, Human Resources
Alan Sides [2]	Senior Vice President, Global Drilling Services (appointed effective 31 January 2013)
Kent Hoots [2]	Senior Vice President, Global Products (appointed effective 31 January 2013)

(1) Mr McLemore served as Interim CEO from 5 October 2012 until 1 April 2013, during which time his responsibilities as Chairman were assumed by Ms. Jeremiah, who was formally appointed Chair from 1 March 2013. Mr McLemore resumed his role as a non-executive Director when Mr O'Brien commenced as President and Chief Executive Officer.

(2) Prior to his promotion to the position of Senior Vice-President (SVP), Global Drilling Services, Mr Sides held the role of SVP, Global Products, which also was a KMP role. Mr Hoots was promoted to SVP, Global Products with effect from 31 January 2013 and continued to retain responsibility for the Company's global supply chain organisation after his promotion.

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

1.3. REMUNERATION OUTCOMES

Actual remuneration

Details of CEO and other senior executive remuneration for the year ended 31 December 2013, 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 2013. 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 2013

	Base salary US$	STI (cash)[1] US$	LTI (equity)[2] US$	LTI (cash)[2] US$	Other[3] US$	Total US$
Richard O'Brien [4]	562,500	-	-	-	19,110	581,610
Fabrizio Rasetti	416,000	178,152	145,602	80,000	46,927	866,681
Brad Baker	324,450	140,974	127,204	80,000	32,885	705,513
Alan Sides	387,301	143,031	145,666	80,000	28,450	784,448
Kent Hoots [5]	337,866	96,704	97,177	50,000	32,884	614,631

(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 and cash rights vested during the year ended 31 December 2013 (based on the market value of shares at the vesting date: A$1.73 on 1 March 2013 and A$1.34 on 15 March 2013) and dividends received on unvested share rights granted prior to 1 January 2012. Share rights and cash 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 benefits such as US 401(k) retirement plan Company matching and/or profit sharing contributions, relocation benefits, car allowance and tax preparation service reimbursement.

(4) Represents remuneration received from hire date 1 April 2013 through 31 December 2013.

(5) Mr Hoots was promoted into a KMP role effective 31 January 2013.

2. REMUNERATION FRAMEWORK AND STRATEGY

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

2.1. HOW REMUNERATION DECISIONS ARE MADE

Board responsibility

The Board is responsible for the Company's remuneration arrangements and 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 and including equity-based incentive plans;
- developing performance objectives for the CEO and his direct reports and reviewing performance against those objectives;
- overseeing strategies for recruitment, retention and succession planning for Directors and key executive positions; and
- reviewing the composition of the Board and monitoring the performance of the Board and the Directors.

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

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

Use of remuneration consultants 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.

In 2013, 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 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 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.

During 2013, 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 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 2013 was $54,900. Frederic W. Cook & Co., Inc. performed no other services during 2013.

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 2013.

Table 2.1: Remuneration consultant and other external adviser arrangements

Remuneration consultant	**Nature of services provided**
Frederic W. Cook & Co., Inc.	The Committee engaged Frederic W. Cook & Co., Inc. to assist in with establishing the remuneration package for Mr O'Brien as the Company's new CEO. In addition, the Committee determined to conduct 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. Although the remuneration structure changes resulting from this analysis are not applicable to the year ending 31 December 2013, section 6. provides an overview of some of the changes anticipated for 2014.
Other external advisers	**Nature of services provided**
Herbert Smith Freehills	Provided regular independent advice and counsel on various legal and governance standards related to executive remuneration.
Ashurst	Provided regular independent advice and counsel on various legal and governance standards related to executive remuneration.

2.2. REMUNERATION POLICY AND STRATEGY

The Company's remuneration programme 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 programme 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 programme has been structured so that it:

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

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

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

Fixed Remuneration	Short-term Incentive (Corporate Bonus Plan)	Long-term Incentive
• Provides a predictable base level of compensation commensurate with the executive's scope of responsibilities, leadership skills, values, performance and contribution to the Company. • Generally targeted to be near the median of the competitive talent market using external benchmarking data. Since the majority of the Company's executives (and all of the KMP) are located in the US, the competitive talent market is determined to be the US market. • Variability around the median is based on the experience, performance, skills, position, business unit size and/or complexity and unique market considerations where necessary.	• This component of compensation is "at-risk" and earned only if challenging performance metrics are achieved. • Key performance metrics for 2013 include operating margin, safety performance, revenue growth and individual strategic goals. • These metrics were designed to weight performance on operating margins, safety and revenue growth to overall Company performance in order to promote collaboration and to align with shareholder interests. • Individual strategic goals can include financial and/or strategic targets for a business unit or function. Examples can include business unit growth, cost control goals, cash flow generation, geographic expansion, productivity programs, etc. • The metrics used for the CBP are reviewed annually to ensure that they continue to support the Company's business strategy.	• This component of compensation is "at-risk" and earned only if challenging performance metrics are achieved and/or continued service requirements are met over a three-year performance period. • The Board has determined to use three-year average return on equity ("ROE") as the key measure for performance-based long-term incentive awards in 2013. 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. • The three-year average ROE target used in 2013 included a minimum threshold performance, below which no value is achieved. The range of performance payouts was established based on an historical return analysis of the Company as well as against stated analyst and shareholder expectations. • ROE provides a strong link to shareholders as it is a measure of the profitability of the equity employed in the business. It also provides a basis to evaluate the Company's performance relative to other companies and can provide a direct comparison with alternative investments available to shareholders.

3. COMPONENTS OF EXECUTIVE REMUNERATION

3.1. REMUNERATION MIX

Total remuneration for the CEO and senior executives is made up of fixed remuneration (consisting primarily of base salary and superannuation 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 relevant proportions of fixed-to-at-risk components for senior executive remuneration during 2013 were:

Table 3.1: Remuneration mix

	Fixed Remuneration	"At-risk" remuneration	
		STI [1]	LTI [2]
CEO [3]	19%	19%	62%
KMPs (Excl. CEO) [4]	38% - 46%	19% - 21%	33% - 41%

(1) Assuming performance metrics are achieved such that 100% of target bonus is earned.
(2) Represents fair value at date of grant, assuming 100% performance and vesting requirements are achieved.
(3) For Mr O'Brien, the above amounts reflect his annual LTI amount as per his employment agreement.
(4) Percentages vary between individuals. This is a range for the group.

3.2. FIXED REMUNERATION

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

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

3.3. SHORT-TERM INCENTIVE

Table 3.3: Summary of STI program

What is the STI program?	The Corporate Bonus Plan ("CBP") provides certain employees with the potential to receive an annual bonus if they satisfy specific annual objectives and targets that are pre-determined by the Board. 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.
Who participates in the STI program?	Approximately 160 senior employees participated in the CBP in 2013.

Why does the Board consider the STI program an appropriate incentive?	The CBP and the performance conditions set under the CBP have been designed to: • focus eligible employees on maximising Company performance in key financial, safety and operational targets; • align individual efforts with Company and shareholder interests; and • reward for superior individual and Company performance. 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.
What are the performance conditions?	There are four key performance components to the CBP. Each component has a threshold performance below which no bonus is earned for that component; a target level of performance where 100% of the bonus can be earned; and a maximum stretch level of performance whereby superior results can earn up to 150% of that component of the bonus. The four performance components and their relative weightings are: (1) Operating margin - 60% of an employee's CBP opportunity is linked to the Company's overall financial operating margin performance. For purposes of calculating operating margin, the operating income component is adjusted to eliminate the impact of items such as restructuring costs, amortisation of intangibles, gain/loss on disposal of assets, foreign exchange transactions and other immaterial non-operating related expenses. (2) Strategic objectives - 30% of an employee's CBP opportunity is dependent upon performance against strategic objectives relevant to the employee's business unit or functional responsibility. For 2013, 50% of the strategic objectives (15% of the overall CBP potential) are contingent upon reducing the Company's net working capital. Examples of strategic objectives may include business unit or functional cost targets, geographic or targeted market segment growth, new product introductions, specific project or initiative progress, etc. (3) Safety - 10% of an employee's CBP opportunity is dependent upon the Company's overall safety performance. (4) Revenue growth - a multiplier based on year-over-year increases in revenue is applied to any amounts earned for meeting or exceeding the Operating Margin, Strategic Objectives and Safety performance goals, thereby capturing overall business growth as a key objective. 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) and stretch targets that can only be met by the achievement of excellent outcomes for each goal. For 2013, the Remuneration Committee specifically approved the following performance payout matrices for corporate Operating Margin and Revenue Multipliers:

Op. margin performance	Payout (% of target for financial component)
20.0%	150%
17.5%	120%
15.0%	90%
12.5%	70%
10.0%	50%
7.5%	40%
5.0%	30%

Revenue growth	Multiplier
50%	1.33x
40%	1.27x
30%	1.20x
20%	1.13x
10%	1.07x
0%	1.00x

As explained earlier in this report, operating margin fell from 10.8% in 2012 to 0.0% in 2013. Further, the Company achieved no year-over-year revenue growth during 2013.

The Company had mixed results in safety performance in 2013. Achievement of the STI safety targets for 2013 was at a Total Case Incident Rate of 118% and Lost Time Incident Rate 57%.

The Company understands the desire for greater 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 2013 the Board did establish several specific strategic and operational objectives with the CEO that included metrics for immediately reducing the Company's cost structure, establishing a plan for improving operating and financial performance, renewing the focus on customers and shareholders, and communications with employees, customers and shareholders. 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 the majority of these strategic initiatives for the CEO was, on average, slightly above the targeted performance established for the year

Overall, STI awarded fell from 72% (on average) in 2012 to 40% in 2013.

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).

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%.

How are the performance conditions measured?

Performance is assessed against the relevant targets annually. The final determination of the Company's financial performance is determined after reviewing the Company's audited financial results for the relevant period. Financial targets are assessed quantitatively against the pre-determined targets. Where possible, non-financial targets are also assessed quantitatively and otherwise they are assessed by periodic qualitative performance appraisal.

Sample calculation

Following is an example of how a bonus would be calculated assuming the following:

- Employee earns $150,000 with a 40% target bonus amount
- Corporate Operating Margin of 12.5%
- Safety and strategic objectives achievement each at target performance
- Revenue growth of 10%

Corporate Operating Margin of 12.5% = 70% component payout (per table above)
Safety performance at target = 100% component payout

	Strategic Objectives at target = 100% component payout Revenue Growth of 10% = Revenue Multiplier of 1.07 (per table above) Calculation: Step 1: Determine component subtotal Operating Margin = (70% x 60% weighting) = 42% + Safety performance = (100% x 10% weighting) = 10% + Strategic objectives = (100% x 30% weighting) = 30% = Subtotal achievement = 82% Step 2: Multiply Subtotal by achieved Revenue Multiplier to obtain Total Bonus Percentage 82% x 1.07 = 88% Step 3: Calculate Bonus $150,000 x 40% Target Bonus x 88% Bonus achievement = $52,800 Bonus
In what form is the STI delivered?	All bonuses awarded under the CBP are delivered as a cash bonus.
What STI awards did senior executives earn in 2013?	Bonuses under the CBP during the year ended 31 December 2013 are set out in Table 4.1.3 in section 4.1 of this Report. The bonuses will be paid in or after March 2014.

3.4. LONG-TERM INCENTIVES

Long-term Incentive Plan ("LTIP")

Table 3.4: Summary of the LTIP

What is the purpose of the LTIP?	The Company established the LTIP to: • align senior executive reward with shareholder value; • assist in retaining key executives; • encourage superior performance on a sustained basis; and • provide executives with an opportunity to share in the growth and value of the Company by tying the LTI component of senior executive remuneration to equity awards that rise and fall in value in line with the share price.
Who participates in the LTIP?	The executives eligible to participate in the LTIP are senior divisional, regional and corporate executives. The target value of annual LTIP grants varies depending on the participant's position, 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 100 participants during the year ended 31 December 2013.
What proportion of total remuneration does the LTIP program represent?	Senior executives are offered grants that represent approximately 33% - 41% (62% for the CEO) of their total remuneration (on an annualised basis). However, participating senior executives derive no actual value from their LTI grants under the LTIP unless the performance hurdles and/or service conditions are satisfied.
How is reward delivered under the LTIP?	The incentive provided under the LTIP is a grant of rights ("Rights"). Rights can be granted in the form of shares ("Share Rights"), cash ("Cash Rights") or a combination of the two. A Share Right is an entitlement to receive a fully-paid ordinary share in the Company and a Cash Right is an entitlement to receive a cash bonus up to a set maximum. Although the Board may elect to grant Cash Rights for any reason, they have typically been used to supplement Share Rights in order to appropriately limit share dilution when the stock price was low at the time of the award. The combination of both Share and Cash Rights utilised a more appropriate quantum of Share Rights to deliver the desired grant date award values. Rights are granted on terms and conditions determined by the Board, including vesting conditions linked to service and performance over a specified period (usually three years).
Do participants pay for the Share Rights?	Rights are offered at no cost to the senior executives and no amount is payable if they vest.

<table>
<tr><td>What rights are attached to the Share Rights?</td><td>Share Rights do not carry voting rights; however, shares allocated upon vesting of Share Rights will carry the same rights as other ordinary shares.

The Company may acquire shares underlying the Share Rights that it has granted under the LTIP, and the price paid by the Company will be the prevailing market price of the shares at the time of acquisition. The acquired shares will be held in trust, and for Share Rights granted beginning 2012, all dividends paid on unvested Share Rights will be held in trust and payable when the participant satisfies the vesting conditions. For Share Rights granted prior to 2012, even though the Share Rights have not yet vested, the participant will receive dividends attributable to the shares that underlie their Share Rights from the time those underlying shares are acquired by the trustee.

Senior executives are not entitled to trade or hedge their unvested Rights.</td></tr>
<tr><td>What are the vesting conditions?</td><td>For Rights granted since 2010, the vesting conditions are as follows:
<table>
<tr><th>Tranche</th><th>Percentage of grant</th><th>Vesting condition</th><th>Partial vesting</th></tr>
<tr><td>Performance Share Rights or Performance Cash Rights</td><td>100% for the CEO

50% for executives other than the CEO</td><td>Achievement of average ROE targets over a three-year period set by the Board. The targets include a threshold average ROE target and a stretch average ROE target for the three-year performance period.

plus

Continuation of employment during the three-year performance period.</td><td>Vesting occurs on a pro-rata basis if the minimum three-year average ROE threshold is surpassed.

At the minimum three-year average ROE threshold, 50% of Performance Share and/or Performance Cash Rights will vest.

Full vesting occurs only if the Company's three-year average ROE meets or exceeds the stretch target for the performance period.</td></tr>
<tr><td>Retention Share Rights or Retention Cash Rights</td><td>0% for the CEO

50% for executives other than the CEO</td><td>Continuation of employment during the three-year continued service period.</td><td>No</td></tr>
</table>
</td></tr>
</table>

How is the Return on Equity ("ROE") hurdle measured?	Vesting of the Performance Share Rights or Performance Cash Rights that were granted since 2010 will be determined by the Company's performance against average ROE targets for the three-year performance period. ROE is defined as annual net profit after tax ("NPAT") attributable to equity shareholders divided by average total equity.

The following table shows the three-year average ROE threshold, target and maximum performance requirements for grants made in 2011 and 2012:

	3-year average ROE performance	**% of award earned**
Maximum Award	Greater than 13.0%	150%
	Greater than 11.0% and less than or equal to 13.0%	125%
Target Award	Greater than 9.0% and less than or equal to 11.0%	100%
	Greater than 7.0% and less than or equal to 9.0%	75%
Threshold Award	Greater than or equal to 6.0% and less than or equal to 7.0%	50%
Less than Threshold	Less than 6.0%	0%

The number of Performance Share Rights or Performance Cash Rights granted in 2011 that are eligible to be earned pursuant to the three-year average ROE performance metric above will not vest in 2014 since the 3-year average ROE was below the 6% minimum threshold.

For Performance Share Rights or Performance Cash Rights granted beginning 2013, the three-year average ROE threshold, target and maximum performance requirements are as follows:

	3-year average ROE performance	**% of award earned**
Maximum Award	Greater than or equal to 13.0%	150%
Target Award	Equal to 9.5%	100%
Threshold Award	Equal to 6.0%	50%
Less than Threshold	Less than 6.0%	0%

Actual amounts earned for three-year ROE performance falling between the threshold and target, or between the target and maximum, will be calculated on a linear basis.

Why have the performance hurdles been chosen?	The Board chose, based on independent consultation with Mercer Consulting, to use an ROE performance hurdle for Performance Share Rights and Performance Cash Rights. ROE measures how effectively the Company is using the money shareholders have invested to generate profits. ROE is a reflection of multiple financial measures including net profitability of the Company and the efficient management of assets employed. Utilising a three-year average measure reduces the risk for short-term decision making and accommodates the inherent cycles within our industry and business. The ROE hurdle therefore provides a greater alignment between the long-term incentive provided to senior executives and their ability to influence the Company's performance. 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.
What if a senior executive ceases employment?	A senior executive's unvested Rights will generally lapse on the date that they cease employment, unless the Board determines otherwise. However, where a senior executive's employment ceases due to their death or total and permanent disability, all of their unvested Rights will vest. Also, unless the Board determines otherwise, where a senior executive's employment ceases by reason of "Special Circumstances" (which includes redundancy, retirement or other circumstances which are considered by the Board to be extraordinary): • where there is no performance condition attached to a Right (i.e. it is a Retention Share Right or Retention Cash Right), any applicable time-based condition will be waived and the number of Retention Share Rights and/ or Retention Cash Rights that vest will be pro-rated according to the extent of the retention period actually worked; and • where there is a performance condition attached to a Right (i.e. it is a Performance Share Right or Performance Cash Right), there will be no accelerated vesting of the Performance Rights and instead, the Performance Rights will remain "on foot" and be tested in the ordinary course and against the applicable performance condition. However, the number of Rights that vest will be pro-rated over the period of time actually worked during the continued service period.
What happens in the event of a change of control?	In the event of a takeover or change of control of the Company, any unvested Rights may vest at the Board's discretion.
What Rights were granted in 2013?	Rights granted during the year ended 31 December 2013 are set out in Table 5.2 of this Report.

Option Plans

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

No options were granted to senior executives during 2013.

On 15 March 2010, 25,000 options were granted to Mr Sides as a part of his offer of employment at an exercise price of A$3.20, and those options vested in full and became exercisable on 15 March 2013 and will expire on 15 March 2015.

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

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

	Share performance			Earnings performance				
Financial year	Closing share price A$	Dividend p/share US$ [1]	EPS % [2]	Revenue US$ millions	EBITDA US$ millions	NPAT US$ millions	ROE	Operating margin [3]
2013	0.38	0.01	(403.7%)	1,223	(337)	(620)	(79.3%)	0.0%
2012	1.88	0.12	7.7%	2,012	254	68	6.0%	10.7%
2011	2.78	0.08	13.0%	2,020	356	160	14.6%	13.0%
2010	4.56	0.02	4.0%	1,476	222	85	8.5%	9.0%
2009 [4]	3.52	-	(2.0%)	978	111	(15)	(2.0%)	2.0%

(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) Excludes other income and other expenses.

(4) The closing share price for 2008 was A$1.99.

Short-term performance indicators and outcomes

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

Table 4.1.2: Average proportion of STI awarded, 2009-2013

	2009	2010	2011	2012	2013
% of target STI awarded [1]	99%	88%	97%	72%	40%

(1) Weighted average for senior executives.

Table 4.1.3: STI earned during the year ended 31 December 2013

As described earlier in this report, for 2013 the Company's performance on the operating margin metric, representing 60% of the total, achieved no portion of the bonus. Company performance on the safety metrics representing 10% of the total, achieved slightly under the target amount. Performance on strategic objectives which represent 30% of the total, half of which was measured on net working capital targets, were, on average, achieved at the targeted amount.

	STI earned US$	Target STI [1] US$	STI earned as % of target STI	% of target STI forfeited	STI as % of maximum STI [2]	% of maximum STI forfeited [2]
Richard O'Brien	297,000	750,000	40%	60%	20%	80%
Joe Ragan III [3]	50,828	317,240	16%	84%	8%	92%
Fabrizio Rasetti	89,664	208,000	43%	57%	22%	78%
Brad Baker	67,810	162,225	42%	58%	21%	79%
Alan Sides	97,291	234,437	41%	59%	21%	79%
Kent Hoots	60,990	170,363	36%	64%	18%	82%

(1) The target potential value of the 2013 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 2013 was nil.

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

(3) Mr Ragan's STI was prorated to 18 May 2013.

Long-term performance indicators and outcomes

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

Table 4.1.4 shows the actual ROE performance achieved during each of the three years applicable to the 2011 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 2014. The vesting dates for all outstanding awards are shown in Table 4.1.5 below.

Table 4.1.4: Cumulative performance for 2011 grants of performance-based LTIP awards

	ROE Performance
2011	14.6%
2012	6.0%
2013	(79.3%)
3-year Average	(19.6%)
% of Award Earned	0.0%

The vested Share Rights listed in Table 4.1.5 below include the Retention Share Rights and Performance Share Rights that were granted in 2010 and vested in 2013. The Performance Share Rights were subject to the performance period ended 31 December 2012 and achieved 100% of the target award amount (as detailed in last year's remuneration report). These earned Performance Rights remained unvested until the continuous service requirement was met in 2013.

Table 4.1.5: Movement in Share Rights during the year ended 31 December 2013

Name	Grant date	FMV at Grant Date US$	Vesting date	LTIP shares (Total)	Number of Share Rights vested	Value of Share Rights vested US$ [1]	Number of Share Rights forfeited	Value of Share Rights forfeited US$ [1]	Number of Share Rights Outstanding
Richard O'Brien	1-Apr-13	1.32	1-Apr-14	315,000	-	-	-	-	315,000
	1-Apr-13	1.32	1-Apr-15	315,000	-	-	-	-	315,000
	1-Apr-13	1.32	1-Apr-16	3,149,000	-	-	-	-	3,149,000
Joe Ragan III	1-Mar-10	2.78	1-Mar-13	103,000	103,000	182,705	-	-	-
	15-Mar-11	4.36	18-May-13 [2]	40,000	40,000	31,531	-	-	-
	15-Mar-12	4.50	18-May-13 [2]	45,000	45,000	35,473	-	-	-
	15-Mar-11	4.36	15-Mar-14 [3]	40,000	-	-	-	-	40,000
	15-Mar-12	4.50	15-Mar-15 [3]	45,000	-	-	-	-	45,000
Fabrizio Rasetti	1-Mar-10	2.78	1-Mar-13	82,578	82,578	146,479	-	-	-
	15-Mar-11	4.36	15-Mar-14	70,000	-	-	-	-	70,000 [4]
	15-Mar-12	4.50	15-Mar-15	90,000	-	-	-	-	90,000
	15-Mar-13	1.39	15-Mar-16	238,550	-	-	-	-	238,550
Brad Baker	1-Mar-10	2.78	1-Mar-13	72,150	72,150	127,982	-	-	-
	15-Mar-11	4.36	15-Mar-14	60,000	-	-	-	-	60,000 [4]
	15-Mar-12	4.50	15-Mar-15	75,000	-	-	-	-	75,000
	15-Mar-13	1.39	15-Mar-16	180,238	-	-	-	-	180,238
Alan Sides	15-Mar-10	2.93	15-Mar-13	104,600	104,600	145,195	-	-	-
	15-Mar-11	4.36	15-Mar-14	60,000	-	-	-	-	60,000 [4]
	15-Mar-12	4.50	15-Mar-15	70,000	-	-	-	-	70,000
	15-Mar-13	1.39	15-Mar-16	318,066	-	-	-	-	318,066
Kent Hoots	1-Mar-10	2.78	1-Mar-13	55,095	55,095	97,729	-	-	-
	15-Mar-11	4.36	15-Mar-14	50,000	-	-	-	-	50,000 [4]
	15-Mar-12	4.50	15-Mar-15	55,000	-	-	-	-	55,000
	15-Mar-13	1.39	15-Mar-16	265,056	-	-	-	-	265,056

(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.

(2) The number of Share Rights that vested on 18 May 2013 represents the amount of retention shares that vested pursuant to the terms of the termination agreement.

(3) As a result of Mr Ragan's termination of employment in 2013, and pursuant to the terms of the termination agreement, Mr Ragan's outstanding Retention Share Rights were vested on his date of termination on 18 May 2013. His Performance Share Rights remain subject to the Performance Conditions of the award.

(4) A portion of the 2011 outstanding grants relate to performance share rights that will not be payed out due to performance targets not being reached. These share rights will show as forfeited once the vesting date has passed in March 2014.

Table 4.1.6: Movement in Cash Rights during the year ended 31 December 2013

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	-	-	-	-	-	-	-	-
Joe Ragan III	1-Mar-10	1-Mar-13	100,000	100,000	100,000	-	-	-
Fabrizio Rasetti	1-Mar-10	1-Mar-13	80,000	80,000	80,000	-	-	-
Brad Baker	1-Mar-10	1-Mar-13	80,000	80,000	80,000	-	-	-
Alan Sides	15-Mar-10	15-Mar-13	80,000	80,000	80,000	-	-	-
Kent Hoots	1-Mar-10	1-Mar-13	50,000	50,000	50,000	-	-	-

Table 4.1.7: Movement in options during the year ended 31 December 2013

Name	Effective grant date	Vesting date	Options (total)	Number of options vested	Value of options vested US$	Option price A$	Number of Options Outstanding
Richard O'Brien	-	-	-	-	-	-	-
Joe Ragan III	-	-	-	-	-	2.45	37,500
Fabrizio Rasetti	-	-	-	-	-	2.45	27,500
Brad Baker	-	-	-	-	-	2.45	27,500
Alan Sides	15-Mar-10	15-Mar-13	25,000	25,000	56,000	3.20	25,000
Kent Hoots	-	-	-	-	-	2.45	20,000

Adjustments made to existing Share Rights and options following share consolidation

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

4.2. RISK ALIGNMENT

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 seventy five of this Annual Financial Report.

4.2.2 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.

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 2013 and 2012 (calculated in accordance with applicable accounting standards) are set out in Table 5.1.

Table 5.1: Senior executive remuneration

	Cash-based compensation									Non-cash-based compensation			
	Short term benefits [1]			Post-employment benefits		Other long-term benefits		Termination Benefits [2]		Share-based compensation [3]			
	Cash salary US$	Annual bonus [4] US$	Other [5] US$	Superannuation benefits [6] US$	Other [7] US$	Retention Cash Rights US$	Performance Cash Rights US$	Termination US$	Other US$	Options US$	Rights [8] US$	Share-based %	Total US$
Richard O'Brien													
2013	562,500	297,000	19,110	-	-	-	-	-	-	-	572,152	39.4%	1,450,762
2012	-	-	-	-	-	-	-	-	-	-	-	0.0%	-
Joe Ragan III [9]													
2013	174,308	50,828	13,930	7,650	-	2,783	2,783	453,200	13,945	-	87,354	10.8%	806,781
2012	450,154	233,806	51,640	7,500	7,500	27,315	19,674	-	-	8,316	294,314	27.5%	1,100,219
Fabrizio Rasetti													
2013	416,000	89,664	24,000	7,650	-	2,226	2,226	-	-	-	58,757	9.8%	600,523
2012	412,308	178,152	44,689	7,500	7,500	22,046	15,933	-	-	6,098	245,084	26.7%	939,310
Brad Baker													
2013	324,450	67,810	24,400	7,650	-	2,226	2,226	-	-	-	45,293	9.6%	474,055
2012	322,269	140,974	42,738	7,500	7,500	22,046	15,933	-	-	6,098	209,709	27.9%	774,767
Alan Sides [10]													
2013	387,301	97,291	21,400	7,650	-	2,737	2,737	-	-	3,683	55,569	10.2%	578,368
2012	350,462	143,031	40,552	7,500	7,500	12,811	7,336	-	-	17,921	272,847	33.8%	859,960
Kent Hoots [11]													
2013	337,866	60,990	24,300	7,650	-	1,391	1,391	-	-	-	36,842	7.8%	470,430
2012	-	-	-	-	-	-	-	-	-	-	-	0.0%	-

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

(2) Includes the 2013 accounting expense representing the expensing of Mr Ragan's termination payments and the value of the waiver of medical premiums for 12 months from the date of termination on 18 May 2013 and 31 January 2013 respectively. The amount in "Other" represents the payments for accrued and unused vacation for 2013.

(3) In accordance with the requirements of the Australian Accounting Standards Board, remuneration includes a portion of the historical fair value of equity compensation recognised over the respective vesting period (i.e. Rights awarded under the LTIP and options awarded under the Option Plan(s)). The fair value of equity instruments is determined as at the grant date and is recognised over the vesting period. The amount included as remuneration is not related to or indicative of the benefit (if any) that senior executives may ultimately realise should the equity instruments vest. The fair value of options at the date of their grant has been determined in accordance with AASB 2 applying a Black-Scholes valuation method. The assumptions underpinning these valuations are set out in Note 13 to the financial statements.

(4) The 2013 amount represents cash STI payments earned by the executive during the year ended 31 December 2013, which are expected to be paid in March 2014 and were approved by the Board on 22 February 2014. The 2012 amount represents cash STI payments earned by the executive during the year ended 31 December 2011, which vested and were paid on 8 March 2013.

(5) Includes automotive allowances, reimbursements of financial and tax preparation assistance, and dividends received on Share Rights.

(6) Includes 401(k) plan matching contributions made by the employing entity in the United States.

(7) Includes 401(k) profit sharing contributions made by the employing entity in the United States, which in 2013 was $0 (nil).

(8) Share-based compensation amounts for 2013 were significantly reduced due to the reversal of the accrual for performance share rights for 2011, 2012 and 2013, based on the expectation that these rights will not vest.

(9) Mr Ragan's employment terminated on 18 May 2013.

(10) During the financial year, approximately 0.6% of Mr Sides' remuneration consisted of options.

(11) 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.

5.2. RIGHTS AND OPTIONS GRANTED

Table 5.2: Rights granted during the year ended 31 December 2013

	Share Rights			
Name	Number of Rights granted[1]	Future years payable[2]	Fair value per Right [3] US$	Maximum value of grant [4] US$
Richard O'Brien [5]	315,000	1 yrs	1.32	415,800
Richard O'Brien [5]	315,000	2 yrs	1.32	415,800
Richard O'Brien [5]	3,149,000	3 yrs	1.32	6,027,120
Fabrizio Rasetti	238,550	3 yrs	1.39	414,481
Brad Baker	180,238	3 yrs	1.39	313,164
Alan Sides	318,066	3 yrs	1.39	552,640
Kent Hoots	265,056	3 yrs	1.39	460,535

(1) The grants made to senior executives constituted their full LTI entitlement for 2013 and were made on 15 March 2013 (except for the CEO which was made on 1 April 2013) on the terms summarised above. Any Rights that do not vest on the vesting date will be forfeited.

(2) For executives other than Mr O’Brien, rights vest on 15 March 2016 subject to performance over the period from 1 January 2013 to 31 December 2015 and/or continued service until the vesting date.

(3) For executives other than Mr O’Brien, the fair value was calculated as at the grant date of 15 March 2013. For Mr O’Brien, the fair value was calculated as at the grant date of 1 April 2013.

(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 in 2013. The terms were fully disclosed in the notice of meeting for the 2013 AGM but in summary:

- the first 315,000 vest in April 2014, provided Mr O’Brien remains employed and holds on that date 157,500 shares that he has purchased. Additional tranches of 315,000 rights will vest in April 2015 and in April 2016 provided Mr O’Brien remains employed on those dates and holds on each date an additional 157,500 shares that he has purchased;
- the remaining 2,834,000 rights are subject to the same 3 year ROE hurdle applicable to other executives who were granted performance share rights in 2013, as described in Table 3.4.

There were no options or Cash Rights granted during the year ended 31 December 2013.

5.3 SERVICE CONTRACTS AND TERMINATION PROVISIONS

Name and position held at the end of financial year	Duration of contract	Notice period by Company	Notice period by executive	Termination payments (where these are in addition to statutory entitlements)
Richard O’Brien Chief Executive Officer, President	No fixed term	None required	180 days	For termination with cause, statutory entitlements only For termination without cause: • 12 months’ salary • Pro-rata bonus to termination date • Waiver of medical insurance premiums for 12 months or 1 April 2015, whichever is later • Up to $50,000 relocation expense reimbursement
Joe Ragan III Former Chief Financial Officer (employment terminated 18 May 2013)	No fixed term	None required	90 days	For termination with cause, statutory entitlements only For termination without cause: • 12 months’ salary • Pro-rata bonus to termination date • Waiver of medical insurance premiums for 12 months
Fabrizio Rasetti Senior Vice President, General Counsel and Secretary	No fixed term	None required	90 days	For termination with cause, statutory entitlements only For termination without cause: • 12 months’ salary • Pro-rata bonus to termination date • Waiver of medical insurance premiums for 12 months
Brad Baker Senior Vice President, Human Resources	No fixed term	None required	90 days	For termination with cause, statutory entitlements only For termination without cause: • 12 months’ salary • Pro-rata bonus to termination date • Waiver of medical insurance premiums for 12 months

Alan Sides Senior Vice President, Global Drilling Services	No fixed term	None required	90 days	For termination with cause, statutory entitlements only For termination without cause: • 12 months' salary • Pro-rata bonus to termination date • Waiver of medical insurance premiums for 12 months
Kent Hoots 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: • 12 months' salary • Pro-rata bonus to termination date Waiver of medical insurance premiums for 12 months

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

Mr Ragan's employment with the Company was terminated May 2013. Consistent with his employment agreement and shareholder approval at the Company's 2011 Annual General Meeting and subject to the execution of, and compliance with, a release and non-disparagement agreement, he is entitled to the following termination benefits:

- severance payments equal to twelve months of his base salary;
- pro-rata payment of his 2013 annual bonus under the Company's Corporate Bonus Plan through his termination date, subject to achievement of specified corporate and personal goals;
- a waiver of medical premiums for twelve months; and
- in consideration of his agreement to continue providing support to the CEO and the acting CFO during a transition period, the board approved the vesting of his retention share rights and waiver of the continuous service requirement for his performance share rights, but outstanding performance share rights will continue to be subject to the performance conditions.

The expense of these termination benefits and equity awards has been brought forward as required under applicable accounting standards and fully expensed in the 2013 financial statements. The extent to which Mr Ragan receive any value from unvested performance rights for which he remains eligible depends upon the Company's achievement of ROE performance metrics during the relevant performance period for those awards.

In exchange for these termination benefits, Mr Ragan is subject to a non-competition and non-solicitation agreement for twelve months from the date of their termination. The Company may elect to extend these restrictive covenants for up to an additional twelve months by continuing monthly severance payments for the relevant extension period. No tax gross-up payment will be made in association with the termination benefits Mr Ragan will receive.

6. REMUNERATION ACTIONS OCCURRING AFTER 31 DECEMBER 2013

6.1 FORTHCOMING CHANGES TO THE REMUNERATION STRUCTURE

At the Company's 2013 AGM, Richard O'Brien, the new President and CEO, highlighted several objectives for the Company during the balance of 2013 and over the course of the next several years in response to the currently depressed economic conditions in the Company's markets. The primary aim of these objectives is 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; and
- heightening the focus on margin improvement and returns.

In light of the importance of these goals, the changing market conditions and heightened focus on cash generation and debt reduction, the Board determined that changes to the remuneration structure were needed in 2014 to strengthen the alignment of the incentive structure with the Company's goals.

Accordingly, the Remuneration Committee engaged its independent remuneration consultants, Frederick W. Cook, to assist the Committee in the review and analysis of the executive incentive plans design and structure. The primary objective of the review was to ensure the incentive plans structure supported the key financial, strategic and human resources objectives including; attracting and retaining highly skilled executives; 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; and maximising the financial efficiency of the program.

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

1) Short-term Incentive Plan
    a. Changing the overall Company financial metric from operating margin to free cash flow with a payout target and range tied to the annual operating plan;
    b. Payout of the strategic objective component will be conditional upon achieving a gateway threshold of overall Company financial performance;
    c. Elimination of the revenue growth multiplier;
    d. A special provision for 2014 that, if necessary, holds the payout of any earned bonus during the plan year until trailing twelve month financial performance net of the accrued payout, will not cause a default of any of the Company's then current financial arrangements. This assessment will be tested quarterly beginning with the first quarter ending 31 December 2014.

2) Long-term Incentive Plan
    a. For performance rights granted, the performance metric will be changed from return on equity to net debt reduction over a three-year performance period.
    b. An additional modifier of +/- 10% to any earned performance rights based on total shareholder return performance against an appropriate comparator group.
    c. The long-term incentive granted to executive participants will include a mix of performance rights, options and retention rights. The Board believes that, given the inherent volatility associated with the markets in which the Company operates, it is appropriate to maintain a portion of retention rights to keep talented executives motivated and retained through the very difficult market cycles. Further, the Board believes that an overweight to performance shares actually achieves little retention value to participants as 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.

The Board believes these tailored changes are necessary and fit for purpose for the current environment, but it will continue to assess and refine to ensure the program design continues to support the Company's business objectives over time, with the goal of returning to a more standardised remuneration structure if and when appropriate.

6.2 Special One-time Retention Awards

Notwithstanding the downturn in the market for the Company's drilling products and services, the US market for talent remains highly competitive. Our executives, including the CEO, are working harder than ever in the interests of the Company, but their efforts are not being recognised in the same way that they would be in comparable US and global organisations.

Consequently, the Board recognised that steps needed to be taken to ensure that executive remuneration packages remain competitive and continue to provide meaningful incentives at a time when the retention and loyalty of high quality staff will be instrumental in achieving the Company's goals.

Following a detailed review of Mr O'Brien's compensation structure with the assistance of its independent compensation advisers, the Board concluded that Mr O'Brien's initial remuneration package was wrongly suited given the dramatic changes to the Company's business environment since the commencement of his employment. The Board further recognises that Mr O'Brien's skills, focus and leadership is critical to the ongoing improvements towards achieving the Company's near and long-term objectives. In addition, several institutional investors have recognised and communicated their concern that the compensation structure and retention value for Mr O'Brien, as well as other key Company executives, appeared to be misaligned with the current economic environment. As a result, in addition to the changes to the 2014 incentive structures above, the Board took the following actions in January of 2014.

6.2.1 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. The award was in the form of cash retention divided into three equal portions that will vest on the dates 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). The Board may elect to seek shareholder approval at the 2014 AGM to convert some or all of the grant into options in order to strengthen the alignment with shareholders. In addition, Mr O'Brien has also agreed to propose to shareholders his voluntary forfeiture of all outstanding long-term incentive awards granted in 2013, but will continue in his commitment to purchase and hold 472,500 Company shares by 1 April 2016. To date, Mr O'Brien has purchased and holds 300,000 Company shares.

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

For similar reasons as stated above, the Board also approved a special one-off awards to certain other key employees that include the KMP but exclude the CEO. These awards will be in the form of cash retention and will vest on the second anniversary of the award. In addition, a threshold financial performance must be achieved in order for the awards to be paid following the satisfaction of the time-based vesting requirement. This minimal financial performance will be set such that the vesting and payment would not reasonably be likely to result in the Company breeching any financial covenants (in which case vesting would be deferred until such time as the financial position would accommodate payment). Vested 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. For the Company's 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

7. NON-EXECUTIVE DIRECTOR ARRANGEMENTS

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

7.1. NON-EXECUTIVE DIRECTORS' FEE STRUCTURE

Non-executive Directors are remunerated by a fixed annual base fee with additional fees paid for serving on Board committees. The fees are determined within a maximum aggregate fee pool that is approved by shareholders in general meeting. The current approved fee pool limit is A$2 million, which has not changed since the Company's initial public offering in 2007. During the financial year, $1,378,703 of the pool was utilised for non-executive Director fees, being approximately 69% of the fee pool limit.

The Board determined to make no adjustments to NED remuneration in 2013.

In consideration of Mr McLemore's duties as interim CEO following the termination of Mr Kipp's employment in October 2012, the Board determined to pay Mr McLemore an additional monthly fee of $37,500 until 30 April 2013 and $10,000 a month from 1 May 2013 through 1 September 2013, which allowed for a transition with Mr O'Brien following his appointment in April 2013. In addition, Mr McLemore was reimbursed for reasonable expenses associated with temporary living arrangements in Salt Lake City while serving in this capacity. Mr McLemore did not participate in the Company's short- or long-term incentive plans.

Table 7.1: Components of non-executive Director remuneration

Component	**Explanation**
Board fees	Current base fees per annum are: • US$120,000 for non-executive Directors other than the Board Chair; and • US$300,000 for the Board Chair
Committee fees	Current committee fees for non-executive Directors (other than the Board Chair) are: • US$15,000 annually for committee members; and • US$30,000 annually for committee chairs. Where the Board Chair sits on a committee, he or she does not receive any additional fee.
Interim fee structure	Given the difficult market and financial conditions the Company is experiencing, effective 15 February 2014 the Board has established an interim reduction to certain fees as follows: • Board Chair fee has been reduced to US$275,000 • Committee member fees are reduced to US$7,500
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. 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. Non-executive Directors are not entitled to receive any performance-related remuneration, such as short-term or long-term incentives.
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. Non-executive Directors do not receive any retirement benefits other than statutory superannuation contributions.

7.2 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 2013 have satisfied the shareholding guideline.

7.3. 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 2013.

7.4. DETAILS OF REMUNERATION PAID TO NON-EXECUTIVE DIRECTORS

Details of non-executive Directors' remuneration for the year ended 31 December 2013 and 2012 are set out in the table below.

Table 7.4: Non-executive Director remuneration

	Fees (incl. committee fees) [1] US$	Superannuation contributions [2] US$	Shares US$	Total US$
Barbara Jeremiah [5]				
2013	275,000	-	-	275,000
2012	147,500	-	-	147,500
Bruce Brook				
2013	148,915	13,585	-	162,500
2012	151,376	13,624	-	165,000
Roger Brown				
2013	165,000	-	-	165,000
2012	165,000	-	-	165,000
Roy Franklin				
2013	165,000	-	-	165,000
2012	165,000	-	-	165,000
Tanya Fratto				
2013	150,000	-	-	150,000
2012	150,000	-	-	150,000
David McLemore [3]				
2013	365,000	-	-	365,000
2012	412,500	-	-	412,500
Peter St. George [4]				
2013	47,268	4,254	-	51,522
2012	137,615	12,385	-	150,000
Rex McLennan [6]				
2013	44,681	-	-	44,681
2012	-	-	-	-

(1) Please refer to Table 7.1 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) Includes $150,000 of additional fees received by Mr McLemore in 2013 as compensation for serving as Interim Chief Executive Officer and $50,000 from 1 May 2013 through 1 October 2013 to allow for a transition with Mr O'Brien after his appointment on 1 April 2013.
(4) Mr St. George retired from the Board effective 21 May 2013.
(5) Ms Jeremiah was appointed Chair of the Board effective 1 March 2013.
(6) Mr McLennan was appointed a Director effective 24 August 2013

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. As at the date of this report, she is a member of the Finance Committee. On 18 February 2013, the Company announced that Ms. Jeremiah was appointed the Chair of the Board effective 1 March 2013.

Ms. Jeremiah is a non-executive director of Allegheny Technologies, Inc. (New York Stock Exchange). She also serves on the board of three 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 JD 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 is also a member of the Board of Governors of the Australia and New Zealand College of Anaethesists and Pain Management.

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

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

Roger Brown

Roger Brown was appointed a Director of the Company on 1 July 2010. He has served as Chairman of the Remuneration Committee since 1 March 2012. He also is a member of the Environment, Health & Safety Committee

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

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

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

Roy Franklin

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

Mr Franklin currently serves as Chairman of the Board of Keller Group PLC (London Stock Exchange) and a director of Santos Ltd (Australian Securities Exchange) and Cuadrilla Resources. He previously held directorships on a number of other corporate boards, including International Energy Group, Statoil ASA (Oslo Stock Exchange) and Novera Energy.

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 a member of the Environmental, Health and Safety Committee and 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.

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 until the appointment of Richard O'Brien as Chief Executive Officer.

Mr McLemore is a member of the Remuneration Committee and Environment, Health & Safety 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.

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.

Mr McLennan 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 2013. 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 Organizing 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 holds a 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 a member of the Institute of Corporate Directors (ICD), a recent graduate of the ICD Director's Education Program, University of Toronto, Rotman School of Business, obtaining his ICD.D designation. He is also a member of Financial Executives International (FEI).

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.

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 JD 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.

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 (the "ASX Guidelines").

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

Role of the Board

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

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

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

Composition of the Board and Director Selection process

At the date of this report, the Company has seven non-executive Directors and one Executive Director. In addition, William Peter Day will join the Board effective 25 February 2014 as a non-executive Director.

Boart Longyear recognises that the ability of its Board to fulfill its role properly requires that the Directors collectively have an appropriate range of skills, experience and expertise, including experience in accounting and financial reporting, operational expertise and experience in the markets the Company serves. Among other things, the Board considers the results of its periodic Board performance assessments and Company strategy reviews to determine whether to recruit additional Board talent.

Board independence

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

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

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

The Board meets the requirements of the charter and the recommendations of the ASX Guidelines, as a majority of the Board is comprised of non-executive Directors and all Directors, including the Chairman of the Board and the chairmen of the three Board committees, meet the independence criteria listed above. In particular, at its February 2013 meeting, the Board considered whether Mr McLemore's temporary assumption of the chief executive officer's duties 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 temporarily relinquished his responsibilities as Chair 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.

In addition, the Board has considered each Director's previous and current relationships with the Company's customers, suppliers, consultants, professional advisors and substantial shareholders. The Board notes that Bruce Brook, Roy Franklin and Rex McLennan are, respectively, non-executive directors of Newmont Mining Corporation, Santos Limited and Endeavour Silver, each of which was a customer of the Company in 2013. The Board has considered each director's directorship 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 the director's ability to act in the best interests of the Company's shareholders and other stakeholders, as each such customer relationship is at arm's length and based on normal commercial terms. None of Messrs Brook, Franklin or McLennan participates directly or indirectly in the relationship between the Company and its customer or the terms on which the Company conducts business with the customer. 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 Chair 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 permanent 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
- Roy Franklin
- Barbara Jeremiah (resigned from Committee effective 1 November 2013)
- Rex McLennan (appointed to Committee effective 1 November 2013)
- Peter St. George (resigned from the Committee effective 1 March 2013)

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 Directors and key executive positions;
- promoting workforce diversity and monitoring the Company's performance against established diversity objectives; and
- reviewing the composition of the Board and monitoring the performance of the Board and the Directors.

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

- Roger Brown – Chairman
- Tanya Fratto
- David McLemore (Committee membership inactive while serving as Interim CEO)
- Peter St. George (resigned from Committee effective 1 March 2013)

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:

- Roy Franklin – Chairman
- Bruce Brook (resigned from Committee effective 1 November 2013)
- Roger Brown
- Tanya Fratto
- Barbara Jeremiah (resigned from Committee effective 1 November 2013)
- David McLemore (appointed to Committee effective 1 November 2013)

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 include:

- 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 (CAPEX) 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

Board and Director performance

The Board has a formal assessment process that includes performance assessments of the Board committees and individual Directors on approximately an annual 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.

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 determines the potential incentive the 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 2013 ranged from 50% 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 150% of a participant's target bonus amount. The Company's executive performance assessment process for 2013 and goal-setting process for 2014 commenced in February 2014 and will be completed in March 2014.

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 a semi-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 currently is assessing and implementing changes to its risk management system to reflect changes in the Company's operating environment and structure in 2013 and to enhance its value and efficacy.

Integrity of financial reporting

In accordance with the ASX Guidelines, the Chief Executive Officer and Interim 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 2013:

  (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) subject to the material uncertainties and risks outlined in Note 2 of the financial statements, 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 2013:

  (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 2013 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 Interim Chief Financial Officer by the regional and financial managers of each of the Company's divisions. They provide a reasonable, but not absolute, level of assurance and do not imply a guarantee against adverse events or more volatile outcomes arising in the future. A number of internal control deficiencies relating to financial reporting have been identified during the financial year, and in such cases, where deemed appropriate, additional tests of procedures or tests of resulting account balances included in the financial statements have confirmed that there has been no material impact on the financial reports. Management also has reported to the Board as to the effectiveness of the Company's management of material business risks.

Code of business conduct and ethical standards

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

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

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

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

Workforce diversity

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).

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 2013 include:

- Continued progress in increasing female representation among senior managers from 5% in 2010 to10% in 2011 to 13% in 2012 to 14% in 2013; 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 20% in 2013.

The levels of gender diversity as at 31 December 2013 are:

Gender Diversity	Male	Female
Total Employees	90%	10%
Total Employees (excl. Drillers and Driller Helpers)	80%	20%
Senior Managers	86%	14%
Board of Directors	75%	25%

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 three years. Additional information about the programme, including some of the early results it has yielded, is available on the Company's website at 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 earnings guidance to shareholders 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 on the resolutions proposed through the Notice of Meeting. The Company also has an investor relations function to manage and assure prompt and relevant communications with shareholders and the market generally, and the Company posts material information for its shareholders, such as ASX announcements and financial results, on its website at www.boartlongyear.com.

Donations

Boart Longyear contributes to the communities in which it works with donations, sponsorship and practical support. The Company does not make political donations. The Company'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 coordinated by the Company's regional leadership teams and overseen by its Executive Committee.

Signed in accordance with a resolution of the Directors.

On behalf of the Directors

Barbara Jeremiah
Chairman

24 February 2014

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

24 February 2014

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 consolidated financial statements of Boart Longyear Limited for the financial year ended 31 December 2013, 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

Samantha Lewis
Partner
Chartered Accountants

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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

Report on the Financial Report

We have audited the accompanying financial report of Boart Longyear Limited, which comprises the statement of financial position as at 31 December 2013, the statement of profit or loss and 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 86 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.

Deloitte.

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 2013 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.

Emphasis of Matter

Without modifying our opinion we draw attention to Note 2 in the financial report which outlines the directors' assessment that Boart Longyear Limited may, in certain circumstances, have difficulty with covenant compliance on or after the June 2014 testing period. These factors, along with other matters set out in Note 2, indicate the existence of material uncertainty which may cast significant doubt about the company's and consolidated entity's ability to continue as going concerns and whether they will realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial report.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 40 to 71 of the directors' report for the year ended 31 December 2013. 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 2013, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Samantha Lewis
Partner
Chartered Accountants
Sydney, 24 February 2014

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.

The Directors draw the reader's attention to Note 2 on page 92 concerning the going concern basis of preparation of the financial report and potential impact of material uncertainties related to the Company's market outlook on its financing arrangements.

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

Barbara Jeremiah
Chairman

24 February 2014

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Note	2013 US$'000	2012 US$'000
Revenue	6	1,222,853	2,011,507
Cost of goods sold		(1,020,718)	(1,499,060)
Gross margin		202,135	512,447
Other income	7	18,151	3,097
General and administrative expenses		(157,728)	(236,168)
Sales and marketing expenses		(44,405)	(61,490)
Restructuring expenses and related impairments	10	(461,165)	(67,584)
Other expenses	7	(24,828)	(23,454)
Operating (loss) profit		(467,840)	126,848
Interest income	8	2,851	3,143
Finance costs	8	(40,914)	(30,065)
(Loss) profit before taxation		(505,903)	99,926
Income tax expense	14	(114,040)	(31,762)
(Loss) profit for the year attributable to equity holders of the parent		(619,943)	68,164
Earnings per share:			
Basic (loss) earnings per share	15	(136.1) cents	15.0 cents
Diluted (loss) earnings per share	15	(136.1) cents	14.8 cents

Other comprehensive income (loss)	Note	2013 US$'000	2012 US$'000
(Loss) profit for the year attributable to equity holders of the parent		(619,943)	68,164
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations	27	(102,631)	6,324
Items that will not be reclassified subsequently to profit or loss			
Actuarial gain (loss) related to defined benefit plans	25	28,008	(19,448)
Income tax on income and expense recognised directly through equity	25	(8,874)	3,088
Other comprehensive loss for the year (net of tax)		(83,497)	(10,036)
Total comprehensive (loss) income for the year attributed to equity holders of the parent		(703,440)	58,128

See accompanying Notes to the Consolidated Financial Statements included on pages 92 – 157

Consolidated Statement of Financial Position

	Note	2013 US$'000	2012 US$'000
Current assets			
Cash and cash equivalents	**35a**	59,053	89,628
Trade and other receivables	**16**	196,912	260,502
Inventories	**17**	298,947	533,690
Current tax receivable	**14**	18,253	39,331
Prepaid expenses and other assets		25,054	42,021
		598,219	965,172
Assets classified as held for sale	**36**	-	33,997
Total current assets		598,219	999,169
Non-current assets			
Property, plant and equipment	**19**	408,311	628,691
Goodwill	**20**	103,974	290,786
Other intangible assets	**21**	92,028	128,158
Deferred tax assets	**14**	110,243	192,352
Other assets		17,706	11,582
Total non-current assets		732,262	1,251,569
Total assets		1,330,481	2,250,738
Current liabilities			
Trade and other payables	**22**	153,152	284,251
Provisions	**24**	33,263	36,271
Current tax payable	**14**	91,649	97,486
Loans and borrowings	**23**	84	189
Total current liabilities		278,148	418,197
Non-current liabilities			
Loans and borrowings	**23**	585,375	601,733
Deferred tax liabilities	**14**	1,179	7,757
Provisions	**24**	37,184	87,634
Total non-current liabilities		623,738	697,124
Total liabilities		901,886	1,115,321
Net assets		**428,595**	**1,135,417**
Equity			
Issued capital	**26**	1,129,014	1,122,189
Reserves	**27**	(37,312)	70,914
Other equity		(137,182)	(137,182)
(Accumulated Losses) Retained earnings	**28**	(525,925)	79,496
Total equity		**428,595**	**1,135,417**

See accompanying Notes to the Consolidated Financial Statements included on pages 92 – 157

Consolidated Statement of Changes in Equity

	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 2012	1,128,923	50,334	9,333	(137,182)	83,032	1,134,440
Profit for the period	-	-	-	-	68,164	68,164
Other comprehensive loss for the period	-	6,324	-	-	(16,360)	(10,036)
Total other comprehensive income	-	6,324	-	-	51,804	58,128
Payment of dividends	-	-	-	-	(55,340)	(55,340)
Vesting of LTIP rights, restricted shares	2,435	-	(2,435)	-	-	-
Purchase of shares for LTIP	(9,169)	-	-	-	-	(9,169)
Share-based compensation	-	-	7,358	-	-	7,358
Balance at 31 December 2012	**1,122,189**	**56,658**	**14,256**	**(137,182)**	**79,496**	**1,135,417**
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 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
Balance at 31 December 2013	**1,129,014**	**(45,973)**	**8,661**	**(137,182)**	**(525,925)**	**428,595**

See accompanying Notes to the Consolidated Financial Statements included on pages 92 – 157

Consolidated Statement of Cash Flows

	Note	2013 US$'000	2012 US$'000
Cash flows from operating activities			
(Loss) Profit for the year		(619,943)	68,164
Adjustments provided by operating activities:			
Income tax expense recognised in profit		114,040	31,762
Finance costs recognised in profit	**8**	40,914	30,065
Depreciation and amortisation	**9**	130,724	127,443
Interest income recognised in profit	**8**	(2,851)	(3,143)
(Gain) loss on sale or disposal of non-current assets	**9**	(364)	900
Loss on disposal of business	**34**	1,962	-
Impairment of current and non-current assets		405,016	36,300
Non-cash foreign exchange loss		2,888	1,472
Share-based compensation	**9b, 13**	1,230	7,304
Long-term compensation - cash rights	**9**	(31)	3,336
Changes in net assets and liabilities, net of effects from acquisition and disposal of business:			
Decrease (increase) in assets:			
Trade and other receivables		45,851	45,906
Inventories		101,791	(140,276)
Other assets		16,427	(20,588)
Increase (decrease) in liabilities:			
Trade and other payables		(138,746)	(39,668)
Provisions		(22,629)	6,742
Cash generated from operations		76,279	155,719
Interest paid		(31,616)	(28,928)
Interest received	**8**	2,851	3,143
Income taxes paid		(36,012)	(65,722)
Net cash flows provided by operating activities		**11,502**	**64,212**

See accompanying Notes to the Consolidated Financial Statements included on pages 92–157

	Note	2013 US$'000	2012 US$'000
Cash flows from investing activities			
Purchase of property, plant and equipment		(35,528)	(247,653)
Proceeds from sale of property, plant and equipment		14,522	3,266
Intangible costs paid		(5,956)	(35,141)
Proceeds on disposal of subsidiary, net of cash disposed	**34**	24,810	-
Net cash flows used in investing activities		**(2,152)**	**(279,528)**
Cash flows from financing activities			
Payments for share purchases for LTIP		-	(9,169)
Payments for debt issuance costs		(10,137)	(490)
Proceeds from borrowings		453,006	418,444
Repayment of borrowings		(461,139)	(129,872)
Dividends paid	**29**	(4,612)	(55,340)
Net cash flows (used in) provided by financing activities		**(22,882)**	**223,573**
Net (decrease) increase in cash and cash equivalents		(13,532)	8,257
Cash and cash equivalents at the beginning of the year		89,628	82,286
Effects of exchange rate changes on the balance of cash held in foreign currencies		(17,043)	(915)
Cash and cash equivalents at the end of the year	**35a**	**59,053**	**89,628**

See accompanying Notes to the Consolidated Financial Statements included on pages 92–157

GENERAL INFORMATION

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

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

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

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

2. 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 24 February 2014.

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 and Separate Financial Statements'. Consistent accounting policies are applied by each entity and in the preparation and presentation of the consolidated financial statements.

Subsidiaries are all entities for which the Company (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.

Going Concern

The financial statements have been prepared on the basis of a going concern, which contemplates the continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. The Directors consider that current and expected liquidity from operating cash flow and available drawings under the revolving credit agreement (Credit Agreement) will be adequate to enable the Company to meet its debts as and when they fall due, subject to the risks and uncertainties described below, which give rise to material uncertainty.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

For the year ended 31 December 2013 (compared to the year ended 31 December 2012), the Company incurred a net loss after tax of $619,943,000 (2012: net profit of $68,164,000), generated cash from operations before interest and taxes of $76,279,000 (2012: $155,719,000) and provided net cash flows from operating activities of $11,502,000 (2012: $64,212,000).

As at 31 December 2013 (compared to 31 December 2012), the Company had cash and cash equivalents of $59,053,000 (2012: $89,628,000) and total debt gross of amortisation of $600,000,000 (2012: $608,000,000). As at 31 December 2013, the Company was in compliance with all of its bank covenants and had no outstanding borrowings under its $140,000,000 Credit Agreement, although $10,392,000 in letters of credit that were outstanding at that date are considered as a draw against availability under the terms of the Credit Agreement. Accordingly, at 31 December 2013, the Company had $120,000,000 available for cash drawings and $9,608,000 available for additional letters of credit under the Credit Agreement.

The Company's core mining markets, which are prone to significant cycles, have remained volatile from July 2012 to the present time. The Company has taken significant steps throughout 2013 to continue to mitigate the impact of volatile conditions and improve profitability and cash generation. The Company's financial performance in 2014 and 2015 will be driven by demand for its drilling services and products, which, in turn, will continue to depend on numerous industry-related factors - including expectations for future commodity prices, the level of mining industry exploration, mine development and capital expenditures, political risks related to mining development activities, and the availability of financing for mining development – that are beyond the Company's control and continue to be extremely difficult to predict.

Given market uncertainties, the Company is not providing a market outlook for 2014 revenue and EBITDA. It has, however, developed internal 2014 and 2015 projections based on relevant information, such as past experience, public guidance and commentary provided by customers and competitors, forecasts of capital available for mining development and other macroeconomic indicators. The Company's assumptions as to demand and prices for its goods and services are particularly relevant to those projections. In addition, the accuracy of the Company's liquidity projections will depend on several factors, including management's ability to adjust variable costs in line with changes in revenue and foreign exchange rates.

Given the risk of market conditions not significantly recovering over the next twelve months, the Company has negotiated a further amendment of the Credit Agreement effective 22 February 2014 that is intended to provide the Company with continued access to the revolving credit facility and additional capacity under the Credit Agreement's financial covenants to withstand market volatility and remain in compliance with the terms of the Credit Agreement. The specific terms of the amendment are separately disclosed in the Subsequent Events Note 38.

The amendment does not guarantee the Company's ability to comply with the financial covenants and terms of the Credit Agreement. Difficulties with covenant compliance could arise on or after the June 2014 testing date depending on actual market conditions. However, in preparing the financial report on a going concern basis, the Directors have had regard to information, including, but not limited to, the following:

- the Company's current financial condition, including available liquidity and the absence of defaults under current borrowing agreements,
- projections and forecasts for the Company in the context of the expected mining industry environment;
- an independent advisor's review of the Company's position;
- the initiatives taken by management, including initiatives to reduce operating, SG&A and capital costs and to maximise current cash flows by reducing inventory levels and minimising working capital;
- the ongoing support of the Company's bank group, including its agreement to the recently completed amendment of the Credit Agreement (as discussed above); and
- the commencement of a strategic review of a full range of options, which the Directors believe could lead to a refinancing, recapitalisation, sale of assets or another transaction that could reduce existing debt levels and/or provide a more sustainable capital structure.

As a result of the matters outlined above, there is material uncertainty that may cast significant doubt on the ability of the Parent and consolidated entity to continue as going concerns in the future and, therefore, whether they will realise their assets and settle their liabilities and commitments in the normal course of business and in the amounts stated in the financial statements. In particular, if there is a breach of a covenant of the Credit Agreement, the ability of the Parent and the consolidated entity to continue as going concerns will depend on the Parent's ability to secure a waiver or further amendment of the terms of the Credit Agreement, or an alternative financing or another capital option. In that context, the Directors are actively considering and pursuing all reasonable available options to mitigate such a risk.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 2013 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.

(f) Goodwill and other intangible assets (continued)

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Impairment (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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 of the acquisition date that, if known, would have affected the amounts recognised as of that date.

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

(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.

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.

Employee benefits
Amendments to AASB 119 'Employee Benefits' require changes in the calculation of the net defined benefit liability and pension expense and provide changes to certain financial statement disclosures. The primary impact is interest cost and expected return on assets are combined into net financing cost. This is determined as the interest on the net liability based on the assumed discount rate. The net impact is an increase in the pension expense which will vary from country to country depending on the spread between the discount rate and the expected return on asset assumption used previously. The effect of applying this standard increased the 31 December 2012 expense by $1,910,000. See Note 25.

Consolidated financial statements
AASB 10 'Consolidated Financial Statements' introduces a single consolidation model for all entities based on control, irrespective of the nature of the investee. There was no change in the entities consolidated as a result of the application of this standard.

Fair value measurement
AASB 13 'Fair Value Measurement' defines fair value and provides guidance on how to determine fair value and requires disclosures about fair value measurement. This standard was adopted for the year ended 31 December 2013.

Disclosure of interests in other entities
AASB 12 'Disclosure of Interests in Other Entities' requires disclosure of information that enables financial statement users to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. This standard was adopted for the year ended 31 December 2013.

Standards and Interpretations issued not yet effective

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

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

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

These amendments will be adopted for the year ending 31 December 2017 subject to the AASB adopting the amendments to IFRS 9 (AASB effective date is currently 1 January 2017). Management has not yet assessed the impact of adoption of these amendments.

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.

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:

(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

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

(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.

4. CRITICAL ACCOUNTING POLICIES (CONTINUED)

(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.

(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 – Global Drilling Services and Global 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 revenue and results

	Segment revenue		Segment profit	
	2013 US$'000	2012 US$'000	2013 US$'000	2012 US$'000
Drilling Services	917,348	1,516,203	40,605	186,992
Products total revenue	362,074	643,552		
Products inter-segment revenue [1]	(56,569)	(148,248)		
Products	305,505	495,304	2,145	93,177
Total	1,222,853	2,011,507	42,750	280,169
Unallocated [2]			(49,425)	(85,737)
Restructure expenses and related impairments			(461,165)	(67,584)
Finance costs			(40,914)	(30,065)
Interest income			2,851	3,143
Profit before taxation			(505,903)	99,926

(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.

Other segment information

	Depreciation and amortisation of segment assets		Additions to non-current assets [2]	
	2013 US$'000	2012 US$'000	2013 US$'000	2012 US$'000
Drilling Services	101,316	102,610	35,063	241,524
Products	13,923	14,061	6,814	27,564
Total of all segments	115,239	116,671	41,877	269,088
Unallocated [1]	15,485	10,772	7,316	21,026
Total	130,724	127,443	49,193	290,114

(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.

5. SEGMENT REPORTING (CONTINUED)

Geographic information

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

	Revenue from external customers		Non-current assets [1]	
	2013 US$'000	2012 US$'000	2013 US$'000	2012 US$'000
North America	489,037	752,886	319,505	378,804
Asia Pacific	349,030	534,687	147,761	393,101
Latin America	153,648	314,877	51,646	116,649
Africa	160,843	305,550	88,165	140,703
Europe	70,295	103,507	14,942	29,960
Total	1,222,853	2,011,507	622,019	1,059,217

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

6. REVENUE

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

	2013 US$'000	2012 US$'000
Revenue from the rendering of services	917,348	1,516,202
Revenue from the sale of goods	305,505	495,305
	1,222,853	2,011,507

Included in revenues arising from rendering of services of $917,348,000 (2012 $1,516,202) are revenues of $126,118,000 (2012: $159,670,000 million) which arose from sales to the Company's largest customer. No other single customer contributed 10% or more to the Company's revenue for both 2013 and 2012.

7. OTHER INCOME / EXPENSE

The components of other income are as follows:

	Note	2013 US$'000	2012 US$'000
Gain on termination of post-retirement medical plan	25	16,871	-
Scrap sales		651	1,759
Gain on disposal of property, plant and equipment		364	-
Other		265	1,338
Total other income		18,151	3,097

The components of other expense are as follows:

	2013 US$'000	2012 US$'000
Amortisation of intangible assets	18,276	15,741
Sundry asset impairments	3,195	205
Loss on foreign currency exchange differences	986	5,949
Loss on disposal of property, plant and equipment	-	900
VAT write-off	1,429	-
Other	942	659
Total other expenses	24,828	23,454

8. INTEREST INCOME / FINANCE COSTS

Interest income is as follows:

	2013 US$'000	2012 US$'000
Interest income:		
Bank deposits	2,807	2,863
Other	44	280
Total interest income	2,851	3,143

Finance costs are as follows:

	2013 US$'000	2012 US$'000
Interest on loans and bank overdrafts	39,022	28,965
Amortisation of debt issuance costs	1,839	951
Interest on obligations under finance leases	53	149
Total finance costs	40,914	30,065

9. PROFIT (LOSS) FOR THE YEAR

(a) Gains and losses

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

	2013 US$'000	2012 US$'000
Gain (loss) on disposal of property, plant and equipment	364	(900)
Net foreign exchange losses	(986)	(5,949)
Net expense of bad debt	(266)	(605)

(b) Employee benefits expenses

	2013 US$'000	2012 US$'000
Salaries and wages	(394,179)	(592,371)
Post-employment benefits:		
Defined contribution plans	(16,627)	(23,863)
Defined benefit plans	11,519	(2,808)
Long-term incentive plans:		
Equity-settled share-based payments	(1,230)	(7,304)
Cash rights compensation	31	(3,336)
Termination benefits	(35,923)	(22,974)
Other employee benefits [1]	(120,877)	(166,771)
	(557,286)	(819,427)

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

(c) Other

	2013 US$'000	2012 US$'000
Depreciation of non-current assets	(111,455)	(110,991)
Amortisation of non-current assets	(19,269)	(16,452)
Operating lease rental expense	(35,803)	(39,664)
Loss in disposal of business	(1,962)	-

10. RESTRUCTURING EXPENSES AND RELATED IMPAIRMENTS

During 2013, the Company continued to significantly reduce operating costs through a series of restructuring activities. The Company's restructuring efforts include:

- Reductions of over 3,300 personnel since 1 January 2013, including approximately 25% of sales, general and administrative positions across the business;
- Consolidation of drilling services zones into larger territories;
- Rationalisation of manufacturing, inventory and administrative facilities;
- Consolidation of the Products division's aftermarket services group with the Drilling Services maintenance group as well as the supply chain groups for both divisions; and
- Sale of its non-core environmental and infrastructure drilling services operations (see Note 34).

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

10. RESTRUCTURING EXPENSES AND RELATED IMPAIRMENTS (CONTINUED)

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.

Restructuring expenses and impairment charges for the years ended 31 December 2013 and 2012 are, as follows:

	Note	2013 US$'000	2012 US$'000
Goodwill impairment	**20**	166,313	6,839
Equipment impairment	**19**	104,347	5,960
Inventory impairment	**17**	101,916	7,743
Employee separation and related costs		44,752	22,974
Development asset impairment	**19, 21**	14,595	8,461
Other restructuring costs		9,919	-
Intangible asset impairment	**21**	9,090	3,446
Land & buildings impairment	**19**	5,561	-
Onerous leases		2,710	8,514
Loss on disposal of business	**34**	1,962	-
Software impairment		-	3,647
		461,165	67,584
Net of tax		375,284	47,843

Restructuring expenses and related impairments by income statement classification for the years ended 31 December 2013 and 2012 are, as follows:

	2013 US$'000	2012 US$'000
Cost of goods sold	218,282	25,383
General and administrative expenses	59,725	20,113
Selling and marketing expenses	2,250	3,344
Research and development	14,595	8,416
Other expense	166,313	10,328
	461,165	67,584

Restructuring expenses and related impairments for the years ended 31 December 2013 and 2012 by business segment are, as follows:

	2013 US$'000	2012 US$'000
Global drilling services	394,604	50,193
Global products	54,824	6,245
Unallocated	11,737	11,146
	461,165	67,584

10. RESTRUCTURING EXPENSES AND RELATED IMPAIRMENTS (CONTINUED)

Impairment Process

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 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. As a result of this process, the Company has recorded the following impairment charges:
    - Property, plant and equipment (mainly rigs and associated equipment) of $89,908,000
    - Development assets of $14,595,000

- 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 country in which the original acquisition generating the goodwill was incurred;

    - For the 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 the following impairment charges:
    - Goodwill of $166,313,000. See Note 20 for a breakdown of the goodwill impairment by country.
    - Property, plant and equipment of $20,000,000[1]
    - Other assets of $45,010,000[1]

    (1) 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 on a pro rata basis across the major classes of assets.

Key Assumptions

Certain key assumptions are used for CGU impairment testing.

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 considerably below its net asset value and the internal models. This factor is one of many indicators of impairment that the Company has considered.

10. RESTRUCTURING EXPENSES AND RELATED IMPAIRMENTS (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 have used historical performance trends, overlaying the impacts of recent cost out 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 Morningstar, the adjusted post tax discount rates ranged from 9.2% to 21.6%, as shown in the table below.

Other economic factors
The assumed growth rates 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. 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

	Post Tax Discount Rate	Growth Rate
Global	11.5%	3.0%
North America	9.2%	1.9%
Asia Pacific	12.2%	3.2%
Latin America	14.1%	4.3%
Europe and Africa	21.6%	5.4%

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 have been examined at levels above and below expected values. The expected values are based on forecast 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:

	US$'000
Global	-
North America	51,000
Asia Pacific	-
Latin America	-
Europe and Africa	24,000

11. REMUNERATION OF AUDITORS

	2013 US$'000	2012 US$'000
Company auditor's remuneration		
Audit and review of the financial report:		
Auditor of the parent entity	1,607	1,465
Related practices of the parent entity auditor	1,422	1,434
	3,029	2,899
Non-audit services:		
Tax services	1,841	1,541
Review of tax returns	581	539
Assurance services	174	-
Other non-audit services	21	61
	2,617	2,141
Total remuneration to Company auditor	5,646	5,040
Remuneration to other accounting firms		
Audit services	418	356
Non-audit services:		
Tax services	1,246	2,069
Internal audit	122	474
Global mobility	1,798	2,009
Accounting and payroll services	166	232
Other	702	208
Total remuneration to other accounting firms	4,452	5,348

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 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.

Consistent with the approach outlined above, the Audit Committee approved Deloitte Touche Tohmatsu’s services on a tax-related business improvement project for the years ended 31 December 2011 to 2013. This project has largely concluded during the year ended 31 December 2013. The Company expects that the level of non-audit services will continue to be below the audit fee threshold in future years.

12. KEY MANAGEMENT PERSONNEL COMPENSATION

Details of key directors and management personnel

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

- Barbara Jeremiah - Chair, non-executive Director (appointed Chairman effective 1 March 2013)
- Bruce Brook - non-executive Director
- Roger Brown - non-executive Director
- Roy Franklin - non-executive Director
- Tanya Fratto - non-executive Director
- David McLemore - non-executive Director
- Rex McLennan - non-executive Director (appointed effective 24 August 2013)
- Peter St. George - non-executive Director (resigned from the Board effective 21 May 2013)
- Richard O'Brien - Chief Executive Officer (appointed effective 1 April 2013)
- Joe Ragan III - Chief Financial Officer (terminated employment effective 18 May 2013)
- Fabrizio Rasetti - Senior Vice President, General Counsel and Secretary
- Brad Baker - Senior Vice President, Human Resources
- Alan Sides - Senior Vice President, Global Drilling Services (appointed effective 31 January 2013)
- Kent Hoots - Senior Vice President, Global Products (appointed effective 31 January 2013)

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

	2013 US$	2012 US$
Short-term employee benefits	4,354,012	5,967,949
Post-employment benefits	56,089	116,009
Other long-term benefits	22,726	465,864
Termination benefits	467,145	1,044,640
Share-based payment	859,650	2,651,514
	5,759,622	10,245,976

13. SHARE-BASED PAYMENTS

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

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

13. SHARE-BASED PAYMENTS (CONTINUED)

The total share-based expense associated with share rights granted under the LTIP for the years ended 31 December 2013 and 2012 was $1,219,000 and $6,500,000, respectively.

The Board has, on certain occasions, granted share options to certain senior management in order to attract, retain and properly incentivise those individuals. During 2010, the Company granted 25,000 share options to an employee with an exercise price of A$3.20 per share. The share-based expense associated with share options for the years ended 31 December 2013 and 2012 was $11,000 and $804,000, respectively. None of share-based compensation was capitalised in the fiscal year ended 31 December 2013 (2012: $54,000).

Share Rights

The following table reflects the share rights arrangements that were in existence at 31 December 2013:

Series - Share Rights	Number	Effective grant date	Vesting date	Fair value at grant date [1] US$
1 - Issued 15 March 2011	1,225,305	15-Mar-11	15-Mar-14	4.36
2 - Issued 11 July 2011	26,750	11-Jul-11	11-Jul-14	4.27
3 - Issued 14 October 2011	100,000	14-Oct-11	14-Oct-14	3.05
4 - Issued 15 March 2012	1,399,695	15-Mar-12	15-Mar-15	4.50
5 - Issued 15 March 2013	3,044,177	15-Mar-13	15-Mar-16	1.39
6 - Issued 4 April 2013	315,000	1-Apr-13	1-Apr-14	1.32
7 - Issued 4 April 2013	315,000	1-Apr-13	1-Apr-15	1.32
8 - Issued 4 April 2013	3,149,000	1-Apr-13	1-Apr-16	1.32
9 - Issued 1 June 2013	125,000	1-Jun-13	1-Jun-15	0.67
10 - Issued 1 June 2013	401,500	1-Jun-13	1-Jun-16	0.67

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

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

Share rights	2013 Number of rights '000	2012 Number of rights '000
Balance at beginning of year	5,280	5,483
Granted	8,228	2,690
Forfeited	(1,162)	(1,296)
Vested	(2,245)	(1,597)
Balance at end of year	10,101	5,280

13. SHARE-BASED PAYMENTS (CONTINUED)

The following share rights vested during 2013:

	Vest date range			Fair value at vest date range A$	
Grant date	Start	End	Number of shares	Low	High
1-Mar-10	31-Jan-13	1-Mar-13	1,604,271	1.75	2.13
15-Mar-10	15-Mar-13	15-Mar-13	104,600	1.39	1.39
12-Apr-10	12-Apr-13	12-Apr-13	7,000	1.31	1.31
26-Aug-10	26-Aug-13	26-Aug-13	10,844	0.44	0.44
15-Mar-11	31-Jan-13	31-Dec-13	218,435	0.34	2.13
14-Oct-11	30-Sep-13	30-Sep-13	6,546	0.41	0.41
15-Mar-12	31-Jan-13	31-Dec-13	194,597	0.34	2.13
15-Mar-13	15-May-13	31-Dec-13	88,739	0.34	0.82
1-Jun-13	11-Oct-13	31-Dec-13	10,230	0.34	0.41

Options

The following table reflects the options arrangements that were in existence at 31 December 2013:

Series - Options	Number	Effective grant date	Vesting date	Fair value at grant date US$
1 - Issued 18 June 2009	317,500	18-Jun-09	18-Jun-12	1.43
2 - Issued 15 March 2010	25,000	15-Mar-10	15-Mar-13	2.24

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	1.90	97.29%	60 months	0.00%	5.59%
Series 2	2.93	92.14%	60 months	0.00%	5.25%

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

	2013		2012	
Options	Number of options '000	Weighted average exercise price US$	Number of options '000	Weighted average exercise price US$
Balance at beginning of year	592	4.88	592	4.88
Granted	-	-	-	-
Forfeited	(250)	8.24	-	-
Exercised	-	-	-	-
Balance at end of year	342	2.43	592	4.88
Exercisable at end of year	342	2.43	567	4.88

14. INCOME TAXES

Income tax expense is as follows:

	2013 US$'000	2012 US$'000
Income tax expense:		
Current tax expense	42,926	70,913
Adjustments recognised in the current year in relation to the current tax of prior years	4,227	2,262
Deferred tax (benefit) expense	66,887	(41,413)
	114,040	31,762

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

	2013	2012
(Loss) Profit before taxation	(505,903)	99,926
Income tax (benefit) expense calculated at Australian rate of 30%	(151,772)	29,977
Impact of higher rate tax countries	(1,223)	4,903
Impact of lower rate tax countries	30,083	(646)
Net non-deductible/non-assessable items other	8,967	1,524
Net non-deductible/non assessable items related to impairments[1]	50,423	1,500
Unrecognised tax losses[2]	67,565	145
Profit/Losses subject to double taxation in the US	(519)	(2,468)
Unutilised foreign tax credits	9,017	7,055
Derecognition (recognition) of net prior year deferred tax assets[2]	92,653	(16,827)
Other	4,619	4,337
	109,813	29,500
Under provision from prior years	4,227	2,262
Income tax expense per the Consolidated Statement of Profit or Loss and Other Comprehensive Income	114,040	31,762

(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.

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:

	2013 US$'000	2012 US$'000
Deferred tax:		
Actuarial movements on defined benefit plans	(8,874)	3,088

(c) Current tax assets and liabilities

	2013 US$'000	2012 US$'000
Current tax assets:		
Income tax receivable attributable to:		
Parent	(47,753)	(21,684)
Other entities in the tax consolidated group	48,727	26,069
Other entities	24,161	34,946
	25,135 [1]	39,331
Current tax liabilities:		
Income tax payable attributable to:		
Entities other than parent		
and entities in the consolidated group	91,649	97,486
	91,649	97,486

(d) Deferred tax balances

	2013 US$'000	2012 US$'000
Deferred tax comprises:		
Temporary differences	94,299	118,801
Unused tax losses and credits	14,765	65,794
	109,064	184,595

(1) The income tax receivable for 2013 is $25,135,000 of which, $18,253,000 is classified as current tax receivable and $6,882,000 is classified within other non-current assets.

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
Deferred tax assets (liabilities) temporary differences						
Property, plant and equipment	(4,264)	39,163	3	-	-	34,902
Provisions	10,414	5,680	(14)	-	-	16,080
Doubtful debts	352	(77)	-	-	-	275
Intangibles	(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)	-	-	-
Inventory	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	(6,145)	(15)	-	-	3,452
	118,801	(11,718)	(3,910)	-	(8,874)	94,299
Unused tax losses and credits:						
Tax losses	22,129	(26,270)	-	4,141	-	-
Foreign tax credits	43,665	(28,900)	-	-	-	14,765
	184,595	(66,888)	(3,910)	4,141	(8,874)	109,064

Presented in the statement of financial position as follows:	
Deferred tax asset	110,243
Deferred tax liability	(1,179)
	109,064

14. INCOME TAXES (CONTINUED)

2012	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
Deferred tax assets (liabilities) temporary differences						
Property, plant and equipment	(5,691)	1,408	19	-	-	(4,264)
Provisions	4,162	6,358	(106)	-	-	10,414
Doubtful debts	188	169	(5)	-	-	352
Intangibles	(9,079)	(380)	232	-	-	(9,227)
Share-issue expenses	4,935	(2,487)	-	-	-	2,448
Accrued liabilities	2,590	2,016	(66)	-	-	4,540
Pension	10,156	2,291	(260)	-	3,088	15,275
Debt and interest	25,562	(522)	(654)	-	-	24,386
Inventory	17,616	7,330	(450)	-	-	24,496
Investments in subsidiaries	(1,500)	-	-	-	-	(1,500)
Unrealised foreign exchange	38,455	3,814	-	-	-	42,269
Other	11,661	(1,751)	(298)	-	-	9,612
	99,055	18,246	(1,588)	-	3,088	118,801
Unused tax losses and credits:						
Tax losses	33,611	(11,482)	-	-	-	22,129
Foreign tax credits	9,016	34,649	-	-	-	43,665
	42,627	23,167	-	-	-	65,794
	141,682	41,413	(1,588)	-	3,088	184,595

Presented in the statement of financial position as follows:	
Deferred tax asset	192,352
Deferred tax liability	(7,757)
	184,595

Unrecognised deferred tax assets	2013 US$'000	2012 US$'000
Tax losses - revenue	93,276	3,582
Unused tax credits	61,966	32,889
Temporary differences	47,910	-
	203,152	36,471

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)

The Company's Canadian tax returns since 2005 have been subject to review by the Canada Revenue Agency (CRA), with assessments having been issued or determined by tax years between 2005 and 2009 and field work having commenced for tax years from 2010 through 2012. As the Company has previously reported, the most significant contested areas of the CRA's reviews relate 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.

2005 – 2006 Audit Period
On 23 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 is awaiting receipt of the final reduced assessments for the period from the CRA's Audit division and expects they will be received soon. The impact of the CRA's decision will be the reversal of approximately C$59,400,000 of federal taxes, penalties and interest previously assessed by the CRA and reported by the Company in its half-year financial report.

The Company also expects that the CRA's decision will result in the reversal of provincial tax assessments totaling approximately C$11,000,000 for the period. As the provincial assessments were based on the same adjustments made by the CRA, the Company anticipates the provincial reversals will be received after CRA's final adjustments are formally made.

As a result of the CRA and provincial assessment reversals, the security of approximately C$35,500,000 provided to support the Company's appeals of the assessments is expected to be released.

2007 – 2009 Audit Period
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 adjustments will result in proposed federal and provincial tax liabilities, including interest and penalties, of approximately C$75,400,000.

The Company notes that the adjustments for the 2007 through 2009 audit period were determined on substantially the same basis as the reversed assessments for the 2005 to 2006 period. The Company therefore intends to dispute the assessments through the competent authority resolution process as well as all other available methods of appeal. That substantially similar CRA Audit division assessments for 2005 and 2006 were reversed in their entirety by the CRA's Competent Authority division should provide a favourable background for a positive and, possibly, expeditious resolution of such appeals, but the outcome and timing of any attempts to reverse the 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.

The Company could be required to provide security of approximately C$40,000,000 while the 2007 through 2009 reassessments are under dispute. The security would be required until the resolution of the relevant dispute. The Company intends to seek relief from the CRA and provincial authorities from the security requirements but the outcome of any such efforts is uncertain.

2010 – 2012 Audit Period
The CRA also has expressed its intention to audit the 2010 through 2012 taxation years in the future and recently commenced its field work for the audit. The Company has no information about the timing to conclude the audit or its likely outcome.

Risks in Respect of Reassessments
The Company has recorded a tax provision related to the CRA's audits of the 2007 through 2012 tax years. The provision reflects the uncertainties of the ongoing disputes with the CRA and has been established primarily for any related taxes, penalties and interest. If unsuccessful in its appeal through the competent authority dispute process, the Company would be entitled to recover taxes owed to the CRA from the jurisdictions in which those taxes were erroneously paid. While the Company believes it is appropriately reserved in respect of the CRA tax controversies, their resolution on terms substantially as proposed by the CRA could be material to the Company's financial position or results of operations.

The Company's liquidity also could be impacted negatively by the CRA reassessments. To the extent disputes are resolved in the CRA's favor, the time required to recover overpayments to other jurisdictions likely would exceed the period in which underpayments would need to be made to Canada. In addition, the amounts provided as security to the CRA are considered outstanding debt of the Company for the purpose of calculating the Company's compliance with its covenants under the existing revolving bank credit facility, including for the Maximum Total Indebtedness covenant of the amendment concluded on 22 February 2014.

15. LOSS / EARNINGS PER SHARE

	2013 US cents per share	2012 US cents per share
Basic (loss) earnings per share	(136.1)	15.0
Diluted (loss) earnings per share	(136.1)	14.8

Basic (loss) earnings per share

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

	2013 US$'000	2012 US$'000
(Loss) earnings used in the calculation of basic EPS	(619,943)	68,164

	2013 '000	2012 '000
Weighted average number of ordinary shares for the purposes of basic (loss) earnings per share	455,508	454,862

Diluted (loss) earnings per share

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

	2013 US$'000	2012 US$'000
(Loss) earnings used in the calculation of diluted EPS	(619,943)	68,164

	2013 '000	2012 '000
Weighted average number of ordinary shares used in the calculation of basic EPS	455,508	454,862
Shares deemed to be issued for no consideration in respect of LTIP share rights	-	4,917
Weighted average number of ordinary shares used in the calculation of diluted EPS	455,508	459,779

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.

	2013 '000	2012 '000
Shares deemed to be issued for no consideration in respect of LTIP share rights	1,404	-

16. TRADE AND OTHER RECEIVABLES

	2013 US$'000	2012 US$'000
Trade receivables	151,076	222,248
Allowance for doubtful accounts	(1,374)	(1,841)
Goods and services tax receivable	41,110	35,082
Other receivables	6,100	5,013
	196,912	260,502

The ageing of trade receivables is detailed below:

	2013 US$'000	2012 US$'000
Current	105,591	156,357
Past due 0 - 30 days	23,620	45,273
Past due 31 - 60 days	6,362	7,074
Past due 61-90 days	7,196	6,005
Past due 90 days	8,307	7,539
	151,076	222,248

The ageing of impaired trade receivables is detailed below:

	2013 US$'000	2012 US$'000
Current	-	-
Past due 0 - 30 days	-	-
Past due 31 - 60 days	-	-
Past due 61-90 days	-	-
Past due 90 days	(1,374)	(1,841)
	(1,374)	(1,841)

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

	2013 US$'000	2012 US$'000
Opening balance	1,841	1,412
Additional provisions	1,256	1,583
Amounts used	(680)	(186)
Amounts reversed	(990)	(978)
Foreign currency exchange differences	(53)	10
Closing balance	1,374	1,841

The average credit period on sales of goods is 60 days as at 31 December 2013, compared to 53 days as at 31 December 2012. No interest is charged on trade receivables.

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

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.

17. INVENTORIES

	2013 US$'000	2012 US$'000
Raw materials	43,630	52,606
Work in progress	3,458	13,029
Finished products	251,859	468,055
	298,947	533,690

The Company recorded impairment provisions against inventory of $101,916,000 and $7,743,000 for the years ended 31 December 2013 and 2012, respectively. Impairment and obsolescence provisions were $129,263,000 and $17,912,000 as at 31 December 2013 and 2012, 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

Financial assets	**Note**	**2013 US$'000**	**2012 US$'000**
Current			
Cash and cash equivalents		59,053	89,628
Trade and other receivables	16	196,912	260,502
		255,965	350,130

18. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial liabilities		**2013 US$'000**	**2012 US$'000**
Current			
Amortised cost:			
Trade and other payables	**22**	153,152	284,251
Loans and borrowings	**23**	84	189
		153,236	284,440
Non-current			
Amortised cost:			
Loans and borrowings	**23**	585,375	601,733
		585,375	601,733

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

Financial risk management objectives

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

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

Market risk

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

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

Foreign currency risk management

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

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

	Assets		**Liabilities**	
	2013 US$'000	**2012 US$'000**	**2013 US$'000**	**2012 US$'000**
Australian Dollar	566,664	543,182	54,294	39,895
Canadian Dollar	8,575	10,692	93,443	93,889
Euro	3,588	2,515	91,399	93,582
US Dollar	303,429	193,379	622,144	439,146

18. FINANCIAL RISK MANAGEMENT (CONTINUED)

Foreign currency sensitivity

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

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

	10% change in AUD		10% change in CAD	
	2013 US$'000	2012 US$'000	2013 US$'000	2012 US$'000
Net profit	(5,589)	(1,913)	5,211	4,614
Net assets	(46,579)	(45,753)	7,715	7,563

	10% change in EUR		10% change in USD	
	2013 US$'000	2012 US$'000	2013 US$'000	2012 US$'000
Net profit	7,983	8,279	(787)	4,090
Net assets	7,983	8,279	28,974	22,342

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 of 31 December 2013 or 2012.

Interest rate risk management

The Company is exposed to interest rate risk as entities within the Company borrow funds at both fixed and floating interest rates. The risk is managed by the Company by maintaining an appropriate mix between fixed and floating-rate borrowings and, from time to time, by the use of interest rate swap contracts. There are no interest rate swaps as of 31 December 2013 (2012 : nil). Hedging activities are evaluated regularly to align with interest rate views and risk tolerance. The Company's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

Interest rate sensitivity

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

During the year, if interest rates had been 100 basis points higher or lower and all other variables were held constant, the Company's profit before tax would not increase/decrease (2012: increase/decrease by $3,080,000) all of which is attributable to the Company's exposure to interest rates on its variable-rate borrowings. The Company had no variable-rate borrowings as of 31 December 2013.

18. FINANCIAL RISK MANAGEMENT (CONTINUED)

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. Included in Note 23 is a list of undrawn facilities that the Company has at its disposal to further reduce liquidity risk.

See Note 2 for additional discussion regarding going concern and liquidity risk.

Liquidity and interest risk

The following tables reflect the expected maturities of non-derivative financial liabilities as at 31 December 2013. 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
31 December 2013								
Non-interest bearing payables		126,632	26,520	-	-	-	-	153,152
Finance lease liability	8.1%	8	16	70	2	-	(8)	88
Variable interest rate instruments	-	-	-	-	-	-	-	-
Fixed interest rate instruments	8.5%	4,250	8,500	38,250	496,603	347,351	(294,954)	600,000
		130,890	35,036	38,320	496,605	347,351	(294,962)	753,240
31 December 2012								
Non-interest bearing payables		184,376	99,875	-	-	-	-	284,251
Finance lease liability	8.0%	17	35	157	67	-	(23)	253
Variable interest rate instruments	2.1%	538	1,075	4,839	321,770	-	(20,222)	308,000
Fixed interest rate instruments	7.0%	1,750	3,500	15,750	84,000	368,351	(173,351)	300,000
		186,681	104,485	20,746	405,837	368,351	(193,596)	892,504

18. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity and interest 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
2013				
Non-interest bearing receivables	77,275	76,035	43,602	196,912
Cash	59,053	-	-	59,053
	136,328	76,035	43,602	255,965
2012				
Non-interest bearing receivables	144,575	110,840	5,087	260,502
Cash	89,628	-	-	89,628
	234,203	110,840	5,087	350,130

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

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.

19. PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings US$'000	Plant and Equipment US$'000	Construction in Progress US$'000	Total US$'000
Balance at 1 January 2012	61,276	721,494	110,885	893,655
Additions	8,963	106,333	141,343	256,639
Disposal	(2,462)	(26,056)	-	(28,518)
Transfers to assets held for sale	(143)	(53,069)	(500)	(53,712)
Transfer to/from CIP	7,935	188,166	(196,101)	-
Transfer from intangible assets	-	1,179	-	1,179
Currency movements	(128)	11,101	178	11,151
Balance at 1 January 2013	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)
Balance at 31 December 2013	67,050	882,160	46,551	995,761
Accumulated depreciation and impairment:				
Balance at 1 January 2012	(11,098)	(374,326)	-	(385,424)
Depreciation	(3,321)	(107,670)	-	(110,991)
Impairment	(1,867)	(4,297)	-	(6,164)
Disposal	2,222	22,130	-	24,352
Transfer to held for sale	76	34,477	-	34,553
Currency movements	(4)	(8,025)	-	(8,029)
Balance at 1 January 2013	(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
Balance at 31 December 2013	(20,882)	(566,568)	-	(587,450)
Net book value at 31 December 2012	**61,449**	**511,437**	**55,805**	**628,691**
Net book value at 31 December 2013	**46,168**	**315,592**	**46,551**	**408,311**

The net book value of property, plant and equipment at 31 December 2013 and 2012 includes amounts of $5,142,000 and $6,107,000, respectively, related to assets held under finance leases.

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 made estimates associated with the asset's recoverable amount. As a result of this exercise, the Company recorded an impairment loss at 31 December 2013 and 31 December 2012 of $109,908,000 and $5,960,000 respectively on property, plant and equipment, including assets held for sale. See Note 10 for details of other assumptions used as part of this impairment testing.

20. GOODWILL

	US$'000
Gross carrying amount:	
Balance at 1 January 2012	294,063
Impairment loss	(6,839)
Currency movements	3,562
Balance at 31 December 2012	290,786
Balance at 1 January 2013	290,786
Impairment loss	(166,313)
Currency movements	(20,499)
Balance at 31 December 2013	103,974

Goodwill by cash-generating units

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

	2013 US$'000	2012 US$'000
North America Drilling Services	103,974	105,367
Latin America Drilling Services	-	26,348
Asia Pacific Drilling Services	-	159,071
	103,974	290,786

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.

The Company performed goodwill impairment tests at 30 June 2013 and at 31 December 2013 and has recognised an impairment loss of $166,313,000 due to the most recent financial performance of various cash-generating units as well as the expected financial performance of the business, as described further in Note 10.

Goodwill Impairment by cash-generating units

	2013 US$'000	2012 US$'000
Argentina	12,226	-
Australia	139,751	-
Chile	12,776	-
Mexico	-	5,060
New Zealand	1,560	-
United States of America	-	1,779
	166,313	6,839

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 USA and Canada, there could be potential impairments under certain changes in key assumptions, as described further in Note 10.

21. OTHER INTANGIBLE ASSETS

	Trademarks US$'000	Patents US$'000	Customer relationships and other US$'000	Software US$'000	Development assets US$'000	Total US$'000
Gross carrying amount:						
Balance at 1 January 2012	3,884	4,672	60,863	70,980	35,088	175,487
Additions	340	1,071	1,360	16,413	14,291	33,475
Disposals	(163)	-	(6,253)	(3,871)	-	(10,287)
Transfer to PP&E	-	-	-	-	(1,179)	(1,179)
Transfers to held for sale	-	-	-	-	(588)	(588)
Currency movements	(78)	200	1,267	(2,599)	(222)	(1,432)
Balance at 31 December 2012	3,983	5,943	57,237	80,923	47,390	195,476
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)
Balance at 31 December 2013	4,147	7,311	52,885	86,256	46,910	197,509
Accumulated amortisation:						
Balance at 1 January 2012	(1,433)	(1,114)	(25,624)	(13,667)	(3,806)	(45,644)
Amortisation for the period	-	(395)	(6,147)	(9,200)	(710)	(16,452)
Disposals	163	-	6,253	3,871	-	10,287
Transfers to held for sale	-	-	-	-	175	175
Impairment for the period	-	-	(3,446)	(3,647)	(8,461)	(15,554)
Currency movements	-	2	(1,096)	(213)	1,177	(130)
Balance at 31 December 2012	(1,270)	(1,507)	(30,060)	(22,856)	(11,625)	(67,318)
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
Balance at 31 December 2013	(1,270)	(1,790)	(39,954)	(36,809)	(25,658)	(105,481)
Net book value at 31 December 2012	2,713	4,436	27,177	58,067	35,765	128,158
Net book value at 31 December 2013	2,877	5,521	12,931	49,447	21,252	92,028

As part of the Company's impairment testing at 30 June 2013 and at 31 December 2013 it has recognised an intangible asset impairment loss of $9,090,000 due to the most recent financial performance of various cash-generating units as well as the expected financial performance of the business. 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, which has been recognised in the consolidated statement of comprehensive income. In its impairment assessment, the Company assumes the recoverable amount based on a value-in-use calculation.

The Company recognised $8,427,000 of research and development expenses in the consolidated statement of comprehensive income for the year ended 31 December 2013 (2012: $13,201,000).

22. TRADE AND OTHER PAYABLES

	2013 US$'000	2012 US$'000
Current		
Trade payables	68,962	160,076
Accrued payroll and benefits	22,685	46,928
Goods and services tax payable	17,017	27,105
Accrued drilling costs	3,518	4,916
Accrued legal and environmental	9,596	7,468
Accrued interest	13,091	5,632
Professional fees	5,822	6,067
Other sundry payables and accruals	12,461	26,059
	153,152	284,251

The average credit period on purchases of certain goods is 31 days (2012: 43 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.

23. LOANS AND BORROWINGS

	2013 US$'000	2012 US$'000
Unsecured - at amortised cost		
Non-current		
Senior notes	300,000	300,000
Revolver bank loans	-	308,000
Debt issuance costs	(4,219)	(6,331)
Secured - at amortised cost		
Current		
Finance lease liabilities	84	189
Non-current		
Senior Notes	300,000	-
Revolver bank loans	-	-
Debt issuance costs	(10,410)	-
Finance lease liabilities	4	64
	585,459	601,922
Disclosed in the financial statements as:		
Current borrowings	84	189
Non-current borrowings	585,375	601,733
	585,459	601,922
A summary of the maturity of the Company's borrowings is as follows:		
Less than 1 year	84	189
Between 1 and 2 years	4	64
Between 2 and 3 years	-	-
Between 3 and 4 years	-	308,000
More than 4 years	600,000	300,000
	600,088	608,253
Debt issuance costs	(14,629)	(6,331)
	585,459	601,922

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 and Swiss subsidiaries.

On 28 September 2013, the Company issued $300,000,000 of senior secured notes at an interest rate of 10% with a scheduled maturity date of 1 October 2018. Approximately $296,000,000 of the net proceeds was used to substantially repay borrowings under the Company's revolving loan facilities. The Company may redeem all or a portion of the notes prior to maturity subject to certain conditions, including, in certain cases, the payment of premiums or make-whole amounts. 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 will also be secured by a second priority lien on the issuer's and the guarantors' accounts receivable, inventories and cash.

Bank Credit Facility

The Company's bank credit facility provides a $140,000,000 secured revolving bank loan, of which up to $120,000,000 is available in the form of revolving loans or letters of credit with the remaining $20,000,000 being available only for the issuance of letters of credit. The revolving bank loan was decreased from a committed amount of $450,000,000 on 28 September 2013. The committed amount was increased from $350,000,000 to $450,000,000 on 15 February 2013.

In June 2013, the Company amended the facility to increase the maximum leverage covenant for certain covenant testing periods. The June 2013 amendment increased the maximum leverage ratio of gross-debt-to-EBITDA to 4.0:1 at 30 June 2013, 4.75:1 at 31 December 2013 and 30 June 2014, and 4.0:1 at 31 December 2014 and 30 June 2015. The maximum leverage ratio for subsequent compliance testing dates until the 29 July 2016 maturity date is 3.5:1. According to the June 2013 amendment, the revolver commitment was to be permanently reduced to $425,000,000 on 15 June 2014, $400,000,000 on 15 August 2014, $375,000,000 on 15 June 2015 and $350,000,000 on 15 August 2015. Additional material changes to the terms of the credit facility included the Company's agreement to provide security to its lenders over a range of its assets as well as an increase in the Company's borrowing rates. Lenders under the revolving credit facility have a first priority security interest in accounts receivable, inventories, cash and related assets and a second priority security interest in substantially all other tangible and intangible assets, including subsidiaries' outstanding capital stock, and in certain owned real property

On 28 September 2013, the company amended the facility to eliminate the existing maximum gross-debt-to-EBITDA leverage ratio covenant and adjust the minimum interest coverage covenant to a ratio of 1.55 to 1.0, which is tested quarterly. The amendment also adds covenants requiring maintenance of at least $30,000,000 in liquidity and a minimum asset coverage ratio of 1.25 to 1.0, both tested monthly.

As described in Note 38 (subsequent events), effective 22 February 2014, the Company has negotiated a further amendment of the credit facility.

Although none of the $120,000,000 bank credit facility commitment available in the form of revolving loan was drawn as at 31 December 2013, there were outstanding letters of credit of $10,392,000 as at 31 December 2013. As of 31 December 2012, $308,000,000 of the $350,000,000 bank credit facility commitment was drawn. Interest rates on borrowings are based on a base rate plus an applicable margin. The base rate is generally based on either 30-day USD LIBOR or the prime rate as determined by Bank of America, while the margin is determined based on leverage according to a pricing grid. $288,000,000 of the borrowings as at 31 December 2012, were based on 30-day LIBOR at the time of draws (between 0.210% and 0.215%) plus a margin of 1.75%, for a weighted average interest rate of 1.96% for 31 December 2012. $20,000,000 of the borrowings as at 31 December 2012 were based on the prime rate of 3.25% plus a margin of 0.75% for a total interest rate of 4.0%. The scheduled maturity date is 29 July 2016.

Outstanding letters of credit of $10,392,000 as at 31 December 2013 and $2,305,000 31 December 2012 reduce the amount available to draw under the bank credit facility commitments.

23. LOANS AND BORROWINGS (CONTINUED)

Covenants and other material terms – bank credit facility and senior notes

The Company's revolver contains 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. This includes maintaining a minimum interest coverage covenant to a ratio of 1.55 to 1.0, tested quarterly, maintenance of at least $30,000,000 in liquidity tested monthly and a minimum asset coverage ratio of 1.25 to 1.0 tested monthly. The agreement also requires that borrowers and guarantors represent at least 60% of Company EBITDA and total tangible assets of the Company. The Company amended several key terms of its bank debt facility effective 22 February 2014. See Note 38 for details of the amendment.

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

See Note 31 for a list of subsidiary guarantors which guarantee one or more of the debt facilities. Testing of the interest coverage covenant compliance takes place quarterly for the trailing 3 month period. Testing of the liquidity and asset coverage covenant compliance takes place monthly. Non-compliance with one or more of the covenants and restrictions could result in the full or partial principal balance of the associated debt becoming immediately due and payable. The Company is in compliance with the debt covenants as at 31 December 2013 and 2012 as well as 30 June 2013 and 2012.

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 similar to the bank revolver but do not require maintenance or testing of financial ratios, such as for leverage and interest cover.

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 have interest rates ranging from 7.65% to 9.0%, with repayment periods not exceeding two years.

24. PROVISIONS

	2013 US$'000	2012 US$'000
Current		
Employee benefits	13,802	22,018
Restructuring and termination costs [1]	14,235	8,765
Warranty [2]	293	223
Onerous leases	4,933	5,265
	33,263	36,271
Non-current		
Employee benefits	2,171	3,753
Pension and post-retirement benefits (Note 25)	32,284	80,422
Onerous leases	2,729	3,459
	37,184	87,634
	70,447	123,905

24. PROVISIONS (CONTINUED)

The changes in the provisions for the year ended 31 December 2013 are as follows:

	Restructuring and termination costs [1] US$'000	Warranty [2] US$'000	Onerous lease costs [3] US$'000
Balance at 1 January 2013	8,765	223	8,724
Additional provisions recognised	18,118	382	5,029
Reductions arising from payments	(10,936)	(211)	(2,903)
Reductions resulting from remeasurement	(1,384)	(93)	(2,361)
Foreign exchange	(328)	(8)	(827)
Balance at 31 December 2013	14,235	293	7,662

(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 lose 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 2013, and 2012, there were no significant outstanding/prepaid contributions. Company contributions to these plans were $16,627,000 and $23,863,000 for the years ended 31 December 2013 and 2012, 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.

25. PENSION AND POST-RETIREMENT BENEFITS (CONTINUED)

Defined benefit pension plans

Full actuarial valuations of the defined benefit pension plans were performed as of various dates and updated to 31 December 2013 by qualified independent actuaries. The estimated market value of the assets of the funded pension plans was $194,937,000 and $191,207,000 at 31 December 2013, and 2012, 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 88% in 2013 and 77% in 2012, 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 $6,844,000 and $11,065,000 during the years ended 31 December 2013 and 2012, respectively. Contributions in 2014 are expected to be $8,697,000.

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

	2013		2012	
	North America	Europe	North America	Europe
Discount rates	4.7%	3.4%	4.0%	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	-	1.8%	-	1.5%
Expected average increase in healthcare costs (initial)	6.8%	-	7.4%	-
Expected average increase in healthcare costs (ultimate)	5.0%	-	5.0%	-

25. PENSION AND POST-RETIREMENT BENEFITS (CONTINUED)

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

	2013			2012		
	Pension plan US$'000	Post-retirement medical plan US$'000	Total US$'000	Pension plan US$'000	Post-retirement medical plan US$'000	Total US$'000
Current service cost	1,359	1,246	2,605	2,096	940	3,036
Net Interest Expense	2,172	797	2,969	(864)	843	(21)
Past service cost	(222)	(16,871)	(17,093)	(207)		(207)
Total charge (credit) to profit and loss account	3,309	(14,828)	(11,519)	1,025	1,783	2,808
Effect of Standard change on Expected return on plan assets [1]				3,077	-	3,077
Adjusted total charge (credit) to profit and loss account				4,102	1,783	5,885

(1) During the year, 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.

For the financial years ended 31 December 2013 and 2012, charges of approximately $4,218,000 and $2,608,000, respectively, have been included in cost of goods sold and the remainder in general and administrative or sales and marketing expenses.

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

	2013			2012		
	Pension plan US$'000	Post-retirement medical plan US$'000	Total US$'000	Pension plan US$'000	Post-retirement medical plan US$'000	Total US$'000
Actuarial (gains) losses during the year, net of taxes	(17,404)	(1,730)	(19,134) [1]	15,864	496	16,360
Effect of Standard change [2]				(1,910)	-	(1,910)
Adjusted actuarial (gains) losses during the year, net of taxes				13,954	496	14,450

(1) Amount is the gross actuarial gain of $28,008,000 less $8,874,000 tax.

(2) During the year, 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.

25. PENSION AND POST-RETIREMENT BENEFITS (CONTINUED)

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:

	2013			2012		
	Pension plan US$'000	Post-retirement medical plan US$'000	Total US$'000	Pension plan US$'000	Post-retirement medical plan US$'000	Total US$'000
Present value of funded defined benefit obligations	220,594	-	220,594	246,789	-	246,789
Fair value of plan assets	(194,937)	-	(194,937)	(191,207)	-	(191,207)
	25,657	-	25,657	55,582	-	55,582
Present value of unfunded defined benefit obligations	5,770	857	6,627	5,742	19,098	24,840
Deficit	31,427	857	32,284	61,324	19,098	80,422
Net liability arising from defined benefit obligations	31,427	857	32,284	61,324	19,098	80,422

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

	2013			2012		
	Pension plan US$'000	Post-retirement medical plan US$'000	Total US$'000	Pension plan US$'000	Post-retirement medical plan US$'000	Total US$'000
Opening defined benefit obligation	252,531	19,098	271,629	225,616	17,238	242,854
Current service cost	1,359	1,246	2,605	2,096	940	3,036
Interest cost	9,409	797	10,206	10,199	843	11,042
Contributions from plan participants	-	367	367	-	423	423
Actuarial (gains) losses	(10,821)	(2,663)	(13,484)	23,264	799	24,063
Assets distributed on settlements	(10,340)	-	(10,340)	-	-	-
Past service cost	(222)	(16,871)	(17,093)	(207)	-	(207)
Exchange differences on foreign plans	(4,383)	(33)	(4,416)	4,077	15	4,092
Benefits paid	(11,169)	(1,162)	(12,331)	(12,514)	(1,279)	(13,793)
Federal subsidy on benefits paid	-	78	78	-	119	119
Closing defined benefit obligation	226,364	857	227,221	252,531	19,098	271,629

25. PENSION AND POST-RETIREMENT BENEFITS (CONTINUED)

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

	2013		
	Pension plan US$'000	**Post-retirement medical plan US$'000**	**Total US$'000**
Opening fair value plan of assets	191,207	-	191,207
Interest Income	7,237	-	7,237
Actuarial gains	14,524	-	14,524
Assets distributed on settlements	(9,619)	-	(9,619)
Exchange differences on foreign plans	(4,087)	-	(4,087)
Contributions from the employer	6,844	795	7,639
Distribution of assets from settled plan			-
Contributions from plan participants	-	367	367
Benefits paid	(11,169)	(1,162)	(12,331)
Closing fair value of plan assets	194,937	-	194,937

	2012				
	Pension plan US$'000	**Post-retirement medical plan US$'000**	**Total US$'000**	**Effect of Standard Change US$'000 [1]**	**Total US$'000**
Opening fair value plan of assets	173,776	-	173,776	-	173,776
Interest Income	11,063	-	11,063	(3,077)	7,986
Actuarial gains	4,615	-	4,615	3,077	7,692
Assets distributed on settlements			-	-	-
Exchange differences on foreign plans	3,202	-	3,202	-	3,202
Contributions from the employer	11,065	856	11,921	-	11,921
Distribution of assets from settled plan	-	-	-	-	-
Contributions from plan participants	-	423	423	-	423
Benefits paid	(12,514)	(1,279)	(13,793)	-	(13,793)
Closing fair value of plan assets	191,207	-	191,207	-	191,207

(1) During the year, 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.

25. PENSION AND POST-RETIREMENT BENEFITS (CONTINUED)

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

	2013		
	North America	Europe	
	Fair value US$'000	Fair value US$'000	Total fair value US$'000
At 31 December 2013			
Equity	82,211	19,459	101,670
Bonds	47,376	34,470	81,846
Property	2,787	1,112	3,899
Cash	2,787	556	3,343
Structured Debt	2,787	-	2,787
Other	1,392	-	1,392
	139,340	55,597	194,937

	2012		
	North America	Europe	
	Fair value US$'000	Fair value US$'000	Total fair value US$'000
At 31 December 2012			
Equity	81,124	17,749	98,873
Bonds	55,782	30,116	85,898
Property	-	1,319	1,319
Cash	4,302	403	4,705
Other	338	74	412
	141,546	49,661	191,207

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

	31 December 2013			31 December 2012		
	North America	Europe	Total	North America	Europe	Total
Post-retirement medical plan deficit	857	-	857	19,098	-	19,098
Pension plan deficit	10,006	21,421	31,427	36,625	24,699	61,324
Total deficit	10,863	21,421	32,284	55,723	24,699	80,422

On 8 December 2003, the Medicare Prescription Drug Improvement and Modernisation Act of 2003 was signed into law in the US. The Act introduced a prescription drug benefit beginning 2006 under Medicare (Medicare Part D) as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. Based on an actuarial analysis of the levels of benefits provided under the Company's Post-retirement Welfare Plan, the plan's actuary has concluded that beneficiaries receive drug coverage at least actuarially equivalent to Medicare Part D. The federal subsidy was reflected in costs, reducing the accumulated post-retirement benefit obligation by approximately $0 (nil) and $1,389,000 at 31 December 2013 and 2012, respectively. The expense was reduced by approximately $87,000 and $53,000 at 31 December 2013 and 2012, respectively.

25. PENSION AND POST-RETIREMENT BENEFITS (CONTINUED)

	2013			2012		
	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	194,937	-	194,937	191,207	-	191,207
Present value of defined benefit obligation	(226,364)	(857)	(227,221)	(252,531)	(19,098)	(271,629)
Deficit	(31,427)	(857)	(32,284)	(61,324)	(19,098)	(80,422)
Experience adjustments on plan liabilities	3,377	1,360	4,737	3,341	-	3,341
Experience adjustments on plan assets	14,524	-	14,524	4,615 [1]	-	4,615
Effect of Standard change [1]				3,077	-	3,077
Adjusted experience adjustments on plan assets				7,692	-	7,692

(1) During the year, 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 show the effect of restatement in this note and not restate the 2012 financial results and statement of financial position.

	2011			2010		
	Pension plan US$'000	Post-retirement medical plan US$'000	Total US$'000	Pension plan US$'000	Post-retirement medical plan US$'000	Total US$'000
Fair value of plan assets	173,776	-	173,776	194,620	-	194,620
Present value of defined benefit obligation	(225,616)	(17,238)	(242,854)	(209,750)	(14,879)	(224,629)
Deficit	(51,840)	(17,238)	(69,078)	(15,130)	(14,879)	(30,009)
Experience adjustments on plan liabilities	141	85	226	(643)	106	(537)
Experience adjustments on plan assets	(8,520)	-	(8,520)	3,867	-	3,867

25. PENSION AND POST-RETIREMENT BENEFITS (CONTINUED)

	2009		
	Pension plan US$'000	**Post-retirement medical plan US$'000**	**Total US$'000**
Fair value of plan assets	178,854	-	178,854
Present value of defined benefit obligation	(193,355)	(10,488)	(203,843)
Deficit	(14,501)	(10,488)	(24,989)
Experience adjustments on plan liabilities	(570)	(166)	(736)
Experience adjustments on plan assets	13,345	-	13,345

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:

	2013 US$'000	**2012 US$'000**
One percentage point increase		
Effect on the aggregate of the service cost and interest cost	307	254
Effect on accumulated post-employment benefit obligation	28	2,462
One percentage point decrease		
Effect on the aggregate of the service cost and interest cost	(257)	(216)
Effect on accumulated post-employment benefit obligation	(28)	(2,072)

26. ISSUED CAPITAL

	2013		2012	
	Shares '000	**US$'000**	**Shares '000**	**US$'000**
Share capital				
Ordinary shares, fully paid	456,955	1,129,014	454,710	1,122,189
Movements in ordinary shares				
Balance at beginning of year	454,710	1,122,189	455,755	1,128,923
Vesting of LTIP rights, restricted shares	2,245	6,825	1,597	2,435
Purchase of shares for LTIP	-	-	(2,642)	(9,169)
Balance at end of the year	456,955	1,129,014	454,710	1,122,189
Total shares outstanding	461,163	1,148,245	461,163	1,146,804
Shares held in trust	(4,208)	(19,231)	(6,453)	(24,615)
Balance at end of the year	456,955	1,129,014	454,710	1,122,189

27. RESERVES

	2013 US$'000	2012 US$'000
Foreign currency translation	(45,973)	56,658
Equity-settled employee benefits	8,661	14,256
	(37,312)	70,914

During the years ended 31 December 2013 and 2012, the changes in each of the respective reserve accounts were as follows:

Foreign currency translation	2013 US$'000	2012 US$'000
Balance at beginning of year	56,658	50,334
Exchange differences arising on translation of foreign operations	(102,631)	6,324
Balance at end of year	(45,973)	56,658

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

Equity-settled employee benefits	2013 US$'000	2012 US$'000
Balance at beginning of year	14,256	9,333
Share-based compensation	1,230	7,358
Vesting of LTIP rights	(6,825)	(2,435)
Balance at end of year	8,661	14,256

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 2013 and 2012, the changes in retained earnings consist of:

	2013 US$'000	2012 US$'000
Balance at beginning of year	79,496	83,032
Profit for the period attributable to equity holders of the Parent	(619,943)	68,164
Dividends paid	(4,612)	(55,340)
Actuarial gains (losses) on defined benefit plans (net of tax)	19,134	(16,360)
Balance at end of year	(525,925)	79,496

29. DIVIDENDS

Dividends declared and paid during the year ended 31 December 2013 are as follows:

	2013	
	US cents per share	Total US$'000
Fully paid ordinary shares		
Final 2012 dividend 35% franked	1.0	4,612

	2012	
	US cents per share	Total US$'000
Fully paid ordinary shares		
Final 2011 dividend 15% franked	5.6	25,826
Interim 2012 dividend 15% franked	6.4	29,514
	12.0	55,340

No dividend had been determined for either of the half-years ended 30 June 2013 or 31 December 2013.

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

	2013 US$'000	2012 US$'000
Adjusted combined franking balance	4,295	7,853

30. COMMITMENTS FOR EXPENDITURE

Commitments

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

	2013 US$'000	2012 US$'000
Capital commitments		
Purchase commitments for capital expenditures	511	10,857

30. COMMITMENTS FOR EXPENDITURE (CONTINUED)

Non-cancellable future operating lease commitments as at 31 December 2013 and 2012 consist of the following:

	31 December 2013		31 December 2012	
	Land and buildings US$'000	Plant and equipment US$'000	Land and buildings US$'000	Plant and equipment US$'000
Payments due within:				
1 year	12,556	6,467	15,603	12,086
2 to 5 years	25,406	2,034	32,483	11,601
After 5 years	4,156	21	6,740	-
	42,118	8,522	54,826	23,687

Description of operating leases

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

- 1 – 30 years for land and buildings with an average lease term of four years
- 1 – 6 years for machinery and equipment with an average lease term of five 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 2013 are as follows:

Subsidiary	Purpose	Expiration Date	Amount US $'000
Australia	Secure a performance bond	February 2015	772
Australia	Secure a facility rental	August 2015	100
Australia	Secure a facility rental	March 2015	171
Canada	Secure a surety bond	August 2014	5,032
Chile	Secure a performance bond	July 2016	2,012
United States	Secure workers compensation program	January 2014	405
Zambia	Support Products inventory	December 2014	1,900
			10,392

31. CONTINGENT LIABILITIES (CONTINUED)

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

	2013 US$'000	2012 US$'000
Less than 1 year	7,337	2,305
1 to 3 years	3,055	-
	10,392	2,305

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:

Country	Entity
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
	Votraint 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.

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 are 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 $9,900,000 against Boart Longyear International Zambia Limited, a fully owned subsidiary of the Company. The Company has already paid $200,000 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 that the potential liability amount to be considerably less than the assessment. The Company has shared those findings with the ZRA in a series of discussions resulting in ZRA informally reducing its assessment in a substantial manner. The Company still disagrees with the ZRA's revised informal 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 2013 and 2012 consist of the following:

	2013 US$'000	2012 US$'000
Contingent liabilities		
Guarantees/counter-guarantees to outside parties	46,989	30,154

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.

	Maximum credit risk	
Financial assets and other credit exposures	**2013 US$'000**	**2012 US$'000**
Performance guarantees provided, including letters of credit	57,381	32,459

32. PARENT ENTITY DISCLOSURES

Financial position

	2013 US$'000	2012 US$'000
Assets		
Current assets	844,962	821,946
Non-current assets	142,354	1,330,440
Total assets	987,316	2,152,386
Liabilities		
Current liabilities	146,013	149,574
Non-current liabilities	582	1,238
Total liabilities	146,595	150,812
Net Assets	840,721	2,001,574
Equity		
Issued capital	2,887,901	2,886,462
Reserves	253	464
(Accumulated losses) Retained earnings	(2,047,433)	(885,352)
Total equity	840,721	2,001,574

Financial performance

	2013 US$'000	2012 US$'000
(Loss) profit for the year	(1,157,469)	(859,732)
Other comprehensive income	-	-
Total comprehensive (loss) income	(1,157,469)	(859,732)

During the year ended 31 December 2013, Boart Longyear Limited recorded a provision against intercompany accounts of $1,200,000,000 ($900,000,000 for 31 December 2012). 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 2013 and 2012 Boart Longyear Limited did not have any contingent liabilities.

Contractual obligations

As at 31 December 2013 and 2012 Boart Longyear Limited did not have any contractual obligations.

33. COMPANY SUBSIDIARIES

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

Subsidiaries	Country of incorporation	Business	31 Dec 2013	31 Dec 2012
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 Gabon S.A.	Gabon	Drilling Services	100	100
BLY Ghana Limited	Ghana	Drilling Services	100	100
BLY Mali S.A.	Mali	Drilling Services	100	100
BLY Mexico Servicios S.A. de C.V.	Mexico	Drilling Services	100	100
BLY Senegal S.A.	Senegal	Drilling Services	100	100
BLY Sierra Leone Ltd.	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. [2]	United Kingdom	Holding Company	100	100
Boart Longyear (Hong Kong) Limited	Hong Kong	Drilling Services	100	100
Boart Longyear (Investments) Ltd.	United Kingdom	Dormant	100	100
Boart Longyear (NZ) Limited	New Zealand	Drilling Services	100	100
Boart Longyear (Pty) Ltd	Botswana	Drilling Products	100	100
Boart Longyear (Vic) No. 1 Pty Ltd (Australia)	Australia	Holding Company	100	100
Boart Longyear (Vic) No. 2 Pty Ltd (Australia)	Australia	Holding Company	100	100
Boart Longyear Alberta Limited	Canada	Holding Company	100	100
Boart Longyear Argentina S.A.	Argentina	Drilling Services	100	100
Boart Longyear Australia Holdings Pty Limited	Australia	Holding Company	100	100
Boart Longyear Australia Pty Ltd	Australia	Drilling Services	100	100
Boart Longyear Bermuda Limited	Bermuda	Holding Company	100	100
Boart Longyear Burkina Faso Sarl	Burkina Faso	Drilling Services	100	100
Boart Longyear BV	Netherlands	Drilling Products	100	100
Boart Longyear Canada	Canada	Drilling Products and Services	100	100
Boart Longyear Chile Limitada	Chile	Drilling Products and Services	100	100
Boart Longyear Colombia S.A.S.	Colombia	Drilling Services	100	100
Boart Longyear Comercializadora Limitada [5]	Chile	Drilling Products	100	100
Boart Longyear Company	USA	Drilling Products and Services	100	100
Boart Longyear Cote d'Ivoire S.A.	Ivory Coast	Drilling Services	100	100
Boart Longyear Consolidated Holdings, Inc.	USA	Holding Company	100	100
Boart Longyear de Mexico, S.A. de C.V.	Mexico	Drilling Services	100	100
Boart Longyear Drilling and Products Mexico, S.A. de C.V.	Mexico	Drilling Products and Services	100	100
Boart Longyear Drilling Private Limited Company	Ethiopia	Drilling Services	100	100
Boart Longyear Drilling Products Company (Wuxi) Ltd.	China	Drilling Products and Services	100	100
Boart Longyear Drilling Services KZ LLP	Kazakhstan	Drilling Services	100	100
Boart Longyear EMEA Cooperatief U.A.	Netherlands	Holding Company	100	100
Boart Longyear EMEA UK Holdings Ltd	United Kingdom	Holding Company	100	100
Boart Longyear Eritrea Ltd.	Eritrea	Drilling Services	100	100
Boart Longyear Financial Services SARL	Switzerland	Products	100	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 Guinea S.A.	Guinea	Drilling Services	100	100
Boart Longyear Holdings (Thailand) Co., Ltd.	Thailand	Drilling Services	100	100
Boart Longyear India Private Ltd	India	Drilling Products	100	100
Boart Longyear International BV	Netherlands	Holding Company	100	100
Boart Longyear International Holdings, Inc.	USA	Holding Company	100	100
Boart Longyear Investments Pty Ltd	Australia	Holding Company	100	100
Boart Longyear Liberia Corporation	Liberia	Drilling Services	100	100
Boart Longyear Limitada	Brazil	Drilling Products	100	100
Boart Longyear Limited	Ireland	Drilling Products	100	100
Boart Longyear Limited	Laos	Drilling Services	100	100
Boart Longyear Limited	Thailand	Drilling Services	100	100

33. COMPANY SUBSIDIARIES (CONTINUED)

Subsidiaries	Country of incorporation	Business	31 Dec 2013	31 Dec 2012
Boart Longyear LLC	Russia Federation	Drilling Products	100	100
Boart Longyear Ltd	Ghana	Dormant	100	100
Boart Longyear Madagascar S.A.	Madagascar	Drilling Services	100	100
Boart Longyear Mali Products S.A.	Mali	Products	100	100
Boart Longyear Management Pty Ltd	Australia	Holding Company	100	100
Boart Longyear Manufacturing Canada Ltd. [1]	Canada	Drilling Products	100	-
Boart Longyear Manufacturing USA Inc. [1]	USA	Drilling Products	100	-
Boart Longyear Netherlands BV	Netherlands	Holding Company	100	100
Boart Longyear Nevada [3]	USA	Drilling Services	-	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. [2]	France	Holding Company	100	100
Boart Longyear SAC	Peru	Drilling Products and Services	100	100
Boart Longyear Saudi Arabia LLC	Saudi Arabia	Drilling Services	100	100
Boart Longyear Suisse SARL [4]	Sw itzerland	Holding Company	100	100
Boart Longyear Vermogensverw altung GmbH	Germany	Dormant	100	100
Boart Longyear Zambia Ltd.	Zambia	Drilling Services	100	100
Cooperatief Longyear Holdings UA	Netherlands	Holding Company	100	100
Drillcorp Pty Ltd	Australia	Drilling Services	100	100
Dongray Industrial Limited [2]	United Kingdom	Dormant	100	100
Geoserv Pesquisas Geologicas S.A.	Brazil	Drilling Services	100	100
Grimw ood Davies Pty Ltd	Australia	Drilling Services	100	100
Inavel S.A.	Uruguay	Drilling Services	100	100
J&T Servicios, S.C.	Mexico	Drilling Services	100	100
Longyear Calulo Holdings BV	Netherlands	Drilling Services	100	100
Longyear Canada, ULC	Canada	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	South Africa	Dormant	100	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
Votraint No. 1609 Pty Ltd	Australia	Drilling Services	100	100

(1) This entity w as formed in 2013.
(2) This entity is currently in liquidation status.
(3) This entity w as merged into Boart Longyear Company (USA) in 2013.
(4) Formerly Votraint Sw itzerland SARL; name changed in 2013.
(5) Formerly Boart Longyear S.A., name changed in 2013

34. DISPOSAL OF OPERATIONS

On 15 July 2013, the Company sold its US-based environmental and infrastructure drilling services operations. The sale is 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 restructuring costs (See Note 10).

Book value of net assets sold	2013 US$'000
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

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.

	2013 US$'000	2012 US$'000
Cash and cash equivalents	59,053	89,628

Of the cash balance at 31 December 2013, $4,510,000 was considered restricted cash. At 31 December 2012, $1,463,000 was considered restricted cash.

(b) Businesses acquired

During the years ended 31 December 2013 and 2012 there were no business acquisitions.

(c) Businesses disposed

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.

During the year ended 31 December 2012 there were no business dispositions.

36. ASSETS CLASSIFIED AS HELD FOR SALE

The Company classified certain assets related to the United States environmental and infrastructure drilling services operations as assets held for sale as at 31 December 2012. On reclassification of these operations to assets held for sale, the Company recognised an impairment loss of $3,986,000 for the year ended 31 December 2012. This business was classified, and accounted for, at 31 December 2012 as a disposal group held for sale.

The following assets were reclassified to assets held for sale at 31 December 2012:

	2012 US$'000
Trade and other receivables	13,269
Inventories	722
Prepaid expenses and other assets	212
Property, plant and equipment	19,159
Other intangible assets	444
Other assets	191
	33,997

On 15 July 2013 these assets were sold. See Note 34.

37. 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.

(iii) Key management personnel equity holdings

37. RELATED PARTY TRANSACTIONS (CONTINUED)

Shares

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

	Balance 1 January	Net change during year	Balance 31 December		Balance held nominally
2013					
Barbara Jeremiah	50,000	405,000	455,000		-
Bruce Brook	134,423	85,577	220,000		-
Roger Brown	30,000	70,000	100,000		-
Roy Franklin	45,000	120,000	165,000		-
Tanya Fratto	20,000	100,000	120,000		-
David McLemore	155,861	1,000,000	1,155,861		-
Peter St. George	157,450	-	N/A	1	-
Rex McLennan	-	100,000	100,000		-
Richard O'Brien	-	300,000	300,000		-
Joe Ragan III	70,845	188,000	N/A	1	-
Fabrizio Rasetti	155,654	54,928	210,582		-
Brad Baker	47,337	47,992	95,329		-
Alan Sides	-	69,606	69,606		-
Kent Hoots	-	36,663	36,663		-

	Balance 1 January	Net change during year	Balance 31 December		Balance held nominally
2012					
Barbara Jeremiah	30,000	20,000	50,000		-
Bruce Brook	104,423	30,000	134,423		-
Roger Brown	30,000	-	30,000		-
Roy Franklin	-	45,000	45,000		-
Tanya Fratto	-	20,000	20,000		-
David McLemore	115,861	40,000	155,861		-
Peter St. George	107,450	50,000	157,450		-
Craig Kipp	564,998	201,760	N/A	2	-
Joe Ragan III	18,523	52,322	70,845		-
Fabrizio Rasetti	117,286	38,368	155,654		-
Brad Baker	8,967	38,370	47,337		-
Michael Birch	48,343	38,370	86,713		-

(1) The 31 December 2013 share balances for Mr St. George and Mr Ragan are not reported due to their resignations on 21 May 2013 and 18 May 2013 respectively. Their net change for the year is reflected through the termination date.

(2) Mr Kipp's 31 December 2012 share balance is not reported due to his termination as a related party effective 5 October 2012. His net change for the year is reflected through the termination date.

37. RELATED PARTY TRANSACTIONS (CONTINUED)

Share rights and restricted shares

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

2013	Held at the beginning of the financial year	Granted as remun-eration	Vested and issued during the year		Forfeited during the year	Held at the end of the financial year
Richard O'Brien	-	3,779,000	-		-	3,779,000
Joe Ragan III	273,000	-	(188,000)	1	-	85,001
Fabrizio Rasetti	242,578	238,550	(82,578)		-	398,550
Brad Baker	207,150	180,238	(72,150)		-	315,238
Alan Sides	234,600	318,066	(104,600)		-	448,066
Kent Hoots	160,095	265,056	(55,095)		-	370,056

2012	Held at the beginning of the Financial year	Granted as remun-eration	Vested and issued during the year		Forfeited during the year	Held at the end of the financial year
Craig Kipp	1,065,400	681,200	(227,475)	2	(829,747)	689,378
Joe Ragan III	258,000	90,000	(75,000)		-	273,000
Fabrizio Rasetti	207,578	90,000	(55,000)		-	242,578
Brad Baker	187,150	75,000	(55,000)		-	207,150
Alan Sides	164,600	70,000	-		-	234,600
Michael Birch	217,900	90,000	(55,000)		-	252,900

(1) As a result of Mr Ragan’s termination of employment in 2013, and pursuant to the terms of the termination agreement, Mr Ragan’s outstanding Retention Share Rights were vested on his date of termination on 18 May 2013. His Performance Share Rights remain subject to the Performance Conditions of the award.

(2) As a result of Mr Kipp’s termination of employment in 2012, and pursuant to the terms of the termination agreement, Mr Kipp’s outstanding Share Rights were prorated to his date of termination. This resulted in the amount of Share Right forfeitures indicated above. The balance of his Performance Share Rights remains subject to the Performance Conditions and other vesting requirements of the award.

37. RELATED PARTY TRANSACTIONS (CONTINUED)

Cash rights

Details of the cash rights that have been granted under the LTIP program as compensation to key management personnel, and the activity during the financial year are as follows: The cash rights vest over a three-year period from the grant date, with 50% subject to certain performance conditions.

2013	Held at the beginning of the financial year US$	Granted as remun-eration US$	Vested and issued during the year US$	Forfeited during the year US$	Held at the end of the financial year US$
Richard O'Brien	-	-	-	-	-
Joe Ragan III	100,000	-	100,000	-	-
Fabrizio Rasetti	80,000	-	80,000	-	-
Brad Baker	80,000	-	80,000	-	-
Alan Sides	80,000	-	80,000	-	-
Kent Hoots	50,000	-	50,000	-	-

2012	Held at the beginning of the financial year US$	Granted as remun-eration US$	Vested and issued during the year US$	Forfeited during the year US$	Held at the end of the financial year US$
Craig Kipp	1,196,300	-	746,300 [1]	60,300 [1]	389,700 [1]
Joe Ragan III	375,000	-	275,000	-	100,000
Fabrizio Rasetti	305,000	-	225,000	-	80,000
Brad Baker	305,000	-	225,000	-	80,000
Alan Sides	80,000	-	-	-	80,000
Michael Birch	305,000	-	225,000	-	80,000

(1) As a result of Mr Kipp's termination of employment in 2012, and pursuant to the terms of the LTI award agreement, Mr Kipp's outstanding Performance Cash Rights were prorated to 5 October 2012.

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

37. RELATED PARTY TRANSACTIONS (CONTINUED)

Options

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

2013	Held at the beginning of the financial Year	Granted as remun-eration	Vested during the year	Forfeited during the year	Held at the end of the financial year	Vested and exercisable as at 31 December 2013
Richard O'Brien	-	-	-	-	-	-
Joe Ragan III	-	-	-	-	-	37,500
Fabrizio Rasetti	-	-	-	-	-	27,500
Brad Baker	-	-	-	-	-	27,500
Alan Sides	25,000	-	25,000	-	-	25,000
Kent Hoots	-	-	-	-	-	20,000

2012	Held at the beginning of the financial year	Granted as remun-eration	Vested during the year	Forfeited during the year	Held at the end of the financial year	Vested and exercisable as at 31 December 2012
Craig Kipp	340,000	-	340,000	-	-	340,000
Joe Ragan III	37,500	-	37,500	-	-	37,500
Fabrizio Rasetti	27,500	-	27,500	-	-	27,500
Brad Baker	27,500	-	27,500	-	-	27,500
Alan Sides	25,000	-	-	-	25,000	-
Michael Birch	27,500	-	27,500	-	-	27,500

During the years ended 31 December 2013 and 2012, no shares were issued on the exercise of options previously granted as compensation to the above individuals.

38. SUBSEQUENT EVENTS

On 7 January 2014, the Company announced the appointment of Mr Jeffrey Olsen as Chief Financial Officer of the Company effective 1 April 2014. Mr. Olsen currently serves as Chief Commercial Officer for Rio Tinto's Iron & Titanium business. He brings over 17 years of experience in various finance management roles during his tenure with Rio Tinto.

On 31 January 2014, the Company issued a $5,000,000 cash retention grant to Richard O'Brien. The cash rights will be divided into three equal portions vesting on the dates of 19 May 2014, 1 April 2015 and 1 April 2016.

Based on the Company's view that market conditions may not significantly recover over the next twelve months, the Company negotiated an amendment to its Credit Agreement that is intended to provide continued access to the revolving credit facility and additional head room under the Credit Agreement's financial covenants. The amendment, which became effective on 22 February 2014, eliminates the Minimum Asset Coverage financial covenant and suspends the following financial covenants through the 31 March 2015 compliance testing date:

- Minimum Liquidity of $30,000,000 (tested monthly)
- Minimum Interest Coverage Ratio of 1.55x (tested quarterly)

New financial covenants have been added, which require:

- minimum cumulative last-twelve-months EBITDA of $45,000,000 through 31 March 2015 (tested quarterly); and
- maximum Total Debt, at the levels set out below, to be tested quarterly through the maturity date of the Credit Agreement, which remains unchanged at 29 July 2016:
  (i) $700,000,000 at 30 June 2014
  (ii) $700,000,000 at 30 September 2014
  (iii) $670,000,000 at 31 December 2014
  (iv) $720,000,000 at 31 March 2015
  (v) $725,000,000 at 30 June 2015 and for each quarterly testing date thereafter.

The specified maximum Total Debt levels may vary upon the occurrence of certain events. In addition, the amendment adjusts fees and pricing, introduces new financial reporting requirements, establishes a monthly borrowing base of specified assets to allowed borrowings, limits annual capital expenditures and requires the Company, by 30 September 2014, to present a plan to the banks that proposes full repayment of the facility by the maturity date, which will be subject to an independent review. "Total Debt" means, as of any date, the Total Revolving Outstandings and any other Finance Debt of the Group outstanding (whether actually or contingently) on that date, but excluding (to the extent otherwise included): (i) contingent exposures under hedge or derivative transactions other than currency hedge or derivative transactions that hedge Finance Debt; (ii) Finance Debt owed by a Group member to another Group member; (iii) contingent liability under any letters of credit (other than those issued under this Agreement) which support performance obligations of a Group member, performance bonds or performance guaranties (or bank guaranties or letters of credit in lieu thereof) occurring within the ordinary course of business but not obligations in respect of Finance Debt; and (iv) to avoid double counting, contingent liability under any other letters of credit issued to secure external Finance Debt of a Group member to a financier to the extent such Finance Debt is already included in the calculation of the definition.