BOART LONGYEAR™

BOART LONGYEAR APPENDIX

Boart Longyear Limited
ACN 123 052 728

This Appendix is dated 9 March 2007 and has been prepared by Boart Longyear Limited (ACN 123 052 728) ("Company" or "Boart Longyear"). This Appendix should be read in conjunction with the prospectus issued by the Company dated 9 March 2007 and lodged by the Company on that date ("Prospectus"). The information in this Appendix is subject to the information disclosed in the Prospectus.

Words and expressions defined in the Prospectus have the same meaning when used in this Appendix.

This Appendix is incorporated by reference into the Prospectus pursuant to section 712 of the Corporations Act (and has been lodged with ASIC in accordance with section 712(4) of the Corporations Act).

A. PRO FORMA HISTORICAL CONSOLIDATED STATEMENT OF REVENUE, EBITDA AND EBIT

Table A.1 Pro forma historical consolidated statement of revenue, EBITDA and EBIT

	Pro forma FY2005 US$m	Pro forma FY2006 US$m	Pro forma FY2005 A$m	Pro forma FY2006 A$m
Pro forma revenue from operating activities	1,022.6	1,252.8	1,342.0	1,664.9
Cost of sales	(672.0)	(768.6)	(881.9)	(1,021.4)
Pro forma gross profit	350.6	484.2	460.1	643.5
Other expenses	(150.7)	(206.4)	(197.8)	(274.3)
Pro forma EBITDA	199.9	277.8	262.3	369.2
Depreciation	(40.4)	(45.9)	(53.0)	(61.0)
Pro forma EBITA	159.5	231.9	209.3	308.2
Amortisation	(0.7)	(0.9)	(0.9)	(1.2)
Pro forma EBIT	158.8	231.0	208.4	307.0

Notes:

1. US dollar pro forma historical financial information has been translated into A$ at the average exchange rate for the financial year being US$0.762:A$1.00 for FY2005 and US$0.7525:A$1.00 for FY2006.
2. The attached notes form part of this pro forma Historical Financial Information.
3. In presenting pro forma EBITDA, pro forma EBITA and pro forma EBIT, interest is defined as net finance costs as described in Note D.1.21 of this Appendix.
4. Depreciation on the fair value uplift to tangible assets arising pursuant to the purchase price allocation exercise for the Acquired Businesses has only been applied effective from the date of acquisition or 31 December 2006 for acquisitions subsequent to year end. The Directors do not believe that a reasonable basis exists for recognising a pro forma adjustment from 1 January 2005 and the financial impact is not material to understanding the Historical Financial Information.
5. Amortisation charges primarily relate to patents, as the purchase price allocation exercise completed in relation to the Acquired Businesses has only been applied effective from the date of the acquisition or 31 December 2006 for acquisitions subsequent to year end. The Directors do not believe that a reasonable basis exists for recognising a pro forma adjustment from 1 January 2005 for amortisation of contractual customer relationships and the financial impact is not material to understanding the Historical Financial Information.
6. For the purposes of presentation of financial information in the Prospectus and this Appendix, cost of sales has been presented exclusive of all depreciation and amortisation, including depreciation and amortisation absorbed into the cost of inventories presented in the pro forma balance sheet. In its statutory financial report for the year ending 31 December 2007, the Company intends to present cost of sales and other functional expenses inclusive of depreciation and amortisation applicable to both the Drilling Services and Products businesses.
7. The Historical Financial Information has been presented to the pro forma EBIT level only as the business historically operated under a different corporate structure with different gearing and tax profiles.

B. PRO FORMA CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2006

Table B.1 Pro forma consolidated balance sheet as at 31 December 2006

	Note	US$m	A$m
Current assets			
Cash and cash equivalents	D.2	15.4	19.6
Trade and other receivables	D.3	233.7	297.0
Other financial assets	D.4	2.2	2.8
Inventories	D.5	139.7	177.5
Prepaid expenses and other current assets	D.6	23.4	29.7
Total current assets		414.4	526.6
Non-current assets			
Property, plant and equipment	D.7	260.1	330.5
Deferred tax assets		36.7	46.6
Other financial assets	D.4	3.9	5.0
Goodwill and other intangible assets	D.8	221.9	282.0
Other assets		1.2	1.5
Total non-current assets		523.8	665.6
Total assets		938.2	1,192.2
Current liabilities			
Trade and other payables	D.9	240.8	306.0
Current tax payable		23.0	29.2
Loans and borrowings	D.10	5.1	6.6
Provisions	D.12	28.8	36.6
Other liabilities		0.7	0.9
Total current liabilities		298.4	379.3
Non-current liabilities			
Trade and other payables	D.9	0.7	0.9
Loans and borrowings	D.10	668.8	849.9
Other financial liabilities	D.11	2.3	2.9
Deferred tax liabilities		3.7	4.7
Provisions	D.12	37.8	48.0
Total non-current liabilities		713.3	906.4
Total liabilities		1,011.7	1,285.7
Net assets/(liabilities)		(73.5)	(93.5)
Equity			
Issued capital	D.15	452.3	574.8
Reserves	D.15	7.3	9.3
Other equity amounts	D.15	(261.3)	(332.1)
Retained earnings/(accumulated losses)		(271.8)	(345.5)
Total equity/(deficit)		(73.5)	(93.5)

Note:
1. US dollar pro forma consolidated balance sheet information as at 31 December 2006 has been translated into A$ at the exchange rate prevailing at that date of US$0.787:A$1.00.

C. PRO FORMA HISTORICAL CONSOLIDATED SUMMARY CASH FLOW BEFORE FINANCING AND TAX

Table C.1 Pro forma historical consolidated summary cash flow before financing and tax

	Pro forma FY2005 US$m	Pro forma FY2006 US$m	Pro forma FY2005 A$m	Pro forma FY2006 A$m
Pro forma EBIT	158.8	231.0	208.4	307.0
Depreciation and amortisation	41.1	46.8	53.9	62.2
Pro forma EBITDA	199.9	277.8	262.3	369.2
Pro forma non-cash and other items and working capital movements	(72.6)	(21.2)	(95.3)	(28.2)
Pro forma cash flows available from operations	127.3	256.6	167.0	341.0
Pro forma capital expenditure – growth	(38.4)	(60.6)	(50.4)	(80.5)
Pro forma capital expenditure – maintenance	(11.4)	(31.1)	(15.0)	(41.3)
Pro forma cash flows before financing and tax	77.5	164.9	101.6	219.2

Notes:
1. Refer to the notes to Table A.1 for details of exchange rates applied.
2. Pro forma capital expenditure in the above table excludes US$5.2 million and US$9.2 million of plant and equipment acquired by means of finance leases in FY2005 and FY2006, respectively.
3. Pro forma capital expenditure in the table above has been prepared on an accrual basis.

D. NOTES TO THE PRO FORMA HISTORICAL FINANCIAL INFORMATION

D.1 Summary of significant accounting policies

D.1.1 Basis of preparation

The accompanying Historical Financial Information of the Boart Longyear Group presents the results of the Boart Longyear Businesses and the Acquired Businesses on a pro forma basis. The pro forma historical financial information is presented in abbreviated form and does not contain all of the disclosures that are necessary in an annual financial report prepared in accordance with the Corporations Act.

Prior to the business combination with RSHI on or about 11 April 2007, the Boart Longyear Businesses and the Acquired Businesses will have operated under a different corporate structure with different gearing and tax profiles to those proposed for the Boart Longyear Group after completion of the Offer.

As a consequence, the Directors believe the historical net finance costs and income tax expense incurred by these businesses are not representative of what the net finance costs and income tax expense would have been, had the Boart Longyear Group operated under the new structure which will be in place after completion of the Offer. Therefore historical net finance costs and income tax expense have not been presented in the pro forma historical financial information of the Boart Longyear Group included in the Prospectus and this Appendix.

Historically, the Boart Longyear Group has prepared historical financial information in accordance with UK GAAP. The pro forma historical financial information is presented on an AIFRS basis and reflects the current assessment of the standards issued by the AASB as at the date of the Prospectus. AIFRS and related interpretations may change between the issue date of the Prospectus and the date of the Company's first financial report presented under AIFRS. The regulatory bodies that promulgate AIFRS have ongoing projects that could affect the application and interpretation of AIFRS and the impact of these changes on the Boart Longyear Group's AIFRS results may vary materially. Accordingly, there can be no assurance provided that the pro forma historical financial information as disclosed in the Prospectus would not be materially different if future changes or interpretations arise under AIFRS.

The pro forma historical financial information has been prepared on the historical cost basis except that the derivative financial instruments are stated at their fair value.

The pro forma historical financial information is unaudited although the historical financial statements of the Boart Longyear Group which form the basis for the pro forma historical financial information are themselves audited. A detailed reconciliation from the historical financial statements of the Boart Longyear Group to the pro forma historical financial information is included in Note E of this Appendix (including the use of certain unaudited financial information of the Acquired Businesses as described in that Note).

The preparation of a financial report in conformity with AIFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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 Group.

The transition to AIFRS is accounted for in accordance with AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards', with 1 January 2006 as the date of transition. From the date of transition to AIFRS, the historical financial information for the Boart Longyear Group (including historical financial information for the Acquired Businesses) has been presented in accordance with AIFRS (this is set out in further detail in Note E of this Appendix). This has involved a restatement which was made after considering the effect of the mandatory exceptions and optional exemptions in AASB 1 that the Company expects to apply in preparing its first financial statements under AIFRS. In order to assist with the comparison between the pro forma historical financial information for FY2005 and

FY2006, the pro forma historical financial information for FY2005 has also been presented in accordance with AIFRS.

The accounting policies set out below have been consistently applied by the Boart Longyear Group in preparing the pro forma historical financial information for FY2006 and the comparative information presented for FY2005.

D.1.2 Basis of consolidation

D.1.2.1 Reverse acquisition accounting

On or about 11 April 2007, Boart Longyear Limited, a company that will be the ASX listed legal parent entity of the Boart Longyear Group, will effect a business combination by its subsidiary Boart Longyear Investments acquiring RSHI, the current legal parent entity of the Boart Longyear Group.

In applying the requirements of AASB 3 'Business Combinations' to this transaction:

- Boart Longyear Limited as the legal parent entity of the Boart Longyear Group following settlement will present parent entity and consolidated financial information for the Boart Longyear Group in its future published financial reports; and
- LGHI, which is neither the legal parent nor legal acquirer, will be the Accounting Acquirer of the Boart Longyear Group.

AASB 3 states that 'when a new entity is formed to issue equity instruments to effect a business combination, one of the combining entities that existed before the combination shall be identified as the acquirer on the basis of the evidence available'. This is commonly referred to as 'reverse acquisition accounting'. This differs from the method of acquisition accounting under previous Australian GAAP, by which the legal entity that acquires the other combining entities would be identified as the acquirer.

The acquisition of RSHI will be effected by Boart Longyear Investments issuing Redeemable Notes and Exchangable Notes to the existing shareholders of RSHI. The Redeemable Notes will be redeemed for cash and the Exchangable Notes will be exchanged for Shares in the Company. Accordingly, the Directors are of the opinion that, in accordance with the requirements of AASB 3, neither Boart Longyear Investments nor the Company would be identified as the acquirer for accounting purposes.

Note:

1. LGHI acquired the Boart Longyear Businesses from Anglo American effective 29 July 2005. On 6 October 2006, LGHI undertook a merger in accordance with the laws of Delaware, United States with Resources Services Holdings USA, Inc. ("RSH USA"), a Delaware corporation, following which LGHI continued as the surviving corporation. Subsequently on 9 October 2006, all shareholders in LGHI exchanged their equity interests in LGHI for equivalent equity interests in RSHI. For accounting purposes, neither the acquisition of LGHI by RSHI nor the merger between LGHI and RSH USA are considered to be transactions of substance and accordingly, the consolidated financial statements of RSHI are presented as a continuation of the consolidated financial

In the opinion of the Directors, the acquirer for accounting purposes is the current accounting parent entity of the Boart Longyear Group, LGHI, rather than RSHI which is the current legal parent entity. LGHI is the current accounting parent entity and RSHI is the current legal parent entity of the Boart Longyear Group as a result of a restructuring transaction of the Boart Longyear Group undertaken on 9 October 2006.[1] Accordingly, in its financial statements for FY2007 and future periods, the Boart Longyear Group will present both LGHI (Accounting Acquirer) consolidated financial information and Company (legal parent) financial information. The controlled entities of LGHI (Accounting Acquirer) are deemed to be all other combining entities of the Boart Longyear Group, including RSHI and the Company.

The major implications of the application of reverse acquisition accounting are that:

– consolidated financial statements shall be issued under the name of the Company, but described in the notes as a continuation of the financial statements of LGHI (Accounting Acquirer) and accordingly:
  – the assets and liabilities shall be recognised and measured in those consolidated financial statements at the carrying amounts of LGHI (Accounting Acquirer) immediately before Settlement, rather than at fair values;
  – the retained earnings and other equity balances recognised in those consolidated financial statements shall be the retained earnings and other equity balances of LGHI (Accounting Acquirer) immediately before Settlement;
  – the amount recognised as issued equity instruments in those consolidated financial statements shall be determined by adding the notional cost of the combination to the issued equity of LGHI immediately before Settlement; and
  – comparative information presented in those consolidated financial statements shall be that of LGHI (Accounting Acquirer); and
– the retained earnings of LGHI (Accounting Acquirer) as at Settlement are not available for the payment of dividends to the shareholders of the Company.

D.1.2.2 Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the pro forma historical financial information from 1 January 2005.

D.1.2.3 Transactions eliminated on consolidation

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

D.1.3 Presentation and functional currency

The results of the major operating businesses are recorded in their functional currencies, which are generally their local currencies. US dollar denominated revenue represented approximately 37% of the Boart Longyear Group's total pro forma revenue in FY2006, with the remainder denominated in the currencies of other operational markets, including Canada (approximately 22%), Australia (approximately 19%), Europe (approximately 10%), South Africa (approximately 9%) and others (approximately 3%).

Consequently, under AIFRS, the Directors believe that US dollar reporting represents the best indicator of the results of the Boart Longyear Group. Future financial reporting by Boart Longyear will therefore be presented in US dollars.

However, for the convenience of prospective investors, Australian dollar information has also been included in the Prospectus. US dollar pro forma historical financial information has been translated into Australian dollars at the following exchange rates:

– US dollar pro forma historical statement of revenue, EBITDA and EBIT information has been translated into Australian dollars at the average exchange rate for the financial year presented, being US\$0.762:A\$1.00 for FY2005 and US\$0.753:A\$1.00 for FY2006; and

– US dollar pro forma balance sheet information as at 31 December 2006 has been translated into Australian dollars at the exchange rate prevailing at that date of US$0.787:A$1.00.

D.1.4 Interest bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Fees paid on the establishment of loan facilities that are yield related are included as part of the carrying amount of the loans and borrowings.

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

D.1.5 Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and on hand, demand deposits and short term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Bank overdrafts are shown within loans and borrowings in current liabilities in the balance sheet.

For the purposes of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

D.1.6 Derivative financial instruments

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

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

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

Derivatives not designated into an effective hedge relationship are classified as a current asset or a current liability.

D.1.6.1 Embedded derivatives

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

D.1.6.2 Hedge accounting

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

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

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Boart Longyear Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

D.1.6.3 Fair value hedge

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

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

D.1.6.4 Cash flow hedge

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

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

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

D.1.7 Employee benefits

D.1.7.1 Wages, salaries, annual leave, sick leave and non-monetary benefits

Liabilities for employee benefits for wages, salaries, annual leave and sick leave represent present obligations resulting from employees' services provided to reporting date and are calculated at undiscounted amounts based on remuneration wage and salary rates that the Boart Longyear Group expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax. Non-accumulating non-monetary benefits, such as medical care, housing, cars and free or subsidised goods and services, are expensed based on the net marginal cost to the Boart Longyear Group as the benefits are taken by the employees.

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

D.1.7.2 Defined contribution superannuation/pension plans

Obligations for contributions to defined contribution superannuation plans are recognised as an expense in the income statement as incurred.

D.1.7.3 Defined benefit superannuation/pension plans

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

The discount rate is the yield at the balance sheet date on high quality corporate bonds that have maturity dates approximating to the terms of the Boart Longyear Group's defined benefit obligations. Where there is no deep market in such bonds, the market yields (at the reporting date) on government bonds are used. The calculation is performed by a qualified actuary using the projected unit credit method.

Actuarial gains and losses arising from experience adjustments and related changes in actuarial assumptions are charged or credited to retained earnings.

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

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

D.1.7.4 Share based payment transactions

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

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

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

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

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

D.1.7.5 Earn-out and bonus agreements

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

D.1.8 Foreign currency

D.1.8.1 Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Boart Longyear Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the foreign exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss.

D.1.8.2 Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to US dollars at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyper inflationary economies, are translated to US dollars at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used.

The income and expenses of foreign operations in hyper inflationary economies are translated to US dollars at the exchange rate at the reporting date. Prior to translating the financial statements of foreign operations in hyper inflationary economies, the financial statements for the current period are restated to account for changes in the general purchasing power of the local currency. The restatement is based on relevant price indices at the reporting date.

Foreign currency differences are recognised directly in equity. Since 1 January 2006, the Boart Longyear Group's date of transition to AIFRS, such differences have been recognised in the foreign currency translation reserve ("FCTR"). Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, are also recognised in the FCTR on consolidation. When a foreign operation is disposed of, in part or in full, the relevant amount in the FCTR is transferred to profit or loss.

D.1.9 Impairment

D.1.9.1 Non-financial assets

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

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

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

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

D.1.9.2 Financial assets

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

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

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

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

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

D.1.10 Income tax

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

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

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. 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 it is probable that they will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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

D.1.11 Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for any uncollectible amounts.

Collectibility of trade receivables is reviewed on an ongoing basis. An allowance for doubtful debts is raised when there is objective evidence that the Group will not be able to collect the debt. The amount of the loss is recognised in the income statement within other expenses. When a trade receivable is uncollectible, it is written off against the allowance account for doubtful debts. Subsequent recoveries of amounts previously written off are credited against other expenses in the income statement.

D.1.12 Intangible assets

D.1.12.1 Goodwill

Goodwill or negative goodwill arises on the acquisition of subsidiaries, associates and joint ventures.

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

Acquisitions on or after 1 January 2006 – AIFRS
For acquisitions on or after 1 January 2006, goodwill represents the excess of the cost of the acquisition over the Boart Longyear Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in profit or loss.

Subsequent measurement
Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment.

D.1.12.2 Contractual customer relationships

Contractual customer relationships acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably.

Note:

2. For the purposes of presentation of financial information in the Prospectus and this Appendix, cost of sales has been presented exclusive of all depreciation and amortisation, including depreciation and amortisation absorbed into the cost of inventories presented in the pro forma balance sheet. In its statutory financial report for the year ending 31 December 2007, Boart Longyear Limited intends to present cost of sales and other functional expenses inclusive of depreciation and amortisation applicable to both the Drilling Services and Products businesses.

D.1.12.3 Trademarks and trade names

Trademarks and trade names acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably.

Trademarks and trade names recognised by the Boart Longyear Group are considered to have indefinite useful lives and are not amortised. Each period, the useful life of each of these assets is reviewed to determine whether events and circumstances continue to support an indefinite useful life assessment for the asset. Such assets are tested for impairment at least annually or more frequently if events or circumstances indicate that the asset might be impaired.

D.1.12.4 Patents

Patents are measured at cost less accumulated amortisation and accumulated impairment losses.

D.1.12.5 Research and development costs

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

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

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

D.1.12.6 Other intangible assets

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

Expenditure on internally generated goodwill and brands is recognised in profit or loss as an expense as incurred.

D.1.12.7 Subsequent expenditure

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

D.1.12.8 Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill and indefinite life intangible assets, from the date that they are available for use. The estimated useful lives and amortisation method are reviewed at the end of each annual reporting period, with any changes being recognised as a change in accounting estimate.

The estimated useful lives used in the calculation of amortisation are as follows:

Contractual customer relationships	10 years
Patents	10 years

D.1.13 Inventories[2]

Products

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

Drilling Services

The Company maintains an inventory of core drilling rods and casings for use in the rendering of core drilling services. Inventory is measured at the lower of cost and net realisable value. Core drilling rods and casings are initially recognised in inventory at cost and are expensed over 12 months. A regular and ongoing review is undertaken to establish whether any items are obsolete or damaged, and if so their carrying amount is written down to its net realisable value.

D.1.14 Trade and other payables

Trade payables and other payables are carried at amortised cost. They represent unsecured liabilities for goods and services provided to the Boart Longyear Group prior to the end of the reporting period that are unpaid and arise when the Boart Longyear Group becomes obliged to make future payments in respect of the purchase of these goods and services.

D.1.15 Property, plant and equipment

D.1.15.1 Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset, including the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment and so 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 items (major components) of property, plant and equipment.

D.1.15.2 Subsequent costs

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

D.1.15.3 Depreciation

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

The following useful life estimates are used in the calculation of depreciation:

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

Depreciation methods, useful lives and residual values are reassessed at the end of each annual reporting period. Estimates in respect of the useful life and residual value of certain items of plant and equipment and drill rigs were revised effective 6 October 2006 for annual financial reporting purposes. The pro forma historical financial information assumes that the revised estimated useful lives were applicable from 1 January 2005.

D.1.16 Leased assets

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

Other leases are operating leases and are not recognised on the Boart Longyear Group's balance sheet.

D.1.17 Provisions

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

D.1.17.1 Warranties

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

D.1.17.2 Restructuring

A provision for restructuring is recognised when the Boart Longyear Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

D.1.17.3 Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Boart Longyear Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Boart Longyear Group recognises any impairment loss on the assets associated with that contract.

D.1.18 Share capital

D.1.18.1 Ordinary shares

Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any related income tax benefit.

D.1.18.2 Dividends

Dividends are recognised as a liability in the period in which they are declared.

D.1.19 Revenue

D.1.19.1 Goods sold

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 and volume rebates. 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.

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

D.1.19.2 Services

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion of the transaction is determined as follows:

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

D.1.20 Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

D.1.21 Net finance costs

Net finance costs represent finance income less finance expenses.

Finance income comprises interest income on funds invested, dividend income, gains on hedging instruments that are recognised in profit or loss, and the expected return on defined benefit plan assets. Interest income is recognised in the income statement as it accrues, using the effective interest method. Dividend income is recognised on the date that the Boart Longyear Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, losses on hedging instruments that are recognised in profit or loss, unwinding of the discount on defined benefit plan liabilities, and the finance expense component of finance lease payments. All borrowing costs are recognised in profit or loss using the effective interest method except when they are directly attributable to the acquisition, construction or production of a qualifying asset (an asset that necessarily takes a substantial period to prepare for its intended use or sale). When this is the case, they are capitalised as part of the cost of that asset.

D.1.22 Segment reporting

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

D.2 Cash and cash equivalents

As at 31 December 2006	Pro forma consolidated balance sheet US$m	Pro forma consolidated balance sheet A$m
Current		
Cash at bank and on hand	12.3	15.6
Short term deposits	0.3	0.4
	12.6	16.0
Restricted cash[1]	2.8	3.6
	15.4	19.6

Note:
1. The Boart Longyear Group had restricted cash of US$2.8 million at 31 December 2006. The restricted cash represents amounts supporting letters of credit, bank guarantees, legal settlements, leases, credit cards, overdraft programs and government required tax retentions.

D.3 Trade and other receivables

As at 31 December 2006	Pro forma consolidated balance sheet US$m	Pro forma consolidated balance sheet A$m
Current		
Trade receivables	226.9	288.3
less: provision for doubtful debts	(4.2)	(5.3)
	222.7	283.0
Other receivables	11.0	14.0
	233.7	297.0

D.4 Other financial assets

As at 31 December 2006	Pro forma consolidated balance sheet US$m	Pro forma consolidated balance sheet A$m
Current		
Loans to associates	0.2	0.3
Loans to customers	1.9	2.4
Loans to employees	0.1	0.1
	2.2	2.8
Non-current		
Interest rate swaps	1.9	2.4
Gold put options	2.0	2.6
	3.9	5.0

D.5 Inventories

As at 31 December 2006	Pro forma consolidated balance sheet US$m	Pro forma consolidated balance sheet A$m
Raw materials	21.3	27.1
Work in progress	15.5	19.7
Finished goods[1]	102.9	130.7
	139.7	177.5

Note:
1. Finished goods includes core drilling rods and casings.

D.6 Prepaid expenses and other current assets

As at 31 December 2006	Pro forma consolidated balance sheet US$m	Pro forma consolidated balance sheet A$m
Prepayments	11.6	14.7
Other	11.8	15.0
	23.4	29.7

D.7 Property, plant and equipment

As at 31 December 2006	Pro forma consolidated balance sheet US$m	Pro forma consolidated balance sheet A$m
Land and buildings at cost	37.6	47.8
Accumulated depreciation	(1.7)	(2.2)
Net book value	35.9	45.6
Plant and equipment at cost	308.7	392.2
Accumulated depreciation	(84.7)	(107.6)
Net book value	224.0	284.6
Assets under construction	0.2	0.3
Total net book value	260.1	330.5

Note:
1. Plant and equipment includes both owned plant and equipment and plant and equipment under finance lease.

D.8 Goodwill and other intangible assets

As at 31 December 2006	Pro forma consolidated balance sheet US$m	Pro forma consolidated balance sheet A$m
Goodwill at net book value	182.5	231.9
Trademarks and trade names at net book value	11.8	15.0
Patents at cost	6.6	8.4
Accumulated amortisation	(0.8)	(1.0)
Net book value	5.8	7.4
Customer relationships at cost	22.2	28.2
Accumulated amortisation	(0.4)	(0.5)
Net book value	21.8	27.7
Total net book value	221.9	282.0

D.9 Trade and other payables

As at 31 December 2006	Pro forma consolidated balance sheet US$m	Pro forma consolidated balance sheet A$m
Current		
Trade payables	117.3	149.1
Accruals and other payables	123.5	156.9
	240.8	306.0
Non-current		
Other payables	0.7	0.9
	0.7	0.9

D.10 Loans and borrowings

As at 31 December 2006	Pro forma consolidated balance sheet US$m	Pro forma consolidated balance sheet A$m
Current		
Unsecured		
Bank overdrafts	1.0	1.3
Secured		
Third party recourse funding of trade receivables	0.2	0.3
Current portion of finance lease liabilities	3.9	5.0
	5.1	6.6
Non-current		
Unsecured		
Bank loans:		
US$585 million term loan maturing three years from drawdown[1]	581.1	738.4
US$65 million term loan (drawn in C$) maturing five years from drawdown[1]	64.6	82.1
US$200 million revolving credit facility maturing five years from drawdown	15.0	19.1
Secured		
Finance lease liabilities	8.1	10.3
	668.8	849.9

Note:
1. The term loan facilities are fully drawn and are stated net of the unamortised balance of debt arrangement fees of US$4.3 million.

D.11 Other financial liabilities

As at 31 December 2006	Pro forma consolidated balance sheet US$m	Pro forma consolidated balance sheet A$m
Non-current		
Foreign exchange contracts	0.1	0.1
Interest rate swaps	2.2	2.8
	2.3	2.9

D.12 Provisions

As at 31 December 2006	Pro forma consolidated balance sheet US$m	Pro forma consolidated balance sheet A$m
Current		
Warranties		0.8
1.0		
Employee benefits	9.1	11.6
Earnout agreements	11.4	14.5
Restructuring	7.5	9.5
	28.8	36.6
Non-current		
Employee benefits	1.4	1.8
Post retirement benefits	36.4	46.2
	37.8	48.0

D.13 Defined benefit post retirement plans

The Boart Longyear Group operates defined benefit post retirement plans in the following locations:

– Defined benefit pension plans: The Americas (Canada and the United States), Europe (Germany and Ireland) and South Africa; and

– Defined benefit post retirement medical plans: The Americas (Canada and the United States) and South Africa.

	The Americas US$m	Europe US$m	South Africa US$m	Total US$m	Total A$m
The amount included in the balance sheet arising from the entity's obligations in respect of its defined benefit plans is as follows:					
Present value of funded defined benefit obligations	127.0	56.3	34.3	217.6	276.5
Fair value of plan assets	(117.2)	(42.8)	(79.4)	(239.4)	(304.3)
Restriction on plan assets	–	–	45.1	45.1	57.3
Net deficit	9.8	13.5	–	23.3	29.5
Present value of unfunded defined benefit obligations	10.9	–	2.2	13.1	16.6
Net liability/(assets) arising from defined benefit obligations	20.7	13.5	2.2	36.4	46.2
Included in the balance sheet:					
Non-current provision for post retirement benefits (refer to Note D.13)	20.7	13.5	2.2	36.4	46.2

	The Americas	Europe	South Africa
Principal assumptions used (expressed as weighted averages):			
Average discount rate for plan liabilities	5.5%	4.4%	8.0%
Average rate of inflation	3.0%	2.0%	5.0%
Average rate of increase in salaries	4.5%	3.5%	6.0%
Average rate of increase of pensions in payment	0.0%	1.5%	5.0%
Average long term rate of return on plan assets	8.0%	6.3%	9.0%
Expected average increase in healthcare costs (initial)	10.0%	0.0%	6.0%
Expected average increase in healthcare costs (ultimate)	5.0%	0.0%	6.0%

D.14 Commitments

As at 31 December 2006	Pro forma consolidated balance sheet US$m	Pro forma consolidated balance sheet A$m
Capital expenditure commitments		
Capital expenditure contracted for at balance date but not provided for and payable:		
within one year	31.0	39.4

As at 31 December 2006	Pro forma consolidated balance sheet US$m	Pro forma consolidated balance sheet A$m
Operating lease commitments		
Aggregate amount contracted for at balance date but not provided for and payable:		
within one year	11.5	14.6
one year or later and no later than five years	19.0	24.1
later than five years	2.1	2.7
	32.6	41.4

D.15 Equity

As at 31 December 2006	Pro forma consolidated balance sheet US$m	Pro forma consolidated balance sheet A$m
Issued capital		
1,485.3 million ordinary shares, fully paid	452.3	574.8
Reserves		
Foreign currency translation reserve	(0.4)	(0.5)
Share-based compensation reserve	7.7	9.8
	7.3	9.3
Other equity amounts[1]		
Merger and reverse acquisition accounting adjustments	(261.3)	(332.1)

Note:
1. As a result of merger and reverse acquisition accounting, a new equity account is created as a component of equity that is not available for distribution to shareholders.

D.16 Contingent liabilities

The Boart Longyear Group is involved in various legal proceedings arising out of the normal course of business. The Directors believe that the outcome of these proceedings will not have a material impact on the Boart Longyear Group's financial position or results of operations.

E. DERIVATION OF PRO FORMA HISTORICAL FINANCIAL INFORMATION

As detailed in the tables below, pro forma adjustments have been made to the audited consolidated financial statements for FY2005 and FY2006 of the Boart Longyear Group (including the use of certain unaudited financial information of the Acquired Businesses) that the Directors considered appropriate to reflect the formation of the Boart Longyear Group, so that the financial information for FY2005 and FY2006 is presented on a pro forma basis that is consistent with and reflects the structure of the Boart Longyear Group that will exist upon completion of the Offer.

The historical financial statements of the Boart Longyear Group have been prepared in accordance with UK GAAP for FY2005 and FY2006. Where appropriate and material, adjustments required to reflect the pro forma historical financial information of the business in accordance with AIFRS have been made.

While the information in the tables below presents the profit before tax for the Boart Longyear Group for FY2005 and FY2006, the adjustments made to reconcile to the pro forma historical financial information have been presented to the pro forma EBIT level only.

Prior to the intended business combination of Boart Longyear Investments acquiring RSHI on or about 11 April 2007, the Boart Longyear Businesses and the Acquired Businesses have operated under different corporate structures with different gearing and tax profiles to those proposed for the Boart Longyear Group after completion of the Offer.

As a consequence, the Directors believe the historical net finance costs and income tax expenses incurred by these businesses are not representative of what the net finance costs and income tax expenses would have been, had the Boart Longyear Group operated under the new structure that will be in place after completion of the Offer. Therefore historical net finance costs and income tax expense have not been presented in the pro forma historical financial information of the Boart Longyear Group included in the Prospectus and this Appendix.

E.1 Derivation of pro forma historical consolidated statement of revenue, EBITDA and EBIT

Table E.1.1 Derivation of FY2005 pro forma historical consolidated statement of revenue, EBITDA and EBIT

	UK GAAP Continuing Operations				Normalisation adjustments					
US$m	Reported predecessor 29/07/2005 7 months	Reported successor 31/12/2005 5 months	Subtotal	Accounting and AIFRS adjustments	Change in ownership costs	Other	Pro forma adjustments disposals	Subtotal	Pro forma adjustments acquisitions (AIFRS)	Pro forma 31/12/2005 12 months
Revenue from operating activities	524.8	387.6	912.4	–	–	–	(21.0)	891.4	131.2	1,022.6
Pro forma EBITDA	62.9	45.9	108.8	–	11.1	35.6	(0.4)	155.1	44.8	199.9
Depreciation	(16.3)	(21.2)	(37.5)	3.0	–	–	1.7	(32.8)	(7.6)	(40.4)
Pro forma EBITA	46.6	24.7	71.3	3.0	11.1	35.6	1.3	122.3	37.2	159.5
Amortisation	(9.2)	(1.0)	(10.2)	9.5	–	–	–	(0.7)	–	(0.7)
Pro forma EBIT	37.4	23.7	61.1	12.5	11.1	35.6	1.3	121.6	37.2	158.8

Finance costs	(1.5)	(31.4)	(32.9)
Profit before tax	35.9	(7.6)	28.3

Notes:

1. Refer to the notes to Table A.1 for details of exchange rates applied.
2. Prior to 29 July 2005, the Boart Longyear Group operated as a wholly owned division of Anglo American. The accounts for the Boart Longyear Group for the seven months ended 29 July 2005 included in the LGHI financial statements for the year ended 31 December 2005 have been presented as predecessor. Historically, Anglo American had not prepared financial statements for the Boart Longyear Group on a stand-alone basis. The combined financial statements for the predecessor were carved out from the accounting records of Anglo American using the historical basis of assets and liabilities of Boart Longyear. The predecessor and Anglo American's subsidiaries engaged in transactions, and the predecessor relied on Anglo American's head office for certain operational and administrative support for which it was allocated costs on a basis that Management believes was reasonable and appropriate in the circumstances. However, the combined financial statements included herein may not necessarily reflect what the predecessor's results of operations and cash flows would have been had the predecessor operated as a stand-alone entity during this period.
3. Adjustments have not been made to recognise the effect of

share-based payments for the period from 1 January 2005 to 29 July 2005 under AIFRS on the basis that any such adjustments would be reversed in the other normalisation adjustments column as a one-off item. Management of the Boart Longyear Group has no future entitlements under share-based payment arrangements in place at that time.

Table E.1.2 Derivation of FY2006 pro forma historical consolidated statement of revenue, EBITDA and EBIT

	UK GAAP Continuing Operations		Normalisation adjustments	
US$m	Reported 31/12/2006 12 months	Accounting and AIFRS adjustments	Changes of ownership costs	Other
Revenue from operating activities	1,119.2	–	–	–
Pro forma EBITDA	70.4	3.5	79.1	71.9
Depreciation	(46.2)	7.8	–	–
Pro forma EBITA	24.2	11.3	79.1	71.9
Amortisation	(2.8)	1.9	–	–
Pro forma EBIT	21.4	13.2	79.1	71.9
Finance costs	(94.3)			
Profit before tax	(72.9)			

Note:
1. Refer to the notes to Table A.1 for details of exchange rates applied.

A description of the significant pro forma adjustments to the Boart Longyear Group audited financial
statements for FY2005 and FY2006 are set out below.

E.1.1 Accounting and AIFRS adjustments

The Boart Longyear Group audited consolidated financial statements for FY2005 and FY2006 were prepared under UK GAAP. The pro forma historical financial information is presented in accordance with the measurement and recognition criteria of AIFRS. The significant adjustments required to convert the audited consolidated financial statements from UK GAAP to AIFRS are described below:

– reversal of goodwill amortisation and amortisation under UK GAAP of intangible assets with an indefinite useful life (US$0.5 million). Under UK GAAP, goodwill is amortised over a useful life of 10 years and trademarks and trade names are amortised over a useful life of 20 years. Under AIFRS, goodwill is not amortised but is tested for impairment annually. As the Directors have assessed that there is no foreseeable limit to the period over which trademarks and trade names are expected to generate net cash inflows for the Boart Longyear Group, the useful life of these assets is also considered to be indefinite and they will not be subject to amortisation under AIFRS, but will be tested for impairment annually;

– US$9.0 million adjustment to amortisation represents the add back of the one-off impairment charge and amortisation of goodwill under UK GAAP in the profit and loss account of the predecessor for the period from 1 January 2005 to 29 July 2005. The amortisation of goodwill under UK GAAP is not applicable under AIFRS;

– in addition to the above, during the second half of FY2006 Management undertook a detailed review of its accounting practices to ensure the financial statements appropriately reflect the useful lives of various items. As a result of this exercise, the estimated useful lives of certain plant and equipment, including drill rigs, were revised. The estimated financial impact of the change in accounting estimate has been reflected in the pro forma historical financial information from 1 January 2005; and

– the Company has also reviewed its accounting practices in relation to capitalisation of rig refurbishment costs and the useful lives of sonic and rotary rods and casings. The financial effect of the change in practice has been reflected in the pro forma historical financial information for FY2006. No adjustment has been reflected in the pro forma historical financial information for FY2005 as it would be impracticable to do so and is considered unlikely to be material.

Pro forma adjustments disposals	Subtotal	Pro forma adjustments acquisitions (US IFRS)	Pro forma 31/12/2006 12 months
(8.0)	1,111.2	141.6	1,252.8
(1.1)	223.8	54.0	277.8
0.3	(38.1)	(7.8)	(45.9)
(0.8)	185.7	46.2	231.9
–	(0.9)	–	(0.9)
(0.8)	184.8	46.2	231.0

E.1.2 Normalisation adjustments

E.1.2.1 Changes of ownership costs

Costs associated with changes of ownership in relation to the Boart Longyear Group have been added back, including:

– the acquisition of the Boart Longyear Group by Advent International and Bain Capital in 2005; and

– the partial sell down by Advent International and Bain Capital and introduction of new shareholders in 2006.

E.1.2.2 Other normalisation adjustments

The following table summarises the other normalisation adjustments that are reflected in the pro forma historical financial information for FY2005 and FY2006.

Table E.1.3 Other normalisation adjustments

	FY2005 US$m	FY2006 US$m
Restructured employee compensation arrangements	5.3	23.8
Asset impairment and similar charges	–	17.4
Restructuring charges	18.7	10.8
Mark to market of derivative instruments	9.1	8.2
Head office relocation and staffing	2.5	7.8
Other	–	3.9
Total	35.6	71.9

Restructured employee compensation arrangements
The Company has recently terminated and restructured certain employee compensation arrangements associated with historical acquisitions by the Boart Longyear Group, as such compensation arrangements (similar to earn-out arrangements, but incorporated as part of employee compensation) were no longer aligned with the overall interests of the Group. These employees were compensated for the termination of their previous contractual arrangements by way of a one-off payment. An adjustment has been made for a similar material contract that will not be renewed at the end of FY2007, which does not reflect the current remuneration structure of the Boart Longyear Group.

Adjustments have also been made for expenses relating to a share-based payment scheme that was discontinued at the time of the introduction of new shareholders in 2006 and will not form part of continuing compensation.

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