

**BOART LONGYEAR LIMITED**

**NOTICE OF ANNUAL GENERAL MEETING AND EXPLANATORY STATEMENT**

**ABN 49 123 052 728**

**NOTICE IS GIVEN OF AN ANNUAL GENERAL MEETING TO BE HELD ON 13 JUNE 2017  
AT 1:00 PM AT THE MELBOURNE CONVENTION AND EXHIBITION CENTRE, 1  
CONVENTION CENTRE PLACE, SOUTH WHARF, MELBOURNE VICTORIA 3006  
AUSTRALIA**

**THE INDEPENDENT DIRECTORS OF BOART LONGYEAR LIMITED UNANIMOUSLY  
RECOMMEND THAT SHAREHOLDERS VOTE IN FAVOUR OF ALL THE  
RECAPITALISATION RESOLUTIONS IN THE ABSENCE OF A SUPERIOR PROPOSAL**

**THE INDEPENDENT EXPERT HAS CONCLUDED THE RECAPITALISATION IS FAIR AND  
REASONABLE TO NON-ASSOCIATED SHAREHOLDERS**

This is an important document and requires your immediate attention.

You should read the whole of this document before you decide whether and how to vote on the resolutions in the Notice of Meeting. If you are in doubt as to what you should do, please consult your financial or other professional adviser.

## IMPORTANT NOTICES

This Explanatory Statement is intended to provide Shareholders with information to assess the merits of the proposed resolutions in the accompanying Notice of Meeting and is to be read in conjunction with the Notice of Meeting.

### Read this Document

This Explanatory Statement is an important document. You should read it in its entirety before deciding how to vote on the resolutions. If you have any doubt regarding what you should do, you should consult your investment, financial or other professional adviser.

### Defined Terms

Capitalised words and phrases used in this Explanatory Statement (including in the resolutions) have the meaning set out in the Glossary in Section 15.

### Responsibility Statement

This Explanatory Statement (excluding the Independent Expert's Report, the Centerbridge Information, the Ares Information and the Ascribe Information) has been prepared by the Company.

The Company, its related bodies corporate and their respective directors, officers and advisers do not assume any responsibility for the accuracy or completeness of the Independent Expert's Report, the Centerbridge Information, the Ares Information or the Ascribe Information.

The Independent Expert has provided and is responsible for the Independent Expert's Report contained in Annexure A of this Explanatory Statement. The Independent Expert's Report considers whether the Recapitalisation is fair and reasonable to Non-Associated Shareholders.

Centerbridge has provided and is responsible for the information contained in Section 9 of this Explanatory Statement, statements describing Centerbridge's present voting power in the Company and statements describing Centerbridge's intentions regarding the future of the Company (collectively the **Centerbridge Information**). Centerbridge does not assume any responsibility for the completeness or accuracy of any information prepared by the Company, Ares, Ascribe or the Independent Expert.

Ares has provided and is responsible for the information contained in Section 10 of this Explanatory Statement, statements describing Ares' voting power in the Company and statements describing Ares' intentions regarding the future of the Company (collectively the **Ares Information**). Ares does not assume any responsibility for the completeness or accuracy of any information prepared by the Company, Centerbridge, Ascribe or the Independent Expert.

Ascribe has provided and is responsible for the information contained in Section 11 of this Explanatory Statement, statements describing Ascribe's present relevant voting power in the Company including statements describing Ascribe's intentions regarding the future of the Company (collectively the **Ascribe Information**). Ascribe does not assume any responsibility for the completeness or accuracy of any information prepared by the Company, Centerbridge, Ares or the Independent Expert.

### Forward Looking Statements

Certain statements in this Explanatory Statement may constitute "forward looking statements" for the purposes of applicable securities laws. You should be aware that there are a number of risks (known and unknown), uncertainties and assumptions and other important factors that could cause the actual results, performance or achievements of the Company to be materially different from the future results, performance or achievements, expressed or implied, by such statements. Factors that could cause or contribute to such differences include the general

trading and economic conditions affecting the Company or its subsidiaries. The past performance of the Company is not necessarily representative of future performance.

None of the Company, its related bodies corporate and their respective Directors, officers and advisers, or any other person gives any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward looking statements in this Explanatory Statement will actually occur. Shareholders are cautioned not to place undue reliance on these forward looking statements.

All subsequent written and oral forward looking statements attributable to the Company or its related bodies corporate or any person acting on their behalf are qualified by the above cautionary statement.

**Date**

This Explanatory Statement is dated 12 May 2017.

**Currency**

As the Company reports its results in US dollars, and the Recapitalisation has been negotiated in US dollar terms, all references to dollars in this Explanatory Statement are to US dollars, unless otherwise stated.

**Not an offer**

This Explanatory Statement and the Notice of Meeting do not constitute an offer to acquire or sell or a solicitation of an offer to sell or purchase any securities in any jurisdiction. In particular, this document does not constitute an offer, solicitation or sale to any U.S. person or in the United States or any state or jurisdiction in which such an offer, tender offer, solicitation or sale would be unlawful. The securities referred to herein have not been and will not be registered under the United States Securities Act of 1933, as amended (**US Securities Act**), and neither such securities nor any interest or participation therein may not be offered, or sold, pledged or otherwise transferred, directly or indirectly, in the United States or to any U.S. person absent registration or an available exemption from, or a transaction not subject to, registration under the US Securities Act.

## Letter from the Chair

Dear Shareholder,

On behalf of the Directors of Boart Longyear, I am pleased to invite you to attend the annual general meeting (**AGM**) of Boart Longyear Limited (the **Company**) to consider and vote on, among other things, the resolutions required to implement the recapitalisation announced on 3 April 2017.

### Background

As announced, Boart Longyear has entered into a binding Restructuring Support Agreement with its key creditors, Ares Management, LLC, on behalf of its affiliated funds and accounts (**Ares**), Ascribe II Investments, LLC, on behalf of itself and its managed funds (**Ascribe**) and affiliates of Centerbridge Partners L.P. (**Centerbridge**) (together, the **Supporting Creditors**) in relation to a recapitalisation transaction (**Recapitalisation**). The Recapitalisation will reduce the Company's debt and interest costs, improve liquidity and extend debt maturities, which will provide the Company with a more sustainable capital structure and is critical to supporting the Company's operations and future growth.

**Most importantly, you and other Shareholders will have the opportunity to consider and approve the Recapitalisation. The proposed resolutions relating to the Recapitalisation are the primary business of the AGM that this Explanatory Statement invites you to consider. You are encouraged to vote to express your support for the Recapitalisation and the other matters presented for your approval, should you wish to do so.**

### Overview of the Recapitalisation

The Recapitalisation will primarily be implemented by two interdependent creditors' schemes of arrangement under Part 5.1 of the Corporations Act and a separate Subscription Deed.

#### **Secured Creditors' Scheme**

The first component of the Recapitalisation is a creditors' scheme of arrangement (the **Secured Creditors' Scheme**), which, in summary, will effect the following:

- the Initial Term Loan Amendments, which involve an extension to the maturity dates for Term Loans A and B to 31 December 2022 and amendments to the call schedule to allow the Company to repay Term Loans A and B after December 2018 without having to repay the make whole amount; and
- the 10% Secured Note Amendments, which involve an amendment to the interest rate of the 10% Secured Notes from 10% to 12% (retroactive to 1 January 2017) payable in kind at the Company's option for the first four coupon payments beginning with the June 2017 payment (at the Company's option) and payable in cash at 10% thereafter.

#### **Unsecured Creditors' Scheme**

The second component of the Recapitalisation is a separate creditors' scheme of arrangement (the **Unsecured Creditors' Scheme**) which will effect:

- the release of an amount of \$196 million in principal of the 7% Unsecured Notes plus \$9,940,000 of accrued/accreted interest;
- reinstatement of the remaining \$88 million of principal debt plus accrued/accreted interest to implementation of the Recapitalisation with a reduced interest rate of 1.5% payable in kind (retroactive to 1 January 2017); and
- the issue to holders of the 7% Unsecured Notes of:

- (a) 42% of the ordinary equity of the Company post implementation of the Recapitalisation (pre-Warrants); and
- (b) Tranche A 7% Warrants and the Tranche B 7% Warrants (together, the **7% Warrants**).

### **Other elements of the Recapitalisation**

The Company and CBP have also entered into a Subscription Deed dated 8 May 2017 (**the Subscription Deed**) pursuant to which the Company has agreed to issue CBP or their nominees that are Affiliates of Centerbridge equity in consideration for the Subsequent Term Loan Amendments. The Subsequent Term Loan Amendments involve a reduction in interest rates for Term Loans A and B from 12% to 10% payable in kind until December 2018 (retroactive to 1 January 2017) and to 8% thereafter. The agreement to issue equity and make the Subsequent Term Loan Amendments is conditional on implementation of the Recapitalisation.

In addition to the Secured Creditors' Scheme and Unsecured Creditors' Scheme (together, the **Creditors' Schemes**) and the Subscription Deed, the Company also proposes to:

- issue Ordinary Warrants to eligible holders of ordinary shares (other than Centerbridge);
- offer Eligible Shareholders the opportunity to purchase up to A\$5,000 worth of Shares at a price of A\$0.02 per Share to raise up to a maximum of A\$9 million through a share purchase plan;
- replace the Existing ABL Revolver with the New ABL Revolver and repay the Second-Out ABL and the DDL; and
- confer on the Supporting Creditors certain one-off director nomination rights having regard to the significant equity interests they will hold if the Recapitalisation is implemented.

In addition, Centerbridge proposes to convert all the Convertible Preference Shares it currently holds to Shares.

### Conditions to the Recapitalisation

Implementation of the Recapitalisation is subject to the satisfaction of a number of conditions, including the following:

- Shareholders of the Company approving the Recapitalisation Resolutions by the requisite majorities;
- creditors of the Company approving the Creditors' Schemes by the requisite majorities;
- court approval of the Creditors' Schemes;
- the Company entering into Director Nomination Agreements with lenders affiliated with each of the Supporting Creditors;
- the New ABL Revolver being duly executed by all the parties to it and all conditions precedent to the New ABL Revolver being satisfied (other than those conditions relating to the Creditors' Schemes becoming effective and the entry of the Chapter 15 order);
- all relevant Supporting Creditors obtaining approval under the *Foreign Acquisitions and Takeovers Act 1975* (Cth);

- the issue of shares, notes and Warrants under the Recapitalisation, where relevant, being exempt from registration under the United States Securities Act of 1933; and
- the Company obtaining all other relevant regulatory approvals, confirmations, consents or waivers.

#### Impact of the Recapitalisation

**If the Recapitalisation is implemented, existing Non-Associated Shareholders will be significantly diluted. The percentage of ordinary shares held by the Non-Associated Shareholders will be reduced to 2% (pre-Warrants)<sup>1</sup>, primarily due to equity being issued to the Supporting Creditors.**

The Company has also agreed to take all requisite steps to re-domicile its business to the United States, the United Kingdom or Canada (or another jurisdiction agreed to by the Supporting Creditors) as soon as practicable after implementation of the Recapitalisation and in any case on or before 15 April 2018, unless the Company and the Supporting Creditors jointly determine in their reasonable discretion that the re-domiciliation would not be in the best interests of the Company.

#### Second-Out ABL

In conjunction with entering into the Restructuring Support Agreement, the Company also entered into an additional \$15 million asset-based loan facility with lenders affiliated with the Supporting Creditors (the **Second-Out ABL**). The Second-Out ABL has been established to provide short-term financial support for the Company until the Recapitalisation can be completed. If the Recapitalisation is implemented, the Second-Out ABL, the DDL and Existing ABL Revolver will be repaid in full.

#### **Recommendation of the Independent Directors**

It is the recommendation of all the Independent Directors (being all the Directors other than Mr Conor Tochilin and Mr Jeffrey Long) that Shareholders vote in favour of the Recapitalisation Resolutions, as each of us believes that they are in the best interests of the Company and its Shareholders. The Independent Directors intend to vote any Shares they own in favour of the Recapitalisation Resolutions on which they are entitled to vote. The recommendation of the Independent Directors is subject to no Superior Proposal emerging.

In coming to our recommendation to endorse the Recapitalisation, the Independent Directors have considered the following factors:

- the Independent Directors believe the Recapitalisation is the best and only executable option to maximise long term value for the Company and its stakeholders;
- the Company's current capital structure is not sustainable and the Company requires additional liquidity and a reduction in its overall debt to fund its operations and facilitate the refinancing of its existing facilities when they mature;
- a comprehensive strategic review was undertaken to evaluate and consider options available to the Company;
- other options considered by the Company are not currently executable or provide less favourable outcomes for Shareholders and other stakeholders (largely because of the rights held by current debt holders); and

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<sup>1</sup> Assumes that none of the holders of the 7% Unsecured Notes (other than Ascribe) currently hold Shares.

- while existing Non-Associated Shareholders will be significantly diluted, the Recapitalisation will give those holders the best feasible opportunity to extract value from their shareholding when measured against the alternatives.

A list of reasons why you may consider voting for or against the resolutions is contained in Sections 7.2 and 7.3.

KPMG has prepared an Independent Expert's Report in relation to the Recapitalisation Resolutions. **The Independent Expert has concluded that the Recapitalisation is fair and reasonable to Non-Associated Shareholders.** The Independent Expert's Report is set out in Annexure A, and I encourage you to review it in its entirety.

This Explanatory Statement includes the Notice of Meeting and the Independent Expert's Report. A Proxy Form accompanies this Explanatory Statement. I encourage you also to read this Explanatory Statement carefully and in full, as it contains information to assist you in making an informed decision.

This Explanatory Statement is also available on the Company's website, <http://www.boartlongyear.com/company/investors/announcements/>. The Company's website also will allow you to access other materials that may be relevant to your consideration of the Recapitalisation, such as the 3 April 2017 ASX announcement regarding the Recapitalisation.

If you intend to attend the AGM in person, please bring your Proxy Form with you to assist us in the efficient processing of your registration. The AGM will commence at 1:00 pm. If you are unable to attend, you may appoint a proxy to vote for you at the AGM by completing the Proxy Form that accompanies this Explanatory Statement. If you intend to appoint a proxy, please return the completed Proxy Form in accordance with the directions on the form by 1:00 pm on 11 June 2017.

Your Directors look forward to seeing you at the AGM.

Yours sincerely



Marcus Randolph

**Chair**

## NOTICE OF ANNUAL GENERAL MEETING

**Boart Longyear Limited ABN 49 123 052 728**

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Notice is given that the Annual General Meeting of Shareholders of Boart Longyear Limited (the **Company**) will be held at the Melbourne Convention and Exhibition Centre, 1 Convention Centre Place, South Wharf, Melbourne Victoria on 13 June 2017 commencing at 1:00 pm.

### ORDINARY BUSINESS

#### **A. CONSIDERATION OF THE REPORTS**

To receive and consider the Financial Report, the Directors' Report and the Independent Audit Report of the Company for the financial year ended 31 December 2016.

The Annual Report, which contains the Financial Report for the year ended 31 December 2016, is available to all Shareholders on the website of the Company at <http://www.boartlongyear.com/company/investors/annual-reports/>.

#### **B. QUESTIONS AND COMMENTS**

Following the consideration of the Reports, the Chairman will give Shareholders a reasonable opportunity to ask questions about, or comment on, the performance of the affairs of the Company.

The Company's auditor will attend the Meeting and will be available to answer questions relevant to the:

- (a) conduct of the audit;
- (b) preparation and content of the Independent Audit Report;
- (c) accounting policies adopted by the Company in relation to the preparation of the financial statements; and
- (d) independence of the auditor in relation to the conduct of the audit.

#### **C. ITEMS FOR APPROVAL (ORDINARY BUSINESS)**

##### **Resolution 1 – Election of Mr Conor Tochilin**

To consider and, if thought fit, to pass the following resolution as an ordinary resolution of the Company:

*"That Mr Conor Tochilin, having been appointed as an additional Director to the Board of the Company on 20 January 2017 in accordance with the Constitution and having offered himself for election and being eligible, is hereby elected as a Director of the Company in accordance with ASX Listing Rule 14.4."*

##### **Resolution 2 – Re-election of Mr Peter Day**

To consider and, if thought fit, to pass the following resolution as an ordinary resolution of the Company:

*"That Mr Peter Day, having retired by rotation in accordance with the Constitution and having offered himself for re-election and being eligible, is hereby elected as a Director of the Company in accordance with ASX Listing Rule 14.4."*



### **Resolution 3 – Re-election of Mr Rex McLennan**

To consider and, if thought fit, to pass the following resolution as an ordinary resolution of the Company:

*"That Mr Rex McLennan, having retired by rotation in accordance with the Constitution and having offered himself for re-election and being eligible, is hereby elected as a Director of the Company in accordance with ASX Listing Rule 14.4."*

### **Resolution 4 – Remuneration Report**

To consider and, if thought fit, to pass the following resolution as an ordinary resolution of the Company:

*"That the Remuneration Report for the financial year ended 31 December 2016 (set out in the Directors' Report) is adopted."*

**Note** – The vote on this resolution is advisory only and does not bind the Directors or the Company

### **Voting exclusion applicable to Resolution 4**

In accordance with the ASX Listing Rules, the Company will disregard any votes cast on Resolution 4:

- by or on behalf of a member of KMP named in the Remuneration Report or their closely related parties, regardless of the capacity in which the vote is cast; or
- as a proxy by a person who is a member of KMP at the date of the AGM or their closely related parties.

However, votes will not be disregarded if they are cast as proxy for a person entitled to vote on Resolution 4:

- in accordance with the directions on the Proxy Form; or
- by the Chairman of the meeting pursuant to an express authorisation to exercise the proxy even though Resolution 4 is connected with the remuneration of the Company's KMP.

## **SPECIAL BUSINESS: RESOLUTIONS RELATED TO THE RECAPITALISATION**

### **RESOLUTIONS 5 – 17 (OTHER THAN RESOLUTIONS 5 AND 11) MUST ALL BE PASSED FOR THE RECAPITALISATION TO BE APPROVED AND IMPLEMENTED**

#### **D. ITEMS FOR APPROVAL (SPECIAL BUSINESS)**

##### **Resolution 5 – Approval for the issue of Shares under the SPP**

To consider and, if thought fit, to pass the following resolution as an ordinary resolution of the Company:

*"That, for the purposes of ASX Listing Rule 7.1 and for all other purposes, approval is given for the issue of up to 450,000,000 Shares to Shareholders under the Share Purchase Plan, on the terms and conditions described in the Explanatory Statement."*

##### **Voting exclusion applicable to Resolution 5**

The Company will disregard any votes cast on Resolution 5 by a person who may participate in the SPP and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of Shares, if Resolution 5 is passed.

However, votes will not be disregarded if they are cast as proxy for a person entitled to vote on Resolution 5:

- in accordance with the directions on the Proxy Form; or
- by the Chairman of the meeting pursuant to an express authorisation to exercise the proxy for a person who is entitled to vote.

***The Company has applied to ASX for a waiver of ASX Listing Rule 7.3.8 to enable it not to apply this voting exclusion statement.***

##### **Resolution 6 – Approval for the issue of Shares to, and acquisition of Shares by, Centerbridge**

To consider and, if thought fit, to pass the following resolution as an ordinary resolution of the Company:

*"Subject to the passing of Resolutions 7, 8, 9, 10, 12, 13, 14, 15, 16 and 17 that, for the purposes of item 7 of section 611 of the Corporations Act, ASX Listing Rule 10.11, Chapter 2E of the Corporations Act and for all other purposes, approval is given for the issue to, and the acquisition by CBP or their nominees that are Affiliates of Centerbridge, of up to 12,967,554,506 Shares under the Subscription Deed, on the terms and conditions described in the Explanatory Statement."*

##### **Voting exclusion applicable to Resolution 6**

The Company will disregard any votes cast on Resolution 6:

- by CBP or an Associate of CBP; or
- as a proxy for CBP at the date of the AGM.

However, votes will not be disregarded if they are cast as proxy for a person entitled to vote on Resolution 6:

- in accordance with the directions on the Proxy Form; or

- by the Chairman of the meeting pursuant to an express authorisation to exercise the proxy for a person who is entitled to vote.

### **Resolution 7 – Approval for the acquisition of Shares by Ares**

To consider and, if thought fit, to pass the following resolution as an ordinary resolution of the Company:

*"Subject to the passing of Resolutions 6, 8, 9, 10, 12, 13, 14, 15, 16 and 17 that, for the purposes of item 7 of section 611 of the Corporations Act and for all other purposes, approval is given for the issue to, and the acquisition by Ares or its nominees that are Affiliates of Ares, of:*

- (a) *up to 4,464,956,144 Shares under the Unsecured Creditors' Scheme; and*
- (b) *the maximum number of Shares that are to be issued on the exercise of up to 706,571,204<sup>2</sup> 7% Warrants issued to Ares under the Unsecured Creditors' Scheme,*

*on the terms and conditions described in the Explanatory Statement."*

### **Voting exclusion applicable to Resolution 7**

The Company will disregard any votes cast on Resolution 7:

- by Ares or Ascribe or one of Ares' or Ascribe's Associates; or
- as a proxy for Ares at the date of the AGM.

However, votes will not be disregarded if they are cast as proxy for a person entitled to vote on Resolution 7:

- in accordance with the directions on the Proxy Form; or
- by the Chairman of the meeting pursuant to an express authorisation to exercise the proxy for a person who is entitled to vote.

### **Resolution 8 – Approval for the acquisition of Shares by Ascribe**

To consider and, if thought fit, to pass the following resolution as an ordinary resolution of the Company:

*"Subject to the passing of Resolutions 6, 7, 9, 10, 12, 13, 14, 15, 16 and 17 that, for the purposes of item 7 of section 611 of the Corporations Act and for all other purposes, approval is given for the issue to, and acquisition by, Ascribe or its nominees that are Affiliates of Ascribe, of:*

- (a) *up to 4,735,344,277 Shares under the Unsecured Creditors' Scheme;*
- (b) *the maximum number of Shares that are to be issued on the exercise of up to 1,037,589,598<sup>3</sup> 7% Warrants issued to Ascribe under the Unsecured Creditors' Scheme; and*

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<sup>2</sup> Reflects Ares' nomination to Ascribe to be issued 25% of their Tranche A 7% Warrants (up to 139,879,578 Tranche A 7% Warrants).

<sup>3</sup> Reflects Ares' nomination to Ascribe to be issued 25% of their Tranche A 7% Warrants (up to 139,879,578 Tranche A 7% Warrants).

- (c) *the maximum number of Shares that are to be issued on the exercise of up to 14,770,114 Ordinary Warrants issued to Ascribe under the Warrants Issue, on the terms and conditions described in the Explanatory Statement."*

#### **Voting exclusion applicable to Resolution 8**

The Company will disregard any votes cast on Resolution 8:

- by Ascribe or Ares or one of Ares' or Ascribe's Associates; or
- as a proxy for Ascribe at the date of the AGM.

However, votes will not be disregarded if they are cast as proxy for a person entitled to vote on Resolution 8:

- in accordance with the directions on the Proxy Form; or
- by the Chairman of the meeting pursuant to an express authorisation to exercise the proxy for a person who is entitled to vote.

#### **Resolution 9 – Approval for the issue of Shares and 7% Warrants to the holders of the 7% Unsecured Notes**

To consider and, if thought fit, to pass the following resolution as an ordinary resolution of the Company:

*"Subject to the passing of Resolutions 6, 7, 8, 10, 12, 13, 14, 15, 16 and 17 that, for the purposes of ASX Listing Rule 7.1 and for all other purposes, approval is given for the issue of up to 1,199,243,139 Shares to the holders of the 7% Unsecured Notes (other than Ares and Ascribe) and up to 1,971,509,126 7% Warrants to the holders of the 7% Unsecured Notes under the Unsecured Creditors' Scheme, on the terms and conditions described in the Explanatory Statement."*

#### **Voting exclusion applicable to Resolution 9**

The Company will disregard any votes cast on Resolution 9 by a person who may participate in the proposed issue.

However, votes will not be disregarded if they are cast as proxy for a person entitled to vote on Resolution 9:

- in accordance with the directions on the Proxy Form; or
- by the Chairman of the meeting pursuant to an express authorisation to exercise the proxy for a person who is entitled to vote.

### **Resolution 10 – Approval for the issue of Ordinary Warrants to Shareholders (other than Centerbridge)**

*"Subject to the passing of Resolutions 6, 7, 8, 9, 12, 13, 14, 15, 16 and 17 that, for the purposes of ASX Listing Rule 7.1 and for all other purposes, approval is given for the issue of up to 685,444,285 Ordinary Warrants to Shareholders (other than the CBP Registered Holders) pursuant to the Warrants Issue, on the terms and conditions described in the Explanatory Statement."*

#### **Voting exclusion applicable to Resolution 10**

The Company will disregard any votes cast on Resolution 10 by a person who may participate in the proposed issue.

However, votes will not be disregarded if they are cast as proxy for a person entitled to vote on Resolution 10:

- in accordance with the directions on the Proxy Form; or
- by the Chairman of the meeting pursuant to an express authorisation to exercise the proxy for a person who is entitled to vote.

### **Resolution 11 – Approval for the issue of Ordinary Warrants to Directors who are Shareholders**

To consider and, if thought fit, pass the following resolution as an ordinary resolution of the Company:

*"Subject to the passing of Resolutions 6, 7, 8, 9, 10, 12, 13, 14, 15, 16 and 17 that, for the purposes of ASX Listing Rule 10.11 and for all other purposes, approval is given for the issue of Ordinary Warrants to any Director who is a Shareholder pursuant to the Warrants Issue, on the terms and conditions described in the Explanatory Statement."*

#### **Voting exclusion applicable to Resolution 11**

The Company will disregard any votes cast on Resolution 11 by:

- a Director who is to receive Ordinary Warrants; or
- an associate of the Director to receive Ordinary Warrants.

However, votes will not be disregarded if they are cast as proxy for a person entitled to vote on Resolution 11:

- in accordance with the directions on the Proxy Form; or
- by the Chairman of the meeting pursuant to an express authorisation to exercise the proxy for a person who is entitled to vote.

### **Resolution 12 – Election of proposed Director – Ares Nominee**

To consider and, if thought fit, pass, with or without amendment, the following resolution as an ordinary resolution:

*"Subject to the passing of Resolutions 6, 7, 8, 9, 10, 13, 14, 15, 16 and 17 that Mr Matthew Sheahan, whose notice of candidature as a Director has been given in accordance with rule 44(b) of the Constitution, be elected as a Director, subject to and with effect from implementation of the Recapitalisation."*

**Resolution 13 – Election of proposed Director – Ascribe Nominee**

To consider and, if thought fit, pass, with or without amendment, the following resolution as an ordinary resolution:

*“Subject to the passing of Resolutions 6, 7, 8, 9, 10, 12, 14, 15, 16 and 17 that Mr Lawrence First, whose notice of candidature as a Director has been given in accordance with rule 44(b) of the Constitution, be elected as a Director, subject to and with effect from implementation of the Recapitalisation.”*

**Resolution 14 – Election of proposed Director – Ares and Ascribe Nominee**

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

*“Subject to the passing of Resolutions 6, 7, 8, 9, 10, 12, 13, 15, 16 and 17 that Mr Jason Ireland, whose notice of candidature as a Director has been given in accordance with rule 44(b) of the Constitution, be elected as a Director, subject to and with effect from implementation of the Recapitalisation.”*

**Resolution 15 – Election of proposed Director – Centerbridge Nominee**

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

*“Subject to the passing of Resolutions 6, 7, 8, 9, 10, 12, 13, 14, 16 and 17 that Mr Robert Smith, whose notice of candidature as a Director has been given in accordance with rule 44(b) of the Constitution, be elected as a Director, subject to and with effect from implementation of the Recapitalisation.”*

**Resolution 16 – Election of proposed Director – Centerbridge Nominee**

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

*“Subject to the passing of Resolutions 6, 7, 8, 9, 10, 12, 13, 14, 15 and 17 that Mr Richard Wallman, whose notice of candidature as a Director has been given in accordance with rule 44(b) of the Constitution, be elected as a Director, subject to and with effect from implementation of the Recapitalisation.”*

**Resolution 17 – Election of proposed Director – Centerbridge Nominee**

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

*“Subject to the passing of Resolutions 6, 7, 8, 9, 10, 12, 13, 14, 15 and 16 that Mr Kyle Cruz, whose notice of candidature as a Director has been given in accordance with rule 44(b) of the Constitution, be elected as a Director, subject to and with effect from implementation of the Recapitalisation.”*

**The Chair of the Meeting intends to vote all available proxies in favour of Resolutions 1-17.**

By order of the Board

A handwritten signature in black ink, appearing to read 'F. Rasetti', is positioned above the printed name.

**Fabrizio Rasetti**  
**Company Secretary**

12 May 2017

## NOTES

### Entitlement to Attend and Vote

In accordance with Reg 7.11.37 of the *Corporations Regulations 2001*, the Board has determined that persons who are registered holders of Shares of the Company as at 7.00 pm on 11 June 2017 will be entitled to attend and vote at the AGM as a Shareholder. Accordingly, transactions registered after that time will be disregarded for determining which Shareholders are entitled to attend and vote at the AGM.

### Voting by Proxy

A shareholder entitled to attend and vote at the AGM may appoint an individual or a body corporate as a proxy. If a body corporate is appointed as a proxy, that body corporate must ensure that it appoints a corporate representative in accordance with section 250D of the *Corporations Act 2001* (Cth) (**Corporations Act**) to exercise its powers as proxy at the AGM.

A proxy need not be a Shareholder.

A Shareholder may appoint up to two proxies and specify the proportion or number of votes each proxy may exercise. If the Shareholder does not specify the proportion or number of votes to be exercised, each proxy may exercise half of the Shareholder's votes.

Details for completion and lodgement of proxies are on the reverse side of the Proxy Form. To be effective, the proxy must be received at the share registry of the Company no later than 1:00 pm on 11 June 2017. Proxies must be received before that time by one of the following methods:

Online	At <a href="http://www.linkmarketservices.com.au">www.linkmarketservices.com.au</a>
By post:	Boart Longyear Limited c/ - Link Market Services Limited Locked Bag A14 Sydney South NSW 1235 Australia
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### Voting by Attorney

A Proxy Form and the original power of attorney, if any, under which the Proxy Form is signed (or a certified copy of that power of attorney or other authority) must be received by the Company no later than 1:00 pm on 11 June 2017, being not more than 48 hours before the AGM.

### Corporate Representatives

A body corporate that is a Shareholder, or that has been appointed as a proxy, is entitled to appoint any person to act as its representative at the AGM. The appointment of the representative must comply with the requirements under section 250D of the *Corporations Act*. The representative should bring to the AGM a properly executed "Certificate of



Appointment of Corporate Representative" (available from the Company's share registry) confirming its authority to act as the Shareholder's representative.

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## EXPLANATORY STATEMENT

This Explanatory Statement has been prepared for Shareholders in relation to the business to be conducted at the Company's 2017 Annual General Meeting and forms part of the Notice of Meeting.

The purpose of this Explanatory Statement is to provide Shareholders with information they may reasonably require to decide how to vote upon the Resolutions. The Directors recommend that Shareholders read this Explanatory Statement before determining whether or not to support a resolution.

All Resolutions are ordinary resolutions. An ordinary resolution requires a simple majority of votes cast by shareholders entitled to vote on the resolution.

### 1. ORDINARY BUSINESS OF THE AGM

Resolutions 1 – 4 form part of the ordinary business of the AGM (**Ordinary AGM Business Resolutions**). Each Ordinary AGM Business Resolution is outlined in further detail below.

#### 1.1 Resolution 1 – Election of Mr Conor Tochilin

Mr Conor Tochilin was appointed as a Non-Executive Director of the Company on 20 January 2017. In accordance with rule 44(d) of the Constitution and ASX Listing Rule 14.4, Mr Tochilin offers himself for election.

Conor Tochilin was appointed a Director of the Company on 20 January 2017. Mr Tochilin is a Principal at Centerbridge, a major Shareholder of the Company. Centerbridge manages approximately \$29 billion of assets with a focus on credit, special situations, and private equity. Prior to joining Centerbridge, Mr Tochilin was an Associate at TPG-Axon Capital Management in New York and London and a Business Analyst in McKinsey's Corporate Finance Practice in New York.

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

If the Recapitalisation Resolutions are passed, Mr Tochilin will resign as a Director of the Company with effect from the implementation of the Recapitalisation.

The Directors, with Mr Tochilin abstaining, unanimously recommend that Shareholders vote **IN FAVOUR** of this resolution.

#### 1.2 Resolution 2 – Re-election of Mr Peter Day

Mr Peter Day was appointed as a Non-Executive Director of the Company on 25 February 2014.

ASX Listing Rule 14.4 and Rule 46 of the Constitution require directors to retire by rotation in line with their length of service. Mr Day retires by rotation and, being eligible, offers himself for re-election.

Mr Day's professional career includes senior executive roles in finance and general management the mining, manufacturing, food and financial services industries at companies including Bonlac Foods, Rio Tinto, CRA and Comalco. He was Chief Financial Officer for Amcor for seven years until 2007.

Mr Day is a former Chairman of the Australian Accounting Standards Board and was Deputy Chairman of the Australian Securities & Investments Commission. He is a non-executive director of Alumina Limited, Ansell Limited and Australian Unity Office Fund, each of which is listed on the ASX. He also is a member of the Takeovers Panel. Mr Day received his Bachelor of Laws LLB (Hons) from Queen Victoria University in Manchester, England, and his Master of Administration from Monash University in Melbourne. Mr Day is a Chartered Accountant (FCA) and a member of CPA Australia (FCPA). Mr Day is Chairman of the Remuneration and Nominations Committee and is a member of the Company's Audit, Risk & Compliance Committee.

If the Recapitalisation Resolutions are passed, Mr Day will resign as a Director of the Company with effect from implementation of the Recapitalisation.

The Directors, with Mr Day abstaining, unanimously recommend that shareholders vote **IN FAVOUR** of this resolution.

### 1.3 **Resolution 3 – Re-election of Mr Rex McLennan**

Mr Rex McLennan was appointed a Non-Executive Director of the Company on 24 August 2013.

ASX Listing Rule 14.4 and Rule 46 of the Constitution require directors to retire by rotation in line with their length of service. Mr McLennan by rotation and, being eligible, offers himself for re-election.

Mr McLennan is a former senior public company executive with over 30 years of progressive leadership experience in large, multinational resource companies. He most recently served as Chief Financial Officer of Viterro Inc., a leading global agricultural products company primarily involved in the distribution, marketing and processing of grain and oilseeds. Viterro was acquired in December 2012 by Glencore International, and Mr McLennan completed his role as CFO at that time.

His professional career also includes prior senior executive finance roles. He served as Executive Vice President and Chief Financial Officer for major gold producer Placer Dome, Inc. prior to its acquisition by Barrick Gold in 2005 and subsequently held the same role with the Vancouver Organizing Committee (VANOC) for the 2010 Olympic Winter Games, where he led and successfully completed the development of the 2010 Games' operations budget, risk management and related financial functions from 2005-07. Mr McLennan 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, in the upstream Heavy Oil/Oil Sands development group in Calgary, Canada, and subsequently in the Corporate Finance and Treasury groups in Toronto.

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 Canadian Institute of Corporate Directors (ICD) and a graduate of the ICD Director's Education Program, University of Toronto, Rotman School of Business, obtaining his ICD designation in 2013.

Mr McLennan is Chairman of the Environment, Health and Safety Committee and a member of the Audit, Compliance and Risk Committee.

If the Recapitalisation Resolutions are passed, Mr McLennan will resign as a Director of the Company with effect from implementation of the Recapitalisation.

The Directors, with Mr McLennan abstaining, unanimously recommend that shareholders vote **IN FAVOUR** of this resolution.

#### 1.4 **Resolution 4 – Remuneration Report**

Section 250R(2) of the Corporations Act requires that the Company put to a shareholder vote a resolution that the Remuneration Report be adopted. The vote is advisory only and does not bind the Directors of the Company, although the Company takes the outcome of the vote into consideration in determining the remuneration policy going forward.

As set out in the Remuneration Report, the Company's remuneration philosophy and practices aim to set board and executive compensation at levels that are fair and reasonable and competitive with relevant market practice as well as to assist the Company to recruit, retain and motivate skilled and talented people across the Company's operations. Wherever possible, the Company's remuneration practices and governance are consistent with best practice for Australian listed companies, adapted where necessary to the needs of a multinational company operating in some 40 countries worldwide and headquartered in the U.S. These policies and practices are overseen by the Board's Remuneration Committee.

The Remuneration Report is available on pages 31 - 60 of the Annual Report, which can be viewed on the website at <http://www.boartlongyear.com/company/investors/annual-reports/>.

The Directors unanimously recommend that Shareholders vote **IN FAVOUR** of this resolution.

## 2. SPECIAL BUSINESS RELATED TO THE RECAPITALISATION

### 2.1 Background to the Recapitalisation

On 3 April 2017, the Company announced that it had entered into the Restructuring Support Agreement with the Supporting Creditors in relation to the Recapitalisation. In conjunction with the Recapitalisation, the Company also entered into agreements with lenders affiliated with the Supporting Creditors for an incremental, short-term \$15 million loan facility to provide additional working capital to support the Company until the Recapitalisation is completed (**Second-Out ABL**).

This followed the Company entering into a \$20 million credit facility with Centerbridge on 5 January 2017 (the **DDL**) and Centerbridge agreeing to modify certain terms of Term Loans A and B, which were entered into as part of the Centerbridge led recapitalisation in 2015. The DDL provided additional financial resources to support the Company's ongoing restructuring discussions with its lenders and provided additional working capital in the first quarter of 2017.

The Recapitalisation is the outcome of the process that the Company commenced in August 2016 to evaluate capital structure options (**Capital Structure Review**). The Board established a Restructuring Committee (the **Restructuring Committee**) comprised of a majority of independent non-executive Directors and led by the Company's Executive Chairman, Marcus Randolph, to oversee the Capital Structure Review.

The primary objective of the Capital Structure Review was to identify options available to the Company to make its capital structure more sustainable, including by extending debt maturities and reducing the Company's high levels of debt relative to current market conditions and underlying financial performance while achieving the best possible outcome for Shareholders.

The Recapitalisation achieves the Company's objectives and is critical to providing the Company with a more appropriate balance sheet for its current and expected circumstances. The Independent Directors believe the Recapitalisation is presently the best available and only executable option to maximise long term value for the Company and its stakeholders. Further details of the potential advantages and disadvantages of the Recapitalisation are set out in Sections 7.2 and 7.3, respectively.

### 2.2 Background to the Capital Structure Review

#### (a) Debt capital structure

The following table summarises the Company's current debt capital structure (as at 1 April 2017):



Description (including % holding as at 1 April 2017)	Total amount outstanding (principal and interest)	Principal (not including accreted principal) / total commitment	Accrued/ Accreted interest	Interest rate	Maturity
Term Loan A (100% Centerbridge)	\$113.5m	\$85.0m	\$28.5m <sup>4</sup>	12% payable in kind or 10% cash (at the Company's election)	3 January 2021
Term Loan B (100% Centerbridge)	\$137.2m	\$105.0m	\$32.2m <sup>5</sup>	12% payable in kind or 10% cash (at the Company's election)	3 January 2021
Senior 10% Secured Notes (8.5% Centerbridge, 18.8% Ares, 23.6% Ascribe, 49.2% Other)	\$204.8m	\$195.0m	\$9.8m	10% in cash	1 October 2018
Asset Backed Loan (PNC Bank)	\$18.3m	\$40.0m	Nil	Variable in cash	29 May 2020
Senior 7% Unsecured Notes (45.5% Ascribe, 42.9% Ares, 11.5% Other)	\$293.9m	\$284.0m	\$9.9m	7% in cash	1 April 2021
DDL (100% Centerbridge)	\$20.3m	\$20.0m	\$0.3m	12% payable in kind or 10% cash (at the	31 December 2020

<sup>4</sup> Net of amounts paid by the Company on behalf of Australian withholding tax. Represents the accreted/accrued interest amounts at the stated 12.0% interest rate, paid in kind, through 1 April 2017.

<sup>5</sup> Net of amounts paid by the Company on behalf of Australian withholding tax. Represents the accreted/accrued interest amounts at the stated 12.0% interest rate, paid in kind, through 1 April 2017.

Description (including % holding as at 1 April 2017)	Total amount outstanding (principal and interest)	Principal (not including accreted principal) / total commitment	Accrued/ Accreted interest	Interest rate	Maturity
				Company's election)	
Second-Out ABL <sup>6</sup> (60.1% Centerbridge, 19.4% Ares and 20.5% Ascribe)	Nil – undrawn on 1 April 2017	\$15m		12% payable in kind or 10% cash	Earlier of 31 December 2017 and implementation of the Recapitalisation

(b) **Equity capital structure**

The following table summarises the Company's equity capital structure as at the date of this Explanatory Statement (to one decimal place):

Shareholder	Ordinary shares	Preference shares
CBP Registered Holders		
• CCP II	25.8%	100%
• CCP Credit	23.0%	0%
Ascribe	1.1%	0%
Other	50.0%	0%
<b>TOTAL</b>	100%	100%

2.3 **What is the Recapitalisation?**

The Recapitalisation will primarily be implemented by two interdependent creditors' schemes of arrangement under Part 5.1 of the Corporations Act and a number of other transactions summarised in the table below:

Mechanism	What Recapitalisation Transaction does it effect?	Where do you find more information?	What are Shareholders being asked to approve?
Secured Creditors' Scheme	<ul style="list-style-type: none"> <li>Initial Term Loan Amendments</li> <li>10% Secured Note Amendments</li> </ul>	Section 3.1 Section 3.2	

<sup>6</sup> The Second-Out ABL was entered into on 2 April 2017, the full \$15m was drawn as at 20 April 2017.

Mechanism	What Recapitalisation Transaction does it effect?	Where do you find more information?	What are Shareholders being asked to approve?
Unsecured Creditors Scheme	<ul style="list-style-type: none"> <li>7% Unsecured Notes Release and Reinstatement</li> <li>7% Unsecured Notes Share and Warrant Issuance</li> </ul>	<p>Section 4.2</p> <p>Section 4.3</p>	Issue of Shares under the Unsecured Creditors' Scheme and the exercise of 7% Warrants by Ares and Ascribe and issue of 7% Warrants to other holders of 7% Unsecured Notes (see Resolutions 7 to 9)
CPS Conversion	Conversion of the Convertible Preference Shares into Shares	Section 5.3	-
Subscription Deed	Issuance of Shares to CBP in consideration for the Subsequent Term Loan Amendments	Section 5.1	Issue of Shares to CBP or their nominee that are Affiliates of Centerbridge (see Resolution 6)
New ABL Revolver	Replacement of the Existing ABL Revolver and repayment the Second Out-ABL and the DDL	Section 5.2	-
Warrants Issue	Issue of Ordinary Warrants to Shareholders (other than Centerbridge)	Section 5.4	Issue of Ordinary Warrants to Shareholders (including Directors who are Shareholders) and Ascribe (see Resolutions 8, 10 and 11)
Governance arrangements	Nominations of the Supporting Creditors to be elected to the Board	Section 5.6	Election of candidates nominated by the Supporting Creditors(see

Mechanism	What Recapitalisation Transaction does it effect?	Where do you find more information?	What are Shareholders being asked to approve?
			Resolutions 12 to 17)

Each of the Recapitalisation Transactions is inter-conditional such that if either or both of the Creditors' Schemes is not approved by the requisite majority of creditors or any of the Recapitalisation Resolutions is not approved by the requisite majority of Shareholders or any other condition to the Recapitalisation is not satisfied or waived (as applicable) (Section 14.1(a)), the other Recapitalisation Transactions will not proceed. Each Recapitalisation Resolution should therefore be considered in the context of the overall benefits of the Recapitalisation.

Resolution 5 (Approval for the issue of Shares under the SPP) and Resolution 11 (Approval for the issue of Ordinary Warrants to Directors who are Shareholders) are not Recapitalisation Resolutions so implementation of the Recapitalisation does not depend on the outcome of those Resolutions.

The Creditors' Meeting to consider the Creditors' Schemes is expected to be held on or about 30 May 2017. If either or both the Creditors' Schemes are not approved by the requisite majorities then the Recapitalisation will not proceed and the Recapitalisation Resolutions will be withdrawn.

## 2.4 Share Purchase Plan

In connection with the Recapitalisation the Company also proposes to offer Shareholders the opportunity to participate in a share purchase plan (the **Share Purchase Plan** or **SPP**).

Under the SPP, Eligible Shareholders will be entitled to apply for up to A\$5,000 worth of Shares at a price of A\$0.02 per Share (the **Issue Price**), to raise up to a maximum amount of A\$9 million.

An Eligible Shareholder is a person who:

- (a) is the registered holder of Shares as at 7:00 pm (Sydney time) on 31 March 2017, being the trading day prior to announcement of the SPP (the **SPP Record Date**);
- (b) as at the SPP Record Date, has a registered address in Australia or New Zealand;
- (c) is not in the United States and not acting for the account or benefit of a person in the United States; and
- (d) is eligible under all applicable securities laws to receive an offer under the SPP without any requirement for a prospectus or offer document to be lodged or registered.

The amount raised by the Company under the SPP will reduce the amount by which the Supporting Creditors backstop the New ABL Revolver (as set out in Section 5.1).

Further information regarding the SPP will be set out in the SPP booklet expected to be despatched by the Company following the AGM.

### 3. SECURED CREDITORS' SCHEME

#### 3.1 Initial Term Loan Amendments

Term Loans A and B were entered into by the Company as part of the Centerbridge led recapitalisation in October 2014 and modified on or about 5 January 2017 in conjunction with the Company entering into the DDL (Section 2.1). The Initial Term Loan Amendments comprise the first tranche of amendments to Term Loans A and B under the Recapitalisation. The second tranche of amendments, the Subsequent Term Loan Amendments, will be effected by the Subsequent Term Loan Amendment Agreement (Section 5.1). The Initial Term Loan Amendments and the Subsequent Term Loan Amendments (together the **Term Loan Amendments**) will reverse certain of the amendments to Term Loans A and B made at the time the DDL was entered into.

The Initial Term Loan Amendments involve:

- **(maturity)** an extension of the maturity date to 31 December 2022;
- **(call schedule)** non-call protection until to December 2018; callable at par thereafter without penalty;
- **(covenants)** amendments to covenants to be generally consistent with the 10% Secured Notes;
- **(secured debt cap)** a secured debt cap of not less than \$420 million plus additional amounts to permit (a) accrued interest and principal amounts in respect of the 10% Secured Notes, (b) the incurrence of an additional \$40 million of New ABL Revolver capacity and (c) a potential additional \$40 million of additional secured debt capacity; and
- **(IP subsidiary)** BLY IP Inc., an intellectual property subsidiary that guarantees Term Loans A and B providing a subordinated unsecured guarantee to the 10% Secured Notes.

The Term Loan Agreements include provisions entitling the holders of Term Loans A and B to elect to require the Company to redeem Term Loans A and B at 101% of par value if there is a Change of Control Event. The Secured Creditors' Scheme therefore includes a waiver of any rights arising in respect of a Change of Control Event occurring up to and including implementation of the Recapitalisation.

In addition, the Secured Creditors Scheme also effects an amendment to the intercreditor arrangement to enable the New ABL Revolver to share the collateral package for Term Loan A.

#### 3.2 10% Secured Note Amendments

The 10% Secured Note Amendments involve:

- **(interest rate)** the current interest rate of 10% per annum, payable in cash, being either, at the Company's option, increased to 12% payable in kind or remaining at 10% payable in cash (retroactive to 1 January 2017), up to and

including the December 2018 interest payment date, then payable in cash at 10% thereafter<sup>7</sup>;

- **(maturity)** an extension of the maturity date to 31 December 2022;
- **(covenants)** elimination of existing restricted payment baskets or permitted investment baskets to better preserve collateral for creditors;
- **(secured debt cap)** an increased secured debt cap of not less than US\$420 million plus additional amounts to permit (a) accrued interest and principal amounts in respect of the debt owing under the 10% Secured Notes Indenture, (b) the incurrence of an additional \$40 million of New ABL Revolver capacity and (c) a potential \$40 million of additional secured debt capacity; and
- **(new guarantee)** BLY IP Inc., the intellectual property subsidiary that guarantees Term Loans A and Term Loan B providing a subordinated unsecured guarantee; and
- **(interest payment dates)** amended to 30 June and 31 December from 1 April and 1 October.

The 10% Secured Notes Indenture also includes a provision entitling the holders of the 10% Secured Notes to elect to require the Company to redeem the 10% Secured Notes at 101% of par value if there is a Change of Control Event. The Secured Creditors' Scheme therefore also involves a waiver of any rights arising in respect of a Change of Control Event occurring up to and including implementation of the Recapitalisation.

### 3.3 Releases

In addition, the Secured Creditors' Scheme will effect mutual releases of certain Claims by the holders of the Term Loans A and B and 10% Secured Notes and certain members of the BLY Group.

### 3.4 Detailed disclosure relating to the Secured Creditors' Scheme

If Shareholders would like further information relating to the Secured Creditors' Scheme, the Secured Creditors' Scheme, accompanying explanatory statement and report of the independent expert, KordaMentha (the **KordaMentha Report**) were disclosed on ASX on or about 12 May 2017 and is available at <http://www.boartlongyear.com/company/investors/announcements/>.

The KordaMentha Report has been prepared for the purpose of opining on the solvency of the BLY Group following implementation of the Recapitalisation and the likely outcome for the BLY Group if the Recapitalisation is not implemented, amongst other matters.

The KordaMentha Report includes an enterprise value of the Company which differs from the enterprise value of the Company included in the Independent Expert's Report, prepared by KPMG.

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<sup>7</sup> If the Recapitalisation is implemented, the interest rate of 12% will apply retroactively to the balance outstanding in respect of the 10% Senior Notes at 31 December 2016.

KordaMentha's enterprise valuation of \$246.5 to \$286.6 million is based on the Company's current and near term forecast earnings. In determining this value, KordaMentha adopted the FY17 budgeted earnings (adjusted for restructuring costs) (\$40.1 million) as being representative of the maintainable earnings of the business. An EBITDA multiple of 6.0 to 7.0 times EBITDA was then applied to derive an enterprise value for the Company.

KPMG's enterprise valuation of \$550.0 to \$650.0 million adopts a through-the-cycle approach by looking at the historical 3 year (\$21.1m), 5 year (\$98.5m) and 7 year (\$153.0m) average adjusted EBITDA and statutory EBITDA ending December 2016 and the 3 year (\$24.0m), 5 year (\$42.1m) and 7 year (\$127.0m) average adjusted EBITDA and statutory EBITDA ending December 2017. Based on this analysis KPMG selected a maintainable EBITDA range of \$100.0 million to \$130.0 million. An EBITDA multiple of 5.5 to 5.0 times EBITDA was then been applied to derive an enterprise value for the Company utilising through-the-cycle multiples observed for comparable companies.

While KordaMentha and KPMG have both adopted a capitalisation of earnings approach, the differences in enterprise value result from the different basis of earnings and capitalisation rates applied by each.



#### 4. UNSECURED CREDITORS' SCHEME

##### 4.1 Current holders

The current holders of the 7% Unsecured Notes are summarised in the following table:

Holder	Debt as at 1 April 2017 (principal plus accrued / accreted interest)
Ascribe	\$133,843,095
Ares	\$126,200,655
Other Holders	\$33,896,250
<b>TOTAL</b>	<b>\$293,940,000</b>

##### 4.2 Release and Reinstatement

The 7% Unsecured Notes Release and Reinstatement involves:

- (a) the release of an amount of \$196 million in principal of the 7% Unsecured Notes plus \$9,940,000 of accrued/accreted interest; and
- (b) the reinstatement of the remaining \$88 million of principal of the 7% Unsecured Notes plus accrued interest to the Implementation Date (calculated by applying a reduced interest rate of 1.5% to the \$88 million in principal amount from 1 January 2017 to the Implementation Date) with an interest rate of 1.5% payable in kind.

The reinstated 7% Unsecured Notes (the **Subordinated Notes**) will have the terms as summarised by the following table:

<b>Maturity</b>	31 December 2022
<b>Interest rate</b>	1.5% payable in kind
<b>Ranking</b>	Subordinated to unsecured interest accrued on Term Loans A and B
<b>Secured debt cap</b>	A secured debt cap of not less than \$420 million plus additional amounts to permit (a) accrued interest and principal amounts in respect of the 10% Secured Notes, (b) the incurrence of an additional \$40 million of New ABL Revolver capacity and (c) a potential additional \$40 million of additional secured debt capacity
<b>Covenants</b>	Consistent terms with 7% Unsecured Notes

##### 4.3 7% Unsecured Notes Share and Warrant Issuance

In addition, under the Unsecured Creditors' Scheme holders of the 7% Unsecured Notes will be issued with:

- (a) 42% of the ordinary equity of the Company post implementation of the Recapitalisation pre-issue of the Warrants; and
- (b) the 7% Warrants.

The terms of the 7% Warrants are set out in Schedule 2. The 7% Warrants have substantially the same terms as the Ordinary Warrants described in Section 5.4, except for the following key differences:

- (a) the Exercise Price is different; and
- (b) cashless exercise is permitted.

In addition, the Company undertakes in favour of the holders of the 7% Warrants not to pay any dividends or make distributions to Shareholders for so long as the Company remains listed on ASX or otherwise prohibited from adjusting the Exercise Price or the number of Shares the subject of the 7% Warrants if there is a dividend or distribution, unless such dividend or distribution is consented to by holders of the 7% Warrants holding more than 50% of the total number of 7% Warrants outstanding on the record date for the payment of such dividend or distribution.

The 7% Warrants are being issued in two tranches. The first tranche comprises a maximum of 1,303,200,947 7% Warrants (**Tranche A 7% Warrants**).<sup>8</sup>

The Exercise Price for the Tranche A 7% Warrants is calculated in accordance with the following formula:

$$EP = \frac{TEV - ND}{N}$$

Where:

EP is the Exercise Price (which is in US dollars)

TEV is \$750 million

ND is net debt of the BLY Group on the Implementation Date

N is the number of Shares on the Implementation Date after the issue of Shares under the Unsecured Creditors' Scheme and the Subscription Deed

The Exercise Price is expected to be in the range of \$0.006 – \$0.008 per Tranche A 7% Warrant<sup>9</sup>, subject to final debt and cash figures on the Implementation Date.

The second tranche comprises a maximum of 668,308,178 7% Warrants (**Tranche B 7% Warrants**).<sup>10</sup>

The Exercise Price for the Tranche B 7% Warrants is calculated in accordance with the following formula:

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<sup>8</sup> For information on how the actual number of Tranche A 7% Warrants to be issued under the Unsecured Creditors' Scheme will be determined, please refer to Section 6.5.

<sup>9</sup> Assumes cash at the Implementation Date of between \$25-\$50 million.

<sup>10</sup> For information on how the actual number of Tranche B 7% Warrants to be issued under the Unsecured Creditors' Scheme will be determined, please refer to Section 6.5.

$$EP = \frac{TEV - ND}{N}$$

Where:

EP is the Exercise Price (which is in US dollars)

TEV is \$850 million

ND is net debt of the BLY Group on the Implementation Date

N is the number of Shares on the Implementation Date after the issue of Shares under the Unsecured Creditors' Scheme and the Subscription Deed

The Exercise Price is expected to be in the range of \$0.010 – \$0.012 per Tranche B 7% Warrant<sup>11</sup>, subject to final debt and cash figures on the Implementation Date.

Pursuant to the Unsecured Creditors' Scheme, each of Ares and Ascribe are entitled to be issued a maximum of the following Tranche A 7% Warrants and Tranche B 7% Warrants:

Unsecured Note Holder	Tranche A 7% Warrants	Tranche B 7% Warrants
Ares	559,518,314	286,932,469
Ascribe	593,401,538	304,308,481

However, Ares has notified the Company that 25% of the Tranche A 7% Warrants (or up to 139,879,578 Tranche A 7% Warrants) which it is entitled to be issued under the Unsecured Creditors' Scheme are to be issued to Ascribe. Given Ares' notification, each of Ares and Ascribe will be issued a maximum of the following 7% Warrants:

Unsecured Note Holder	Tranche A 7% Warrants	Tranche B 7% Warrants
Ares	419,638,735	286,932,469
Ascribe	733,281,117	304,308,481

The Tranche A 7% Warrants and the Tranche B 7% Warrants will not be quoted on ASX but are freely transferable.

#### 4.4 Releases

In addition, the Unsecured Creditors' Scheme will effect mutual releases of certain Claims by the holders of the 7% Unsecured Notes and certain members of the BLY Group.

#### 4.5 Detailed disclosure relating to the Unsecured Creditors' Scheme

If Shareholders would like further information relating to the Unsecured Creditors' Scheme, the Unsecured Creditors' Scheme, accompanying explanatory statement and KordaMentha Report were disclosed on ASX on or about 12 May 2017 and is available at <http://www.boartlongyear.com/company/investors/announcements/>.

<sup>11</sup> Assumes cash at the Implementation Date of between \$25-\$50 million.

For further information regarding the differences in enterprise value of the Company as set out in the KordaMentha Report and the Independent Expert's Report, please refer to Section 3.3.

## 5. OTHER RECAPITALISATION TRANSACTIONS

The other Recapitalisation Transactions will only be implemented if the Creditors' Schemes become effective and if each of the Recapitalisation Resolutions is approved.

### 5.1 Subsequent Term Loan Amendments

The second tranche of amendments to Term Loans A and B under the Recapitalisation (the **Subsequent Term Loan Amendments**) are to be effected through the Subsequent Term Loan Amendment Agreement.

Under the Subscription Deed, the Company has agreed to issue CBP or their nominees that are Affiliates of Centerbridge up to 12,967,554,506 Shares<sup>12</sup> in consideration for a reduction in interest rates for Term Loans A and B from 12% to 10% payable in kind until December 2018 and to 8% thereafter.<sup>13</sup> These Shares equate to 52.3% of the issued Shares post implementation of the Recapitalisation pre-issue of the Warrants and when aggregated with the Shares issued to CCP II on the CPS Conversion (Section 5.3) will result in Centerbridge having a relevant interest in 56% of the Shares post implementation of the Recapitalisation pre-issue of the Warrants.

The issue of Shares under the Subscription Deed is conditional on the Creditors' Schemes becoming effective.

### 5.2 Repayment of the Second-Out ABL and the DDL through the New ABL

The Supporting Creditors have agreed to fully backstop, to the extent not provided by a third party lender, a new revolving ABL facility in the aggregate principal amount equal to \$75 million (the **New ABL Revolver**), subject to the amount of the backstop being reduced by the amount raised by the Company pursuant to the Share Purchase Plan. As at the date of this Explanatory Statement, the Company has not found a third party lender willing to fund the full amount of the New ABL Revolver on acceptable terms and therefore the Company expects that the Supporting Creditors will be required to fund part of the New ABL Revolver.

The New ABL Revolver will replace the Existing ABL Revolver and, together with the proceeds from the Share Purchase Plan, will be used to repay the Second-Out ABL and DDL if and when the Creditors' Schemes become effective. In accordance with the Restructuring Support Agreement the asset transfers associated with the DDL will be reversed. The proportion of any funding provided by the Supporting Creditors will be based on their relative percentage shareholding in the Company post implementation of the Recapitalisation (excluding any existing Shares held by Ascribe and the 7% Warrants).

The collateral under the New ABL Revolver will be the collateral package securing the Existing ABL Revolver plus any other collateral or guarantees that secure or guarantee Term Loan A. The Company will be required to obtain a waiver from ASX Listing Rule 10.1 to permit the Company and its subsidiaries to grant security over certain assets in favour of CBP as one of the Supporting Creditors to secure the Company's obligations under the New ABL Revolver.

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<sup>12</sup> For information on how the actual number of Shares to be issued under the Subscription Deed will be determined, please refer to Section 6.5.

<sup>13</sup> If the Recapitalisation is implemented, the interest rate of 10% will apply retroactively to the balance outstanding in respect of Term Loans A and B at 31 December 2016.

### 5.3 CPS Conversion

As part of the 2015 recapitalisation, CCP II was issued 434,001,968 Convertible Preference Shares. Under the Recapitalisation it is proposed that all the Convertible Preference Shares held by CCP II be converted into Shares (the **CPS Conversion**). The CPS Conversion will be implemented after the issuance of Shares under the Unsecured Creditors' Scheme and before the issue of Shares under the Secured Creditors Scheme.

### 5.4 Issue of Ordinary Warrants to Shareholders (other than Centerbridge)

The Warrants Issue involves the issue by the Company of the Ordinary Warrants to Shareholders (other than Centerbridge). The Ordinary Warrants, like the 7% Warrants, are options over unissued Shares.

The Warrants Issue will be made by the Company as part of the Recapitalisation pursuant to a prospectus which the Company proposes to lodge with ASIC (the **Prospectus**).

The terms of the Ordinary Warrants are set out in Schedule 1 and will be set out in the Prospectus but are summarised as follows:

<b>Subscription Right</b>	<p>Each Ordinary Warrant confers on its holder the right (but not the obligation) to subscribe for one Share, subject to any adjustment (set out below).</p> <p>An Ordinary Warrant will not confer any rights to dividends or to participate in any new issues of Shares without exercising the Ordinary Warrant.</p> <p>Shares allotted and issued on the exercise of an Ordinary Warrant upon allotment will rank <i>pari passu</i> in all respects (including as to dividends the entitlement to which is determined after allotment) with the then-issued Shares and are subject to the Constitution.</p>
<b>Exercise Price</b>	<p>The Exercise Price for the Ordinary Warrants is the Australian dollar equivalent of the US dollar amount calculated in accordance with the following formula:</p> $EP = \frac{TEV - ND}{N}$ <p>Where:</p> <p>EP is the Exercise Price</p> <p>TEV is \$1 billion</p> <p>ND is net debt of the BLY Group on the Implementation Date</p> <p>N is the number of Shares on the Implementation Date after the issue of Shares under the Unsecured Creditors' Scheme and the Subscription Deed</p> <p>The Exercise Price is expected to be in the range of A\$0.021 – A\$0.024 per Ordinary Warrant<sup>14</sup>, subject to final debt and</p>

<sup>14</sup> Based on an exchange rate of 1.355 as of 8 May 2017 and assumes cash at the Implementation Date of between \$25-\$50 million.

	cash figures on the Implementation Date. The Exercise Price of the Ordinary Warrants will be calculated in Australian dollars based on the prevailing exchange rate on the Implementation Date. The Exercise Price is payable in cash.
<b>Method of Exercise</b>	<p>Each Ordinary Warrant may be exercised at any time in the period after its issue to 5.00pm Sydney time on the date which is the 7th anniversary of the date of its issue (<b>Exercise Period</b>).</p> <p>Each Ordinary Warrant may be exercised during the Exercise Period by delivering a duly completed exercise notice to the Company.</p>
<b>Adjustments</b>	<p>The terms of the Ordinary Warrants will be adjusted in following circumstances:</p> <ul style="list-style-type: none"> <li>• <b>(pro-rata issues)</b> the Exercise Price will be reduced in accordance with ASX Listing Rule 6.22.2 in respect of pro rata issues (other than bonus issues);</li> <li>• <b>(bonus issues)</b> the number of Shares over which Ordinary Warrants will be exercisable will be increased by the number of Shares the holder would have received if the Ordinary Warrant had been exercised before the record date of the bonus issue;</li> <li>• <b>(reorganisation of capital)</b> the rights of the holder of the Warrant (and the Exercise Price) will be changed to the extent necessary to comply with the ASX Listing Rules applying to a reorganisation of capital;</li> <li>• <b>(dividend)</b> if during the Exercise Period the Company ceases to be admitted to the official list of ASX or is no longer prohibited from effectuating the adjustments, the number of Shares over which Ordinary Warrants will be exercisable will be increased and the Exercise Price will be decreased for the payment of a dividend or other distribution; and</li> <li>• <b>(change in capital)</b> on a change in capital, the rights of the holder of the Warrant will be changed to reflect what the holder would have received if the Ordinary Warrant had been exercised prior to the record date for that change in capital.</li> </ul> <p>In addition, if during the Exercise Period the Company ceases to be listed on ASX or is no longer prohibited from adjusting the Exercise Price or the number of Shares the subject of the Ordinary Warrants in the event of a dividend or distribution, the number of Shares over which Ordinary Warrants will be exercisable will be increased and the Exercise Price will be decreased for the payment of a dividend or other distribution.</p>
<b>Change of control</b>	<p>On a change of control transaction (which includes a sale of all or substantially all of the assets of the Company but excludes a public stock merger), the Company will cancel the Ordinary Warrants and pay the holder the warrant value (determined in accordance with a Black-Scholes model) in cash.</p> <p>Where the change of control transaction is a public stock merger, the Company shall procure that the acquirer or successor entity shall assume the obligations of the Company and the warrant will become exercisable into the public stock except where the market capitalisation is less than \$500</p>

<b>Re-domiciling</b>	million where the Ordinary Warrant will be cancelled and the holder will be paid the warrant value in cash unless it elects for the Ordinary Warrant to remain on foot and become exercisable over the public stock.
	If the Company re-domiciles, the Ordinary Warrants will confer the right (but not the obligation) to acquire the securities or other property received in place of a Share as a result of the re-domiciling.
<b>Transfer</b>	The Company will seek quotation of the Ordinary Warrants on ASX. For so long as the Ordinary Warrants are quoted on ASX, they will be freely tradeable on ASX.

## 5.5 Governance matters

In light of the significant equity interests being acquired by the Supporting Creditors under the Recapitalisation, the Company has agreed to grant each Supporting Creditor certain once only director nomination rights pursuant to the Director Nomination Agreements.

Under the Director Nomination Agreements:

- Ares is entitled to nominate one person to stand for election to the Board at the AGM;
- Ascribe is entitled to nominate one person to stand for election to the Board at the AGM;
- additionally, Ares and Ascribe are entitled to jointly nominate one person to stand for election to the Board at the AGM;
- CBP are entitled to nominate five persons to stand for election to the Board at the AGM, one of whom will serve as Chairman (and this would supersede and replace Centerbridge's existing director appointment rights under the implementation agreement entered into by the Company in relation to the Centerbridge led recapitalisation in 2015).

All existing Directors, other than Mr Olsen, the Chief Executive Officer and Mr Randolph and Ms McClain (who will remain on the Board as Centerbridge Nominees) intend to resign from the Board with effect from implementation of the Recapitalisation. Details of the Nominee Directors are set out in Sections 9.4, 10.4, 10.5, 11.4 and 11.5.

The Independent Directors believe that the Recapitalisation provides a comprehensive recapitalisation solution that is the best available option to maximise long-term Shareholder value, with other options considered as part of the Capital Structure Review either not providing a comprehensive solution or leaving existing Shareholders and other stakeholders with an inferior outcome.

## 5.6 Re-domiciliation

The Company has agreed under the Restructuring Support Agreement to take all requisite steps to re-domicile its business to the United States (state of Delaware), the United Kingdom or Canada (or such other jurisdiction as to which the Supporting Creditors agree) as soon as possible after implementation of the Restructuring and in any case on or before 15 April 2018 (the **Re-domiciliation**), unless the Company



and the Supporting Creditors jointly determine in their reasonable discretion that the Re-domiciliation would not be in the best interests of the Company.

In connection with the Re-domiciliation, the Company must procure that the corporate successor to the Company (the **Successor**) must agree to include in its organisational documents, in each case to the maximum extent permissible by applicable law:

- that a vote by holders of 50% in amount of the then-issued and outstanding common stock or shares of such Successor will be required to amend the organizational documents of such Successor, provided that a vote by holders of 75% in amount of the then issued and outstanding common stock or shares of such Successor will be required to amend such organizational documents if such amendment would adversely and disproportionately affect the rights, obligations or liabilities of any particular shareholder under such organizational documents relative to all shareholders generally;
- that, until 31 December 2018, a vote by holders of 75% in amount of the then-issued and outstanding common stock or shares of such Successor will be required to approve any merger or amalgamation with, acquisition of, scheme of arrangement or other similar transaction effectuating a business combination involving the Successor, or the sale in one transaction or a series of related transactions involving all or substantially all of such Successor's assets, in each case, whether or not the Successor continues or survives following such transaction, if the purchase price in such merger, amalgamation, acquisition, business combination or sale implies a TEV of less than \$750 million; provided that in the event such vote is sought and not obtained, then the secured debt cap will be increased by up to \$40 million, solely for the purpose of, and solely to the extent of, the incurrence of additional secured debt by the BLY Group to provide additional liquidity and the Supporting Creditors shall be entitled to participate as lenders of any such additional secured debt in the same proportions as in the New ABL Revolver;
- that holders of more than 5% (tested on an aggregate basis across affiliate holdings) of the then issued and outstanding common stock or shares of such Successor will be entitled to pre-emptive rights to participate pro rata in any issuance of share capital that is senior or preferred with respect to the common stock or shares of such Successor;
- not to change the number of such Successor's directors for so long as the Director Nomination Agreements are in effect;
- not to permit a redemption or repurchase of the common stock or shares of such Successor on a non-pro rata basis; and
- not to enter into a transaction with an affiliate of such Successor or Centerbridge, unless (a) such transaction is entered into on an arms' length basis, (b) all material terms and conditions of such transaction (including the facts relating to such affiliate's interest in such transaction) are disclosed to such Successor's board of directors prior to authorizing and/or entering into such transaction, and (c) such transaction is approved by a majority of the members of such Successor's board of directors that are disinterested with respect to such transaction.

The Restructuring Support Agreement contains no obligation with respect to the Company's listing on the ASX. The intentions of the Supporting Creditors to maintain or alter the Company's listing are as further set out in Sections 10, 11 and 12.

## 6. IMPACT OF THE RECAPITALISATION

### 6.1 Further S&P review

On 6 April 2017, following announcement of the Recapitalisation, S&P Global (**S&P**) undertook a further review of the Company's credit ratings and took the following actions:

- (a) the corporate credit rating was lowered to "CC";
- (b) the rating outlook lowered to "Credit Watch Negative";
- (c) the ratings on 10% Secured Notes and 7% Unsecured Notes lowered to "CCC-" and "C", respectively; and
- (d) the recovery ratings on 10% Secured Notes and 7% Unsecured Notes remain unchanged at "2" and "5", respectively.

### 6.2 Effect of Recapitalisation Transactions – Pro forma balance sheet and financial ratios

The tables below show the change in the Company's balance sheet, gross leverage, net leverage and interest coverage as a result of the Recapitalisation Transactions.

**Table 1: Sources and Uses**

US\$m Sources	
Upsized ABL Facility (1)	\$75.0
7% Unsecured Notes Share Issue (4)	205.6
Cash From Balance Sheet (5)	0.3
<b>Total Sources</b>	<b>\$280.9</b>
Uses	
Existing ABL Facility (1)	\$40.0
Delayed Draw Term Loan (1) (3)	20.3
Second-Out ABL Facility (6)	15.0
7% Unsecured Notes Share Issue (4)	205.6
<b>Total Uses</b>	<b>\$280.9</b>

**Table 2: Pro-forma Capitalisation**

US\$m	1 April 2017 Pre- Transaction	Transaction Adjustments	1 April 2017 Post- Transaction
Existing ABL Facility (1)	\$40.0	(\$40.0)	-
Second-Out ABL Facility (6)	15.0	(15.0)	-
Delayed Draw Term Loan (1) (3)	20.3	(20.3)	-
Upsized ABL Facility (1)	-	75.0	75.0
Term Loan - Tranche A (2) (3)	113.5	(0.6)	112.9
Term Loan - Tranche B (2) (3)	137.2	(0.7)	136.5
10% Secured Notes (4)	204.8	1.1	205.9
7% Unsecured Notes (4)	293.9	(205.6)	88.3
<b>Total Debt</b>	<b>\$824.7</b>	<b>(\$206.1)</b>	<b>\$618.6</b>

(1) Represents commitment amounts for illustrative purposes

(2) Net of Australian withholding tax

(3) Includes accrued / accreted PIK interest

(4) Includes accrued interest

(5) Shown for illustrative purposes to repay accrued interest on the Delayed Draw Term Loan

(6) The Company entered into the Second-Out ABL Facility in conjunction with executing the RSA on April 4, 2017; the commitment amount is shown on April 1, 2017 for illustrative purposes only

### 6.3 Effect of Recapitalisation Transactions – Company's capital structure

The impact of the Recapitalisation Transactions on certain financial ratios of the Company is set out below.

US\$m	Pre-Transaction	Post-Transaction
Total Long-Term Debt (1)	\$749.4	\$543.6
FY 2016 Adjusted EBITDA	32.0	32.0
<b>Total Gross Leverage Ratio</b>	23.4x	17.0x
FYE 2018 EBITDA (2)	\$72.5	\$72.5
<b>Total Gross Leverage Ratio</b>	10.3x	7.5x
Net Long-Term Debt (3)	\$721.4	\$515.6
FY 2016 Adjusted EBITDA	32.0	32.0
<b>Total Net Leverage Ratio</b>	22.5x	16.1x
FYE 2018 EBITDA (2)	\$72.5	\$72.5
<b>Total Net Leverage Ratio</b>	10.0x	7.1x
FY 2016 Adjusted EBITDA	\$32.0	\$32.0
FYE 2017 Cash Interest (4)	39.4	-
<b>Cash Interest Coverage Ratio</b>	0.8x	NMF
FYE 2018 EBITDA (2)	\$72.5	\$72.5
<b>Cash Interest Coverage Ratio</b>	1.8x	NMF

Source: Company financial statements and disclosures

(1) Represents long-term debt only; excludes existing ABL, Second Out ABL, and Delayed Draw Term Loan

(2) Reflects midpoint of projections on page C2 of the April 3, 2017 press release

(3) Represents long-term debt only; includes restricted cash; excludes existing ABL, Second-Out ABL, and Delayed Draw Term Loan

(4) Excludes interest on account of short-term debt

## 6.4 Minimum and maximum voting power

**Table 1 – If all the 7% Warrants and Ordinary Warrants on issue are exercised**

Party	Current voting power as at the date of this Explanatory Statement (including %)		Voting power on implementation of the Recapitalisation (including %)				Voting power post-exercise of 7% Warrants and Ordinary Warrants issued under the Recapitalisation (including %)		
	Shares	CPS	Shares	CPS	7% Warrants	Ordinary Warrants	Shares	7% Warrants	Ordinary Warrants
Centerbridge	464,501,606 (48.9%)	434,001,968 (100%)	13,866,058,080 (56.0%)	0	0	0	13,866,058,080 (50.6%)	0	0
Ares	0	0	4,464,956,144 (18.0%)	0	706,571,204 (35.8%)	0	5,171,527,348 (18.9%)	0	0
Ascribe	10,671,038 (1.1%)	0	4,746,015,315 (19.2%)	0	1,037,589,598 (52.6%)	14,770,114 (2.2%)	5,798,375,027 (21.1%)	0	0
Holders of the 7% Unsecured Notes (Excl. Ares & Ascribe)	0	0	1,199,243,139 (4.8%)	0	227,348,323 (11.5%)	0	1,426,591,463 (5.2%)	0	0
Existing Shareholders (Excl. Centerbridge, Ares & Ascribe)	475,445,322 (50.0%)	0	484,545,322 (2.0%)	0	0	670,674,171 (97.8%)	1,155,219,493 (4.2%)	0	0
<b>TOTAL</b>	<b>950,617,966 (100.0%)</b>	<b>434,001,968 (100%)</b>	<b>24,760,818,000 (100.0%)</b>	<b>0</b>	<b>1,971,509,126 (100.0%)</b>	<b>685,444,285 (100.0%)</b>	<b>27,417,771,411 (100.0%)</b>	<b>0</b>	<b>0</b>

**Table 2 – If all the 7% Warrants issued to Ares under the Unsecured Creditors' Scheme are exercised by Ares but no other 7% Warrants are exercised (and none of the Ordinary Warrants are exercised)**

Party	Current voting power as of the date of this Explanatory Statement (including %)		Voting power on implementation of the Recapitalisation (including %)				Voting power post-exercise of 7% Warrants issued under the Recapitalisation (including %)		
	Shares	CPS	Shares	CPS	7% Warrants	Ordinary Warrants	Shares	7% Warrants	Ordinary Warrants
Centerbridge	464,501,606 (48.9%)	434,001,968 (100%)	13,866,058,080 (56.0%)	0	0	0	13,866,058,080 (54.4%)	0	0
Ares	0	0	4,464,956,144 (18.0%)	0	706,571,204 (35.8%)	0	5,171,527,348 (20.3%)	0	0
Ascribe	10,671,038 (1.1%)	0	4,746,015,315 (19.2%)	0	1,037,589,598 (52.6%)	14,770,114 (2.2%)	4,746,015,315 (18.6%)	1,037,589,598 (82.0%)	14,770,114 (2.2%)
Holders of the 7% Unsecured Notes (Excl. Ares & Ascribe)	0	0	1,199,243,139 (4.8%)	0	227,348,323 (11.5%)	0	1,199,243,139 (4.7%)	227,348,323 (18.0%)	0
Existing Shareholders (Excl. Centerbridge, Ares & Ascribe)	475,445,322 (50.0%)	0	484,545,322 (2.0%)	0	0	670,674,171 (97.8%)	484,545,322 (1.9%)	0	670,674,171 (97.8%)
<b>TOTAL</b>	<b>950,617,966 (100.0%)</b>	<b>434,001,968 (100%)</b>	<b>24,760,818,000 (100.0%)</b>	<b>0</b>	<b>1,971,509,126 (100.0%)</b>	<b>685,444,285 (100.0%)</b>	<b>25,467,389,204 (100.0%)</b>	<b>1,264,937,922 (100.0%)</b>	<b>685,444,285 (100.0%)</b>

**Table 3 – If all the 7% Warrants issued to Ascribe under the Unsecured Creditors' Scheme are exercised by Ascribe but no other 7% Warrants are exercised (and none of the Ordinary Warrants are exercised other than all those issued to Ascribe under the Warrants Issue)**

Party	Current voting power as of the date of this Explanatory Statement (including %)		Voting power on implementation of the Recapitalisation (including %)				Voting power post-exercise of 7% Warrants and Ordinary Warrants issued under the Recapitalisation (including %)		
	Shares	CPS	Shares	CPS	7% Warrants	Ordinary Warrants	Shares	7% Warrants	Ordinary Warrants
Centerbridge	464,501,606 (48.9%)	434,001,968 (100%)	13,866,058,080 (56.0%)	0	0	0	13,866,058,080 (53.7%)	0	0
Ares	0	0	4,464,956,144 (18.0%)	0	706,571,204 (35.8%)	0	4,464,956,144 (17.3%)	706,571,204 (75.7%)	0
Ascribe	10,671,038 (1.1%)	0	4,746,015,315 (19.2%)	0	1,037,589,598 (52.6%)	14,770,114 (2.2%)	5,798,375,027 (22.5%)	0	0
Holders of the 7% Unsecured Notes (Excl. Ares & Ascribe)	0	0	1,199,243,139 (4.8%)	0	227,348,323 (11.5%)	0	1,199,243,139 (4.6%)	227,348,323 (24.3%)	0
Existing Shareholders (Excl. Centerbridge, Ares & Ascribe)	475,445,322 (50.0%)	0	484,545,322 (2.0%)	0	0	670,674,171 (97.8%)	484,545,322 (1.9%)	0	670,674,171 (100.0%)
<b>TOTAL</b>	<b>950,617,966 (100.0%)</b>	<b>434,001,968 (100%)</b>	<b>24,760,818,000 (100.0%)</b>	<b>0</b>	<b>1,971,509,126 (100.0%)</b>	<b>685,444,285 (100.0%)</b>	<b>25,813,177,712 (100.0%)</b>	<b>933,919,527 (100.0%)</b>	<b>670,674,171 (100.0%)</b>

**Assumptions:**

- (1) Assumes no participation in the Share Purchase Plan.
- (2) Assumes no trading of securities or the issue of further securities by the Company.
- (3) Assumes all holders do not elect cashless exercise option.
- (4) Assumes no adjustments are made to the terms of the 7% Warrants and Ordinary Warrants that would result in additional Shares being issued to Ares and Ascribe.
- (5) Assumes holders of the 7% Unsecured Notes (excluding Ares and Ascribe) do not currently hold Shares.
- (6) Assumes an additional 9.1 million Shares are issued to Directors between the date of this Explanatory Statement and the Implementation Date as part of their ordinary course remuneration which would be the maximum number of Shares that could be issued to Directors (Section 6.5).

**Note 1:** Shareholder approval is being sought for each of Ares and Ascribe to acquire the maximum number of Shares that can be issued upon conversion of the 7% Warrants and Ordinary Warrants being the maximum voting power listed above that each of Ares and Ascribe may acquire by reason of exercising the 7% Warrants and Ordinary Warrants.

**Note 2:** The Warrants do not confer voting rights.

## 6.5 Actual number of Shares and Warrants to be issued on the Implementation Date

Under the Restructuring Support Agreement it was agreed that:

- (a) CBP would be issued such number of Shares as would increase its holding of Shares (including any Shares issued on the CPS Conversion) to 56% of the Company's issued Shares on the Implementation Date post the issue of Shares under the Unsecured Creditors' Scheme, the CPS Conversion and the Subscription Deed;
- (b) the holders of the 7% Unsecured Notes would be issued with:
  - (i) such number of Shares as would equal 42% of the issued Shares on the Implementation Date post the issue of Shares under the Unsecured Creditors' Scheme, the CPS Conversion and the Subscription Deed;
  - (ii) the number of Tranche A Warrants that would be exercisable into a number of issued Shares which will equal 5% of the Company's issued Shares on the Implementation Date post the issue of Shares under the Unsecured Creditors' Scheme, the CPS Conversion and the Subscription Deed; and
  - (iii) the number of Tranche B Warrants that would be exercisable into a number of issued Shares which will equal 2.5% of the Company's issued Shares on the Implementation Date post the issue of Shares and Tranche A Warrants under the Unsecured Creditors' Scheme, the CPS Conversion and the Subscription Deed; and
- (c) Shareholders would be issued with the number of Ordinary Warrants that would be exercisable into a number of issued Shares which will equal 2.5% of the Company's issued Shares on the Implementation Date post the issue of Shares and 7% Warrants under the Unsecured Creditors' Scheme, the CPS Conversion and the Subscription Deed.

As at the date of this Explanatory Memorandum, the Company has 950,617,966 Shares on issue. If the number of issued Shares did not change between the date of this Explanatory and the Implementation Date, the following number of Shares and Warrants would be issued to Centerbridge, Ares and Ascribe if the Recapitalisation Resolutions are approved:

	<b>Shares</b>	<b>Tranche Warrants</b>	<b>A Tranche Warrants</b>	<b>B Ordinary Warrants</b>
Centerbridge	12,712,754,506	0	0	0
Ares	4,382,908,974	411,927,535 <sup>15</sup>	281,659,853	0
Ascribe	4,648,328,507	719,806,485 <sup>16</sup>	298,716,567	14,770,114

The number of issued Shares on the Implementation Date may be slightly greater than the number of issued Shares at the date of this Explanatory Memorandum due to Shares being issued to Directors in the ordinary course in June 2017 as part of the

<sup>15</sup> Reflects Ares' nomination to Ascribe to be issued 25% of their Tranche A 7% Warrants (137,309,178 Tranche A 7% Warrants).

<sup>16</sup> Reflects Ares' nomination to Ascribe to be issued 25% of their Tranche A 7% Warrants (137,309,178 Tranche A 7% Warrants).



Directors' existing remuneration agreements. The maximum total number of Shares expected to be issued to Directors in the ordinary course during June 2017 is 9.1 million Shares.<sup>17</sup>

Resolutions 6, 7, 8, 9 and 10 seek the approval of Shareholders for the issue of that number of Shares and Warrants that would need to be issued to each of Centerbridge, Ares, Ascribe, and other holders of the 7% Notes if the number of Shares on issue on the Implementation Date increases by 9.1 million Shares by reason of the issue of Shares to Directors in the ordinary course as part of their remuneration arrangements.

However, the actual number of Shares to be issued to Centerbridge pursuant to the Subscription Deed and the actual number of Shares and 7% Warrants to be issued to Ares, Ascribe, and other holders of the 7% Notes pursuant to the Unsecured Creditors' Scheme and the actual number of Ordinary Warrants to be issued to Shareholders (other than Centerbridge) will depend on the number of issued Shares on the Implementation Date, immediately prior to implementation of the Recapitalisation and will be determined in accordance with the formulas specified above.

Although the number of Shares issued on implementation of the Recapitalisation may increase, the percentages noted in the tables set out in Section 6.4 will not change including that existing Non-Associated Shareholders will still retain 2.0% of ordinary shares following the Implementation Date.

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<sup>17</sup> Assumes a 50% decrease in the closing price of Shares on ASX on 19 April 2017.

## 7. ADVANTAGES AND RISKS OF THE RECAPITALISATION

### 7.1 Rationale for Recapitalisation

The Independent Directors believe that the Recapitalisation provides a comprehensive recapitalisation solution that is the best available option to maximise long-term Shareholder value, with other options considered as part of the Capital Structure Review either not providing a comprehensive solution or leaving existing Shareholders and other stakeholders with an inferior outcome. The Independent Directors believe that the Recapitalisation will improve the Company's capital structure and provide improved financial flexibility to better position the Company to sustain operations through current and expected market conditions and also to provide resources to allow the Company to make tactical investments in incremental, customer-focused product and service enhancements.

### 7.2 Reasons Shareholders may vote FOR the Recapitalisation Resolutions

- (a) The Recapitalisation is the result of the comprehensive Capital Structure Review in which a range of potential recapitalisation and restructuring options were evaluated. The Company believes that the announced Recapitalisation represents the only executable option for the Company to create a more sustainable capital structure and secure needed liquidity while providing potential for future value recovery for Shareholders and other stakeholders.
- (b) A failure to pass the Recapitalisation Resolutions will mean that the Recapitalisation will not proceed and, as a result, the Company may not be able to meet its debt repayment obligations absent a refinancing (which is considered unlikely given the Company's current financial position). There is a significant and present risk that the Company would be placed in external administration if Shareholders fail to pass the Recapitalisation Resolutions. In this event, Shareholders would likely receive little or no return on their shareholding.
- (c) The Directors are of the opinion that if the Company is unable to implement the Recapitalisation, the Company's secured creditors may appoint a receiver over certain assets.
- (d) The Recapitalisation provides an opportunity for all Shareholders to participate in the issue of further Shares under the Share Purchase Plan, and offers the opportunity to subscribe for Shares at a discount to the current share price.
- (e) The Recapitalisation will have the effect of significantly reducing the Company's debt, reducing financial pressure on the Company and thus allowing Directors and management to focus their attentions on further stabilising the Company's business.

### 7.3 Reasons Shareholders may vote AGAINST the Recapitalisation Resolutions

- (a) The aggregate percentage holding of existing Non-Associated Shareholders will be significantly diluted by the issue of Shares under the Recapitalisation<sup>18</sup>. Immediately following the Recapitalisation, the Supporting Creditors and 7% Noteholders will together hold approximately 98% of the Shares (subject to

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<sup>18</sup> This assumes that no holder of the 7% Unsecured Notes other than Ascribe holds Shares.

further dilution on the exercise of the Warrants). This may adversely affect the liquidity of the Company's shares.

- (b) Post implementation of the Recapitalisation the Board will be comprised of nine Directors, eight of whom will be nominees of the Supporting Creditors with the remaining Director being Jeff Olsen, the Chief Executive Officer (Section 5.5). Mr Randolph and Ms McClain, who are both existing nominees of Centerbridge, will remain on the Board (and Mr Randolph will continue in as Chairman). This will mean that following implementation of the Recapitalisation, the Company will no longer adhere to some of the non-binding ASX Corporate Governance Council Principles and Recommendations, including Recommendation 2.4 which is that a majority of the board of a listed entity should be independent directors.
- (c) As set out in Section 4.3, the Company may not pay any dividends or make distributions to Shareholders for so long as the Company remains listed on ASX or otherwise prohibited from adjusting the terms of the 7% Warrants if there is a dividend or distribution, unless such dividend or distribution is consented to by holders of the 7% Warrants holding more than 50% of the total number of 7% Warrants outstanding on the record date for the payment of such dividend or distribution.
- (d) Should the Recapitalisation be implemented, the Company could, as soon as practicable (but in any event before 15 April 2018), re-domicile its business to a different jurisdiction as agreed with the Supporting Creditors unless the Company and the Supporting Creditors jointly determine that re-domiciliation would not be in the best interests of the Company. A re-domiciliation could also adversely impact the Company's existing listing on ASX as it may impact on the liquidity of the Company's shares or its ability to meet the ASX spread requirements. As a consequence of re-domiciling, the Company may delist from ASX and seek a listing in another jurisdiction but no decision has yet been made in this regard. For the intentions of the Supporting Creditors in relation to the listing, please refer to Sections 9.3, 10.3 and 11.3.
- (e) Shareholders may disagree with the recommendation of the Independent Directors and/or the findings of the Independent Expert and be of the opinion that the Recapitalisation is not in the best interests of the Company and its Shareholders.

Despite the reasons set out immediately above, the Independent Directors believe that the advantages outlined in Section 7.2 outweigh these considerations.

## 8. INDEPENDENT EXPERT'S REPORT AND INDEPENDENT DIRECTORS' RECOMMENDATION

### 8.1 Independent Expert's Report

The Company appointed KPMG to prepare the Independent Expert's Report in relation to the Recapitalisation. The Independent Expert's Report contains a detailed assessment of the Recapitalisation and sets out information to enable Non-Associated Shareholders to assess the merits of, and decide whether to approve, the Recapitalisation Resolutions.

The Independent Expert has concluded that the Recapitalisation is fair and reasonable to Non-Associated Shareholders.

### 8.2 Independent Directors' Recommendation

The Board comprises nine Directors, including Mr Randolph, Mr Long, Mr Tochilin and Mr Clayton, the current Centerbridge nominees (Section 9.1).

All of the Directors have approved the proposal to put the Recapitalisation Resolutions to Shareholders.

Mr Long and Mr Tochilin consider themselves to be conflicted owing to their relationship with Centerbridge (see Section 9.1) and therefore have abstained from making a recommendation in respect of the Recapitalisation Resolutions.

The Directors other than Mr Long and Mr Tochilin (the **Independent Directors**) consider that the Recapitalisation addresses the Company's critical financial needs and meets the primary objectives of the Capital Structure Review. Each of the Independent Directors believes that the Recapitalisation creates a more sustainable capital structure and increases the Company's financial flexibility, enabling the Company to better manage through a difficult operating environment and an uncertain period so as to enable a recovery in the Company's core markets and to better support strategies to restore earnings growth.

Subject to no Superior Proposal emerging, the Independent Directors unanimously recommend that Shareholders vote **IN FAVOUR** of the Recapitalisation Resolutions, and intend to vote any Shares that they control in favour of the Recapitalisation Resolutions. The rationale, risks and other factors relevant to whether Shareholders should vote for or against the Recapitalisation Resolutions are set out in detail in Section 7.

In making their recommendation, the Independent Directors have considered:

- (a) the advantages of the Recapitalisation being implemented, together with other factors relevant to a Shareholder's decision whether to vote for or against the Recapitalisation summarised in Section 7.2;
- (b) the risks associated with the Recapitalisation, as summarised in Section 7.3; and
- (c) the opinion of the Independent Expert, as contained in the Independent Expert's Report set out in Annexure A to this Explanatory Statement.

The Independent Directors consider that the rationale for undertaking the Recapitalisation clearly outweighs the risks of the Recapitalisation. Shareholders may wish to note that in providing their recommendation, the Independent Directors

individually each hold in excess of 1 million Shares in the Company, and therefore remain strongly aligned to the interests of Non-Associated Shareholders.

It is important for Shareholders to note that the Recapitalisation is subject to (among other things) the Recapitalisation Resolutions being passed by the required majority of Shareholders. If Shareholders do not approve all of the Recapitalisation Resolutions, then the Recapitalisation will not occur.

### **8.3 Advantages and risks of the Recapitalisation**

For information about the advantages and risks of the Recapitalisation, refer to Section 7.

## 9. **CENTERBRIDGE**

### 9.1 **Overview of Centerbridge**

#### Overview

Centerbridge is a private investment firm with approximately US\$29 billion in capital under management. Centerbridge focuses on private equity and credit investments and is dedicated to partnering with world-class management teams across industry sectors to help companies achieve their operating and financial objectives. Limited partners (investors) in the funds managed by Centerbridge include university endowments, state and corporate pension funds, sovereign wealth funds and family offices.

Centerbridge was established in 2005 and as at April 2017 currently has 90 investment professionals across its headquarters in New York and its office in London.

Centerbridge's recapitalisation investments in Australian publicly listed companies of note include:

- recapitalisation of the Company in 2015;
- recapitalisation of Billabong International Limited, the ASX-listed global action sports apparel manufacturer and retailer, in 2013;
- restructuring of Centro Properties Group, an Australian shopping centre owner and operator, in 2011; and
- restructuring of Alinta Energy Group, an Australian natural gas utility, in 2010.

In each of these transactions, Centerbridge worked alongside management, shareholders and other stakeholders (including employees) to implement and support the respective companies' turnaround plans and create meaningful value for stakeholders.

#### Directors

Centerbridge currently has four nominee Directors appointed to the Company Board. The details of the current Centerbridge nominee Directors are set out below.

#### **Marcus Randolph**

Marcus Randolph was appointed a Director of the Company and Chair on 23 February 2015. From 1 September 2015 through 29 February 2016 he held the positions of interim CEO and Executive Chair, and as of 1 March 2016 serves as Executive Chair. Mr Randolph has served more than 35 years in the mining industry in a variety of global, senior executive roles. Most recently, he was Chief Executive of BHP Billiton's Ferrous and Coal business from July 2007 to September 2013, located in Melbourne, and was a member of BHP's Group Management Committee.

Prior to that role, he also held several other senior executive roles at BHP, including as its Chief Organisation Development Officer, President Diamonds and Specialty Products, Chief Development Officer Minerals and Chief Strategic Officer Minerals. His earlier career includes Chief Executive Officer, First Dynasty Mines, Mining and Minerals Executive, Rio Tinto Plc, Director of Acquisitions and Strategy, Kennecott

Inc., General Manager Corporacion Minera Nor Peru, Asarco Inc., and various mine operating positions in the US with Asarco Inc.

Mr Randolph holds a Bachelor of Sciences degree in Mining Engineering from the Colorado School of Mines in the United States and also holds a Masters in Business Administration from Harvard University.

### **Jeffrey Long**

Jeffrey Long was appointed a Director of the Company on 1 October 2015. He is a member of the Environmental Health and Safety Committee. He brings a wealth of operational experience to the Board. He currently serves as Chief Executive Officer of Penhall Company, a Centerbridge portfolio company and North America's largest provider of concrete cutting, coring and removal services. He also was employed by Centerbridge Partners, L.P. as Senior Managing Director from 2010 to 2015, where he focused on improving portfolio company operations. Prior to joining Centerbridge Partners, L.P., Mr Long was a Managing Director at Vestar Capital Partners from 2005 to 2010 and a Principal at McKinsey and Company from 1993 to 2005, where he similarly focused on assisting companies in a diverse range of industries drive operational improvements.

A graduate of the United States Military Academy at West Point, Mr Long also served as a Cavalry Officer in the US Army for fourteen years. He holds Masters degrees from Harvard University's John F. Kennedy School of Government and from the US Army's Command and General Staff College.

### **Conor Tochilin**

Conor Tochilin was appointed a Director of the Company on 20 January 2017. Mr Tochilin is a Principal at Centerbridge Partners, L.P., a major shareholder in the Company. Centerbridge manages approximately \$29 billion of assets with a focus on credit, special situations, and private equity. Prior to joining Centerbridge Partners, L.P., Mr Tochilin was an Associate at TPG-Axon Capital Management in New York and London and a Business Analyst in McKinsey's Corporate Finance Practice in New York.

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

### **Bret Clayton**

Bret Clayton was appointed a Director of the Company on 23 February 2015. Mr Clayton previously had a distinguished career at Rio Tinto, where he worked for 20 years and served on the Executive Committee for seven years. He Joined Rio Tinto in 1994 and held a series of management positions, including Chief Executive of Rio Tinto's global Copper and Diamonds groups, president and Chief Executive Officer of Rio Tinto Energy America (now Cloud Peak Energy) and Chief Financial Officer of Rio Tinto Iron Ore. He also served as the Group Executive for Business Support and operations, which included Rio Tinto's global exploration, procurement, information systems, shares services, internal audit, risk management and economics groups.

Prior to joining Rio Tinto, Mr Clayton worked for PricewaterhouseCoopers for nine years, providing auditing and consulting services to the mining industry. Mr Clayton also has served as a non-executive Director for several for-profit and non-profit entities, including Praxair, Constellium Holdco B.V. and Ivanhoe Mines Limited (now Turquoise Hills Resources).

Mr Clayton was a member of the U.S. American Institute of Certified Public Accountants from 1987 through 1996, and holds a Bachelor of Arts degree in Accounting from the University of Utah. He also attended the International Executive Management Program of INSEAD in Fontainebleau, France.

## 9.2 **Acquisition**

Section 606 of the Corporations Act prohibits a person from acquiring a relevant interest in an entity if the acquisition would result in that person's voting power in the entity increasing from a starting point that is above 20% and below 90%, unless the acquisition falls within one of the exceptions in section 611, such as security holder approval under item 7 of section 611 of the Corporations Act.

### (a) **Identity of acquirer and associates**

CBP or another nominee that is an Affiliate of Centerbridge will acquire a relevant interest in Shares under the Subscription Deed and CCP II will acquire a relevant interest in Shares pursuant to the CPS Conversion. CBP's associates are Centerbridge Special Credit Partners II, L.P., Centerbridge Credit Partners, L.P., Centerbridge Credit Partners Master, L.P., Centerbridge Special Credit Partners General Partner II, L.P., Centerbridge Credit Partners General Partner, L.P., Centerbridge Credit Partners Offshore General Partner, L.P., Centerbridge Special GP Investors II, L.L.C., Centerbridge Credit GP Investors, L.L.C., Centerbridge Credit Offshore GP Investors, L.L.C., Centerbridge Credit Advisors, L.L.C., Centerbridge Partners, L.P., Centerbridge Partners Holdings, L.L.C., CCP II and CCP Credit SC II Dutch Acquisition – E, B.V. For more information in relation to Centerbridge, see Section 9.1.

### (b) **Maximum extent of increase in CBP's and their associates' voting power in the Company**

As at the date of this Explanatory Statement, the CBP Registered Holders currently have combined voting power in the Company of 48.9%. CCP II also holds 434,001,968 non-voting Convertible Preference Shares.

If the Recapitalisation Transactions are approved, following CPS Conversion and the issuance of Shares to CBP or their nominees that are Affiliates of Centerbridge under the Subscription Deed, the maximum extent of the increase in the voting power of CBP or their nominees and their associates and the CBP Registered Holders would be 7.1%.

### (c) **Voting power that CBP and their associates would have as a result of the Recapitalisation Transactions**

If the Recapitalisation Transactions are approved, following the CPS Conversion and the issuance of Shares to CBP or their nominees that are Affiliates of Centerbridge under the Subscription Deed, the maximum voting power that CBP or their nominees, their associates and the CBP Registered Holders would have on a combined basis as a result of the Recapitalisation is 56% (Section 6.4).



### 9.3 **Future intentions**

This section sets out the intentions of CBP regarding the future of the Company if Shareholders approve the Recapitalisation Resolutions.

#### (a) **Qualifications**

The statements of intention in this section must be read subject to the following:

- the statements are based on the information concerning the Company and the circumstances affecting the business of the Company that are known to CBP and the CBP Registered Holders at the date of this Explanatory Statement, including pursuant to a disclosure and confidentiality agreement dated October 2014 entered into in conjunction with the 2015 restructuring of the Company;
- CBP are not aware of all of the material information, facts and circumstances that are necessary to assess the financial, operational, commercial, taxation and other implications of the intentions set out below – accordingly, the statements reflect current intentions only and are subject to change as new information becomes available or as circumstances change;
- if the Recapitalisation Transactions are implemented, then CBP will be entitled to nominate five persons to stand for election to the BLY Board;
- the Directors nominated by CBP to the Board of the Company will have a duty to act in good faith in the best interests of the Company for a proper purpose, and in doing so will need to have regard to the interests of all Shareholders. They will also have a duty to avoid conflicts of interests; and
- laws regarding related party transactions (particularly under the Corporations Act and ASX Listing Rules) may place restrictions on the ability of the Company to enter into certain transactions with CBP or its associates.

#### (b) **Nature and conduct of business**

CBP and the CBP Registered Holders will have influence over the nature and conduct of the business of the Company. CBP does not have a present intention to make any changes to the Company other than where this would be consistent with the turnaround strategy of the Board of the Company.

#### (c) **Injection of further capital**

CBP and the CBP Registered holders have no present intention to provide further additional capital to the Company in the near term.

#### (d) **Future employment of employees**

CBP and the CBP Registered holders do not presently intend to make any changes to the workforce other than where this would be consistent with the turnaround strategy of the Board of the Company.

**(e) Transfer of assets**

CBP and the CBP Registered holders have do not presently intend to propose any transfer of assets between the Company and CBP or any of CBP's associates. The Company has however granted security over certain of its assets in favour of lenders affiliated with Centerbridge and its associates to secure the Company's obligations under existing loan facilities.

**(f) Redeployment of fixed assets**

CBP and the CBP Registered holders have no current intention to redeploy any of the assets of the Company.

**(g) Financial or dividend policies**

CBP and the CBP Registered holders intend to support the continuation of the Company's efforts to build a healthy balance sheet, the maintenance of appropriate levels of debt capital, and dividend levels commensurate with the health and cash flow generation of the Company (and any necessary changes to the Company's financial and dividend policies to give effect to these things).

**(h) Re-domiciliation and Re-listing**

In the RSA the Company agreed at the request of the Supporting Creditors to take all requisite steps to re-domicile its business in the United States (state of Delaware), the United Kingdom or Canada or such other jurisdiction as to which all the Supporting Creditors agreed. It is the current intention of CBP to support the Company's re-domiciliation (see Section 5.6) subject to determination and finalisation of a re-domicile proposal. In conjunction with any re-domiciliation that the Company may undertake, CBP is considering a potential relisting on a stock exchange other than the ASX.

**9.4 CBP Nominees**

Under the Director Nomination Agreements, CBP are entitled to nominate five persons to stand for election to the Board. CBP proposes that Mr Marcus Randolph and Ms Gretchen McClain will remain on the Board as two of CBP's Nominees (for more information on Mr Marcus Randolph see Section 9.1 above). Mr Randolph will continue as Chairman.

Further information in relation to Ms McClain is set out below.

**Gretchen McClain**

Gretchen W. McClain has more than 25 years of global experience in both Fortune 500 corporations and government service, including serving as founding CEO of an S&P 500 global water technology company, Xylem Inc., and NASA's Chief Director of the International Space Station. Ms McClain brings extensive business, developmental, strategic and technical expertise. Her distinctive leadership approach – focused on helping companies break down internal barriers to identify new ways to create value and integrate technologies – enables organizations to unlock growth and gain critical competitive advantage.

Ms McClain is actively involved in advocating for, and shaping the debate within, the technology, water and environmental spheres. She serves as a member of United Technologies Corporation (UTC) Innovation Advisory Council; University of Utah

College of Engineering National Advisory Council; the Environment and Water Technologies International Advisory Panel (EWT IAP) for Singapore's Public Utilities Board (PUB); and the America's Water Steering committee at the Columbia Water Center, part of the Earth Institute at Columbia University.

She graduated from the University of Utah with a Bachelor of Science in Mechanical Engineering and received the University's prestigious Founders Award in 2015.

In addition to Mr Marcus Randolph and Ms Gretchen McClain, as of the date of this Explanatory Statement, CBP have nominated the following three persons to stand for election to the Board at the AGM.

### **Rob Smith**

Mr Smith is a Partner of McGrathNicol. He joined the firm in May 2009 after spending nearly ten years with Ernst & Young's Transactions and Assurance divisions in Melbourne and Sydney. Since joining McGrathNicol, Rob has specialised in Advisory, Restructuring and Insolvency.

Mr Smith is a Member of the Institute of Chartered Accountants in Australia, Registered Liquidator and Member of the Australian Restructuring, Insolvency and Turnaround Association. He also holds a Bachelor of Commerce (University of Melbourne) and a Graduate Diploma of Applied Finance and Investment.

Mr Smith has led numerous complex trading insolvency engagements, restructurings, independent business reviews, strategy implementations and a range of performance improvement assignments.

Mr Smith's experience covers a variety of industries including manufacturing, automotive, mining and mining services, power and utilities, agribusiness, retail, media, biotechnology, information technology and financial services.

### **Richard Wallman**

From 1995 through 2003, Mr. Wallman served as the Senior Vice President and Chief Financial Officer of Honeywell International, Inc., a diversified technology company, and AlliedSignal, Inc. (prior to its merger with Honeywell). He is also a member of the boards of directors of Convergys Corporation, Roper Industries, Inc., Wright Medical Group, Inc., and Extended Stay America, Inc., and in the past five years has served as a member of the boards of Dana Holding Corporation and Ariba, Inc. Mr. Wallman also currently serves as a director of ESH Hospitality, Inc., but has declared his intention to resign from that board effective upon the election of his successor at that company's next annual meeting of shareholders.

Mr. Wallman's leadership experience, including his role as a chief financial officer, and his financial and outside board experience, provide him with an informed understanding of the financial issues and risks that affect the Company.

### **Kyle N. Cruz**

Mr. Cruz is a Senior Managing Director at Centerbridge Partners, L.P., a major shareholder in the Company. Mr. Cruz joined Centerbridge in 2007 and focuses on investments in the Industrials sector.

Prior to joining Centerbridge, Mr. Cruz was a Vice President at Diamond Castle Holdings, a private equity firm founded by former senior professionals of DLJ Merchant Banking (DLJMB). Previously, he worked as an Associate at DLJMB and

J.W. Childs Associates, a Boston-based private equity firm. Mr Cruz began his career as an Analyst in the Mergers & Acquisitions department of Goldman Sachs.

Mr Cruz serves on the Boards of Directors of Aquilex Holdings LLC, Patriot Container Corp. (and affiliated entities), Penhall Holding Company (and affiliated entities), Seitel Holdings, Inc. (and affiliated entities) and Stallion Oilfield Services Holdings, Inc.

Mr Cruz received a B.B.A., with high distinction, from the University of Michigan and was elected to Phi Beta Kappa. He holds an M.B.A., with distinction, from the Wharton School of the University of Pennsylvania, where he was a Palmer Scholar.

#### 9.5 **Appointment as Directors**

If Shareholders approve the election of Mr Smith, Mr Wallman and Mr Cruz to the Board, each of their appointments is subject to the Recapitalisation taking effect and the results of customary background checks being in the reasonable opinion of the Board satisfactory.

## 10. ARES

### 10.1 Overview of Ares

Ares is a publicly traded, leading global alternative asset manager with approximately \$99 billion of assets under management as of 31 December 2016 and more than 15 offices in the United States, Europe and Asia.

### 10.2 Acquisition

As set out in Section 6.4, Ares currently does not hold any Shares and its voting power in the Company is zero. As further set out in Section 6.4, upon implementation of the Recapitalisation, Ares will hold 18.0% of the Shares and up to 706,571,204<sup>19</sup> (35.8%)<sup>20</sup> of 7% Warrants, comprised of up to 419,638,735 Tranche A 7% Warrants and up to 286,932,469 Tranche B 7% Warrants. The maximum voting power of Ares on conversion of all of its Warrants, assuming no other party exercises its Warrants, is approximately 20.3%.

### 10.3 Future intentions

The statements of intention in this section must be read subject to the following:

- the statements are based on the information concerning the Company and the circumstances affecting the business of the Company that are known to Ares at the date of this Explanatory Statement;
- Ares is not aware of all of the material information, facts and circumstances that are necessary to assess the financial, operational, commercial, taxation and other implications of the intentions set out below – accordingly, the statements reflect current intentions only and are subject to change as new information becomes available or as circumstances change;
- Ares expects to be supportive of the continued turnaround strategy for the Company and the steps that are involved in executing it, and is ready to assist the Company in formulating and implementing this strategy in the shortest possible timeframe;
- the Directors nominated by Ares to the Board will not represent a majority of the Board and therefore will not be able to determine decisions of the Board;
- the Directors nominated by Ares to the Board will have a duty to act in good faith in the best interests of the Company for a proper purpose, and in doing so will need to have regard to the interests of all Shareholders. They will also have a duty to avoid conflicts of interests; and
- laws regarding related party transactions (particularly under the Corporations Act and ASX Listing Rules) may place restrictions on the ability of the Company to enter into certain transactions with Ares or its associates.

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<sup>19</sup> For information on how the actual number of Warrants to be issued under the Unsecured Creditors' Scheme will be determined, please refer to Section 6.5.

<sup>20</sup> Reflects Ares' nomination to Ascribe to be issued 25% of their Tranche A 7% Warrants (up to 139,879,578 Tranche A 7% Warrants).

**(a) Nature and conduct of business**

It is the current intention of Ares that the Company will continue to operate its business in substantially the same manner as it is currently being conducted.

The Company is expected to continue to review all aspects of its assets and operations to identify ways to maximise value for all Shareholders. Ares does not have a current intention to support a divestment or redeployment of assets, and will await the Company's review of its assets and operations before considering options to maximise value.

**(b) Injection of further capital**

Other than as contemplated by the Restructure Transactions, Ares does not have a current intention to inject or provide further capital to the Company.

**(c) Future employment of employees**

Ares does not presently intend to make any changes to the workforce other than where this would be consistent with the turnaround strategy of the Board.

**(d) Transfer of assets**

Ares does not presently intend to propose any transfer of assets between the Company and Ares or any of Ares' Associates.

**(e) Redeployment of fixed assets**

Ares has no current intention to redeploy any of the assets of the Company.

**(f) Re-domiciliation and Re-listing**

In the RSA the Company agreed at the request of the Supporting Creditors to take all requisite steps to re-domicile its business in the United States (state of Delaware), the United Kingdom or Canada or such other jurisdiction as to which all the Supporting Creditors agree. It is the current intention of Ares to support the Company's re-domiciliation (see Section 5.6), subject to determination and finalisation of a re-domicile proposal. In conjunction with a potential re-domiciliation of the Company, Ares is considering a potential relisting on a stock exchange other than the ASX.

**(g) Financial or dividend policies**

Ares is supportive of a policy under which no dividends are issued until the business of the Company is turned around.

**10.4 Ares Nominee**

Under the Director Nomination Agreements, Ares is entitled to nominate one person to stand for election to the Board at the AGM. Ares has nominated Mr Matthew Sheahan as the Ares Nominee.

Mr Matthew Sheahan is a Managing Director in the Ares Private Equity Group, where he focuses on special situations investing. Prior to joining Ares in 2010, Mr. Sheahan was a Senior Analyst and the Head of the Los Angeles office at Silver Point Capital L.P. Previously, Mr. Sheahan was a Vice President at the Trust Company of the West, where he focused primarily on distressed investments and restructurings. In addition, Mr Sheahan was a member of the Investment Banking Group at Donaldson, Lufkin & Jenrette Securities Corp. Mr Sheahan holds a B.A., with

distinction, with honours, from the University of Western Ontario's Richard Ivey School of Business in Business Administration. Mr Sheahan is a CFA charterholder. Mr Sheahan's intentions for the Company are the same as those set out in Section 10.3. Mr Sheahan does not currently hold any relevant interest in the securities of the Company. Mr Sheahan is an employee of Ares and as such a component of his remuneration relates to the performance of Ares' affiliated funds and accounts, and their respective portfolios, including the Ares' affiliated funds and accounts through which Ares will be invested in the Company.

Mr Sheahan has advised the Company that, if elected, he wishes to exercise his right to nominate an alternate director to be appointed in accordance with the constitution of the Company for a period of 180 days and will, if elected, request that the board of the Company approve the appointment such alternate director at the first Board meeting following the Implementation Date.

#### 10.5 **Joint Ares and Ascribe Nominee**

Under the Director Nomination Agreements, Ares and Ascribe are entitled to jointly appoint one person to stand for election to the Board at the AGM. Ares and Ascribe have nominated Mr Jason Ireland as the Ares and Ascribe Nominee.

Mr Jason Ireland is a Partner at McGrathNicol where he focuses on restructuring and working capital management. Mr Ireland has over 24 years' experience in the restructuring industry, assisting lenders and borrowers in a wide range of industries across the world. Prior to joining McGrathNicol in 2006, Mr Ireland was a Senior Manager at KPMG. Mr Ireland holds a Bachelor of Business from Charles Sturt University. Mr Ireland is a member of the Institute of Chartered Accountants in Australia. Mr Ireland's intentions for the Company are the same as those set out in Section 10.3. Mr Ireland does not currently hold any relevant interest in the securities of the Company.

#### 10.6 **Appointment as Directors**

If Shareholders approve the election of Mr Sheahan and Mr Ireland to the Board, each of their appointments is subject to the Recapitalisation taking effect and the results of customary background checks being in the reasonable opinion of the Board satisfactory.

## 11. ASCRIBE

### 11.1 Overview of Ascribe

Ascribe is a private investment firm. It has headquarters in New York and has approximately \$2 billion of funds under management.

### 11.2 Acquisition

As set out in Section 6.4, Ascribe currently holds 1.1% of the Shares issued at the date of this Explanatory Statement and therefore its voting power in the Company is 1.1%. As further set out in Section 6.4, upon implementation of the Recapitalisation, Ascribe will hold 19.2% of the Shares and up to 1,037,589,598<sup>21</sup> (52.6%)<sup>22</sup> of the 7% Warrants, comprising up to 733,281,117 Tranche A 7% Warrants and up to 304,308,481 Tranche B 7% Warrants, and up to 14,770,114 (2.2%) of Ordinary Warrants. Ares has nominated Ascribe to be issued 25% of its Tranche A 7% Warrants (up to 139,879,578 Tranche A 7% Warrants) and the figures above are inclusive of the 7% Tranche A Warrants issued to Ascribe pursuant to this nomination. The maximum voting power of Ascribe on conversion of all of its Warrants (including its Ordinary Warrants), assuming no other party exercises its warrants, is approximately 22.5%.

### 11.3 Future intentions

The statements of intention in this section must be read subject to the following:

- the statements are based on the information concerning the Company and the circumstances affecting the business of the Company that are known to Ascribe at the date of this Explanatory Statement;
- Ascribe is not aware of all of the material information, facts and circumstances that are necessary to assess the financial, operational, commercial, taxation and other implications of the intentions set out below – accordingly, the statements reflect current intentions only and are subject to change as new information becomes available or as circumstances change;
- Ascribe expects to be supportive of the continued turnaround strategy for the Company and the steps that are involved in executing it, and is ready to assist the Company in formulating and implementing this strategy in the shortest possible timeframe;
- the Directors nominated by Ascribe to the Board of the Company (or otherwise requested by Ascribe to be appointed to the Board) will not represent a majority of the Board and therefore will not be able to determine decisions of the Board;
- the Directors nominated by Ascribe to the Board of the Company (or otherwise requested by Ascribe to be appointed to the Board) will have a duty to act in good faith in the best interests of the Company for a proper purpose, and in doing so will need to have regard to the interests of all Shareholders. They will also have a duty to avoid conflicts of interests; and

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<sup>21</sup> For information on how the actual number of Warrants to be issued under the Unsecured Creditors' Scheme will be determined, please refer to Section 6.5.

<sup>22</sup> Reflects Ares' nomination to Ascribe to be issued 25% of their Tranche A 7% Warrants (up to 139,879,578 Tranche A 7% Warrants).



- laws regarding related party transactions (particularly under the Corporations Act and ASX Listing Rules) may place restrictions on the ability of the Company to enter into certain transactions with Ares or its Affiliates.

(a) **Nature and conduct of business**

It is the current intention of Ascribe that the Company will continue to operate its business in substantially the same manner as it is currently being conducted.

The Company is expected to continue to review all aspects of its assets and operations to identify ways to maximise value for all Shareholders. Ascribe does not have a current intention to support a divestment or redeployment of assets, and will await the Company's review of its assets and operations before considering options to maximise value.

(b) **Injection of further capital**

Other than as contemplated by the Restructure Transactions, Ascribe does not have a current intention to inject or provide further capital to the Company.

(c) **Future employment of employees**

Ascribe does not presently intend to make any changes to the workforce other than where this would be consistent with the turnaround strategy of the Board.

(d) **Transfer of assets**

Ascribe does not presently intend to propose any transfer of assets between the Company and Ascribe or any of Ascribe's Associates.

(e) **Redeployment of fixed assets**

Ascribe has no current intention to redeploy any of the assets of the Company.

(f) **Financial or dividend policies**

Ascribe is supportive of a policy under which no dividends are issued until the business of the Company is turned around.

(g) **Re-domiciliation and Re-listing**

In the RSA the Company agreed at the request of the Supporting Creditors to take all requisite steps to re-domicile its business in the United States (state of Delaware), the United Kingdom or Canada or such other jurisdiction as to which all the Supporting Creditors agreed. It is the current intention of Ascribe to support the Company's re-domicile (see Section 5.6), subject to determination and finalisation of a re-domicile proposal. In conjunction with a potential re-domiciliation of the Company, Ascribe is considering a potential relisting on a stock exchange other than the ASX.

#### 11.4 **Ascribe Nominee**

Under the Director Nomination Agreements, Ascribe is entitled to nominate one person to stand for election to the Board at the AGM. Ascribe has nominated Lawrence First as the Ascribe Nominee.

Mr Lawrence First is Chief Investment Officer & Managing Director of Ascribe Capital LLC. Prior to joining Ascribe, Mr First was a Managing Director and Co-Portfolio Manager in Merrill Lynch's Principal Credit Group, a proprietary investing platform for the firm's capital, where he was responsible for evaluating and managing assets in the team's North American portfolio, including non-investment grade bank loans, stressed/distressed fixed income investments and public and private equity. Prior to joining Merrill Lynch, Mr First was a senior partner in the Bankruptcy and Restructuring department of the law firm of Fried, Frank, Harris, Shriver & Jacobson, LLP. Mr First holds a BA in History and Sociology from Haverford College, and a JD from New York University School of Law. Mr First's intentions for the Company are the same as those set out in Section 11.3. Mr First does not currently hold any relevant interest in the securities of the Company. Mr First is an employee of Ascribe and as such a component of his remuneration relates to the performance of Ascribe's managed funds, and their respective portfolios, including the Ascribe managed funds through which Ascribe is and will be invested in the Company.

Mr First has advised the Company that, if elected, he wishes to exercise his right to nominate Mr James Kern as an alternate director to be appointed in accordance with the constitution of the Company for a period of 180 days and will, if elected, request that the board of the Company approve the appointment of Mr Kern as his alternate director at the first Board meeting following the Implementation Date.

#### 11.5 **Joint Ares and Ascribe Nominee**

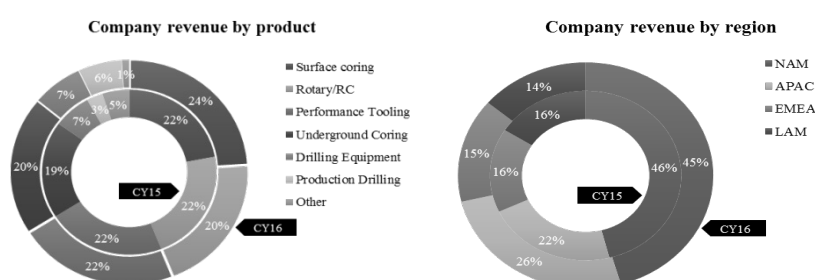
Under the Director Nomination Agreements, Ares and Ascribe are entitled to jointly appoint one person to stand for election to the Board at the AGM. Ares and Ascribe have nominated Mr Jason Ireland as the Ares and Ascribe Nominee. See Section 10.5 for further details.

#### 11.6 **Appointment as Directors**

If Shareholders approve the election of Mr First to the Board, each of their appointments is subject to the Recapitalisation taking effect and the results of customary background checks being in the reasonable opinion of the Board satisfactory.

## 12. OVERVIEW OF THE COMPANY

The Company is a leading integrated provider of drilling services, drilling equipment and performance tooling for mining and mineral drilling companies globally offering a comprehensive portfolio of technologically advanced and innovative drilling services and products. It operates through two divisions, “Global Drilling Services” and “Global Products”, and believes 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, combined with the Company’s global footprint, have facilitated long-standing relationships with a diverse and blue-chip customer base worldwide that includes many leading mining companies. With more than 125 years of drilling expertise, the Company believes its insignia and brand represent the gold standard in the global mineral drilling industry.



### 12.1 Global Drilling Services

#### Overview

Global Drilling Services performs contract drilling work for a diverse mining customer base across a wide range of commodities, including gold, copper, iron ore and other metals and minerals. The division also offers drilling services for other industries and applications, such as energy and water, and specialises in a range of drilling services technologies, including surface and underground diamond core drilling, underground percussive drilling, sonic drilling, surface rotary drilling, surface geotechnical drilling, and surface and underground reverse circulation drilling.

Global Drilling Services is integral to its mining customers’ mineral exploration, evaluation and resource delineation activities, as the rock and core samples the Company extracts provide essential geological information about mineral deposits and subsurface conditions. As at 31 December 2016, the Company owned the industry’s largest fleet of drilling rigs, with 879 held around the world.

Consistent with recent trends, mining industry spending on exploration and development declined in 2016 and, as a result, Global Drilling Services’ revenue in 2016 was \$447.7 million, down 15.2% from \$527.9 million in 2015. The year-over-year revenue decrease was driven by a combination of volume reduction, lower prices and changes in foreign exchange rates.

Approximately 75% of Global Drilling Services’ revenue for 2016 was derived from major and intermediate mining companies, including Barrick, BHP Billiton, Randgold, Goldcorp, Newmont and Rio Tinto. The Company’s top 10 Global Drilling Services customers represented approximately 60% of the division’s revenue for 2016, with no contract contributing more than 2% of the Company’s consolidated revenue.

There was no single customer that contributed more than 10% of the Company's revenue in 2016. We believe this diversified revenue base provides greater revenue stability

#### *Drilling services offered*

- **Mining** - Drilling services for minerals primarily involves the extraction of solid rock core or chip samples for technical analysis. This activity is typically contracted to third party service providers, such as the Company. 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: greenfield, development, production and mine closure.
- **Energy** - The energy drilling services the Company provides relate to the exploration and development of non-conventional energy sources such as oil sands, oil shale, coal, coal seam gas and geothermal energy. The Company does not drill production wells for conventional oil or gas, but provides specialised gas well pre-collaring services. The Company provides earth and rock core samples for analysis, as well as completed holes for the installation of gas well casings.

#### *Drilling technologies*

The Company's 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. Drilling technologies consist of the following:

- **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 a desirable drilling technology suited to many mining customers' needs due to the information that it yields. 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. The Company's 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.

#### *Rig fleet*

The Company's drill rig fleet, consisting of 879 rigs as at 31 December 2016, is the single largest in the mining and resources industries. The Company's drill rig packages range from small underground packages costing approximately \$500,000 to large diameter rotary packages 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.

### 12.2 **Ongoing analysis of business operations**

The Company, with the assistance of outside consultants, is currently conducting a detailed jurisdiction-by-jurisdiction analysis of the BLY Group's business operations. The goal is to increase cash generation by exiting operations that are not cash flow positive and are not deemed to be sufficiently strategic for the Company to prioritise fixing. As part of this process, the Company may determine to pursue, and commence, the wind-up or liquidation of operations or entities in Mexico, Zambia, Sierra Leone, Liberia, Thailand, South Africa, Madagascar, Kazakhstan, Cambodia, Peru, Burkina Faso, Colombia, and the Netherlands. However, it is possible that further analysis may lead to a determination that other operating entities need to be closed as well. Accordingly, the Company makes no representation that the BLY Group will continue to operate in the same number of locations as it does presently.

### 12.3 **Global Products**

#### *Overview*

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. The Company's 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.

The year ended 31 December 2016 was another challenging period for the Global Products division. Revenue for the year was \$194.7 million, down 6.1% from \$207.3 million in 2015. The primary driver of the decrease was unfavourable currency translations. There were also moderate decreases in price and volume that contributed to the decline in revenue.

Of Global Products' revenue for the year ended 31 December 2016, approximately 77% was comprised of performance tooling components, and the remaining 23% was comprised of drilling equipment and spares. The Company has a global network of over 100 sales and customer service representatives marketing our products to drilling contractors, mining companies and distributors. The Company's customer base is diversified with no external Global Products customer representing more than 2% of consolidated revenue for the year. Global Products continues to provide many of the products necessary for the Company's Global Drilling Services division.

#### *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 the Company sells.

- **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** - The Company manufactures 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** – The Company's customers are supported through experienced teams of service technicians. In-house and field-based repair services are available, as well as technical advice and support.

#### *Backlog*

At 31 December 2016, Global Products had a backlog of product orders valued at \$19.0 million. This compares to \$12.9 million at 31 December 2015. Average backlog during the second half of 2016 was \$16.0 million compared to \$13.1 million during the first half of 2016. While the backlog is increasing, there is no certainty that orders will always result in actual sales at the times or in the amounts ordered because the Company's customers generally can cancel their orders without penalty (with some exceptions on capital equipment orders).

### *Intellectual property*

The Company relies 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 the Company's Global Products business. As at 31 December 2016, the Company had approximately 451 issued patents, 629 registered trademarks, 302 pending patent applications and 28 pending trademark applications. One of the most significant patents is the Company's RQ™ coring rod. The RQ™ patented thread design withstands greater stress than all previously available coring rod designs, enabling drilling of substantially deeper holes. The Board does not consider the Company's Global Products business, or the Company's business as a whole, to be materially dependent upon any particular patent, trademark, trade secret or other intellectual property.

### *Research and development*

The Company employs engineers and technicians to develop, design and test new and improved products. It works closely with customers to identify issues and develop technical solutions. The Company believes 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 the Company with an advantage in product development, and enables it to bring new technology to the market with speed and quality. Prior to introduction, new products are subject to extensive testing in various environments, again with assistance from the Company's Global Drilling Services operator network around the world. During 2016, the Company launched seven new products and the Company continues to invest in its new product pipeline. New product development efforts remain focused on incremental product changes that will increase productivity so customers are willing to pay for them regardless of the business environment. The Company has also launched TruCore™, the first in a range of instrumentation tools that provides accurate core orientation measurements. This is part of the Company's strategy to be the global technology leader in providing subsurface resource information to mining companies through the Company's Geological Data Services business.

### *Inventories*

Cash continued to be generated from inventory in 2016 due to careful management of demand in our supply chain organisation and continuous efforts to reduce excess inventory. While the Company generated a \$21.4 million reduction primarily related to third-party sales and consumption in the Company's Global Drilling Services division, this decrease was partially offset by an increase of \$1.3 million related to foreign currency translation and other non-cash items.

## 12.4 **Board of Directors**

Name	Role
Marcus Randolph	Executive Chairman
Jeffrey Olsen	Executive Director
Bret Clayton	Non-Executive Director
Peter Day	Non-Executive Director

Name	Role
Jeffrey Long	Non-Executive Director
Gretchen McClain	Non-Executive Director
Rex McLennan	Non-Executive Director and Senior Independent Director
Deborah O'Toole	Non-Executive Director
Conor Tochilin	Non-Executive Director



## 13. REASONS WHY SHAREHOLDER APPROVAL IS A REQUIREMENT

### 13.1 Introduction

The Recapitalisation can only proceed if all the Recapitalisation Resolutions are passed at the AGM and the other conditions set out in the Restructuring Support Agreement are either satisfied or waived (as applicable) (Section 14.1(a)).

**All Recapitalisation Resolutions must be passed as ordinary resolutions and will therefore be passed if supported by a simple majority of votes cast on the Resolutions. Each of the Recapitalisation Resolutions is explained in this Section. This explanation should be read together with the entirety of the Explanatory Statement.**

### 13.2 Resolution 5 - Issue of Shares under the SPP

ASX Listing Rule 7.1 imposes a limit on the number of equity securities which an ASX listed entity can issue without shareholder approval.

In general terms, an entity may not, without prior shareholder approval, issue, or agree to issue, equity securities if the equity securities will in themselves or when aggregated with the securities issued by the entity during the previous 12 months, exceed 15% of the number of fully paid ordinary shares on issue at the commencement of that 12 month period, unless an exception applies.

Exception 15 in ASX Listing Rule 7.2 provides an exception for securities issued under a security purchase plan if:

- (a) the number of securities to be issued is not greater than 30% of the number of fully paid ordinary securities already on issue; and
- (b) the issue price of the securities is at least 80% of the VWAP for securities in that class, calculated over the last 5 days on which sales in the securities were recorded, either before the day the issue was announced or before the day on which the issue was made.

The Issue Price is less than 80% of the VWAP of Shares over the 5 days before the issue of Shares under the SPP was announced (being the 5 days up to 3 April 2017). The VWAP of Shares over the 5 days prior to the issue of Shares under the SPP is not currently known.

Resolution 5 therefore seeks approval for the issue of Shares under the SPP for the purposes of ASX Listing Rule 7.1.

Resolution 5 is not a Recapitalisation Resolution. Accordingly, the Recapitalisation will proceed regardless of the outcome of Resolution 5 of the Notice of Meeting. If Resolution 5 is not approved by the Company will not proceed with the SPP.

### 13.3 Resolution 6 - Acquisition of Shares by CBP

Resolution 6 is a resolution for the purposes of (amongst others) item 7 of section 611 of the Corporations Act seeking member's approval to allow CBP or their nominees that are Affiliates of Centerbridge to acquire a "relevant interest" in the Shares it is issued pursuant to the Subscription Deed.

Section 606 of the Corporations Act prohibits a person from acquiring a relevant interest in an entity if the acquisition would result in that person's voting power in the entity increasing from 20% or below to more than 20% or from a starting point that is above 20% and below 90%, unless the acquisition falls within one of the exceptions in section 611, such as security holder approval under item 7 of section 611 of the Corporations Act.

As at the date of this Explanatory Statement, Centerbridge has voting power in the Company of 48.9%.<sup>23</sup>

If the Recapitalisation is implemented:

- (a) **Step 1** - after the issue of the maximum number of Shares pursuant to the Unsecured Creditors' Scheme, Centerbridge's voting power will decrease to approximately 4.1%;
- (b) **Step 2** – after the issue of Shares on the CPS Conversion, Centerbridge's voting power will increase to approximately 7.6%; and
- (c) **Step 3** - after the issue of the maximum number of Shares to CBP or their nominees that are Affiliates of Centerbridge as the holder of Term Loans A and B as consideration for the Subsequent Term Loan Amendments pursuant to the Subscription Deed, Centerbridge's voting power will increase to approximately 56.0%.

The acquisition of Shares by CBP or their nominees who are Affiliates of Centerbridge at Step 3 requires Shareholder approval under item 7 of section 611 of the Corporations Act.

Information that is required to be provided to Shareholders where approval under item 7 of section 611 of the Corporations Act is sought is outlined in Sections 9.2 and 9.3.

Chapter 2E of the Corporations Act regulates the provision of financial benefits to related parties by a public company. Section 208 of the Corporations Act prohibits a public company from giving a financial benefit to a related party unless an exception applies. A financial benefit includes a public company issuing securities. A related party of a public company is defined in section 228 of the Corporations Act to include an entity which controls that public company. Further, ASX Listing Rule 10.11 provides that an entity must not issue equity securities to a related party without the approval of holders of ordinary securities in the Company.

Centerbridge may be considered a related party of the Company on the basis it may be said to control the Company.

The Directors consider the issuance of Shares to CBP under the Subscription Deed would be reasonable in the circumstances if the Company and CBP were dealing at arms' length terms or are less favourable to CBP than arms' length terms. However, given the number of Resolutions that are being considered by Shareholders for the purposes of the Recapitalisation, the Directors have determined to seek approval for the issuance of Shares to CBP under the Subscription Deed under Chapter 2E of the Corporations Act notwithstanding that such approval is not strictly necessary.

Resolution 6 therefore also seeks approval for the issue of Shares to Centerbridge or its nominee that is an Affiliate of Centerbridge under the Subscription Deed for the purposes of Chapter 2E of the Corporations Act and ASX Listing Rule 10.11.

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<sup>23</sup> If the Directors were issued the maximum of 9,100,000 shares as part of their compensation during the Recapitalisation, Centerbridge would have voting power in the Company of 48.4%.

The table below sets out information required to be provided to Shareholders where approval under Chapter 2E of the Corporations Act is sought:

<b>Identity of the related party (including existing interest)</b>	Refer to Sections 2.2 and 9.
<b>Nature of the financial benefit</b>	Up to 12,967,554,506 Shares under the Subscription Deed. <sup>24</sup>
<b>Directors' recommendations</b>	Refer to Section 8.2.
<b>Directors' interest in the outcome</b>	Refer to Section 14.4
<b>Valuation of the financial benefit</b>	Shares will not be issued under the Subscription Deed unless the Creditors' Schemes become effective. Therefore, the value of the Shares to be issued under the Subscription Deed is to be assessed by reference to the Company's equity value per Share post implementation of the Recapitalisation. Refer to the Independent Expert's Report, including Table 2.
<b>Dilution effect</b>	Refer to Section 6.4.

Resolution 6 is a Recapitalisation Resolution so it is conditional on the passing of Resolutions 7, 8, 9, 10, 12, 13, 14, 15, 16 and 17.

#### 13.4 Resolution 7 – Acquisition of Shares by Ares

Resolution 7 is a resolution for the purposes of item 7 of section 611 of the Corporations Act seeking member's approval to allow Ares to acquire a "relevant interest" in the Shares it is issued pursuant to the Unsecured Creditors Scheme and the exercise of the 7% Warrants.

Section 606 of the Corporations Act prohibits a person from acquiring a relevant interest in an entity if the acquisition would result in that person's voting power in the entity increasing from 20% or below to more than 20% or from a starting point that is above 20% and below 90%, unless the acquisition falls within one of the exceptions in section 611, such as security holder approval under item 7 of section 611 of the Corporations Act.

As at the date of this Explanatory Statement, Ares does not have any voting power in the Company.

If the Recapitalisation is implemented:

- (a) **Step 1** - after the issue of the maximum number of Shares pursuant to the Unsecured Creditors' Scheme, Ares' voting power will increase to approximately 39.3%;
- (b) **Step 2** – after the issue of Shares on the CPS Conversion, Ares' voting power will decrease to approximately 37.9%; and

<sup>24</sup> For information on how the actual number of Shares to be issued under the Subscription Deed will be determined, please refer to Section 6.5.

- (c) **Step 3** - after the issue of the maximum number of Shares to CBP or their nominees that are Affiliates of Centerbridge as the holder of Term Loans A and B as consideration for the Subsequent Term Loan Amendments pursuant to the Subscription Deed, Ares' voting power will decrease to approximately 18.0%.

The acquisition of Shares by Ares or its nominee at Step 1 requires Shareholder approval under item 7 of section 611 of the Corporations Act.

In addition, if Ares exercises all of its 7% Warrants and none of the other holders of the 7% Unsecured Notes were to exercise their 7% Warrants and none of the Shareholders were to exercise their Ordinary Warrants, Ares' voting power would increase to a maximum of 20.3%. Further information is set out in Section 6.4.

Information that is required to be provided to Shareholders where approval under item 7 of section 611 of the Corporations Act is sought is outlined in Sections 10.2 and 10.3.

Resolution 7 is a Recapitalisation Resolution so it is conditional on the passing of Resolutions 6, 8, 9, 10, 12, 13, 14, 15, 16 and 17.

### 13.5 **Resolution 8 – Acquisition of Shares by Ascribe**

Resolution 8 is a resolution for the purposes of item 7 of section 611 of the Corporations Act seeking member's approval to allow Ascribe to acquire a "relevant interest" in the Shares it is issued pursuant to the Unsecured Creditors Scheme and the exercise of the 7% Warrants.

Section 606 of the Corporations Act prohibits a person from acquiring a relevant interest in an entity if the acquisition would result in that person's voting power in the entity increasing from 20% or below to more than 20% or from a starting point that is above 20% and below 90%, unless the acquisition falls within one of the exceptions in section 611, such as security holder approval under item 7 of section 611 of the Corporations Act.

As at the date of this Explanatory Statement, Ascribe has voting power in the Company of 1.1%.

If the Recapitalisation is implemented:

- (a) **Step 1** - after the issue of the maximum number of Shares pursuant to the Unsecured Creditors' Scheme, Ascribe's voting power will increase to approximately 41.8%;
- (b) **Step 2** – after the issue of Shares on the CPS Conversion, Ascribe's voting power will decrease to approximately 40.2%; and
- (c) **Step 3** - after the issue of Shares to CBP or their nominees that are Affiliates of Centerbridge as the holder of Term Loans A and B as consideration for the Subsequent Term Loan Amendments pursuant to the Subscription Deed, Ascribe's voting power will decrease to approximately 19.2%.

The acquisition of Shares by Ascribe or its nominee at Step 1 requires Shareholder approval under item 7 of section 611 of the Corporations Act.

In addition, if Ascribe exercises all of its 7% Warrants and none of the other holders of the 7% Unsecured Notes were to exercise their 7% Warrants and none of the

Shareholders were to exercise their Ordinary Warrants (other than Ascribe), Ascribe's voting power would increase to a maximum of 22.5%. Further information is set out in Section 6.4.

Information that is required to be provided to Shareholders where approval under item 7 of section 611 of the Corporations Act is sought is outlined in Sections 11.2 and 11.3.

Resolution 8 is a Recapitalisation Resolution so it is conditional on the passing of Resolutions 6, 7, 9, 10, 12, 13, 14, 15, 16 and 17.

### 13.6 **Resolutions 9 and 10 – Issue of Shares and 7% Warrants under the Unsecured Creditors' Scheme and the issue of Ordinary Warrants**

ASX Listing Rule 7.1 prohibits a listed entity from issuing or agreeing to issue equity securities in any 12 month period which amounts to more than 15% of its ordinary securities unless an exception applies or shareholder approval is obtained.

Resolution 9 seeks approval for the issue of the maximum number of Shares to the holders of the 7% Unsecured Notes (other than to Ares and Ascribe) and the maximum number of 7% Warrants to the holders of the 7% Unsecured Notes under the Unsecured Creditors' Scheme.

Resolution 10 seeks approval for the issue of the maximum number of Ordinary Warrants to Shareholders (other than Centerbridge) pursuant to the Warrants Issue.

The Shares are equity securities within the meaning of the ASX Listing Rules. The 7% Warrants and Ordinary Warrants are equity securities within the meaning of the ASX Listing Rules as they are convertible into Shares.

Details of the issue of the Shares, the 7% Warrants and Ordinary Warrants as required under ASX Listing Rule 7.3 are as follows:

Security	Maximum number of securities the entity is to issue <sup>25</sup>	Date by which securities will be issued	Issue price (per security)	Allottees	Terms	Use of funds raised
Shares issued under the Unsecured Creditors' Scheme other than to Ares and Ascribe	1,199,243,139	The date which is three months after the date of the AGM	-	Holders of the 7% Unsecured Notes (other than Ares and Ascribe)	On the same terms as existing Shares	No funds to be raised
7% Warrants	1,971,509,126	The date which is three months after the	-	Holders of the 7% Unsecured Notes	See Section 4.1 and Schedule 2	No funds to be raised

<sup>25</sup> For information on how the actual number of Shares to be issued under the Unsecured Creditors' Scheme or Warrants Issue (as applicable) will be determined, please refer to Section 6.5.

Security	Maximum number of securities the entity is to issue <sup>25</sup>	Date by which securities will be issued	Issue price (per security)	Allottees	Terms	Use of funds raised
		date of the AGM				
Ordinary Warrants pursuant to the Warrants Issue	685,444,285	The date which is three months after the date of the AGM	-	Holders of Shares (other than Centerbridge)	See Section 5.4 and Schedule 1	No funds to be raised

If Resolutions 9 and 10 are passed, the Shares issued under the Unsecured Creditors Scheme to holders of the 7% Unsecured Notes other than to Ares and Ascribe and the 7% Warrants issued under the Unsecured Creditors' Scheme to the holders of the 7% Unsecured Notes and the Ordinary Warrants issued to Shareholders other than Centerbridge will not be counted towards the 15% limit.

Resolutions 9 and 10 are Recapitalisation Resolutions so they are conditional on the passing of Resolutions 6, 7, 8, 12, 13, 14, 15, 16 and 17.

### 13.7 Resolution 11 - Issue of Ordinary Warrants to Directors who are Shareholders

As part of the Recapitalisation it is proposed that Ordinary Warrants be issued to all eligible Shareholders (including Directors who are Shareholders).

However, ASX Listing Rule 10.11 prevents an entity from issuing equity securities to a related party without the approval of holders of ordinary securities in the entity. A director of a public company is a related party under the ASX Listing Rules.

Resolution 11 seeks approval for the issue of Ordinary Warrants to Directors who are Shareholders pursuant to the Warrants Issue.

Details of the current holdings of Shares of each Director, as at the date of this Explanatory Memorandum, are summarised in the table below:

Director	Shares
Marcus Randolph	6,390,521
Deborah O'Toole	1,115,751
Rex McLennan	1,290,717
Gretchen McClain	1,020,882
Jeffrey Long	1,156,855
Peter Day	1,810,505
Bret Clayton	1,749,731

Director	Shares
Conor Tochilin	Nil
Jeffrey Olsen	135,000

The number of issued Shares held by Directors on the Implementation Date may be slightly greater than the number noted in the table above due to Shares being issued to Directors in the ordinary course in June 2017 as part of the Directors' existing remuneration agreements.

Details of the proposed issue of Ordinary Warrants to the Directors who are Shareholders, provided in accordance with ASX Listing Rule 10.13, are as follows:

Name of the Director	Maximum number of securities the entity is to issue <sup>26</sup>	Date by which securities will be issued	Issue price (per security)	Terms
Marcus Randolph	8,845,318	The date which is one month after the date of the AGM	-	See Section 5.4 and Schedule 1
Deborah O'Toole	1,544,345	The date which is one month after the date of the AGM	-	See Section 5.4 and Schedule 1
Rex McLennan	1,786,521	The date which is one month after the date of the AGM	-	See Section 5.4 and Schedule 1
Gretchen McClain	1,413,034	The date which is one month after the date of the AGM	-	See Section 5.4 and Schedule 1
Jeffrey Long	1,601,239	The date which is one month after the date of the AGM	-	See Section 5.4 and Schedule 1
Peter Day	2,505,976	The date which is one	-	See Section 5.4 and

<sup>26</sup> For information on how the actual number of Ordinary Warrants to be issued under the Warrants Issue will be determined, please refer to Section 6.5.

Name of the Director	Maximum number of securities the entity is to issue <sup>26</sup>	Date by which securities will be issued	Issue price (per security)	Terms
		month after the date of the AGM		Schedule 1
Bret Clayton	2,421,857	The date which is one month after the date of the AGM	-	See Section 5.4 and Schedule 1
Conor Tochilin	-	The date which is one month after the date of the AGM	-	See Section 5.4 and Schedule 1
Jeffrey Olsen	186,858	The date which is one month after the date of the AGM	-	See Section 5.4 and Schedule 1

Resolution 11 is not a Recapitalisation Resolution. Accordingly, the Recapitalisation will proceed regardless of the outcome of Resolution 11 of the Notice of Meeting. If Resolution 10 is not passed Ordinary Warrants will not be issued to the Directors.

### 13.8 **Resolution 12 – Appointment of the Ares Nominee as a Director**

Under the Director Nomination Agreements, Ares is entitled to nominate one person to stand for election as a Director at the AGM.

The Company has received a notice of candidature from Mr Matthew Sheahan who is the Ares Nominee.

The relevant qualifications and experience of Mr Sheahan is set out in Section 10.4.

If Resolution 12 is approved and the Recapitalisation is implemented, Mr Sheahan's appointment as a Director will be on and from the Implementation Date.

Resolution 12 is a Recapitalisation Transaction so it is conditional on the passing of Resolutions 6, 7, 8, 9, 10, 13, 14, 15, 16 and 17.

### 13.9 **Resolution 13 – Appointment of the Ascribe Nominee as a Director**

Under the Director Nomination Agreements, Ascribe is entitled to nominate one person to stand for election as a Director at the AGM.

The Company has received a notice of candidature from Mr Lawrence First who is the Ascribe Nominee.

The relevant qualifications and experience of Mr First are set out in Section 11.4.



If Resolution 13 is approved and the Recapitalisation is implemented, Mr First's appointment as a Director will be on and from the Implementation Date.

Resolution 13 is a Recapitalisation Resolution so it is conditional on the passing of Resolutions 6, 7, 8, 9, 10, 12, 14, 15, 16 and 17.

#### 13.10 **Resolution 14 – Appointment of the Ares and Ascribe Nominee as a Director**

Under the Director Nomination Agreements, Ascribe and Ascribe are jointly entitled to nominate one person to stand for election as a Director at the AGM.

The Company has received a notice of candidature from Mr Jason Ireland who is the Ares and Ascribe Nominee.

The relevant qualifications and experience of Mr Ireland are set out in Section 10.5.

If Resolution 14 is approved and the Recapitalisation is implemented, Mr Ireland's appointment as a Director will be on and from the Implementation Date.

Resolution 14 is a Recapitalisation Resolution so it is conditional on the passing of Resolutions 6, 7, 8, 9, 10, 12, 13, 15, 16 and 17.

#### 13.11 **Resolutions 15, 16 and 17 – Appointment of the Centerbridge Nominees as Directors**

Under the Director Nomination Agreements, Centerbridge is entitled to nominate five persons to stand for election as a Director at the AGM.

As set out in Section 9.4, the Company has been advised that Mr Randolph and Ms McClain intend to remain on the Board as Centerbridge Nominees. The Company has also received a notice of candidature from Mr Richard Wallman, Mr Robert Smith and Mr Kyle Cruz, who are the three other Centerbridge Nominees. Finally, Mr Tochilin (who is the other existing Centerbridge nominee) will resign as a Director with effect from implementation of the Recapitalisation.

The relevant qualifications and experience of the Centerbridge Nominees are set out in Section 9.4.

Resolutions 15, 16 and 17 relate to the appointment of Mr Wallman, Mr Smith and Mr Cruz to the Board.

If Resolutions 15, 16 and 17 are approved and the Recapitalisation is implemented, Mr Wallman, Mr Smith and Mr Cruz will be appointed as Directors on and from the Implementation Date.

Resolutions 15, 16 and 17 are Recapitalisation Resolutions so they are conditional on the passing of Resolutions 6, 7, 8, 9, 10, 12, 13 and 14.

## 14. ADDITIONAL INFORMATION

### 14.1 Restructuring Support Agreement

The Restructuring Support Agreement sets out the terms and conditions on which the parties have agreed to pursue the Recapitalisation.

The material provisions of the Restructuring Support Agreement are summarised below:

#### (a) Conditions precedent

The Recapitalisation is subject to the satisfaction of certain conditions precedent, including:

- Shareholders approving the Recapitalisation Resolutions at the AGM by the requisite majorities;
- the Company's creditors approving the Creditors' Schemes by the requisite majorities;
- Court approval of the Creditors' Schemes;
- the Company entering into Director Nomination Agreements with each of the Supporting Creditors;
- the Company entering into the Subscription Deed and the Subsequent Term Loan Amendments Agreement with CBP;
- the New ABL Revolver being duly executed by all the parties to it and all conditions precedent to the New ABL Revolver being satisfied (other than those conditions relating to the Creditors' Schemes becoming effective);
- the warranties given by the Company and the Supporting Creditors being true and correct in all material respects; and
- the Supporting Creditors (amongst others) obtaining, if applicable, approval under the *Foreign Acquisitions and Takeovers Act 1975* (Cth);
- the issue of Shares, Subordinated Notes and Warrants under the Recapitalisation, where relevant, being exempt from registration under the *United States Securities Act of 1933*; and
- the Company and Supporting Creditors obtaining all other relevant regulatory approvals, confirmations, consents or waivers, including ASX confirmation that it approves the terms of the Warrants.

Each party must use its respective reasonable endeavours to procure that each of the conditions precedent is satisfied as soon as reasonably practicable.

The Restructuring Support Agreement may be terminated by either the Company or the Supporting Creditors (acting unanimously) in the event that a condition precedent becomes incapable of being satisfied by 31 December 2017, or as extended by agreement.

(b) **Implementation and milestones**

The Company agrees to implement the Recapitalisation in accordance with the Restructuring Support Agreement. The Supporting Creditors have agreed to support the Creditors' Schemes and have agreed to pursue the Recapitalisation in accordance with the terms of the Restructuring Support Agreement.

The Company and the Supporting Creditors have also agreed under the Restructuring Support Agreement to use reasonable endeavours to agree in good faith the documents to give effect to the Recapitalisation in accordance with agreed milestones.

Some of the key milestones in the Restructuring Support Agreement are set out below:

<b>Milestone</b>	<b>Indicative Date</b>
Creditors' Scheme meeting	25 May 2017
AGM	8 June 2017
Second court date for the Creditors' Schemes	13 June 2017
Effective date for the Creditors' Schemes	14 June 2017
Implementation Date	21 June 2017

(c) **Exclusivity**

The Company is required to comply with certain exclusivity obligations under the Restructuring Support Agreement, including:

- **No shop restriction** – the Company must not solicit, invite, encourage or initiate any enquiries, proposals, negotiations or discussions (or communicate any intention to do any of these things) with a view to obtaining any expression of interest, offer or proposal from any other person in relation to a Competing Proposal or potential Competing Proposal;
- **No talk restriction** – Subject to a fiduciary carve-out (summarised below), the Company must not:
  - enter into, continue or participate in any negotiations or discussions with any person regarding a competing proposal or which may reasonably be expected to lead to a Competing Proposal;
  - provide any non-public information regarding the Company's businesses or operations to a person for the purposes of enabling or assisting that person to make a Competing Proposal; or
  - accept, enter into or offer to accept or enter into any agreement, arrangement or understanding in relation to an offer or proposal from any other person in relation to a Competing Proposal.

- **Notification** – the Company must notify the Supporting Creditors if it is approached about a potential Competing Proposal, or provides or proposes to provide any material non-public information to a third party to enable that party to make a Competing Proposal.

The fiduciary carve-out allows the Board to consider certain Competing Proposals received after entering into the Restructuring Support Agreement and before Shareholders approve the Recapitalisation Transactions at the AGM, if:

- such action is in response to a bona fide Competing Proposal that was not solicited or encouraged in contravention of the "no shop" or "no talk" restriction;
- the Board, acting in good faith, determines that the Competing Proposal is a Superior Proposal or that such action which the Board proposes to take may reasonably be expected to lead to a Competing Proposal that is a Superior Proposal; and
- the Board, acting in good faith, determines after receiving written legal advice from the Company's external legal advisors (and, if appropriate, the Company's financial advisors) that failing to take such action in response to such Competing Proposal would reasonably be expected to constitute a breach of the Board's fiduciary or statutory duties under applicable law.

(d) **Matching right**

The Restructuring Support Agreement requires that, if the Company determines that a Competing Proposal is a Superior Proposal, the Company will provide the Supporting Creditors with details of the Competing Proposal that is a Superior Proposal.

The Supporting Creditors will have the right until the expiration of five Business Days of receiving the information to make one or more offers to the Company in writing to amend the terms of the Restructuring Support Agreement or propose any other transaction (a **Counterproposal**).

If the Supporting Creditors make a Counterproposal, then the Board must review the Counterproposal in good faith to determine whether it is more favourable to the Company than the Superior Proposal.

If the Board determines that the Counterproposal is more favourable to the Company, Shareholders and creditors of the Company than the Superior Proposal, and is capable of being implemented in a reasonable time, then:

- (i) if the Supporting Creditors contemplate an amendment to the Restructuring Support Agreement, the parties will enter into an amending deed reflecting the Counterproposal;
- (ii) if the Counterproposal contemplates any other transaction, the Company will make an announcement recommending the Counterproposal, in the absence of a Superior Proposal and, if required, subject to the conclusions of an independent expert, and the parties will pursue implementation of the Counterproposal in good faith with their best endeavours; and

- (iii) the Company will effect a change of recommendation of the Board in relation to the transaction and will not authorise or enter into any letter of intention, memorandum of understanding, recapitalisation agreement or other agreement, arrangement or understanding relating to (or consummate) such former Superior Proposal.

The requirements of paragraph (ii), above, will not preclude the Board from receiving and considering any further Competing Proposal (including from the same person which provided the former Superior Proposal). Any further Competing Proposal will require the Board to comply with the requirements in paragraph (iii), above.

Any modification of any Superior Proposal will constitute a new Superior Proposal and require the Board to again comply with paragraph (ii), above.

(e) **Reimbursement of advisory expenses and break fee**

A break fee totalling AUD\$1,000,000 (exclusive of GST) is payable by the Company to Supporting Creditors if:

- during the exclusivity period, a Superior Proposal is publicly announced by a third party and that third party or an associate acquires a relevant interest in 20% or more of the Company's shares within 6 months of such an announcement;
- prior to the Implementation Date, any director of the Company (other than Conor Tochilin or Jeffrey Long, who will recuse themselves with respect to any vote regarding the Recapitalisation):
  - withdraws or adversely modifies his/her recommendation in favour of the transaction or recommends a Superior Proposal;
  - does not recommend that the Shareholders approve the Recapitalisation Resolutions in this Notice of Meeting; or
  - makes a public statement with the effect that the Recapitalisation Resolutions are no longer recommended,

other than as a result of the Independent Expert determining that the Recapitalisation Resolutions are 'not fair' and 'not reasonable' for Non-Associated Shareholders; or
- the Supporting Creditors terminate the Restructuring Support Agreement if (amongst other reasons) the Company materially breaches the Restructuring Support Agreement.

In addition, the Company has also agreed to pay in cash and in full, in accordance with their respective engagement letters, all invoiced fees and out of pocket expenses incurred by the Supporting Creditors (and their respective counsel and financial advisers).

(f) **Termination**

The Restructuring Support Agreement can be terminated in the following circumstances:

- (i) **Termination for no approval of the Recapitalisation** – any party may terminate the Restructuring Support Agreement if, among others:
  - (A) the Implementation Date has not occurred by 31 December 2017;
  - (B) Shareholders do not approve the Recapitalisation Resolutions at the AGM;
  - (C) creditors of the Company do not approve the Creditors' Schemes by the requisite majorities;
  - (D) any government agency or court of competent jurisdiction issues a final, non-appealable judgment, order, injunction, decree, ruling or similar action restraining, enjoining or otherwise prohibiting the consummation of Recapitalisation or declaring unlawful the Recapitalisation;
  - (E) an Australian court does not approve the Creditors' Schemes; or
  - (F) a U.S. bankruptcy court or Canadian court enters a final, non-appealable order denying final approval of the Australian court's approval of the Creditors' Schemes.
- (ii) **Termination by the Company for material breach** - the Company may terminate at any time before the Implementation Date by written notice to the other parties if a Supporting Creditor has materially breached the Restructuring Support Agreement;
- (iii) **Termination by any of the Supporting Creditors** - any one of the Supporting Creditors may terminate by written notice to all the parties if:
  - (A) any one of them has materially breached the Restructuring Support Agreement (provided that the party terminating cannot be the party in breach);
  - (B) the Company enters into an agreement to implement a Competing Proposal; or
  - (C) a warranty given by a Supporting Creditor becomes untrue or misleading (provided that the party terminating cannot be the party who has given the warranty which has become untrue or misleading).
- (iv) **Termination by the Supporting Creditors acting unanimously** - the Supporting Creditors (acting unanimously) may terminate by written notice to the Company if:

- (A) the Board fails to recommend the Recapitalisation Resolutions or withdraws or modifies its recommendation that Shareholders vote in favour of the Recapitalisation Resolutions;
  - (B) the Company materially breaches the Restructuring Support Agreement;
  - (C) any capacity warranty given by the Company or other Company warranty becomes untrue or misleading;
  - (D) a milestone has not been achieved (other than as a result of any action or omission by a Supporting Creditor, a regulator or court) on or before the date that is 10 business days following the applicable milestone date (see Section 14.1(b) above);
  - (E) the Company seeks, and the Australian Court does not approve, an order under the Corporations Act and an insolvency event occurs;
  - (F) the Company seeks, and the U.S. Bankruptcy Court denies, pursuant to a final, non-appealable order, interim or provisional relief and an insolvency event occurs; or
  - (G) a Material Adverse Event has occurred.
- (v) **Other circumstances for termination by the Company** – the Company may terminate the Restructuring Support Agreement at any time before the date Shareholders approve the Recapitalisation Resolutions if, following full compliance with the Restructuring Support Agreement:
- (A) the Company's board adversely changes or withdraws its recommendation in accordance with the Restructuring Support Agreement; or
  - (B) the Company enters into an agreement or arrangement with a third party with respect to a Competing Proposal that is a Superior Proposal, as permitted by the Restructuring Support Agreement.

#### 14.2 Regulatory approvals, waivers and relief

The Company has applied for and been granted a waiver from ASX Listing Rule 10.1 to permit the Company and its subsidiaries to grant security over certain assets in favour of the Supporting Creditors or any of their affiliates to secure the Company's obligations under the Second-Out ABL. This waiver is attached as Schedule 3.

The Company has also applied for and been granted several waivers from ASX Listing Rule 10.1 to permit the Company and its subsidiaries to grant security to Centerbridge and its associates in relation to Term Loans A and B. A waiver of ASX Listing Rule 10.1 was granted on 22 October 2014 to the extent necessary to permit the Company and its subsidiaries to grant security over all of its assets in favour of Centerbridge to secure the Company's obligations under Term Loans A and B for a maximum total initial drawdown of \$225 million. This was subject to certain conditions, including a condition that any variations to the terms of Term Loans A and B which are a material change or are inconsistent with the terms of the waiver must be subject to Shareholder approval.

On 3 January 2017, the Company was granted a modified waiver by ASX in respect of ASX Listing Rule 10.1 for modifications to Terms Loans A and B, subject to certain conditions, including a condition that any variations to Term Loans A and B which are not a minor change or inconsistent with the terms of the waiver must be subject to shareholder approval.

The Company has applied to ASX for a waiver from ASX Listing Rule 10.1 in respect of the Term Loan Amendments..

The Company has also applied for a waiver of ASX Listing Rule 7.3.8 with the effect that Shareholders (excluding Shareholders who are also Directors) are entitled to vote on Resolution 5 seeking approval of the issue of Shares under the SPP.

As announced to the ASX on 2 May 2017, the Company has also obtained relief from ASIC to hold the AGM within 6 months of the end of its financial year.

#### 14.3 Transaction costs

The estimated fees and expenses associated with the Recapitalisation, the DDL and the Second-Out ABL are summarised in this Section. These costs are one-off in nature and will be paid by the Company. Total fees and expenses are expected to be approximately \$30 to \$35 million.

The below table summarises the expected fees and expenses (all figures are in \$ million):

Houlihan Lokey fees and expenses	\$7.8
Other financial advisory fees and expenses	\$2.4
Legal fees and expenses	\$7.8
Reimbursement of Centerbridge fees and expenses	\$6.7
Reimbursement of Ares and Ascribe fees and expenses	\$7.6
Reimbursement of Secured Supporting Creditors' fees and expenses	\$0.7
Other fees and expenses	\$0.9
<b>Total fees and expenses</b>	<b>\$33.8</b>

#### 14.4 Disclosure of other interests

Mr Tochilin is an employee of Centerbridge and as such a component of his remuneration relates to the performance of Centerbridge's funds, and therefore their respective portfolios, including the Centerbridge funds through which Centerbridge is invested in the Company. Mr Tochilin is one of Centerbridge's existing nominees to the Board. Mr Tochilin was not a member of the Restructuring Committee established by the Board to oversee the Capital Structure Review and because he is a Centerbridge nominee to the Board and an employee of Centerbridge, neither he nor Centerbridge makes any recommendation in relation to the Recapitalisation Resolutions. Mr Tochilin holds no Shares in the Company and will not be receiving any Shares or Warrants in connection with his prospective service as a Board member or if the Recapitalisation Resolutions are approved.



#### 14.5 Consents and disclaimers

The following persons have given and have not, before the date of issue of this Explanatory Statement, withdrawn their consent to:

- be named in this Explanatory Statement in the form and context in which they are named;
- the inclusion of their respective reports or statements noted next to their names and the references to those reports or statements in the form and context in which they are included in this Explanatory Statement; and
- the inclusion of other statements in this Explanatory Statement which are based on or referable to statements made in those reports or statements, or which are based on or referable to other statements made by those persons in the form and context in which they are included.

Name of person	Named as	Reports or statements
Centerbridge	Centerbridge	Centerbridge Information
Ares	Ares	Ares Information
Ascribe	Ascribe	Ascribe Information
KPMG	Independent Expert	Independent Expert's Report set out in Annexure A

Each person referred to above:

- does not make, or purport to make, any statement in this Explanatory Statement other than those statements referred to above as consented to by that person; and
- to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Explanatory Statement other than with respect to the statements and references included in this Explanatory Statement with the consent of that person as set out above.

## 15. GLOSSARY OF TERMS

In this Explanatory Statement, unless the context requires otherwise:

**7% Warrants** means the Warrants issued to holders of the 7% Unsecured Notes pursuant to the Unsecured Creditors' Scheme, comprising:

- (a) the Tranche A 7% Warrants; and
- (b) the Tranche B 7% Warrants.

**7% Unsecured Notes** means Boart Management's outstanding 7% Unsecured Senior Notes pursuant to the 7% Unsecured Notes Indenture.

**7% Unsecured Notes Indenture** means the indenture dated 28 March 2011 between Boart Management, as issuer, Boart Longyear and U.S. Bank National Association, amongst others, in respect of the 7% Warrants, as amended, varied, or amended and restated from time to time.

**7% Unsecured Notes Equity and Warrant Issuance** means the proposed issue of Shares and 7% Warrants to holders of the 7% Unsecured Notes as described in Section 4.3.

**7% Unsecured Notes Release and Reinstatement** means the release and reinstatement of the 7% Unsecured Notes as described in Section 4.2.

**10% Secured Note Amendments** mean the proposed amendments to the 10% Secured Notes as described in Section 3.2.

**10% Secured Notes** means Boart Management's outstanding 10% Secured Senior Notes pursuant to the 10% Secured Notes Indenture.

**10% Secured Notes Indenture** means the indenture dated 27 September 2013, between Board Management, as issuer, Boart Longyear, Board Longyear Australia Pty Ltd and Votaint No. 1609 Pty Limited as guarantors, amongst others, and U.S. Bank National Association, as trustee and collateral agent, amongst others, in respect of 10% Secured Notes, as amended, varied, or amended and restated from time to time.

**Affiliate** means, with respect to any person, any other person that directly or indirectly controls, or is under common control with, or is controlled by, such person provided that in no event will the Company or any of its subsidiaries be deemed to be an Affiliate of Centerbridge or vice versa, notwithstanding any control that Centerbridge may have over the Company or its subsidiaries. As used in this definition, "control" (including with its correlative meanings, "controlled by" and "under common control with") means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a person (whether through ownership of share equivalents or partnership or other ownership interests, by contract or otherwise).

**AGM** means the annual general meeting of Shareholders convened by the Notice of Meeting to consider the resolutions.

**Annual Report** means the Annual Report of the Company dated 27 February 2017.

**Ares** means Ares Management LLC, on behalf of its affiliated funds and accounts being Ares Corporate Opportunities Fund IV, L.P. and Ares Special Situations Fund

III, L.P. and Ares Enhanced Credit Opportunities Fund B, Ltd and Future Fund Board of Guardians and Ares Strategic Investment Partners Ltd and Ares SSF Riopelle, L.P. and SEI Institutional Managed Trust - High Yield Bond Fund and SEI Institutional Investments Trust - High Yield Bond Fund and AVIVA Staff Pension Scheme and Transatlantic Reinsurance Company and ASIP (HoldCo) IV S.À R.L. and Kaiser Foundation Hospitals and SEI Global Master Fund plc - The SEI High Yield Fixed Income Fund and Ares Enhanced Credit Opportunities Fund II, Ltd and Superannuation Funds Management Corporation of South Australia and Kaiser Permanente Group Trust and RSUI Indemnity Company and Goldman Sachs Trust II - Goldman Sachs Multi-Manager Alternatives Fund.

**Ares Information** has the meaning given in the "Important Notices".

**Ares Nominee** means the person nominated by Ares for election as a Director at the AGM pursuant to the Director Nomination Agreements, as set out in Section 10.4.

**Ascribe** means Ascribe II Investments LLC on behalf of itself and its managed funds being Ascribe Opportunities Fund II L.P. and Ascribe Opportunities Fund II(B) L.P.

**Ascribe Information** has the meaning given in the "Important Notices".

**Ascribe Nominee** means the person nominated by Ascribe for election as a Director at the AGM pursuant to the Director Nomination Agreements, as set out in Section 11.4.

**ASIC** means the Australian Securities and Investments Commission.

**Associate** has the meaning given in Division 2 of Part 1.2 of the Corporations Act as if section 12(1) of the Corporations Act included a reference to the Restructuring Support Agreement and the Company was the designated body.

**ASX** means the Australian Securities Exchange or ASX Limited (ABN 98 008 624 691), as the context requires.

**ASX Listing Rules** means the listing rules of ASX.

**BLY Group** means the Company and each of its subsidiaries.

**Board** means the Board of Directors of the Company.

**Boart Management** means Boart Longyear Management Pty Limited ABN 38 123 283 545.

**Business Day** means a day (other than a Saturday, Sunday or public holiday) on which banks are open for general banking business in Sydney and Adelaide Australia.

**Capital Stock** means:

- (a) in the case of a corporation, corporate stock;
- (b) in the case of an association or business entity, any and all shares, interests, participations, rights or other equivalents (however designated) of corporate stock;
- (c) in the case of a partnership or limited liability company, partnership or membership interests (whether general or limited); and

- (d) any other interest or participation that confers on a person the right to receive a share of the profits and losses of, or distributions of assets of, the issuing person, but excluding from all of the foregoing any debt securities convertible into Capital Stock, whether or not such debt securities include any right of participation with Capital Stock.

**Capital Structure Review** means has the meaning outlined in section 2.1 of the Explanatory Statement.

**CBP** means CCP II Dutch Acquisition - ND2, B.V and CCP Credit SC II Dutch Acquisition - ND, B.V.

**CBP Registered Holders** means CCP II and CCP Credit.

**CCP II** mean CCP Dutch Acquisition – E2, B.V.

**CCP Credit** means CCP Credit SC II Dutch Acquisition – E, B.V.

**Centerbridge** means Centerbridge Partners, L.P. and its Affiliates or managed funds (as applicable).

**Centerbridge Information** has the meaning given in the "Important Notices".

**Centerbridge Nominees** means the persons nominated by CBP for election as a Director at the AGM pursuant to the Director Nomination Agreements, as set out in Section 9.4.

**Chairman** means the chairman of the Board of the Company.

**Change of Control Event** means a change of control of the Company, howsoever described under the relevant finance document.

**Claim** means, in relation to a person, any claim, allegation, cause of action, proceeding, debt, liability, suit or demand made against the person concerned however it arises and whether it is present or future, fixed or unascertained, actual or contingent or otherwise whether at law, in equity, under statute or otherwise.

**Company or Boart Longyear** means Boart Longyear Limited ABN 49 123 052 728.

**Competing Proposal** means any dissolution, winding up, liquidation, reorganisation, assignment for the benefit of creditors, merger, transaction, consolidation, business combination, joint venture, partnership sale of assets, financing (debt or equity), refinancing, or restructuring of the Company, other than the Recapitalisation, including, but not limited to, any proposal, agreement, arrangement or transaction, received in writing within the period from the commencement date to the Implementation Date, which the Board determines, in good faith and in consultation with the Company's counsel, if completed, would mean a third party (either alone or with any associate of that third party) may: (i) directly or indirectly acquire a relevant interest in 20% or more of the Shares or 50% or more of the share capital of any material subsidiary of the Company; (ii) acquire control of the Company; (iii) directly or indirectly acquire a legal, beneficial or economic interest in, or control of, all or a material part of the Company's business or assets or the business or assets of the Company taken as a whole, or (iv) otherwise directly or indirectly acquire or merge with the Company or acquire a material subsidiary of the Company.

**Constitution** means the constitution of the Company.

**Convertible Preference Shares** means convertible preference shares issued by the Company on the terms described in Schedule 1 of the Notice of Meeting and Explanatory Statement dated 18 November 2014, released to ASX on 19 November 2014.

**Corporations Act** means the *Corporations Act 2001* (Cth).

**Counterproposal** has the meaning outlined in section 14.1(d) of the Explanatory Statement.

**CPS Conversion** means the proposed conversion of the Convertible Preference Shares described in Section 5.3.

**Creditors' Meeting** means the meeting of the Company's secured and unsecured creditors for the purposes of considering the Creditors' Schemes.

**Creditors' Schemes** means both of the Secured Creditors' Scheme and the Unsecured Creditors' Scheme.

**DDL** means the \$20 million Delayed Draw Term Loan Facility among the Company and Centerbridge.

**Director** means a Director of the Company.

**Director Nomination Agreements** means the director nomination agreements entered into by the Company with each of the Supporting Creditors pursuant to which the Supporting Creditors have nominated the Nominee Directors for appointment as a Director.

**Directors Report** means the directors report for the financial year ended 31 December 2016 contained within the Annual Report.

**EBITDA** means earnings before interest, tax, depreciation and amortisation.

**Eligible Shareholder** means has the meaning given in Section 2.4.

**Equity Interests** means Capital Stock and all warrants, options or other rights to acquire Capital Stock, but excluding any debt security that is convertible into, or exchangeable for, Capital Stock.

**Exercise Period** means has the meaning given in Section 5.4.

**Exercise Price** means the relevant exercise price for the Ordinary Warrants and 7% Warrants, as set out in Section 5.4 and 4.1.

**Existing ABL Revolver** means the existing ABL revolver provided pursuant to the Revolving Credit and Security Agreement dated 29 May 2015 between PNC Bank as lender and agent, Boart Management as borrower and the guarantors party thereto.

**Explanatory Statement** means this explanatory statement which includes the Independent Expert's Report, Notice of Meeting and Proxy Form.

**Financial Report** means the financial report of the Company for the financial year ended 31 December 2016, contained within the Annual Report.

**Government Agency** means a government, government department or a governmental, semi-governmental, administrative, statutory or judicial entity, agency, authority, commission, department, tribunal, or person charged with the

administration of a law or agency, whether in Australia or elsewhere, including the Australian Competition and Consumer Commission, ASIC, ASX, the Takeovers Panel, and any self-regulatory organisation established under statute or by ASX.

**Implementation Date** means the date the Recapitalisation is implemented.

**Independent Directors** mean all Directors other than Conor Tochilin and Jeffrey Long.

**Independent Expert** means KPMG Financial Advisory Services (Australia) Pty Ltd.

**Independent Expert's Report** means a report prepared by the Independent Expert which states whether the Recapitalisation is fair and reasonable to Non-Associated Shareholders.

**Initial Term Loan Amendments** the initial amendments to Term Loans A and B set out in Section 3.1.

**Joint Ares and Ascribe Nominee** means the person nominated jointly by Ares and Ascribe for election as a Director at the AGM pursuant to the Director Nomination Agreements as set out in Sections 10.5.

**KMP** means the key management personnel of the Company.

**KordaMentha Report** means the report of KordaMentha attached as Annexure B to the explanatory statements for the Creditors' Schemes.

**Material Adverse Event** means any event occurring after the commencement date of the RSA that results in a material adverse change in the business, condition or results of operations of the Company and its subsidiaries, taken as a whole, other than:

- (a) as a result of the events contemplated by the RSA;
- (b) in any of the following circumstances:
  - (i) a change in applicable laws or the interpretation or enforcement thereof;
  - (ii) a change in prices, markets or general economic conditions; or
  - (iii) any act of war or terrorism or natural disaster,

except if such events, changes, effects, occurrences, developments, circumstances or changes of fact have a materially disproportionate adverse impact on the Company and its subsidiaries, taken as a whole, as compared to other participants engaged in the industries and geographies in which they operate; or
- (c) any change that does not result in a measurable decrease in the fair market value of the assets of the BLY Group entities by more than US\$40,000,000.

**Meeting** means the Annual General Meeting convened by the Notice of Meeting.

**New ABL Revolver** means the proposed new ABL revolver as described in Section 5.2.

**Nominee Directors** mean:

- (a) the Ares Nominee;
- (a) the Ascribe Nominee;
- (b) the Centerbridge Nominees; and
- (c) the Joint Ares and Ascribe Nominee.

**Non-Associated Shareholders** means Shareholders other than Centerbridge, Ares and Ascribe or any of their Associates.

**Non-Executive Director** means a non-executive director of the Company.

**Notice of Meeting** means the Notice of Annual General Meeting included in this Explanatory Statement, as applicable.

**Ordinary AGM Business Resolution** means Resolutions 1 to 4 (inclusive).

**Ordinary Warrants** means the Warrants issued to Shareholders (other than Centerbridge) under the Warrants Issue.

**Prospectus** has the meaning given in section 5.4.

**Proxy Form** means the proxy form accompanying this Explanatory Statement.

**Recapitalisation** means the proposed recapitalisation of the Company to be implemented through the Recapitalisation Transactions.

**Recapitalisation Resolutions** means Resolutions 5 to 17 (inclusive) (other than Resolutions 5 and 11).

**Recapitalisation Transactions** means the transactions to effect the Recapitalisation, as contemplated by the Restructuring Support Agreement, including:

- (a) the Initial Term Loan Amendments;
- (b) the 10% Secured Note Amendments;
- (c) the 7% Unsecured Notes Release and Reinstatement;
- (d) the 7% Unsecured Notes Equity and Warrant Issuance;
- (e) the replacement of the Existing ABL Revolver with New ABL Revolver and repayment of the Second-Out ABL and DDL;
- (f) the issue of Shares under the Subscription Deed in consideration for the Subsequent Term Loan Amendments;
- (g) the CPS Conversion;
- (h) the issue of Ordinary Warrants to Shareholders through the Warrants Issue; and
- (i) the election of the Nominee Directors as Directors at the AGM.

**Re-domiciliation** has the meaning given in Section 5.6.

**Reports** means the Financial Report, the Directors' Report and the Independent Audit Report.

**Resolutions** means the resolutions provided for Shareholder approval in the Notice of Meeting, being:

- (a) the Ordinary Business Resolutions;
- (b) the Recapitalisation Resolutions; and
- (c) Resolutions 5 and 11.

**Restructuring Support Agreement or RSA** means the restructuring support agreement dated 3 April 2017 between the Company, Boart Longyear Management Pty Limited, Centerbridge, Ares and Ascribe, as may be amended, modified or supplemented from time to time.

**Second-Out ABL** means the term loan securities agreement entered into as of 2 April 2017 among Boart Management, as issuer, the Company and certain affiliates thereof, as guarantors, and Wilmington Trust, National Association, as agent, providing for the issuance of term loan securities at an issue price of \$15,000,000, as may be amended, modified or supplemented from time to time.

**Secured Creditors' Scheme** means a creditors' scheme of arrangement in respect of the 10% Secured Notes and Term Loans A and B under Part 5.1 of the Corporations Act, as described in Section 3.

**Share** means a fully paid ordinary share in the Company.

**Shareholder** means a holder of a Share.

**Share Purchase Plan or SPP** means the proposed share purchase plan to be offered by the Company as described in Section 2.4.

**SPP Record Date** means the record date for the SPP, being 31 March 2017.

**Subscription Deed** means the subscription deed dated 8 May 2017 between the Company and CBP.

**Subsequent Term Loan Amendments** means the subsequent amendments to Term Loans A and B set out in Section 5.1.

**Subsequent Term Loan Amendment Agreement** means the agreement to be entered into by the Company and others to give effect to the Subsequent Term Loan Amendments.

**Successor** has the meaning given in Section 5.6.

**Subordinated Notes** means US\$88 million face-value take-back subordinated unsecured notes having the terms as described in Section 4.2.

**Superior Proposal** means a bona fide written competing proposal of the kind referred to in (ii) or (iii) of the definition of Competing Proposal that the Board, acting in good faith, and after receiving written legal advice from the Company's counsel and advice from its financial advisor, determines: (i) is reasonably capable of being valued and completed, taking into account all aspects of the competing proposal including any timing considerations, any conditions precedent, the identity, reputation and financial standing of the proponent, the current contractual rights of the



Supporting Creditors under the relevant finance documents, and any requirements set forth by the Supporting Creditors in their response to a competing proposal; (ii) would, if completed substantially in accordance with its terms, be more favourable to Shareholders (as a whole) and the creditors of the Company than the transaction (having regard to the fact that trade creditors will be paid in full under the transaction) taking into account all terms and conditions of the competing proposal; and (iii) would reasonably be expected to require it by virtue of its directors' fiduciary or statutory duties under applicable law to respond to such competing proposal or to change, withdraw or modify its recommendation.

**Supporting Creditors** means CBP, Ares and Ascribe.

**Term Loan A** means the term loan securities issued by Boart Management Term Loan A Securities Agreement.

**Term Loan A Securities Agreement** means the term loan agreement entered into by (among others) the Company and Centerbridge on 23 October 2014 pursuant to which Centerbridge provided Term Loan A (as amended and restated from time to time).

**Term Loan Amendments** means:

- (a) the Initial Term Loan Amendments; and
- (b) the Subsequent Term Loan Amendments.

**Term Loan B** means the term loan securities issued by Boart Management under the Term Loan B Securities Agreement.

**Term Loan B Securities Agreement** means the term loan agreement entered into by (among others) the Company and Centerbridge on 23 October 2014 pursuant to which Centerbridge provided Term Loan B (as amended and restated from time to time).

**Term Loans A and B** means Term Loan A and Term Loan B.

**Term Loan Agreements** means the Term Loan A Securities Agreement and the Term Loan B Securities Agreement.

**TEV** means total enterprise value of the Group.

**Tranche A 7% Warrants** has the meaning given to that term in Section 4.1.

**Tranche B 7% Warrants** has the meaning given to that term in Section 4.1.

**Unsecured Creditors' Scheme** means a creditors' scheme of arrangement in respect of the 7% Unsecured Notes under Part 5.1 of the Corporations Act, as described in Section 4.

**US Securities Act** means United States Securities Act of 1933, as amended.

**VWAP** means volume weighted average price.

**Warrants** means Ordinary Warrants and the 7% Warrants.

**Warrants Issue** means the issue of Ordinary Warrants to Shareholders (other than Centerbridge) pursuant to the Prospectus, as described in Section 5.4.



## Schedule 1 – Warrant Terms – Ordinary Warrants

The logo for Ashurst, featuring the word "ashurst" in a lowercase, sans-serif font.

Agreed form

## Ordinary Warrant Deed Poll

Boart Longyear Limited  
ACN 123 052 728

2017

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**THIS Deed Poll** is made on

2017

**BY:**

- (1) **Boart Longyear Limited** ACN 123 052 728 whose registered office is at 26 Butler Boulevard, Burbridge Business Park, Adelaide Airport, South Australia 5950, Australia (the **Company**)

**RECITALS:**

- (A) The Company has determined to create Ordinary Warrants, exercisable into Shares on the terms and subject to the conditions set out in this Deed Poll.
- (B) The Company enters into this Deed Poll for the benefit of each person who is a Warrant Holder from time to time.

**THE PARTIES AGREE AS FOLLOWS:**

**1. DEFINITIONS AND INTERPRETATION**

**1.1 Definitions**

The following definitions apply unless the context requires otherwise.

**Alternative Exchange** means, if the Company is no longer listed on ASX, a national or internationally recognised securities exchange other than ASX on which the Company, or a Successor Company, is listed.

**Ares** means Ares Corporate Opportunities Fund IV, L.P. and Ares Special Situations Fund III, L.P. and Ares SSF Riopelle, L.P. and Ares Strategic Investment Partners Ltd. And Future Fund Board Of Guardians and ASIP (Holdco) IV S.À R.L. and Transatlantic Reinsurance Company and RSUI Indemnity Company and Ares Enhanced Credit Opportunities Fund II, Ltd. and Ares Enhanced Credit Opportunities Fund B, Ltd. and Superannuation Funds Management Corporation Of South Australia and Goldman Sachs Trust II - Goldman Sachs Multi-Manager Alternatives Fund and Aviva Staff Pension Scheme and Kaiser Foundation Hospitals and Kaiser Permanente Group Trust and SEI Global Master Fund Plc - The SEI High Yield Fixed Income Fund and SEI Institutional Investments Trust - High Yield Bond Fund and SEI Institutional Managed Trust - High Yield Bond Fund and Ares Senior Loan Trust and Anthem, Inc. and OPSEU (Ontario Public Service Employees Union) Pension Plan Trust Fund and Renaissance Floating Rate Income Fund and Lloyds Bank Pension Scheme No. 1 and Lloyds Bank Pension Scheme No. 2 and Goldman Sachs Trust II - Goldman Sachs Multi-Manager Non-Core Fixed Income Fund and Ares Institutional Loan Fund B.V. and SEI Institutional Investments Trust - Opportunistic Income Fund and SEI Institutional Managed Trust Enhanced Income Fund.

**Ascribe** means Ascribe II Investments LLC, on behalf of itself and its managed funds that hold Supporting Debt (as that term is defined in the Restructuring Support Agreement).

**ASX** means ASX Limited (ABN 98 008 624 691).

**bonus issue** has the meaning given to the expression in the Listing Rules at the date of this Deed Poll.

**Business Day** means a day, other than Saturday or Sunday, on which banks are open in Sydney and Adelaide.

**Change in Capital** means any recapitalization, reorganization, reclassification, consolidation, merger, sale of all or substantially all of the Company's assets or other transaction, which in each case is effected in such a way that Shares are converted into

the right to receive (either directly or upon subsequent liquidation) stock, securities, other equity interests or assets (including cash), but does not include:

- (a) a Redomiciling Event;
- (b) a Change of Control;
- (c) a Public Stock Merger; or
- (d) a Small Public Stock Merger.

**Change of Control** occurs when a Third Party (other than as custodian, nominee or bare trustee):

- (a) acquires an interest in, or a relevant interest in or becomes the holder of, 50% or more of the Shares provided that where a Third Party acquires a relevant interest in 50% or more of the Shares by way of an off market takeover bid in accordance with Chapter 6 of the Corporations Act, the Change of Control will not occur until such time as that bid is declared free from all conditions;
- (b) acquires an interest in all or a substantial part of the assets of the Company;
- (c) otherwise acquires control (within the meaning of section 50AA of the Corporations Act) of the Company; or
- (d) otherwise directly or indirectly acquires, merges or amalgamates with the Company or a substantial part of its assets or business, whether by way of takeover offer, scheme of arrangement, shareholder approval acquisition, capital reduction, share buy-back or repurchase, sale or purchase of assets, joint venture, reverse takeover, dual-listed company structure, recapitalisation, establishment of a new holding company for the Company or other synthetic merger or any other similar transaction or arrangement which for the avoidance of doubt does not include where the Third Party is a new holding company and the shares or common stock in the new holding company are held by the holders of Shares in substantially the same proportion as they hold Shares in the Company immediately before the transaction,

but does not include:

- (a) a Redomiciling Event;
- (b) a Public Stock Merger; or
- (c) a Small Public Stock Merger.

**Company** means:

- (a) Boart Longyear Limited (ACN 123 052 728); or
- (b) if there is a Redomiciling Event, a Successor Company.

**Corporations Act** means the Corporations Act 2001 (Cth).

**Distribution** has the meaning given by clause 6.6.

**Exercise Date** means, in respect of an Ordinary Warrant, the date on which the exercise of that Ordinary Warrant becomes effective in accordance with the terms of this Deed Poll.

**Exercise Notice** means a notice substantially in the form set out in Attachment 1.

**Exercise Period** means the period commencing on the date of issue of the Ordinary Warrants and ending at 5.00pm (Sydney time) on the 7th anniversary of that date.

**Exercise Price** means, in respect of an Ordinary Warrant, A\$[insert] (as adjusted in accordance with clause 6).

**Fair Value** of:

- (a) a Share means on any day:
  - (i) if the Shares are quoted on a Securities Exchange on that day, the VWAP of Shares during the 10 Trading Days ending on, but excluding that day;
  - (ii) if the Shares are not quoted on any Securities Exchange on that day, the fair value as of a date not earlier than 10 Business Days preceding that day as determined by the Independent Expert;
- (b) of cash on any day means the amount of that cash;
- (c) of any other property means on any day, the fair market value of that property as determined by an Independent Expert appointed for such purpose, using one or more valuation methods that the Independent Expert in its best professional judgement determines to be the most appropriate, assuming such property is to be sold in an arm's-length transaction and there was no compulsion on the part of any party to such sale to buy or sell and taking into account all relevant factors

**Independent Expert** means an independent expert selected by the board of the Company with the supporting vote of at least one director nominated by Ares or Ascribe

**Listing Rules** means the official listing rules of ASX as waived or modified by ASX in respect of the Company or the Ordinary Warrants in any particular case.

**Ordinary Warrant** means an option to subscribe for one Share at the Exercise Price on and subject to the terms and conditions in this Deed Poll.

**pro rata issue** has the meaning given to that expression in the Listing Rules at the date of this Deed Poll.

**Public Stock** means common stock or shares of a company listed on ASX or an Alternative Exchange with an aggregate market capitalisation in excess of US\$500 million.

**Public Stock Merger** means an event described in any of paragraphs (a) to (d) of the definition of a Change of Control pursuant to which all of the Shares held by shareholders who are not affiliated with the Company or any entity acquiring the Company are exchanged for, converted into or constitute solely (except to the extent of applicable appraisal rights or cash received in lieu of fractional shares) the right to receive as consideration Public Stock.

**Redomiciling Event** means completion of the implementation of the redomiciling of the place of incorporation or organisation of the Company to a jurisdiction outside of Australia.

**relevant interest** has the meaning given to that expression in the Corporations Act at the date of this Deed Poll.

**Restructuring Support Agreement** means the agreement of the same name between the Company, Boart Longyear Management Pty Limited (ACN 123 283 545), Ares, Ascribe and others on 3 April 2017.

**Securities Act** means the *U.S. Securities Act of 1933*, as amended.

**Securities Exchange** means:

- (a) for so long as the Company is listed on ASX, ASX; or
- (b) if the Company ceases to be listed on ASX and the Company, or a Successor Company, is listed on an Alternative Exchange, the Alternative Exchange.

**Share** means:

- (a) one (1) fully paid ordinary share in the capital of the Boart Longyear Limited (ACN 123 052 728); or
- (b) if there is a Redomiciling Event, the Substitute Property received in place of one (1) fully paid ordinary share in the capital of Boart Longyear Limited (ACN 123 052 728) as a result of the Redomiciling Event.

**Shareholder** means the registered holder of a Share.

**Small Public Stock** means common stock or shares of a company listed on ASX or an Alternative Exchange with an aggregate market capitalisation less than or equal to US\$500 million.

**Small Public Stock Merger** means an event described in any of clauses (a) to (d) of the definition of Change of Control pursuant to which all of the Shares held by shareholders who are not affiliated with the Company or any entity acquiring the Company are exchanged for, converted into or constitute solely (except to the extent of applicable appraisal rights or cash received in lieu of fractional shares) the right to receive as consideration Small Public Stock.

**Substitute Property** has the meaning given by clause 6.4.

**Successor Company** means, if there is a Redomiciling Event, such other company which becomes the parent company of the corporate group of which the Company is currently the parent company.

**Third Party** means a person other than a person who at the day after the date that the Ordinary Warrants are issued:

- (a) has an interest in, or a relevant interest in or holds, 20% or more of the Shares; or
- (b) controls (within the meaning of section 50AA of the Corporations Act) the Company.

**Trading Day** means:

- (a) for so long as the Company is listed on ASX, has the meaning given to that term in the Listing Rules; or
- (b) if the Company or a Successor Company is admitted to an Alternative Exchange, means a day on which that Alternative Exchange is open for the trading of Shares.

**VWAP** means, for any period, the arithmetic average (rounded to the nearest cent) of the daily volume weighted average sale price of Shares (rounded to four decimal places) sold on the Securities Exchange on which Shares are quoted during that period excluding any trades the board of the Company, in good faith and acting reasonably, with the supporting vote of at least one director nominated by Ares or Ascribe determines are not fairly reflective of natural supply or demand.



**Warrant Holder** means a person whose name appears in the Warrants Register as the holder of any one or more Ordinary Warrants from time to time.

**Warrants Register** means the register of Ordinary Warrants evidencing the Warrant Holder in respect of each Ordinary Warrant.

**Warrant Value** at any time means the value of the Ordinary Warrant in cash at that time determined by an Independent Expert using the calculation methods and making the assumptions set out in Exhibit A.

## 1.2 **Rules for interpreting this Deed Poll**

Headings are for convenience only, and do not affect interpretation. The following rules also apply in interpreting this Deed Poll, except where the context makes it clear that a rule is not intended to apply.

- (a) A reference to:
  - (i) a legislative provision or legislation (including subordinate legislation) is to that provision or legislation as amended, re-enacted or replaced, and includes any subordinate legislation issued under it;
  - (ii) a document (including this Deed Poll) or agreement, or a provision of a document (including this Deed Poll) or agreement, is to that document, agreement or provision as amended, supplemented, replaced or novated;
  - (iii) a party to this Deed Poll or to any other document or agreement includes a successor in title, permitted substitute or a permitted assign of that party;
  - (iv) a person includes any type of entity or body of persons, whether or not it is incorporated or has a separate legal identity, and any executor, administrator or successor in law of the person;
  - (v) anything (including a right, obligation or concept) includes each part of it;
  - (vi) dollars and \$ is to Australian currency; and
  - (vii) time is to the time in Sydney Australia.
- (b) A singular word includes the plural, and vice versa.
- (c) A word which suggests one gender includes the other genders.
- (d) If a word or phrase is defined, any other grammatical form of that word or phrase has a corresponding meaning.
- (e) If an example is given of anything (including a right, obligation or concept), such as by saying it includes something else, the example does not limit the scope of that thing.

## 1.3 **Adjustments to VWAP**

For the purposes of calculating the VWAP for a period (**Pricing Period**) in this Deed Poll:

- (a) where, on some or all of the Trading Days in the Pricing Period, the Shares have been quoted on the Securities Exchange as cum dividend or cum any other distribution or entitlement and an Ordinary Warrant will convert:

- (i) into the Shares after the date those Shares no longer carry that entitlement (**ex date**), then the daily volume weighted average sale price of Shares on the Trading Days on which those Shares have been quoted cum dividend or cum entitlement shall be reduced by an amount (**cum value**) equal to:
  - (A) (in the case of a dividend or other distribution), the amount of that dividend or distribution including, if the dividend is franked the amount that would be included in the assessable income of a recipient of the dividend or distribution who is a natural person under the *Income Tax Assessment Act 1936* or the *Income Tax Assessment Act 1997*, jointly as applicable;
  - (B) (in the case of an entitlement which is traded on a Securities Exchange on any of those Trading Days), the daily volume weighted average sale price of all such entitlements sold on the Securities Exchange during the Pricing Period on the Trading Days on which those entitlements were traded; or
  - (C) (in the case of an entitlement not traded on a Securities Exchange during the Pricing Period), the value of the entitlement as reasonably determined by the board of the Company with the supporting vote of at least one director nominated by Ares or Ascribe; and
- (b) where, on some or all of the Trading Days in the Pricing Period, the Shares have been quoted ex dividend, ex distribution or ex entitlement, and the Ordinary Warrants will convert into Shares which would be entitled to receive the relevant dividend, distribution or entitlement, then the daily volume weighted average sale price of Shares on the Trading Days on which those Shares have been quoted ex dividend, ex distribution or ex entitlement shall be increased by the cum value.

## 2. **TITLE AND RIGHTS**

### 2.1 **Constitution and Form of Ordinary Warrants**

- (a) The Ordinary Warrants are issued on the terms and conditions of this Deed Poll, which are binding on the Company in favour of each Warrant Holder and all persons claiming through or under them respectively.
- (b) Each Ordinary Warrant confers the right (but not the obligation) on the Warrant Holder to subscribe for a Share on the terms and subject to the conditions set out in this Deed Poll.
- (c) The Company undertakes to comply with the terms and conditions of this Deed Poll and specifically, but without limitation, to give effect to the exercise rights in accordance with the terms of this Deed Poll.
- (d) The Company undertakes to provide to each Warrant Holder (upon request by that Warrant Holder) a certified copy of this Deed Poll.

### 2.2 **Benefit and Enforcement**

- (a) This Deed Poll is a deed poll. Each Warrant Holder from time to time has the benefit of this Deed Poll and can enforce it even though they may not be in existence or their name does not appear in the Warrants Register as the holder or any one or more Ordinary Warrants at the time this Deed Poll is executed.
- (b) A Warrant Holder may enforce its rights under this Deed Poll independently from any other Warrant Holder.

- (c) Each Warrant Holder, and any person claiming through a Warrant Holder, who asserts an interest in an Ordinary Warrant is bound by this Deed Poll.

### 2.3 **Warrants Register**

- (a) The Company must create and maintain the Warrants Register in accordance with the Corporations Act, and must update the Warrants Register on the exercise or transfer of an Ordinary Warrant in accordance with this Deed Poll.
- (b) Title to the Ordinary Warrants passes by registration of a transfer in the Warrants Register.

### 2.4 **Subscription Rights**

- (a) Each Ordinary Warrant gives the holder of that Ordinary Warrant the right to subscribe for one Share subject to adjustment in accordance with clause 6.
- (b) Each Ordinary Warrant has an Exercise Price of [ ] subject to adjustment in accordance with clause 6.

## 3. **EXERCISE OF THE ORDINARY WARRANTS**

### 3.1 **Exercise by Notice**

- (a) Subject to clause 3.1(b), a Warrant Holder may exercise any or all of its Ordinary Warrants by giving a duly completed Exercise Notice to the Company, at any time during the Exercise Period.
- (b) A Warrant Holder may only give an Exercise Notice in respect of:
  - (i) a minimum of at least 1,000 Ordinary Warrants, except that where a Warrant Holder holds less than 1,000 Ordinary Warrants, an Exercise Notice given by that Warrant Holder must be given in respect of all Ordinary Warrants held by that Warrant Holder;
  - (ii) a multiple of 1,000 Ordinary Warrants or the number which equals the entire holding of Ordinary Warrants of that Warrant Holder.
- (c) The exercise of an Ordinary Warrant does not prevent the Warrant Holder from exercising at any later time any other Ordinary Warrants it may hold.

### 3.2 **Manner of exercise**

- (a) To exercise an Ordinary Warrant, the Warrant Holder must give an Exercise Notice to the Company accompanied by payment in full of the Exercise Price.
- (b) Exercise of an Ordinary Warrant is only effective when the Company receives the Exercise Price in cleared funds.

### 3.3 **Lapse of Ordinary Warrants**

Any Ordinary Warrant in respect of which an Exercise Notice has not been given to the Company during the Exercise Period will automatically lapse on the expiry of the Exercise Period.

#### 4. **ALLOTMENT**

##### 4.1 **Allotment of Shares on exercise of Ordinary Warrants**

- (a) The Company must issue to the Warrant Holder the Shares to be issued on exercise of an Ordinary Warrant by the earlier of:
  - (i) the last Business Day of the month in which the exercise of the Ordinary Warrant becomes effective; or
  - (ii) no later than the 5th Business Day after the Exercise Date.
- (b) The Company must enter the Warrant Holder into the register of members of the Company as the registered holder of the Shares issued on exercise of the Ordinary Warrant.

##### 4.2 **Fractions of Shares**

No fractions of a Share will be issued on the exercise of any Ordinary Warrant and no refund will be made to a Warrant Holder exercising their rights in respect of that part of the Exercise Price which represent such a fraction (if any), provided that if more than one Warrant is exercised at the same time by the same Warrant Holder then, for the purposes of determining the number of Shares to be issued upon the exercise of such Ordinary Warrants and whether (and, if so, what) fraction of Shares arises, the number of Shares arising on the exercise of each Ordinary Warrant is to first be aggregated and if the number of Shares to be issued in aggregate includes a fraction of a Share, the fraction will be rounded-up to the nearest whole number.

##### 4.3 **Ranking**

Shares issued on exercise of an Ordinary Warrant will be fully paid, will rank *pari passu* with existing issued Shares (including in relation to dividend rights) and will be immediately transferable (subject only to the restrictions required or imposed under applicable laws and the Company's constituent or governing documents).

##### 4.4 **Quotation**

The Company will, in accordance with the rules of the Securities Exchange on which it is listed at the time, apply for Shares issued on exercise of an Ordinary Warrant to be listed for quotation on the Securities Exchange and cause to be issued to the Warrant Holder a holding statement (or other applicable documentation) for the Shares issued on exercise of the Ordinary Warrant.

#### 5. **NEW ISSUES OF SHARES**

##### 5.1 **Participation in new issues**

A Warrant Holder does not have a right to participate in new issues of Shares without exercising the Ordinary Warrant and becoming the holder of Shares before the record date for the new issue of Shares.

#### 6. **ADJUSTMENTS**

##### 6.1 **Pro rata issues**

If there is a pro rata issue (except a bonus issue) of Shares during the Exercise Period, the Exercise Price reduces according to the formula in the Listing Rules.

## 6.2 **Bonus issues**

If there is a bonus issue of Shares during the Exercise Period, the number of Shares over which the Ordinary Warrants are exercisable increases by the number of Shares which the Holder would have received if the Ordinary Warrants had been exercised before the record date for the bonus issue.

## 6.3 **Ordinary Warrants to be reorganised on reorganisation of capital**

Subject to clause 6.4:

- (a) in a consolidation of the Shares, the number of Ordinary Warrants must be consolidated in the same ratio as the Shares and the Exercise Price must be amended in inverse proportion to that ratio;
- (b) in a subdivision of the Shares, the number of Ordinary Warrants must be subdivided in the same ratio as the Shares and the Exercise Price must be amended in inverse proportion to that ratio;
- (c) in a return of capital to Shareholders, the number of Ordinary Warrants must remain the same, and the Exercise Price of each Ordinary Warrant must be reduced by the same amount as the amount returned in relation to each Share;
- (d) in a reduction of capital by cancellation of capital paid up on Shares that is lost or not represented by available assets where no Shares are cancelled, the number of Ordinary Warrants and the Exercise Price of each Ordinary Warrant must remain unaltered;
- (e) in a pro rata cancellation of Shares, the number of Ordinary Warrants must be reduced in the same ratio as the Shares and Exercise Price of each Ordinary Warrant must be amended in inverse proportion to that ratio; and
- (f) in any other case where the Shares are reorganised, the number of Ordinary Warrants or the Exercise Price, or both, must be reorganised so that the Warrant Holder will not receive a benefit that holders of Shares do not receive.

## 6.4 **Change in Capital**

- (a) Except where clause 6.3 applies, where there is a Change in Capital and the holder of a Share will be issued or receive shares, stock, securities, other equity interests or assets in respect of that Share (**Substitute Property**) pursuant to that Change in Capital then prior to the consummation of that Change in Capital, the Company must make appropriate provision to ensure that each Ordinary Warrant gives the holder of the Ordinary Warrant the right to acquire and receive the Substitute Property at the Exercise Price in effect immediately prior to such Change in Capital, in lieu of or in addition to (as the case may be) each Share that the Warrant Holder would have received if the Ordinary Warrant had been exercised prior to the record date for that Change in Capital.
- (b) In any such case, the Company must make appropriate provision to ensure that the terms of the Ordinary Warrants shall thereafter be applicable to such Substitute Property.
- (c) The Company must not effect any Change in Capital where the obligations of the Company under the Ordinary Warrants will be assumed by a successor entity, unless prior to such transaction, the successor entity (if other than the Company) resulting from the Change in Capital assumes by written instrument the obligation to deliver to each such Warrant Holder upon exercise of an Ordinary Warrant the

Substitute Property as, in accordance with this clause 6, such Warrant Holder may be entitled to acquire.

#### 6.5 Redomiciling Event

- (a) Where there is a Redomiciling Event and the holder of a Share will be issued or receive Substitute Property pursuant to that Redomiciling Event then prior to the consummation of that Redomiciling Event, the Company must make appropriate provision to ensure that each Ordinary Warrant gives the holder of the Ordinary Warrant the right to acquire and receive the Substitute Property at the Exercise Price in effect immediately prior to such Redomiciling Event, in lieu of or in addition to (as the case may be) each Share that the Warrant Holder would have received if the Ordinary Warrant had been exercised prior to the record date for that Redomiciling Event.
- (b) For any such Redomiciling Event, the Company must make appropriate provision to ensure that the terms of the Ordinary Warrants shall thereafter be applicable to such Substitute Property.
- (c) The Company must not effect any Redomiciling Event where the obligations of the Company under the Ordinary Warrants will be assumed by a successor entity, unless prior to such transaction, the successor entity (if other than the Company) resulting from the Redomiciling Event assumes by written instrument the obligation to deliver to each such Warrant Holder upon exercise of an Ordinary Warrant the Substitute Property as, in accordance with this clause 6, such Warrant Holder may be entitled to acquire.

#### 6.6 Adjustment for Distribution if not listed on ASX

- (a) If, at any time during the Exercise Period, the Company ceases to be admitted to the official list of ASX or is no longer prohibited from effectuating the adjustments set out in this clause 6.6(a), and the Company fixes a record date for the payment of a dividend or the making of any other distribution of:
  - (i) any evidences of its indebtedness, any shares of its capital stock or any other securities or property of any nature whatsoever (including cash); or
  - (ii) any options, warrants or other rights to subscribe for or purchase any evidences of its indebtedness, any shares of its capital stock or any other securities or property of any nature whatsoever,

to the holders of Shares (other than a pro rata issue covered by clause 6.1, a bonus issue covered by clause 6.2 or a corporate action covered by clause 6.3) (collectively, a **Distribution**), then the Exercise Price of the Ordinary Warrant will be adjusted in accordance with the following formula:

$$EP^2 = EP^1 \times \frac{FV - D}{FV}$$

**EP<sup>2</sup>** is the new Exercise Price

**EP<sup>1</sup>** is the Exercise Price in effect immediately prior to the close of trading on the Securities Exchange on which Shares are quoted on the record date for the Distribution

**FV** is the Fair Value of a Share on the last Trading Day immediately preceding the first date on which the Shares trade "ex" Distribution on the Securities Exchange.

**D** is the amount of the cash and/or Fair Value of the securities, evidences of indebtedness, assets, rights or warrants to be distributed in respect of one Share,

and the number of Shares the subject of the Ordinary Warrant will be adjusted in accordance with the following formula:

$$N^2 = N^1 \times \frac{EP^1}{EP^2}$$

**N<sup>2</sup>** is the new number of Shares

**N<sup>1</sup>** is the number of Shares that would have been issued upon the exercise of each Ordinary Warrant immediately prior to the close of trading on the Securities Exchange on which Shares are quoted on the record date for the Distribution

- (b) If the Distribution referred to in clause (a), includes Shares as well as other property, then instead of adjusting for the entire Distribution under clause 6.6(a) the Share portion shall be treated as a bonus issue that triggers an adjustment to the number of Shares obtainable upon exercise of each Ordinary Warrant under clause 6.2 and the other items in the Distribution shall trigger a further adjustment to such adjusted Exercise Price and Shares under clause 6.6(a).

#### 6.7 **Compliance with ASX Listing Rules**

For so long as the Company is admitted to the official list of ASX, each adjustment contemplated by clause 6 is subject to being consistent with the Listing Rules and may be amended to ensure compliance with the Listing Rules.

#### 6.8 **Compliance with rules of an Alternative Exchange**

If the Company is no longer listed on ASX, each adjustment contemplated by clause 6 may be amended by the Company without prior approval of the Warrant Holders but only to the extent necessary and for the sole purpose of ensuring compliance, in the opinion of a law firm recognized in the jurisdiction of such Alternative Exchange in advising on the rules of such Alternative Exchange, with the rules of the Alternative Exchange or any waiver or other relief from compliance with such rules.

### 7. **CHANGE OF CONTROL**

#### 7.1 **Change of Control**

If a Change of Control occurs, the Company must, within 10 Business Days of the Change of Control occurring, cancel each Ordinary Warrant and pay to each Warrant Holder the Warrant Value as of the date the Change of Control occurs.

#### 7.2 **Public Stock Merger**

If a Public Stock Merger occurs the Company shall (as a condition to such Public Stock Merger occurring) procure that the acquirer or the successor entity (if applicable in such Public Stock Merger) shall assume the obligations of the Company under this Deed Poll mutatis mutandis and to the extent applicable, such that each Ordinary Warrant shall give the holder of that Ordinary Warrant the right to subscribe at the Exercise Price for the Public Stock which that Warrant Holder would have received if it had exercised the Ordinary Warrant and held a Share on the record date for the Public Stock Merger.

### 7.3 **Small Public Stock Merger**

Not less than 10 Business Days prior to the effective date of a Small Public Stock Merger, each Warrant Holder may elect by notice delivered to the Company that the Company shall (as a condition to such Small Public Stock Merger occurring) procure that the acquirer or the successor entity (if applicable in such Small Public Stock Merger) assume the obligations of the Company under this Deed Poll mutatis mutandis and to the extent applicable, such that each Ordinary Warrant shall give the holder of that Ordinary Warrant the right to subscribe at the Exercise Price for the Small Public Stock which that Warrant Holder would have received if it had exercised the Warrant and held a Share on the record date for the Small Public Stock Merger. If a Warrant Holder does not make such election in respect of an Ordinary Warrant by notice, then that Ordinary Warrant shall be cancelled and the Company must pay to the holder of that Ordinary Warrant within 10 Business Days prior to or on the effective date of the Small Public Stock Merger, the Warrant Value as at the date of that Small Public Stock Merger.

## 8. **MISCELLANEOUS**

### 8.1 **Governing Law**

The Ordinary Warrants are governed by, and are to be construed in accordance with, the laws of New South Wales or following a Redomiciling Event, the jurisdiction of the place of incorporation or organisation of the Successor Company.

### 8.2 **Notices**

The provisions of the Company's constituent or other governing documents as to notices to shareholders apply mutatis mutandis to notices to Warrant Holders.

### 8.3 **Authorisation**

The Company is entitled to rely on the signatures on any form of transfer and any Exercise Notice, and shall have no duty to verify any signature on such documents.

### 8.4 **Ordinary Warrants not registered under the Securities Act**

The Ordinary Warrants have not been registered with the U.S. Securities and Exchange Commission under the Securities Act or the securities laws of any state or other jurisdiction. Consequently, neither the Ordinary Warrants nor any interest or participation in the Ordinary Warrants, may be offered, sold, assigned, transferred, pledged, encumbered or otherwise disposed of in the U.S. or to a U.S. Person, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state or local securities laws.

### 8.5 **Agreement not to transfer**

If the Company ceases to be admitted to the official list of ASX, a person who acquires an Ordinary Warrant agrees on its own behalf and on behalf of any investor account for which it is acquiring the Ordinary Warrant that until the date that is one year after the later of:

- (a) the date of original issue of that Ordinary Warrant; and
- (b) the last date on which either the Company or any affiliate of the Company was the owner of such Ordinary Warrant (or any predecessor thereto),

(the **Resale Restriction Termination Date**) it will only offer, sell or otherwise transfer such Ordinary Warrant:



- (c) in the United States, to a person that is an institutional "accredited investor" within the meaning of Rule 501(a)(1), (2), (3), (7) or (8) under the Securities Act in a transaction exempt from registration under the Securities Act;
- (d) outside the United States, in an "offshore transaction" in accordance with Rule 904 of Regulation S under the Securities Act;
- (e) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if applicable); or
- (f) pursuant to an effective registration statement under the Securities Act,

in each of cases (c) through (f) in accordance with any applicable securities laws of any state of the United States.

**Executed** as a Deed Poll.

**SIGNED, SEALED** and **DELIVERED** as a deed poll in accordance with section 127 of the *Corporations Act 2001* by **Boart Longyear Limited:**

\_\_\_\_\_  
Director Signature

\_\_\_\_\_  
Director/Secretary Signature

\_\_\_\_\_  
Print Name

\_\_\_\_\_  
Print Name

## Attachment 1

### Warrant Exercise Notice

To: The Company Secretary

#### **Boart Longyear Limited** (the **Company**)

This Notice is given pursuant to clause 3.1 of the deed poll entered into by the Company relating to the Ordinary Warrants to subscribe for Shares dated [\*insert date] (the **Deed Poll**). Terms defined in the Deed Poll have the same meanings when used in this Warrant Exercise Notice.

**TAKE NOTICE** that [\*insert name of Warrant Holder] exercises [\*insert number] Ordinary Warrants in accordance with the Deed Poll.

The undersigned, in order to exercise the Ordinary Warrants, represents, acknowledges and agrees that:

- (a) they are outside the United States (within the meaning of Regulation S under the Securities Act) and will receive the Shares the subject of this Warrant Exercise Notice (the **Subject Shares**) in reliance on Regulation S under the Securities Act; or
- (b) they are an institutional "accredited investor" (as defined in clauses (1), (2), (3), (7) or (8) of Clause (A) of Rule 501 of Regulation D under the Securities Act) and will receive the Subject Shares in reliance on Rule 506(c) of Regulation D under the Securities Act.

The undersigned further represents, acknowledges and agrees that for so long as the Company is admitted to the official list of ASX, they will only offer, sell or otherwise transfer such Subject Shares in the ordinary course of trading on the ASX and neither the seller nor any person acting on its behalf knows, or has reason to know, that the sale has been prearranged with, or the purchaser is, a person in the United States.

The undersigned further represents, acknowledges and agrees that if the Company is not admitted solely to the official list of ASX, for all other offers, sales or transfers other than on the ASX:

- (a) they will only offer, sell or otherwise transfer the Subject Shares prior to the date that is one year after the later of the date of original issue and the last date on which either the Company or any affiliate of the Company was the owner of such Subject Shares (or any predecessor thereto) (the **Resale Restriction Termination Date**):
  - (i) in the United States to a person that is an institutional "accredited investor" in a transaction exempt from registration under the Securities Act;
  - (ii) outside the United States in an "offshore transaction" in accordance with Rule 904 of Regulation S under the Securities Act;
  - (iii) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if applicable); or
  - (iv) pursuant to an effective registration statement under the Securities Act,
 in each of cases (i) through (iv) in accordance with any applicable securities laws of any state of the United States;
- (b) they will, and each subsequent transferee is required to notify any purchaser of the resale restrictions set forth above if any resale or other transfer of the Subject Shares is proposed to be made to an institutional "accredited investor" prior to the Resale Restriction Termination Date pursuant to paragraph (a)(i) above, the transferor shall deliver a letter from the transferee containing substantially, the representations in

paragraphs (a)(i) through to (a)(iv) of this Warrant Exercise Notice, and such letter will also provide, among other things, that the transferee is an institutional "accredited investor" within the meaning of Rule 501(a)(1), (2), (3), (7) or (8) under the Securities Act and that it is acquiring such Shares for investment purposes and not for distribution in violation of the Securities Act;

- (c) the Company has the right prior to the offer, sale or other transfer prior to the Resale Restriction Termination Date of the Subject Shares to require the delivery of an opinion of counsel, certifications or other information satisfactory to the Company.

Dated: [\*insert date]

**SIGNED** for and on behalf of [**\*INSERT  
NAME OF WARRANT HOLDER**] by its  
authorised officer:

---

Authorised Officer's Signature

---

Print Name

**EXHIBIT A**

For the purpose of this Exhibit A:

**"Acquiror"** means (A) the Third Party that has entered into definitive document for a Change of Control transaction, or (B) the offeror in the event of a tender or exchange offer in connection with a Change of Control transaction.

**"Reference Date"** means the date of consummation of a Change of Control.

**"Preliminary Change of Control Event"** means with respect to the Company, the first public announcement that describes the economic terms of a transaction that is intended to result in a Change of Control.

The Warrant Value of the Ordinary Warrants shall be determined using the Black-Scholes Model as applied to third party options (i.e., options issued by a third party that is not affiliated with the issuer of the underlying stock). For purposes of the Black-Scholes Model, the following terms shall have the respective meanings set forth below:

<p><b>Underlying Share Price:</b></p>	<ul style="list-style-type: none"> <li>• In the event of a merger or other acquisition,               <ul style="list-style-type: none"> <li>(A) that is an "all cash" deal, the cash per Share to be paid to the Shareholders in the transaction;</li> <li>(B) that is an "all Public Stock" deal,                   <ul style="list-style-type: none"> <li>(1) that is a "fixed exchange ratio" transaction, a "fixed value" transaction where as a result of a cap, floor, collar or similar mechanism the number of Acquiror's shares to be paid per Share to the Shareholders in the transaction is greater or less than it would otherwise have been or a transaction that is not otherwise described in this clause (B)(1) or clause (B)(2) below, the product of (i) the Fair Market Value of the Acquiror's shares on the day preceding the date of the Preliminary Change of Control Event and (ii) the number of Acquiror's shares per Share to be paid to the Shareholders in the Change of Control transaction (provided that the Independent Expert shall make appropriate adjustments to the Fair Value of the Acquiror's shares referred to above as may be necessary or appropriate to effectuate the intent of this Exhibit A and to avoid unjust or inequitable results as determined in its reasonable good faith judgment, in each case to account for any event impacting the Acquiror's shares that is analogous to any of the events described in clause 6 of this Deed Poll if the record date, ex date or effective date of that event occurs during or after the 10 Trading Day period over which such Fair Value is measured); and</li> <li>(2) that is a "fixed value" transaction not covered by clause (B)(1) above, the value per Share to be paid to the Shareholders in the transaction;</li> </ul> </li> <li>(C) that is a transaction contemplating various</li> </ul> </li> </ul>
---------------------------------------	--

	<p>forms of consideration for each Share,</p> <ol style="list-style-type: none"> <li>(1) the cash portion, if any, shall be valued as described in clause (A) above,</li> <li>(2) the Public Stock portion shall be valued as described in clause (B) above and</li> <li>(3) any other forms of consideration shall be valued by the Independent Expert valuing the Ordinary Warrants, using one or more valuation methods that the Independent Expert in its best professional judgment determines to be most appropriate, assuming such consideration (if securities) is fully distributed and is to be sold in an arm's-length transaction and there was no compulsion on the part of any party to such sale to buy or sell and taking into account all relevant factors and without applying any discounts to such consideration.</li> </ol> <ul style="list-style-type: none"> <li>• In the event of all other Change of Control events, the Fair Value per Share on the last trading day preceding the date of the Change of Control.</li> </ul>
<b>Exercise Price:</b>	The Exercise Price as adjusted and then in effect for the Warrant.
<b>Dividend Rate:</b>	0 (which reflects the fact that the anti-dilution adjustment provisions cover all dividends).
<b>Interest Rate:</b>	The annual yield as of the Reference Date (expressed on a semi-annual basis in the manner in which U.S. treasury notes are ordinarily quoted) of the 7-year U.S. treasury note, or if no such note is on issue, the 10-year U.S. treasury note.
<b>Put or Call:</b>	Call
<b>Time to Expiration</b>	The number of days from end date of the Exercise Period to the Reference Date divided by 365.
<b>Settlement Date:</b>	The scheduled date of payment of the Warrant Value.
<b>Volatility:</b>	For calculation of Warrant Value in connection with a Change of Control with respect to the Ordinary Warrants, 40%; provided, however, that if the Ordinary Warrants are adjusted as a result of a Change of Control, volatility for purposes of calculating Warrant Value in connection with succeeding Change of Control events with respect to such Ordinary Warrants (or their successors) shall be as determined by an Independent Expert engaged to make the calculation, who shall be instructed to assume for purposes of the calculation that such succeeding Change of Control had not occurred.

Such valuation of the Ordinary Warrant shall not be discounted in any way.

For illustrative purposes only, an example Black-Scholes model calculation with respect to a hypothetical Ordinary Warrant appears on the following page.

### Illustrative Example

#### Inputs:

S = Underlying Share Price

X = Exercise Price

PV(X) = Present value of the Exercise Price, discounted at a rate of R =  $X * (e^{-(R * T)})$

V = Volatility

R = continuously compounded risk free rate =  $2 * [ \ln (1 + \text{Interest Rate} / 2) ]$

T = Time to Expiration

W = Ordinary Warrant value per underlying Share

Z = number of Shares underlying Ordinary Warrants

Value = total Ordinary Warrant value

#### Formulaic inputs:

$$D1 = [ \ln [ S / X ] + (R + (V^2 / 2)) * T ] \div (V * \sqrt{T})$$

$$D2 = [ \ln [ S / X ] + (R - (V^2 / 2)) * T ] \div (V * \sqrt{T})$$

#### Black-Scholes Formula

$$W = [N(D1) * S] - [N(D2) * PV(X)]$$

Where "N" is the cumulative normal probability function

$$\text{Value} = W * Z$$

Example of a Hypothetical Ordinary Warrant (assuming V = 25%):<sup>2</sup>

#### Inputs:

Interest Rate = 4.00%

S = \$50.00

X = \$60.00

PV(X) = \$55.43

---

<sup>1</sup> Consider amending hypothetical to reflect V=40.

<sup>2</sup> Note: Amounts calculated herein may not foot due to rounding error. For precise calculations, decimal points should not be rounded.



$$V = 25\%$$

$$R = 3.96\%$$

$$T = 2$$

$$Z = 100$$

Formulaic inputs:

$$\begin{aligned} D1 &= [ \ln [ S / X ] + (R + (V^2 / 2)) * T ] \div (V * \sqrt{T}) \\ &= (-0.1149) \end{aligned}$$

$$\begin{aligned} D2 &= [ \ln [ S / X ] + (R - (V^2 / 2)) * T ] \div (V * \sqrt{T}) \\ &= (-0.4684) \end{aligned}$$

Black-Scholes Formula

$$\begin{aligned} W &= [N(D1) * S] - [N(D2) * PV(X)] \\ &= \$4.99 \end{aligned}$$

Total Ordinary Warrant Value

$$\begin{aligned} \text{Value} &= W * Z \\ &= \$499 \end{aligned}$$

-

**Schedule 2 – Warrant Terms - 7% Warrants**



Agreed form

## 7% Warrant Deed Poll

**Boart Longyear Limited**

ACN 123 052 728

2017

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**THIS Deed Poll** is made on

2017

**BY:**

- (1) **Boart Longyear Limited** ACN 123 052 728 whose registered office is at 26 Butler Boulevard, Burbridge Business Park, Adelaide Airport, South Australia 5950, Australia (the **Company**)

**RECITALS:**

- (A) The Company has determined to create 7% Warrants, exercisable into Shares on the terms and subject to the conditions set out in this Deed Poll.
- (B) The Company enters into this Deed Poll for the benefit of each person who is a Warrant Holder from time to time.

**THE PARTIES AGREE AS FOLLOWS:**

**1. DEFINITIONS AND INTERPRETATION**

**1.1 Definitions**

The following definitions apply unless the context requires otherwise.

**7% Warrant** means an option to subscribe for one Share at the Exercise Price on and subject to the terms and conditions in this Deed Poll.

**7% Warrant Certificate** means a certificate evidencing the Warrant Holder as the registered holder of any one or more 7% Warrants, and substantially in the form set out in Attachment 3.

**Alternative Exchange** means, if the Company is no longer listed on ASX, a national or internationally recognised securities exchange other than ASX on which the Company, or a Successor Company, is listed.

**Ares** means Ares Corporate Opportunities Fund IV, L.P. and Ares Special Situations Fund III, L.P. and Ares SSF Riopelle, L.P. and Ares Strategic Investment Partners Ltd. And Future Fund Board Of Guardians and ASIP (Holdco) IV S.À R.L. and Transatlantic Reinsurance Company and RSUI Indemnity Company and Ares Enhanced Credit Opportunities Fund II, Ltd. and Ares Enhanced Credit Opportunities Fund B, Ltd. and Superannuation Funds Management Corporation Of South Australia and Goldman Sachs Trust II - Goldman Sachs Multi-Manager Alternatives Fund and Aviva Staff Pension Scheme and Kaiser Foundation Hospitals and Kaiser Permanente Group Trust and SEI Global Master Fund Plc - The SEI High Yield Fixed Income Fund and SEI Institutional Investments Trust - High Yield Bond Fund and SEI Institutional Managed Trust - High Yield Bond Fund and Ares Senior Loan Trust and Anthem, Inc. and OPSEU (Ontario Public Service Employees Union) Pension Plan Trust Fund and Renaissance Floating Rate Income Fund and Lloyds Bank Pension Scheme No. 1 and Lloyds Bank Pension Scheme No. 2 and Goldman Sachs Trust II - Goldman Sachs Multi-Manager Non-Core Fixed Income Fund and Ares Institutional Loan Fund B.V. and SEI Institutional Investments Trust - Opportunistic Income Fund and SEI Institutional Managed Trust Enhanced Income Fund.

**Ascribe** means Ascribe II Investments LLC, on behalf of itself and its managed funds that hold Supporting Debt (as that term is defined in the Restructuring Support Agreement).

**ASX** means ASX Limited (ABN 98 008 624 691).

**bonus issue** has the meaning given to the expression in the Listing Rules at the date of this Deed Poll.

**Business Day** means a day, other than Saturday or Sunday, on which banks are open in Sydney and Adelaide.

**Change in Capital** means any recapitalization, reorganization, reclassification, consolidation, merger, sale of all or substantially all of the Company's assets or other transaction, which in each case is effected in such a way that Shares are converted into the right to receive (either directly or upon subsequent liquidation) stock, securities, other equity interests or assets (including cash), but does not include:

- (a) a Redomiciling Event;
- (b) a Change of Control;
- (c) a Public Stock Merger; or
- (d) a Small Public Stock Merger.

**Change of Control** occurs when a Third Party (other than as custodian, nominee or bare trustee):

- (a) acquires an interest in, or a relevant interest in or becomes the holder of, 50% or more of the Shares provided that where a Third Party acquires a relevant interest in 50% or more of the Shares by way of an off market takeover bid in accordance with Chapter 6 of the Corporations Act, the Change of Control will not occur until such time as that bid is declared free from all conditions;
- (b) acquires an interest in all or a substantial part of the assets of the Company;
- (c) otherwise acquires control (within the meaning of section 50AA of the Corporations Act) of the Company; or
- (d) otherwise directly or indirectly acquires, merges or amalgamates with the Company or a substantial part of its assets or business, whether by way of takeover offer, scheme of arrangement, shareholder approval acquisition, capital reduction, share buy-back or repurchase, sale or purchase of assets, joint venture, reverse takeover, dual-listed company structure, recapitalisation, establishment of a new holding company for the Company or other synthetic merger or any other similar transaction or arrangement which for the avoidance of doubt does not include where the Third Party is a new holding company and the shares or common stock in the new holding company are held by the holders of Shares in substantially the same proportion as they hold Shares in the Company immediately before the transaction,

but does not include:

- (a) a Redomiciling Event;
- (b) a Public Stock Merger; or
- (c) a Small Public Stock Merger.

**Company** means:

- (a) Boart Longyear Limited (ACN 123 052 728); or
- (b) if there is a Redomiciling Event, a Successor Company.

**Corporations Act** means the Corporations Act 2001 (Cth).

**Distribution** has the meaning given by clause 6.6.

**Exercise Date** means, in respect of a 7% Warrant, the date on which the exercise of that 7% Warrant becomes effective in accordance with the terms of this Deed Poll.

**Exercise Notice** means a notice substantially in the form set out in Attachment 1.

**Exercise Period** means the period commencing on the date of issue of the 7% Warrants and ending at 5.00pm (Sydney time) on the 7th anniversary of that date.

**Exercise Price** means, in respect of a 7% Warrant, A\$[*insert*] (as adjusted in accordance with clause 6).

**Fair Value** of:

- (a) a Share means on any day:
  - (i) if the Shares are quoted on a Securities Exchange on that day, the VWAP of Shares during the 10 Trading Days ending on, but excluding that day;
  - (ii) if the Shares are not quoted on any Securities Exchange on that day, the fair value as of a date not earlier than 10 Business Days preceding that day as determined by the Independent Expert;
- (b) of cash on any day means the amount of that cash;
- (c) of any other property means on any day, the fair market value of that property as determined by an Independent Expert appointed for such purpose, using one or more valuation methods that the Independent Expert in its best professional judgement determines to be the most appropriate, assuming such property is to be sold in an arm's-length transaction and there was no compulsion on the part of any party to such sale to buy or sell and taking into account all relevant factors

**Independent Expert** means an independent expert selected by the board of the Company with the supporting vote of at least one director nominated by Ares or Ascribe

**Listing Rules** means the official listing rules of ASX as waived or modified by ASX in respect of the Company or the 7% Warrants in any particular case.

**pro rata issue** has the meaning given to that expression in the Listing Rules at the date of this Deed Poll.

**Public Stock** means common stock or shares of a company listed on ASX or an Alternative Exchange with an aggregate market capitalisation in excess of US\$500 million.

**Public Stock Merger** means an event described in any of paragraphs (a) to (d) of the definition of a Change of Control pursuant to which all of the Shares held by shareholders who are not affiliated with the Company or any entity acquiring the Company are exchanged for, converted into or constitute solely (except to the extent of applicable appraisal rights or cash received in lieu of fractional shares) the right to receive as consideration Public Stock.

**Redomiciling Event** means completion of the implementation of the redomiciling of the place of incorporation or organisation of the Company to a jurisdiction outside of Australia.

**relevant interest** has the meaning given to that expression in the Corporations Act at the date of this Deed Poll.

**Representation Letter** means a letter to be delivered with the Exercise Notice where the 7% Warrant is exercised for cash in substantially the form set out in Attachment 2.

**Restructuring Support Agreement** means the agreement of the same name between the Company, Boart Longyear Management Pty Limited (ACN 123 283 545), Ares, Ascribe and others on 3 April 2017.

**Securities Act** means the *U.S. Securities Act of 1933*, as amended.

**Securities Exchange** means:

- (a) for so long as the Company is listed on ASX, ASX; or
- (b) if the Company ceases to be listed on ASX and the Company, or a Successor Company, is listed on an Alternative Exchange, the Alternative Exchange.

**Share** means:

- (a) one (1) fully paid ordinary share in the capital of the Boart Longyear Limited (ACN 123 052 728); or
- (b) if there is a Redomiciling Event, the Substitute Property received in place of one (1) fully paid ordinary share in the capital of Boart Longyear Limited (ACN 123 052 728) as a result of the Redomiciling Event.

**Shareholder** means the registered holder of a Share.

**Small Public Stock** means common stock or shares of a company listed on ASX or an Alternative Exchange with an aggregate market capitalisation less than or equal to US\$500 million.

**Small Public Stock Merger** means an event described in any of clauses (a) to (d) of the definition of Change of Control pursuant to which all of the Shares held by shareholders who are not affiliated with the Company or any entity acquiring the Company are exchanged for, converted into or constitute solely (except to the extent of applicable appraisal rights or cash received in lieu of fractional shares) the right to receive as consideration Small Public Stock.

**Substitute Property** has the meaning given by clause 6.4.

**Successor Company** means, if there is a Redomiciling Event, such other company which becomes the parent company of the corporate group of which the Company is currently the parent company.

**Third Party** means a person other than a person who at the day after the date that the 7% Warrants are issued:

- (a) has an interest in, or a relevant interest in or holds, 20% or more of the Shares; or
- (b) controls (within the meaning of section 50AA of the Corporations Act) the Company.

**Trading Day** means:

- (a) for so long as the Company is listed on ASX, has the meaning given to that term in the Listing Rules; or
- (b) if the Company or a Successor Company is admitted to an Alternative Exchange, means a day on which that Alternative Exchange is open for the trading of Shares.



**VWAP** means, for any period, the arithmetic average (rounded to the nearest cent) of the daily volume weighted average sale price of Shares (rounded to four decimal places) sold on the Securities Exchange on which Shares are quoted during that period excluding any trades the board of the Company, in good faith and acting reasonably, with the supporting vote of at least one director nominated by Ares or Ascribe determines are not fairly reflective of natural supply or demand.

**Warrant Holder** means a person whose name appears in the Warrants Register as the holder of any one or more 7% Warrants from time to time.

**Warrants Register** means the register of 7% Warrants evidencing the Warrant Holder in respect of each 7% Warrant.

**Warrant Value** at any time means the value of the 7% Warrant in cash at that time determined by an Independent Expert using the calculation methods and making the assumptions set out in Exhibit A.

## 1.2 Rules for interpreting this Deed Poll

Headings are for convenience only, and do not affect interpretation. The following rules also apply in interpreting this Deed Poll, except where the context makes it clear that a rule is not intended to apply.

- (a) A reference to:
  - (i) a legislative provision or legislation (including subordinate legislation) is to that provision or legislation as amended, re-enacted or replaced, and includes any subordinate legislation issued under it;
  - (ii) a document (including this Deed Poll) or agreement, or a provision of a document (including this Deed Poll) or agreement, is to that document, agreement or provision as amended, supplemented, replaced or novated;
  - (iii) a party to this Deed Poll or to any other document or agreement includes a successor in title, permitted substitute or a permitted assign of that party;
  - (iv) a person includes any type of entity or body of persons, whether or not it is incorporated or has a separate legal identity, and any executor, administrator or successor in law of the person;
  - (v) anything (including a right, obligation or concept) includes each part of it;
  - (vi) dollars and \$ is to Australian currency; and
  - (vii) time is to the time in Sydney Australia.
- (b) A singular word includes the plural, and vice versa.
- (c) A word which suggests one gender includes the other genders.
- (d) If a word or phrase is defined, any other grammatical form of that word or phrase has a corresponding meaning.
- (e) If an example is given of anything (including a right, obligation or concept), such as by saying it includes something else, the example does not limit the scope of that thing.

### 1.3 Adjustments to VWAP

For the purposes of calculating the VWAP for a period (**Pricing Period**) in this Deed Poll:

- (a) where, on some or all of the Trading Days in the Pricing Period, the Shares have been quoted on the Securities Exchange as cum dividend or cum any other distribution or entitlement and a 7% Warrant will convert:
  - (i) into the Shares after the date those Shares no longer carry that entitlement (**ex date**), then the daily volume weighted average sale price of Shares on the Trading Days on which those Shares have been quoted cum dividend or cum entitlement shall be reduced by an amount (**cum value**) equal to:
    - (A) (in the case of a dividend or other distribution), the amount of that dividend or distribution including, if the dividend is franked the amount that would be included in the assessable income of a recipient of the dividend or distribution who is a natural person under the *Income Tax Assessment Act 1936* or the *Income Tax Assessment Act 1997*, jointly as applicable;
    - (B) (in the case of an entitlement which is traded on a Securities Exchange on any of those Trading Days), the daily volume weighted average sale price of all such entitlements sold on the Securities Exchange during the Pricing Period on the Trading Days on which those entitlements were traded; or
    - (C) (in the case of an entitlement not traded on a Securities Exchange during the Pricing Period), the value of the entitlement as reasonably determined by the board of the Company with the supporting vote of at least one director nominated by Ares or Ascribe; and
- (b) where, on some or all of the Trading Days in the Pricing Period, the Shares have been quoted ex dividend, ex distribution or ex entitlement, and the 7% Warrants will convert into Shares which would be entitled to receive the relevant dividend, distribution or entitlement, then the daily volume weighted average sale price of Shares on the Trading Days on which those Shares have been quoted ex dividend, ex distribution or ex entitlement shall be increased by the cum value.

## 2. TITLE AND RIGHTS

### 2.1 Constitution and Form of 7% Warrants

- (a) The 7% Warrants are issued on the terms and conditions of this Deed Poll, which are binding on the Company in favour of each Warrant Holder and all persons claiming through or under them respectively.
- (b) Each 7% Warrant confers the right (but not the obligation) on the Warrant Holder to subscribe for a Share on the terms and subject to the conditions set out in this Deed Poll.
- (c) The Company undertakes to comply with the terms and conditions of this Deed Poll and specifically, but without limitation, to give effect to the exercise rights in accordance with the terms of this Deed Poll.
- (d) The Company undertakes to provide to each Warrant Holder (upon request by that Warrant Holder) a certified copy of this Deed Poll.

## 2.2 **Benefit and Enforcement**

- (a) This Deed Poll is a deed poll. Each Warrant Holder from time to time has the benefit of this Deed Poll and can enforce it even though they may not be in existence or their name does not appear in the Warrants Register as the holder or any one or more 7% Warrants at the time this Deed Poll is executed.
- (b) A Warrant Holder may enforce its rights under this Deed Poll independently from any other Warrant Holder.
- (c) Each Warrant Holder, and any person claiming through a Warrant Holder, who asserts an interest in a 7% Warrant is bound by this Deed Poll.

## 2.3 **Warrants Register and Warrant Certificates**

- (a) The Company must create and maintain the Warrants Register in accordance with the Corporations Act, and must update the Warrants Register on the exercise or transfer of a 7% Warrant in accordance with this Deed Poll.
- (b) Title to the 7% Warrants passes by registration of a transfer in the Warrants Register.
- (c) The 7% Warrants may be evidenced by 7% Warrant Certificates.

## 2.4 **Subscription Rights**

- (a) Each 7% Warrant gives the holder of that 7% Warrant the right to subscribe for one Share subject to clause 3.4 and subject to adjustment in accordance with clause 6.
- (b) Each 7% Warrant has an Exercise Price of [ ] subject to adjustment in accordance with clause 6.

## 3. **EXERCISE OF THE 7% WARRANTS**

### 3.1 **Exercise by Notice**

- (a) Subject to clause 3.1(b), a Warrant Holder may exercise any or all of its 7% Warrants by giving a duly completed Exercise Notice (accompanied, if 7% Warrant Certificates have been issued, by the 7% Warrant Certificate(s) for the 7% Warrants exercised) and, if the 7% Warrant is exercised for cash, a Representation Letter, to the Company, at any time during the Exercise Period.
- (b) A Warrant Holder may only give an Exercise Notice in respect of:
  - (i) a minimum of at least 1,000 7% Warrants, except that where a Warrant Holder holds less than 1,000 7% Warrants, an Exercise Notice given by that Warrant Holder must be given in respect of all 7% Warrants held by that Warrant Holder;
  - (ii) a multiple of 1,000 7% Warrants or the number which equals the entire holding of 7% Warrants of that Warrant Holder.
- (c) The exercise of a 7% Warrant does not prevent the Warrant Holder from exercising at any later time any other 7% Warrants it may hold.

### 3.2 Manner of exercise

- (a) To exercise a 7% Warrant, the Warrant Holder must give an Exercise Notice to the Company, accompanied by:
  - (i) if 7% Warrant Certificates have been issued, the 7% Warrant Certificate(s) for the 7% Warrants exercised; and
  - (ii) payment in full of the Exercise Price unless the Warrant Holder elects cashless exercise in accordance with clause 3.3.
- (b) Exercise of a 7% Warrant is only effective when the Company receives:
  - (i) if 7% Warrant Certificates have been issued, the 7% Warrant Certificate(s) for the 7% Warrants exercised; and
  - (ii) the Exercise Price in cleared funds unless the Warrant Holder elects cashless exercise in accordance with clause 3.3, in which case, exercise of the 7% Warrant will be effective on receipt by the Company of a duly completed Exercise Notice and, if 7% Warrant Certificates have been issued, the 7% Warrant Certificate(s) for the 7% Warrants exercised.

### 3.3 Option to elect cashless exercise

If the Fair Value of a Share exceeds the Exercise Price of a 7% Warrant on the day a Warrant Holder gives the Company an Exercise Notice for that 7% Warrant, the Warrant Holder may elect cashless exercise in respect of that 7% Warrant in the Exercise Notice.

### 3.4 Consequences of cashless exercise

If a Warrant Holder elects cashless exercise of a 7% Warrant pursuant to clause 3.3 then:

- (a) the Warrant Holder is not required to pay to the Company the Exercise Price for that 7% Warrant; and
- (b) the net number of Shares to be issued on exercise of that 7% Warrant, subject to clause 4.2, will be calculated using the following formula:

$$N = \frac{(A - B)}{A}$$

Where:

N = the net number of Shares to be issued on exercise of the 7% Warrant which number can be a fraction of a Share

A = the Fair Value of a Share as at the Exercise Date

B = the Exercise Price for the 7% Warrant as at the Exercise Date]

### 3.5 Lapse of 7% Warrants

Any 7% Warrant in respect of which an Exercise Notice has not been given to the Company during the Exercise Period will automatically lapse on the expiry of the Exercise Period.

#### 4. **ALLOTMENT**

##### 4.1 **Allotment of Shares on exercise of 7% Warrants**

- (a) The Company must issue to the Warrant Holder the Shares to be issued on exercise of a 7% Warrant no later than the 5th Business Day after the Exercise Date.
- (b) The Company must enter the Warrant Holder into the register of members of the Company as the registered holder of the Shares issued on exercise of the 7% Warrant.
- (c) If a Warrant Holder exercises only part of its holding of 7% Warrants and 7% Warrant Certificates have been issued, , the Company shall issue to the Warrant Holder a new 7% Warrant Certificate in respect of the remaining 7% Warrants.

##### 4.2 **Fractions of Shares**

No fractions of a Share will be issued on the exercise of any 7% Warrant including on cashless exercise in accordance with clause 3.3 and no refund will be made to a Warrant Holder exercising their rights in respect of that part of the Exercise Price which represent such a fraction (if any), provided that if more than one 7% Warrant is exercised at the same time by the same Warrant Holder then, for the purposes of determining the number of Shares to be issued upon the exercise of such 7% Warrants including in the case of cashless exercise in accordance with clause 3.3 and whether (and, if so, what) fraction of Shares arises, the number of Shares arising on the exercise of each 7% Warrant is to first be aggregated and if the number of Shares to be issued in aggregate includes a fraction of a Share, the fraction will be rounded-up to the nearest whole number.

##### 4.3 **Ranking**

Shares issued on exercise of a 7% Warrant will be fully paid, will rank pari passu with existing issued Shares (including in relation to dividend rights) and will be immediately transferable (subject only to the restrictions required or imposed under applicable laws and the Company's constituent or governing documents).

##### 4.4 **Quotation**

The Company will, in accordance with the rules of the Securities Exchange on which it is listed at the time, apply for Shares issued on exercise of a 7% Warrant to be listed for quotation on the Securities Exchange and cause to be issued to the Warrant Holder a holding statement (or other applicable documentation) for the Shares issued on exercise of the 7% Warrant.

#### 5. **NEW ISSUES OF SHARES**

##### 5.1 **Participation in new issues**

A Warrant Holder does not have a right to participate in new issues of Shares without exercising the 7% Warrant and becoming the holder of Shares before the record date for the new issue of Shares.

#### 6. **ADJUSTMENTS**

##### 6.1 **Pro rata issues**

If there is a pro rata issue (except a bonus issue) of Shares during the Exercise Period, the Exercise Price reduces according to the formula in the Listing Rules.

## 6.2 **Bonus issues**

If there is a bonus issue of Shares during the Exercise Period, the number of Shares over which the 7% Warrants are exercisable increases by the number of Shares which the Holder would have received if the 7% Warrants had been exercised before the record date for the bonus issue.

## 6.3 **7% Warrants to be reorganised on reorganisation of capital**

Subject to clause 6.4:

- (a) in a consolidation of the Shares, the number of 7% Warrants must be consolidated in the same ratio as the Shares and the Exercise Price must be amended in inverse proportion to that ratio;
- (b) in a subdivision of the Shares, the number of 7% Warrants must be sub-divided in the same ratio as the Shares and the Exercise Price must be amended in inverse proportion to that ratio;
- (c) in a return of capital to Shareholders, the number of 7% Warrants must remain the same, and the Exercise Price of each 7% Warrant must be reduced by the same amount as the amount returned in relation to each Share;
- (d) in a reduction of capital by cancellation of capital paid up on Shares that is lost or not represented by available assets where no Shares are cancelled, the number of 7% Warrants and the Exercise Price of each 7% Warrant must remain unaltered;
- (e) in a pro rata cancellation of Shares, the number of 7% Warrants must be reduced in the same ratio as the Shares and Exercise Price of each 7% Warrant must be amended in inverse proportion to that ratio; and
- (f) in any other case where the Shares are reorganised, the number of 7% Warrants or the Exercise Price, or both, must be reorganised so that the Warrant Holder will not receive a benefit that holders of Shares do not receive.

## 6.4 **Change in Capital**

- (a) Except where clause 6.3 applies, where there is a Change in Capital and the holder of a Share will be issued or receive shares, stock, securities, other equity interests or assets in respect of that Share (**Substitute Property**) pursuant to that Change in Capital then prior to the consummation of that Change in Capital, the Company must make appropriate provision to ensure that each 7% Warrant gives the holder of the 7% Warrant the right to acquire and receive the Substitute Property at the Exercise Price in effect immediately prior to such Change in Capital, in lieu of or in addition to (as the case may be) each Share that the Warrant Holder would have received if the 7% Warrant had been exercised prior to the record date for that Change in Capital.
- (b) In any such case, the Company must make appropriate provision to ensure that the terms of the 7% Warrants shall thereafter be applicable to such Substitute Property.
- (c) The Company must not effect any Change in Capital where the obligations of the Company under the 7% Warrants will be assumed by a successor entity, unless prior to such transaction, the successor entity (if other than the Company) resulting from the Change in Capital assumes by written instrument the obligation to deliver to each such Warrant Holder upon exercise of a 7% Warrant the Substitute Property as, in accordance with this clause 6, such Warrant Holder may be entitled to acquire.

## 6.5 Redomiciling Event

- (a) Where there is a Redomiciling Event and the holder of a Share will be issued or receive Substitute Property pursuant to that Redomiciling Event then prior to the consummation of that Redomiciling Event, the Company must make appropriate provision to ensure that each 7% Warrant gives the holder of the 7% Warrant the right to acquire and receive the Substitute Property at the Exercise Price in effect immediately prior to such Redomiciling Event, in lieu of or in addition to (as the case may be) each Share that the Warrant Holder would have received if the 7% Warrant had been exercised prior to the record date for that Redomiciling Event.
- (b) For any such Redomiciling Event, the Company must make appropriate provision to ensure that the terms of the 7% Warrants shall thereafter be applicable to such Substitute Property.
- (c) The Company must not effect any Redomiciling Event where the obligations of the Company under the 7% Warrants will be assumed by a successor entity, unless prior to such transaction, the successor entity (if other than the Company) resulting from the Redomiciling Event assumes by written instrument the obligation to deliver to each such Warrant Holder upon exercise of a 7% Warrant the Substitute Property as, in accordance with this clause 6, such Warrant Holder may be entitled to acquire.

## 6.6 Undertaking not to make a Distribution whilst listed on ASX

- (a) For so long as the Company is admitted to the official list of ASX or is otherwise prohibited by contract to which the Company is a party to or to which it is bound, the terms of its constituent documents, applicable law, regulation, Listing Rule or any listing rule of any Alternative Exchange in any way from effectuating the adjustments set forth in clause 6.7 (collectively, a **Distribution Anti-Dilution Prohibition**), the Company must not during the Exercise Period fix a record date for the payment of a dividend or the making of any other distribution of:
  - (i) any evidences of its indebtedness, any shares of its capital stock or any other securities or property of any nature whatsoever (including cash); or
  - (ii) any options, warrants or other rights to subscribe for or purchase any evidences of its indebtedness, any shares of its capital stock or any other securities or property of any nature whatsoever,

to the holders of Shares (other than a pro rata issue covered by clause 6.1, a bonus issue covered by clause 6.2 or a corporate action covered by clause 6.3) (collectively, a **Distribution**), unless such Distribution is consented to in writing by Warrant Holders holding more than 50% of the total number of 7% Warrants outstanding on the record date for the payment of the Distribution.
- (b) During the Exercise Period, the Company shall not take any action to subject itself to a Distribution Anti-Dilution Prohibition.

## 6.7 Adjustment for Distribution if not listed on ASX

- (a) If, at any time during the Exercise Period, the Company ceases to be subject to a Distribution Anti-Dilution Prohibition, and the Company fixes a record date for the payment of a Distribution, then the Exercise Price of the 7% Warrant will be adjusted in accordance with the following formula:

$$EP^2 = EP^1 \times \frac{FV - D}{FV}$$

**EP<sup>2</sup>** is the new Exercise Price

**EP<sup>1</sup>** is the Exercise Price in effect immediately prior to the close of trading on the Securities Exchange on which Shares are quoted on the record date for the Distribution

**FV** is the Fair Value of a Share on the last Trading Day immediately preceding the first date on which the Shares trade "ex" Distribution on the Securities Exchange.

**D** is the amount of the cash and/or Fair Value of the securities, evidences of indebtedness, assets, rights or warrants to be distributed in respect of one Share,

and the number of Shares the subject of the 7% Warrant will be adjusted in accordance with the following formula:

$$N^2 = N^1 \times \frac{EP^1}{EP^2}$$

**N<sup>2</sup>** is the new number of Shares

**N<sup>1</sup>** is the number of Shares that would have been issued upon the exercise of each 7% Warrant immediately prior to the close of trading on the Securities Exchange on which Shares are quoted on the record date for the Distribution

- (b) If the Distribution referred to in clause (a), includes Shares as well as other property, then instead of adjusting for the entire Distribution under clause 6.7(a) the Share portion shall be treated as a bonus issue that triggers an adjustment to the number of Shares obtainable upon exercise of each 7% Warrant under clause 6.2 and the other items in the Distribution shall trigger a further adjustment to such adjusted Exercise Price and Shares under clause 6.7(a).

## 6.8 Compliance with Listing Rules

For so long as the Company is admitted to the official list of ASX, each adjustment contemplated by clause 6 is subject to being consistent with the Listing Rules and may be amended to ensure compliance with the Listing Rules.

## 6.9 Compliance with rules of an Alternative Exchange

If the Company is no longer listed on ASX, each adjustment contemplated by clause 6 may be amended by the Company without prior approval of the Warrant Holders but only to the extent necessary and for the sole purpose of ensuring compliance, in the opinion of a law firm recognized in the jurisdiction of such Alternative Exchange in advising on the rules of such Alternative Exchange, with the rules of the Alternative Exchange or any waiver or other relief from compliance with such rules.

## 7. CHANGE OF CONTROL

### 7.1 Change of Control

If a Change of Control occurs, the Company must, within 10 Business Days of the Change of Control occurring, cancel each 7% Warrant and pay to each Warrant Holder the Warrant Value as of the date the Change of Control occurs.

### 7.2 Public Stock Merger

If a Public Stock Merger occurs the Company shall (as a condition to such Public Stock Merger occurring) procure that the acquirer or the successor entity (if applicable in such



Public Stock Merger) shall assume the obligations of the Company under this Deed Poll mutatis mutandis and to the extent applicable, such that each 7% Warrant shall give the holder of that 7 %Warrant the right to subscribe at the Exercise Price for the Public Stock which that Warrant Holder would have received if it had exercised the 7% Warrant and held a Share on the record date for the Public Stock Merger.

### 7.3 **Small Public Stock Merger**

Not less than 10 Business Days prior to the effective date of a Small Public Stock Merger, each Warrant Holder may elect by notice delivered to the Company that the Company shall (as a condition to such Small Public Stock Merger occurring) procure that the acquirer or the successor entity (if applicable in such Small Public Stock Merger) assume the obligations of the Company under this Deed Poll mutatis mutandis and to the extent applicable, such that each 7% Warrant shall give the holder of that 7% Warrant the right to subscribe at the Exercise Price for the Small Public Stock which that Warrant Holder would have received if it had exercised the 7% Warrant and held a Share on the record date for the Small Public Stock Merger. If a Warrant Holder does not make such election in respect of a 7% Warrant by notice, then that 7% Warrant shall be cancelled and the Company must pay to the holder of that 7% Warrant within 10 Business Days prior to or on the effective date of the Small Public Stock Merger, the Warrant Value as at the date of that Small Public Stock Merger.

## 8. **MISCELLANEOUS**

### 8.1 **Governing Law**

The 7% Warrants are governed by, and are to be construed in accordance with, the laws of New South Wales or, following a Redomiciling Event, the jurisdiction of the place of incorporation or organisation of the Successor Company.

### 8.2 **Notices**

The provisions of the Company's constituent or other governing documents as to notices to shareholders apply mutatis mutandis to notices to Warrant Holders.

### 8.3 **Authorisation**

The Company is entitled to rely on the signatures on any form of transfer and any Exercise Notice, and shall have no duty to verify any signature on such documents.

### 8.4 **7% Warrants not registered under the Securities Act**

The 7% Warrants have not been registered with the U.S. Securities and Exchange Commission under the Securities Act or the securities laws of any state or other jurisdiction. Consequently, neither the 7% Warrants nor any interest or participation in the 7% Warrants, may be offered, sold, assigned, transferred, pledged, encumbered or otherwise disposed of in the U.S. or to a U.S. Person, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state or local securities laws.

### 8.5 **Replacement 7% Warrant Certificates**

If a 7% Warrant Certificate is lost, stolen, worn out, defaced or destroyed, it may be renewed on such terms as to evidence, identity, indemnity and expense incurred by the Company in investigating or verifying title as the directors of the Company may reasonably think fit, provided that in the case of defacement or being worn out the 7% Warrant Certificate must be surrendered before a new 7% Warrant Certificate is issued.

**9. TRANSFER OF 7% WARRANTS**

**9.1 Transfer by the Warrant Holder**

- (a) Subject to clause 8.4, 7% Warrants may only be transferred in lots of not less than 100,000 7% Warrants (except in the case of a transfer by a Warrant Holder of all 7% Warrants held by that Warrant Holder or as otherwise permitted by the Company in its discretion) and otherwise in accordance with this Deed Poll and all applicable laws and regulations of each relevant jurisdiction.
- (b) Subject to compliance with this Deed Poll, 7% Warrants are transferable without the prior written consent of the Company.

**9.2 Effecting a transfer**

Any transfer of a 7% Warrant pursuant to clause 9.1 may be effected upon the delivery to the Company of the 7% Warrant Certificate, if any, in respect of the 7% Warrants transferred together with a duly executed instrument of transfer in any usual or common form or such other form approved by the Company, and at which time the Company will reflect the transfer in the Warrants Register and, if 7% Warrant Certificates have been issued, issue a new 7% Warrant Certificate in respect of the 7% Warrants in the name of the transferee (and, if applicable, in the name of the transferor if the transferor will retain 7% Warrants in its own name) in accordance with clause 2.3.

**Executed** as a Deed Poll.

**SIGNED, SEALED** and **DELIVERED** as a deed poll in accordance with section 127 of the *Corporations Act 2001* by **Boart Longyear Limited:**

\_\_\_\_\_  
Director Signature

\_\_\_\_\_  
Director/Secretary Signature

\_\_\_\_\_  
Print Name

\_\_\_\_\_  
Print Name

**Attachment 1****7% Warrant Exercise Notice**

To: The Company Secretary

**Boart Longyear Limited** (the **Company**)

This Notice is given pursuant to clause 3.1 of the deed poll entered into by the Company relating to the 7% Warrants to subscribe for Shares dated [\*insert date] (the **Deed Poll**). Terms defined in the Deed Poll have the same meanings when used in this Warrant Exercise Notice.

**TAKE NOTICE** that [\*insert name of Warrant Holder] exercises [\*insert number] 7% Warrants in accordance with the Deed Poll.

The exercise of [\*insert number] 7% Warrants is on a [cash]/[cashless] basis.

If the exercise is on a cash basis, the undersigned also confirms the representations, warranties and undertakings in the accompanying Representation Letter.

Dated: [\*insert date]

**SIGNED** for and on behalf of [**\*INSERT NAME OF WARRANT HOLDER**] by its authorised officer:

\_\_\_\_\_  
Authorised Officer's Signature

\_\_\_\_\_  
Print Name

**Attachment 2****Form of Representation Letter****LETTER OF REPRESENTATION**

Ladies and Gentlemen:

This letter is delivered to the Company Secretary of Boart Longyear Limited (the "Company") in connection with the Shares to be issued by the Company as a result of the exercise for cash of the 7% Warrant that is the subject of the Warrant Exercise Notice delivered at the same time as this letter. The undersigned represents and warrants to you that:

1. We are either (a) an institutional "accredited investor" (as defined in Rule 501(a)(1), (2), (3), (7) or (8) under the U.S. Securities Act of 1933, as amended (the "Securities Act")) and will receive the Shares the subject of the Warrant Exercise Notice in reliance on Rule 506(c) of Regulation D, or (b) outside the United States and will receive the Shares the subject of the Warrant Exercise Notice in and "offshore transaction" in reliance on Regulation S under the Securities Act.
2. We are acquiring the Shares not with a view to, or for offer or sale in connection with, any distribution in violation of the Securities Act. We have such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of our investment in the Shares, and we invest in or purchase securities similar to the Shares in the normal course of our business. We, and any accounts for which we are acting, each understand and are each able to bear the economic risk of our or its investment (including the necessity of holding such shares for an indefinite period of time).
3. We understand and acknowledge that the Shares issuable upon the exercise of the 7% Warrants the subject of the Warrant Exercise Notice being delivered in connection with this letter have not been registered under the Securities Act and, unless so registered, may not be sold, offered or transferred, directly or indirectly, except as permitted in accordance with paragraph 4 below.
4. We agree on our own behalf and on behalf of any investor account for which we are purchasing Shares to offer, sell or otherwise transfer such Shares prior to the date that is one year after the later of the date of original issue and the last date on which either the Company or any affiliate of the Company was the owner of such Shares (or any predecessor thereto) (the "Resale Restriction Termination Date") only (a) in the United States to a person that is an institutional "accredited investor" within the meaning of Rule 501(a)(1), (2), (3), (7) or (8) under the Securities Act in a transaction exempt from registration under the Securities Act, (b) outside the United States in an "offshore transaction" in accordance with Rule 904 of Regulation S under the Securities Act, (c) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if applicable) or (d) pursuant to an effective registration statement under the Securities Act, in each of cases (a) through (d) in accordance with any applicable securities laws of any state of the United States.
5. If at any time an offer, sale, or transfer of Shares is made other than in the ordinary course on ASX where the seller has no reason to know the sale has been prearranged with a person in the United States or a U.S. Person, we will, and each subsequent holder is required to, notify any purchaser of the Shares evidenced hereby of the resale restrictions set forth above. The foregoing restrictions on resale will not apply subsequent to the Resale Restriction Termination Date. If any resale or other transfer of the Shares is

proposed to be made to an institutional "accredited investor" prior to the Resale Restriction Termination Date, the transferor shall deliver a letter from the transferee substantially in the form of this letter to the Company, which shall provide, among other things, that the transferee is an institutional "accredited investor" within the meaning of Rule 501(a)(1), (2), (3), (7) or (8) under the Securities Act and that it is acquiring such Shares for investment purposes and not for distribution in violation of the Securities Act. Each purchaser acknowledges that the Company reserves the right prior to the offer, sale or other transfer prior to the Resale Restriction Termination Date of the Shares pursuant to Section 4 above to require the delivery of an opinion of counsel, certifications or other information satisfactory to the Company.

6. We acknowledge that you, the Company and others will rely upon our acknowledgments, representations and agreements set forth herein, and we agree to notify you promptly in writing if any of our acknowledgements, representations and agreements herein cease to be accurate and complete.

Terms not defined herein are defined in the Warrant Deed Poll dated [●] 2017.

Dated: [●]

[Insert name of Purchaser]

By: \_\_\_\_\_  
 Name:  
 Title:

[Insert name of Purchaser]

By: \_\_\_\_\_  
 Name:  
 Title:

**Attachment 3**  
**7% Warrant Certificate**

**Boart Longyear Limited (the Company)**  
**7% Warrant Certificate**

Certificate No.: [\*insert number]  
Date of issue: [\*insert date]  
Name and address of Warrant Holder: [\*insert number]  
Number of 7% Warrants: [\*insert number]

THIS IS TO CERTIFY THAT [\*insert name] of [\*insert address] is/are the registered holder(s) of the above number of 7% Warrants, which 7% Warrants are issued pursuant to the 7% Warrant Deed Poll dated [\*insert date] executed by the Company (**Deed Poll**). Terms defined in the Deed Poll have the same meaning when used in this 7% Warrant Certificate.

Dated: [\*insert date]

**EXECUTED by Boart Longyear Limited:**

\_\_\_\_\_  
Director Signature

\_\_\_\_\_  
Director/Secretary Signature

\_\_\_\_\_  
Print Name

\_\_\_\_\_  
Print Name

## EXHIBIT A

For the purpose of this Exhibit A:

**"Acquiror"** means (A) the Third Party that has entered into definitive document for a Change of Control transaction, or (B) the offeror in the event of a tender or exchange offer in connection with a Change of Control transaction.

**"Reference Date"** means the date of consummation of a Change of Control.

**"Preliminary Change of Control Event"** means with respect to the Company, the first public announcement that describes the economic terms of a transaction that is intended to result in a Change of Control.

The Warrant Value of the 7% Warrants shall be determined using the Black-Scholes Model as applied to third party options (i.e., options issued by a third party that is not affiliated with the issuer of the underlying stock). For purposes of the Black-Scholes Model, the following terms shall have the respective meanings set forth below:

**Underlying Share Price:**

- In the event of a merger or other acquisition,
  - (A) that is an "all cash" deal, the cash per Share to be paid to the Shareholders in the transaction;
  - (B) that is an "all Public Stock" deal,
    - (1) that is a "fixed exchange ratio" transaction, a "fixed value" transaction where as a result of a cap, floor, collar or similar mechanism the number of Acquiror's shares to be paid per Share to the Shareholders in the transaction is greater or less than it would otherwise have been or a transaction that is not otherwise described in this clause (B)(1) or clause (B)(2) below, the product of (i) the Fair Market Value of the Acquiror's shares on the day preceding the date of the Preliminary Change of Control Event and (ii) the number of Acquiror's shares per Share to be paid to the Shareholders in the Change of Control transaction (provided that the Independent Expert shall make appropriate adjustments to the Fair Value of the Acquiror's shares referred to above as may be necessary or appropriate to effectuate the intent of this Exhibit A and to avoid unjust or inequitable results as determined in its reasonable good faith judgment, in each case to account for any event impacting the Acquiror's shares that is analogous to any of the events described in clause 6 of this Deed Poll if the record date, ex date or effective date of that event occurs during or after the 10 Trading Day period over which such Fair Value is measured); and
    - (2) that is a "fixed value" transaction not covered by clause (B)(1) above, the value per Share to be paid to the Shareholders in the transaction;
  - (C) that is a transaction contemplating various forms of consideration for each Share,
    - (1) the cash portion, if any, shall be valued as described in clause (A) above,



(2) the Public Stock portion shall be valued as described in clause (B) above and

(3) any other forms of consideration shall be valued by the Independent Expert valuing the 7% Warrants, using one or more valuation methods that the Independent Expert in its best professional judgment determines to be most appropriate, assuming such consideration (if securities) is fully distributed and is to be sold in an arm's-length transaction and there was no compulsion on the part of any party to such sale to buy or sell and taking into account all relevant factors and without applying any discounts to such consideration.

- In the event of all other Change of Control events, the Fair Value per Share on the last trading day preceding the date of the Change of Control.

<b>Exercise Price:</b>	The Exercise Price as adjusted and then in effect for the 7% Warrant.
<b>Dividend Rate:</b>	0 (which reflects the fact that the anti-dilution adjustment provisions cover all dividends).
<b>Interest Rate:</b>	The annual yield as of the Reference Date (expressed on a semi-annual basis in the manner in which U.S. treasury notes are ordinarily quoted) of the 7-year U.S. treasury note, or if no such note is on issue, the 10-year U.S. treasury note.
<b>Put or Call:</b>	Call
<b>Time to Expiration</b>	The number of days from end date of the Exercise Period to the Reference Date divided by 365.
<b>Settlement Date:</b>	The scheduled date of payment of the Warrant Value.
<b>Volatility:</b>	For calculation of Warrant Value in connection with a Change of Control with respect to the 7% Warrants, 40%; provided, however, that if the 7% Warrants are adjusted as a result of a Change of Control, volatility for purposes of calculating Warrant Value in connection with succeeding Change of Control events with respect to such 7% Warrants (or their successors) shall be as determined by an Independent Expert engaged to make the calculation, who shall be instructed to assume for purposes of the calculation that such succeeding Change of Control had not occurred.

Such valuation of the 7% Warrant shall not be discounted in any way.

For illustrative purposes only, an example Black-Scholes model calculation with respect to a hypothetical Warrant appears on the following page.

### Illustrative Example

#### Inputs:

S = Underlying Share Price

X = Exercise Price

PV(X) = Present value of the Exercise Price, discounted at a rate of R =  $X * (e^{-(R * T)})$

V = Volatility

R = continuously compounded risk free rate =  $2 * [ \ln (1 + \text{Interest Rate} / 2) ]$

T = Time to Expiration

W = Warrant value per underlying Share

Z = number of Shares underlying 7% Warrants

Value = total Warrant value

#### Formulaic inputs:

$$D1 = [ \ln [ S / X ] + (R + (V^2 / 2)) * T ] \div (V * \sqrt{T})$$

$$D2 = [ \ln [ S / X ] + (R - (V^2 / 2)) * T ] \div (V * \sqrt{T})$$

#### Black-Scholes Formula

$$W = [N(D1) * S] - [N(D2) * PV(X)]$$

Where "N" is the cumulative normal probability function

$$\text{Value} = W * Z$$

Example of a Hypothetical Warrant (assuming V = 25%):<sup>2</sup>

#### Inputs:

Interest Rate = 4.00%

S = \$50.00

X = \$60.00

PV(X) = \$55.43

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<sup>1</sup> Consider amending hypothetical to reflect V=40.

<sup>2</sup> Note: Amounts calculated herein may not foot due to rounding error. For precise calculations, decimal points should not be rounded.

$$V = 25\%$$

$$R = 3.96\%$$

$$T = 2$$

$$Z = 100$$

Formulaic inputs:

$$\begin{aligned} D1 &= [ \ln [ S / X ] + (R + (V^2 / 2)) * T ] \div (V * \sqrt{T}) \\ &= (-0.1149) \end{aligned}$$

$$\begin{aligned} D2 &= [ \ln [ S / X ] + (R - (V^2 / 2)) * T ] \div (V * \sqrt{T}) \\ &= (-0.4684) \end{aligned}$$

Black-Scholes Formula

$$\begin{aligned} W &= [N(D1) * S] - [N(D2) * PV(X)] \\ &= \$4.99 \end{aligned}$$

Total Warrant Value

$$\begin{aligned} \text{Value} &= W * Z \\ &= \$499 \end{aligned}$$

-

### Schedule 3 – ASX Waiver –Second-Out ABL

#### ***“DECISION***

1. *Based solely on the information provided, ASX Limited grants (“ASX”) Boart Longyear Limited (the “Company”) a waiver from Listing Rule 10.1 to the extent necessary to permit the Company and its subsidiaries to grant security over its assets in favour of Centerbridge Partners, L.P. (“Centerbridge”), Ares Management (“Ares”) and Ascribe Capital (“Ascribe”) or any of their affiliate or associates (collectively, the “Lenders”) (“Security”), to secure the Company’s obligations under a new term loan facility (“New Loan”), pursuant to which the Lenders will provide the Company with debt up to a maximum of US\$15 million without obtaining shareholder approval, on the following conditions.*
  - 1.1. *The Security includes a term that if an event of default occurs and the Lenders, or any of their associates, exercises their rights under the Security, neither the Lenders nor any of their associates can acquire any legal or beneficial interest in an asset of the Company in full or part satisfaction of the Company's obligations under the New Loan or the Security, or otherwise deal with the assets of the Company, without the Company first having complied with any applicable listing rules, including listing rule 10.1, other than as required by law or through a receiver, or receiver and manager (or any other person acting on behalf of the Lenders) appointed by the Lenders exercising its power of sale under the New Loan or the Security and selling the assets to an unrelated third party on arm's length commercial terms and conditions and distributing the cash proceeds to the Lenders in accordance with its legal entitlements.*
  - 1.2. *A summary of the material terms of the New Loan and the Security is made in each annual report of the Company during the term of the New Loan and the Security.*
  - 1.3. *Any variations to the terms of the New Loan or the Security which is:*
    - 1.3.1. *not a minor change; or*
    - 1.3.2. *inconsistent with the terms of the waiver,**must be subject to shareholder approval.*
  - 1.4. *The Company must seek to discharge the Security when the funds advanced under the New Loan are repaid, or if it is not discharged, seek shareholder approval for the continuation of the Security for any further loan amount.*
  - 1.5. *The Company immediately releases to the market an announcement which sets out the terms of the waiver.*
  - 1.6. *ASX has considered listing rule 10.1 only and makes no statement as to the Company’s compliance with other listing rules.”*

## Annexure A – Independent Expert's Report



### KPMG Corporate Finance

A division of KPMG Financial Advisory Services  
(Australia) Pty Ltd  
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www.kpmg.com.au

The Directors  
Boart Longyear Limited  
26 Butler Boulevard  
Burbridge Business Park  
Adelaide Airport SA 5950

9 May 2017

Dear Directors

## PART ONE –INDEPENDENT EXPERT’S REPORT

### 1 Introduction

On 3 April 2017 (Announcement Date), Boart Longyear Limited (Boart Longyear or the Company) announced it had entered into a restructuring support agreement (RSA) with its key creditors (the Recapitalisation). The Recapitalisation is intended to provide a more sustainable capital structure for Boart Longyear through reducing existing debt and interest costs, improving liquidity and extending debt maturities. As a consequence of the Recapitalisation all existing shareholders other than Centerbridge Partners, L.P. (Centerbridge), Ares Management, LLC, on behalf of its affiliated funds and accounts (Ares) and Ascribe II Investments LLC on behalf of itself and its managed funds (Ascribe) (Non-associated Shareholders) will be materially diluted. After the Recapitalisation, due to the steps involved as explained below, affiliates of Centerbridge, Ares and Ascribe who currently collectively represent over 75% of its secured lenders and 90% of its unsecured lenders, respectively, will collectively hold 93.2% of the ordinary shares of the company (pre-warrant dilution).

The Recapitalisation involves the following:

- **Deleveraging:** Current outstanding debt will be permanently reduced by exchanging US\$196 million<sup>1</sup> in principal of 7% Senior Unsecured Notes plus accrued interest for 42% of the Company’s ordinary equity post-Recapitalisation before the issue of warrants (Equitisation). The remaining principal of US\$88 million of the Senior Unsecured Notes plus accrued interest to the date of the implementation of the Recapitalisation (Implementation Date), calculated at 1.5% on US\$88 million from 1 January

<sup>1</sup> All currency amounts in this report are denominated in US\$ unless otherwise stated.

2017 to the Implementation Date, will be reinstated with an interest rate of 1.5% payable in kind (PIK) applied retroactively beginning 1 January 2017

- **New Working Capital Facility:** A new US\$75 million asset backed loan (ABL) facility fully backstopped by lenders affiliated with Centerbridge, Ares and Ascribe, to the extent not provided by a third party lender, replaces the existing ABL facility and additional short-term, more expansive facilities while the Recapitalisation is being completed and provides the Company with US\$35 million of additional capacity under the ABL
- **Extension of Debt Maturities:** The maturities on the Term Loan A, Term Loan B, the 10% Senior Secured Notes and the 7% Senior Unsecured Notes will be extended until 31 December 2022
- **Adjustment to Interest Rates and Payments:** At the Company's option, interest payments on all debt facilities (excluding the ABL revolver) may be capitalised and deferred, rather than having to make cash payments until December 2018. The maturities of Term Loan A and B will be extended to 31 December 2022 and amendments to the call schedule will allow the Company to repay Term Loans A and B after December 2018 without a penalty (Initial Term Loan Amendments). The paid-in-kind interest rates on Term Loan A and Term Loan B will be reduced from 12% to 10% per annum (retroactive to 1 January 2017) through the end of 2018 and 8% thereafter (Subsequent Term Loan Amendments). The Company and Centerbridge will enter into a Subscription Agreement pursuant to which the Company will issue Centerbridge ordinary shares in consideration for the Subsequent Term Loan Amendments (the Subscription Agreement).

As a result of the Subsequent Term Loan Amendments, the Centerbridge Term Loan A and Term Loan B lenders are foregoing up to US\$82.5 million of interest over the life of the term loans. In return, those Centerbridge entities will receive 51.9% of the reorganised ordinary equity (including any shares issued on conversion of the Convertible Preference Shares (CPS)) post Recapitalisation and pre the issue of warrants. The existing equity interests held in entities affiliated with Centerbridge, after conversion of the CPS will be diluted to 7.6% of the Company's ordinary equity post-Recapitalisation. However, the Centerbridge entities as a consequence of the exchange of debt for equity will have a total equity position of 56.0% of the Company's ordinary shares post-Recapitalisation and before the issue of warrants.

Additionally the interest rate on the remaining principal of US\$88 million of the Senior Unsecured Notes will be reduced to 1.5% PIK and the coupon payments until December 2018 on the Senior Secured Notes will be payable as 12% PIK at the Company's option and thereafter as 10% cash.

- **Shareholder Recoveries:** Due to equity being issued for the deleveraging and reduced interest the percentage of ordinary shares held by Non-associated Shareholders (including Senior Unsecured Noteholders other than Ares and Ascribe) will decrease to approximately 6.8% Post-Recapitalisation. Shareholders (excluding Centerbridge) will also receive ordinary warrants for 2.5% of the Company's ordinary equity post-Recapitalisation
- **Share Purchase Plan:** Eligible Shareholders, as defined in the Notice of Meeting, will be able to participate in a share purchase plan (SPP) to purchase up to AU\$5,000 worth of shares in the Company at a price per share of AU\$0.02, capped at a maximum total amount of AU\$9 million.

On 3 April 2017, the Company in conjunction with executing the RSA also entered into an additional US\$15 million asset-based loan facility with lenders affiliated with Centerbridge, Ares and Ascribe (Second-Out ABL). The Second-Out ABL has been established to provide short-term financial support to the Company until the Recapitalisation can be completed. The Second-Out ABL matures on 31 December 2017 and has been fully drawn.

A consequence of the Recapitalisation is that Centerbridge will increase its shareholding from its current holding of 48.9% to 56.0% through the Subscription Agreement and by converting CPS. In addition holders of the 7% Senior Unsecured Notes (Senior Unsecured Noteholders) will gain a shareholding of 42.0% of the ordinary shares in the Company due to the Equitisation, before the issue of warrants<sup>2</sup>.

The combined effect of the Recapitalisation is summarised below:

- a reduction in debt of US\$196.0 million<sup>3</sup> plus accrued interest
- a new ABL working capital facility of US\$75.0 million<sup>4</sup>
- a reduction of cash interest payments by US\$41.1 million p.a. until December 2018 and US\$15.9 million p.a. thereafter
- a reduction in interest cost of US\$20.0 million in CY17, US\$14.4 million in CY18, US\$20.1 million in CY19 and US\$18.1 million in CY20
- a dilution in the ordinary equity holdings of Non-associated Shareholders (excluding Senior Unsecured Noteholders other than Ares and Ascribe) to 2.0%.

To assist shareholders of Boart Longyear in assessing the Recapitalisation, the Board of Boart Longyear has requested KPMG Financial Advisory Services (Australia) Pty Ltd (of which KPMG Corporate Finance is a division) (KPMG Corporate Finance) to prepare an IER indicating whether in our opinion, the Recapitalisation is fair and reasonable to the Non-associated Shareholders of Boart Longyear

This report sets out KPMG Corporate Finance's opinion on the Recapitalisation, and will be included in the Notice of Meeting to be sent to shareholders prior to the General Meeting. This report should be considered in conjunction with, and not independently of, the information set out in the Notice of Meeting.

Boart Longyear is a leading global provider of drilling services and manufacturer of drilling equipment and performance tooling for mining and drilling companies. At 31 March 2017, the Company had a market capitalisation of US\$59.4 million<sup>5</sup>.

Centerbridge, a US-based private equity firm, and its affiliates manage approximately US\$29.0 billion of capital under management, including approximately US\$14.0 billion of capital in private equity funds which focus on making investments within various industries. Centerbridge's partners include prominent

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<sup>2</sup> Sourced from the Boart Longyear ASX announcement issued on 3 April 2017

<sup>3</sup> Sourced from the Boart Longyear ASX announcement issued on 3 April 2017

<sup>4</sup> Sourced from the Boart Longyear ASX announcement issued on 3 April 2017

<sup>5</sup> Based on an exchange rate of 0.7638 US\$/AU\$ and market capitalisation the day prior to Announcement Date



financial institutions, universities, pension and sovereign wealth funds, private foundations and charitable trusts.

Ares is a publicly traded, US-based, alternative asset manager with approximately US\$99 billion of capital invested in private equity, credit and real estate. The company's private equity segment focuses on investing in undercapitalised companies through majority or shared-control investments. Ares's investment base includes large pension funds, university endowments, sovereign wealth funds, banks and insurance companies.

Ascribe is a US-based, private equity firm with approximately US\$2 billion of capital under management. The company's investment strategy aims to invest in securities of middle-market companies that are either distressed, or undergoing operational or financial challenges.

The Recapitalisation is subject to the satisfaction of a number of conditions which are set out in Section 14.1 of the Notice of Meeting.

Further information regarding KPMG Corporate Finance as it pertains to preparation of this report is set out in Appendix 1.

KPMG Corporate Finance's Financial Services Guide is contained in Part Two of this report.

## **2 Requirement for our Report**

Section 606 of the Corporations Act (the Act) expressly prohibits an individual (or corporation) obtaining more than 20.0% of the voting power of an Australian listed company unless a full takeover offer is made. An exemption to this rule is contained in item 7 section 611 of the Act, which allows the target company shareholders the opportunity to vote to forgo their right to a full takeover. In passing the resolution, no votes may be cast by the potential acquirer or their associates or by the persons from whom the acquisition is to be made or their associates.

The transaction steps which involve the EQUITISATION, the conversion of the CPS and the issue of shares under the Subscription Agreement will increase the shareholding of Centerbridge, Ares and Ascribe to in excess of 20.0%. Following completion of the Recapitalisation, Ares and Ascribe will have received a combined interest in the Company of approximately 37.2% as result of the EQUITISATION. Centerbridge will have increased its relevant interest in the Company from 48.9% to 56.0%. Accordingly, the Independent Directors are seeking the approval of the Non-associated Shareholders, pursuant to Item 7 of Section 611 of the Act, for the issue of shares pursuant to the EQUITISATION and the issue of shares under the Subscription Agreement.

In the case of a resolution pursuant to Item 7 Section 611 of the Act, Regulatory Guide 74 (RG74) "Acquisitions approved by members" issued by the Australian Securities and Investments Commission (ASIC) requires that Non-associated Shareholders be supplied with all information that is material to the decision on how to vote on the Recapitalisation. In such circumstances, the Directors are required to provide shareholders with a detailed analysis of whether the Recapitalisation is fair and reasonable. The Directors may undertake such an analysis or, as is more commonly the case, the Directors may engage an independent expert to report on the Recapitalisation. In this case, the Independent Directors have requested KPMG Corporate Finance to prepare an IER, opining on whether the Recapitalisation is fair and reasonable.



Further, we note that the analysis as to fairness must be made on the basis that the Recapitalisation is for 100.0% ownership of Boart Longyear and should not consider Centerbridge's existing shareholding.

Refer to Section 6 of our attached report for further details on the technical requirements and the basis of assessment for the IER.

### 3 Summary of opinion

#### 3.1 Conclusion

In our opinion, having assessed the Recapitalisation to the Shareholders, we consider the Recapitalisation to be fair and reasonable to Non-associated Shareholders, in the absence of a superior proposal.

In arriving at this opinion, we have considered the terms of the Recapitalisation. We have assessed whether the Recapitalisation is:

- *fair*, by comparing our assessed value of Boart Longyear prior to the Recapitalisation, on a controlling interest basis, to our assessed value of a share in Boart Longyear following completion of the Recapitalisation, on a minority (portfolio) basis
- *reasonable*, by assessing for the Shareholders:
  - implications of the Recapitalisation
  - available alternatives to the Recapitalisation, and
  - the consequences of not approving the Recapitalisation.

The Recapitalisation is the outcome of a capital structure review process which Boart Longyear initiated in 2016 as a result of ongoing low levels of earnings and liquidity, the sustained downturn in the mining industry and related reduction in mining exploration expenditure. This decline led to a reduction in revenues from approximately US\$2,100.0 million in the calendar year ended 31 December 2012 (CY12) to approximately US\$642.4 million in CY16. As a result adjusted Earnings Before Interest, Tax, Depreciation and Amortisation (adjusted EBITDA) decreased from approximately US\$320.0 million in CY12 to US\$32.0 million in CY16. The unfavourable industry conditions together with additional debt taken on by the Company led to the auditor of the Company being unable to express an opinion on the financial report for CY16 as a whole, indicating the unsustainable nature of the existing capital structure. Any examination of the Recapitalisation needs to recognise these events, the inherent uncertainty that this creates for any valuation, their impact on available alternatives and the consequences should the Recapitalisation not be approved.

As a starting point, we have assessed whether the Recapitalisation is fair by comparing the value prior to the Recapitalisation, on a control basis, to that post the Recapitalisation on a non-controlling basis. In our valuation we have recognised the cyclical nature of the industry by applying 'through-the-cycle' earnings figures as well as 'through-the-cycle' capitalisation multiples. However, a valuation of the Company in the current stage of the cycle is complex as this requires estimates of the length and the impact of the current industry cycle and therefore includes some optionality regarding the recovery of the industry.

Our valuation analysis indicates that Non-associated Shareholders will be better off post the Recapitalisation. Fundamentally this arises because Boart Longyear's current debt is greater than the value of its assets Pre-Recapitalisation. On this basis, no value is attributable to shares Pre-Recapitalisation and Post-Recapitalisation the value is between US\$0.0011 per share and US\$0.0045 per share of Boart Longyear.

This outcome is not unexpected given the current position of Boart Longyear in the industry cycle.

In forming our opinion as to the reasonableness of the Recapitalisation, we have considered a number of advantages and disadvantages for the Non-associated Shareholders. The principal factors supporting the conclusion include:

- in our view it represents the most superior option currently available to Non-associated Shareholders. If the Recapitalisation is not approved Boart Longyear faces a potential insolvency
- it provides a more appropriate capital structure and an improved liquidity over time to enable Boart Longyear to continue to trade until an expected improvement in the mining industry cycle
- the Recapitalisation exchanges the current debt maturity profile for a longer dated maturity profile, combined with the harmonisation of various financial covenants and reduces the net debt of the Company
- the Recapitalisation provides certainty of the outcome in relation of the capital structure review
- the removal of liquidity concerns may result in improved business performance as the management of Boart Longyear (Management) can focus on improving operational results, rather than on the liquidity concerns
- additional liquidity is facilitated through the Recapitalisation.

Principal factors that do not support the conclusion include:

- the Non-associated Shareholders' investments will be significantly diluted.
- the Company may redomicile to a different jurisdiction and also delist from the Australian Securities Exchange (ASX).

Other considerations such as the costs of the transaction had a lesser impact on our reasonableness conclusion. The key factors and other considerations are discussed in more detail in Sections 3.3.1 and 3.3.2 respectively.

In relation to these matters, notwithstanding their subjective nature, we consider the advantages of the Recapitalisation to considerably exceed the disadvantages particularly given the potential adverse effects should the Recapitalisation not be approved.

The principal matters that KPMG Corporate Finance has taken into consideration in forming its opinion that the Recapitalisation is fair and reasonable are summarised in the remainder of Section 3 below.

### 3.2 Assessment of fairness

Our fairness assessment has been based on comparing the value of a share in Boart Longyear prior to the Recapitalisation, on a control basis, to that post the Recapitalisation on a non-controlling basis.

Whilst Centerbridge, Ares and Ascribe are not acquiring 100.0% of Boart Longyear we are required to consider the value as if the offer was for full control. Therefore, we have assessed the value of a Boart Longyear share based on 100.0% ownership, having regard to synergies which would be generally available to a broad pool of potential purchasers.

We have applied a capitalised earnings approach to derive the value of Boart Longyear on a controlling basis. Due to the characteristics of the business operations, we have based our valuation on an analysis of 'through-the-cycle' maintainable earnings of the Company as well as capitalisation multiples for a similar period. The reason for this being the cyclical nature of the drilling business as a result of fluctuations in exploration spending in the mining industry. We have further adjusted certain balance sheet items from 31 December 2016 to 30 April 2017 as this date better reflects the situation of the Company as at the date of the proposed general shareholder meeting. The number of shares is based on the maximum amount of shares at the Implementation Date. Under this approach, we have assessed the control value of a Boart Longyear share, prior to the Recapitalisation, to be in the range of negative US\$0.154 to negative US\$0.050 per share, as outlined in the table below.

**Table 1: Boart Longyear Valuation Summary**

	Report Section	Recapitalisation	
		Low	High
Maintainable earnings (EBITDA)	16.3.2	100.0	130.0
EBITDA multiple (on a controlling basis) (times)	16.3.3	5.5x	5.0x
<b>Enterprise Value of Boart Longyear</b>		<b>550.0</b>	<b>650.0</b>
Less: Debt as at 30 April 2017	16.4.2	(776.5)	(776.5)
Add: Cash as at 31 December 2016	8.3	59.3	59.3
Less: Cash burn (31 December 2016 - 30 April 2017) <sup>1</sup>		(27.7)	(27.7)
Add: Net working capital release <sup>2</sup>		41.0	41.0
Add: Assets held for sale	8.3	5.9	5.9
<b>Equity Value of Boart Longyear</b>		<b>(147.9)</b>	<b>(47.9)</b>
Issued shares (million) up to	14	959.7	959.7
<b>Equity value per share on a marketable, controlling basis (US\$)</b>		<b>(0.154)</b>	<b>(0.050)</b>
Foreign currency exchange rate as at 6 April 2017 (US\$:AU\$)		0.76	0.76
<b>Equity value per share on a marketable, controlling basis (AU\$)</b>		<b>(0.204)</b>	<b>(0.066)</b>

Source: KPMG Corporate Finance Analysis

Note 1: Cash burn relates to expected cash expenditure between 31 December 2016 and 30 April 2017

Note 2: Net working capital release relates to the reduction in NWC available to support the maintainable EBITDA figure

Note 3: Differences in calculations due to rounding

Note 4: Number of shares reflects also the shares issued under the Director compensation before the Implementation Date

The equity value per share on a marketable, controlling basis, is negative primarily as the debt outstanding is greater than the assessed enterprise value of the Company. The current level of gearing is a

result of both debt drawdowns at the top of the cycle, and the sustained weakness in the mining services industry cycle from CY14 to CY16. Weakened market conditions led to the further drawdown of debt in order to meet liquidity requirements, and the continued increase in outstanding debt as cash interest was deferred through 'payment-in-kind' interest capitalisation.

The value increases from a range of negative US\$0.154 to negative US\$0.050 per share Pre-Recapitalisation to a range of US\$0.0011 to US\$0.0045 per share Post-Recapitalisation. The increase in value relates to the reduction in debt, through the conversion of US\$196.0 million in principal of Senior Unsecured Notes (plus accrued interest) for ordinary equity. This reduces the financial leverage of the Company sufficiently to create a positive equity valuation. We note that as a result of the Recapitalisation there is a significant dilution to current Non-associated Shareholders, reflecting the issuance of up to 23,801.1 million additional shares.

In contrast to the Pre-Recapitalisation valuation, we have set out below the value per share Post-Recapitalisation, which is based on an equity value for a minority shareholder and the number of shares Post Recapitalisation. This value per share Post-Recapitalisation also takes into account the reduction of net debt and considers the further expected cost of the Recapitalisation of approximately US\$15.0 million. The calculation of the value per share Post-Recapitalisation is shown in the table below.

**Table 2: Post-Recapitalisation value analysis**

	Report Section	Recapitalisation	
		Low	High
Maintainable earnings (EBITDA)	16.3.2	100.0	130.0
EBITDA multiple (on a controlling basis) (times)	16.3.3	5.5x	5.0x
<b>Enterprise Value of Boart Longyear</b>		<b>550.0</b>	<b>650.0</b>
Less: Debt as at 30 April 2017	16.4.2	(580.5)	(580.5)
Add: Cash as at 31 December 2016	8.3	59.3	59.3
Less: Cash burn (31 December 2016 - 30 April 2017) <sup>1</sup>		(27.7)	(27.7)
Add: Net working capital release <sup>2</sup>		41.0	41.0
Add: Assets held for sale	8.3	5.9	5.9
Less: Transaction Cost		(15.0)	(15.0)
<b>Equity Value of Boart Longyear on a controlling basis</b>		<b>33.1</b>	<b>133.1</b>
less: Minority Discount (16.67%) <sup>3</sup>		(5.5)	(22.2)
<b>Equity Value of Boart Longyear on a minority basis</b>		<b>27.5</b>	<b>110.9</b>
Issued shares (million) post-proposal up to	14	24,760.8	24,760.8
<b>Equity value per share (US\$)</b>		<b>0.0011</b>	<b>0.0045</b>
Foreign currency exchange rate (US\$:AU\$)		0.76	0.76
<b>Equity value per share (AU\$)</b>		<b>0.0015</b>	<b>0.0059</b>

Source: KPMG Corporate Finance Analysis

Note 1: Cash burn relates to expected cash expenditure between 31 December 2016 and 30 April 2017

Note 2: Net working capital release relates to the reduction in NWC available to support the maintainable EBITDA figure

Note 3: A 20.0% control premium translates into a 16.67% minority discount

Note 4: Differences in calculation due to rounding

A comparison of the value per share on a Pre and Post-Recapitalisation basis is outlined in the table below.

**Table 3: Comparison of Value Pre and Post-Recapitalisation**

US\$ unless otherwise stated	Value per share (US\$)	
	Low	High
Assessed value per Boart Longyear share Pre-Recapitalisation	-	-
Assessed value per Boart Longyear share Post-Recapitalisation	0.0011	0.0045
<b>Premium/(discount) (US\$ per share)</b>	<b>0.0011</b>	<b>0.0045</b>

Source: KPMG Corporate Finance Analysis

According to RG 111, the Recapitalisation should be considered fair if the value per share post the Recapitalisation is equal to or higher than our assessed value of a Boart Longyear share Pre-Recapitalisation.

In this respect the assessed value range per Boart Longyear share Pre-Recapitalisation is lower than our assessed value range for a Boart Longyear share Post-Recapitalisation and therefore we consider the Recapitalisation to be fair.

### 3.3 Assessment of reasonableness

An offer is deemed by RG 111 to be “reasonable” if it is fair. However an offer can also be reasonable even if despite not being fair there are sufficient reasons for Non-associated Shareholders to accept the offer in the absence of any higher bid before the close of the offer.

In considering whether the Recapitalisation is reasonable, we have considered the following key factors:

#### 3.3.1 Key factors

Outlined below are the key factors, separated in advantages and disadvantages, which support the view that the Recapitalisation is reasonable.

##### *Advantages*

##### **In our view the Recapitalisation represents the most superior option currently available to Non-Associated Shareholders**

In assessing the merits of the Recapitalisation, we have considered the relative attractiveness of other options available to Boart Longyear. During the capital structure review the Company and their advisers have reviewed a range of recapitalisation measures and other options, including:

- on- and/or off-market capital raisings
- refinancing of the current debt instruments
- extension of the maturities of the current debt instruments, and
- maintaining the status-quo.

Whilst on- and/or off-market capital raisings were considered (of which an on-market capital raising would have included the possibility for current Non-associated Shareholders to participate and to avoid a dilution of their shareholding), restrictions in relation to the reasonable size of such a capital raising as well as the conditions of the Senior Unsecured Notes have resulted in this not being capable of implementation.

Both, a refinancing of the current debt instruments or an extension of their maturities, would not have resulted in a material and sustainable reduction in the financial obligations for Boart Longyear. As such future interest and principal payments would not have been reduced sufficiently.

It is not possible to maintain the status quo without a restructure. Based on current financial results Boart Longyear is not capable of meeting its present interest and principal obligations.

The Recapitalisation is superior to all other options currently available to the Company as it secures liquidity to continue the business without the need for potential asset sales. It also gives Non-associated Shareholders an opportunity to participate in a potential future upside if industry and business performance improve.

If the Recapitalisation is not implemented, Boart Longyear will face insolvency. In such circumstances Non-associated Shareholders could expect to realise zero value.

#### **The Recapitalisation provides Boart Longyear with an improved liquidity position over time**

The Recapitalisation will amend the current debt obligations in a way that reduces cash interest cost for the Company by US\$41.1 million per year until December 2018, if the Company chooses to accrue interest and US\$15.9 million per year thereafter. The positive earnings impact of the Recapitalisation will be US\$20.0 million in CY17, US\$14.4 million in CY18, US\$20.1 million in CY19 and US\$18.1 million in CY20, which reflects the reduced interest rates and the Equitisation of the US\$196 million in principal (plus accrued interest) of the Senior Unsecured Notes. The reduced cash payments will help the Company's ongoing liquidity during the current industry cycle until the mining industry recovers.

The Recapitalisation will exchange the current ABL facility over US\$40 million, as well as the Delayed Draw Term Loan (DDTL) of US\$20 million and the Second-Out ABL of US\$15 million for a new ABL of US\$75 million. At 30 April 2017 the current ABL was expected to be drawn to an amount of US\$18.0 million, with an additional US\$11.9 million in letters of credit outstanding, which reduce the amount available under the ABL. The DDTL was fully drawn in February 2017 and the Second-Out ABL was fully drawn by mid April 2017.

Currently, the Company as well as analysts do not expect significant improvements in the industry cycle until CY19. Further, the CY16 financial report was issued without an opinion by the auditor regarding the going concern basis of preparation, due to the material and pervasive uncertainties. Implementation of the Recapitalisation is expected to reduce the materiality of the risks noted by Directors of the Company and the auditor in relation to the ongoing liquidity of the Company.

Taking into consideration the reduction in cash interest cost that the Recapitalisation will provide to Boart Longyear and the ongoing restructuring efforts of the Company, based on a historical cash flow analysis, the Company should have significantly increased its financial viability over the coming years.

There remains the possibility however that the recovery of the mining cycle takes longer than expected.

**The Recapitalisation exchanges the current debt maturity profile for a longer dated maturity profile combined with a harmonisation of covenants**

The Recapitalisation will extend the maturity profile of the debt instruments from CY18, CY20 and CY21 to the end of CY22 and will provide Boart Longyear with greater certainty around planning in the current business environment. Additionally, the covenants related to the debt instruments will be improved and harmonised to simplify the contractual debt agreements.

**The Recapitalisation concludes the capital structure review providing certainty to Non-associated Shareholders**

Certainty over the outcome of the capital structure review reduces risk for the Company and the shareholders. Alternative options in the absence of the Recapitalisation, including potential insolvency, carry significant uncertainty. In our view, alternative options are unlikely to result in Non-associated Shareholders realising greater value than if the Recapitalisation is not implemented.

The resolution of the capital structure review and the increased liquidity going forward will allow management to focus on improving business performance and operational results.

**Additional liquidity is facilitated through the Recapitalisation**

In conjunction with executing the RSA, lenders affiliated with Centerbridge, Ares and Ascribe have provided additional capacity of US\$15 million under the Second-Out ABL as well as US\$20 million provided by Centerbridge under the DDTL. Additionally under the Recapitalisation the terms of the Senior Secured Notes will be amended so that the coupon payment of US\$19.9 million due on 1 April 2017 is deferred to 1 June 2017. As such the Recapitalisation provides additional debt capacity and defers immediate interest payments, however does not provide additional cash to improve the balance sheet of the Company (except for the funds raised through the SPP of maximum AU\$9 million). The improvement of the cash position of the Company will result over time as the reduced debt amount and deferred cash interest payments will reduce the future cash out flows during the current mining cycle.

*Disadvantages*

**Non-associated Shareholders' investments will be significantly diluted**

The Non-associated Shareholders investment will be significantly diluted. Currently they hold 50.0% of the ordinary equity, whereas Post-Recapitalisation they will hold approximately 2.0% (pre-warrants) of the reorganised ordinary equity. This may increase to 4.2% depending on the exercise of the ordinary seven-year warrants provided to the Non-associated Shareholders. These warrants can be exercised with a strike price of the equity value implied by a US\$1,000 million EV of the Company less net debt at the Implementation Date, which is expected to be in the range of AU\$0.021 to AU\$0.024<sup>6</sup>. As such Non-associated Shareholders will have very limited ability to influence the future direction of the Company.

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<sup>6</sup> Based on an exchange rate of 0.7502 US\$/AU\$ on 19 April 2017

### **The Company may delist from the Australian Securities Exchange (ASX)**

The Company will, as soon as practicable and in any event prior to 15 April 2018, determine together with Centerbridge, Ares and Ascribe to redomicile its business to the United States (State of Delaware), the United Kingdom or Canada (or another jurisdiction agreed to by Centerbridge, Ares and Ascribe), if it is in the best interests of the Company. Should this occur, Non-associated Shareholders will no longer be holders of securities in an Australian incorporated company and the Company may no longer be listed on the ASX, but instead be listed on a foreign securities exchange.

### **3.3.2 Other considerations**

In forming our opinion, we have also considered a number of other factors as outlined below. Whilst we do not necessarily consider these to be advantages or disadvantages of the Recapitalisation, we consider it appropriate to address these considerations in arriving at our opinion:

- the Board of Directors of Boart Longyear (Board) will consist of nine Board members. Centerbridge will nominate five members to the Board, Ares and Ascribe will each nominate one member and one member jointly and the CEO of the Company will remain on the Board. Centerbridge appointed Board members will therefore represent the majority of the Board after the transaction. As a result the Company will no longer be in compliance with some of the ASX Corporate Governance Council Principles and Recommendations, including the recommendation that a majority of the board of a listed entity should be independent directors
- under the Recapitalisation, Boart Longyear must pay Centerbridge, Ares and Ascribe a break fee of AU\$1.0 million, in addition to the invoiced fees and out-of-pocket expenses incurred by Centerbridge, Ares and Ascribe (see below), if any director of the Company changes their recommendation in favour of the Recapitalisation, or a superior proposal is announced by a third party and that third party acquires relevant interest of 20% or more in the Company's shares within 6 months
- the DDTL of US\$20 million and the Second-Out ABL of US\$15 million will be repaid and all terms and asset moves in relation to the DDTL and the Second-Out ABL will be reversed as a result of the Recapitalisation, including amendments to the Term Loan A and Term Loan B entered into in conjunction with the DDTL
- upon the successful completion of the Recapitalisation, Boart Longyear is expected to incur total transaction costs of approximately US\$35.0 million (US\$0.04 per share<sup>7</sup>) including advisory costs, legal fees, independent expert fees and other costs associated with the Recapitalisation (including advisory fees incurred by Centerbridge, Ares and Ascribe required to be reimbursed by Boart Longyear). US\$10.0 million has already been incurred in CY16. An additional portion, of approximately US\$15.0 million will be incurred by 30 April 2017. We note however that any alternative option would also likely impose considerable costs on Boart Longyear to implement

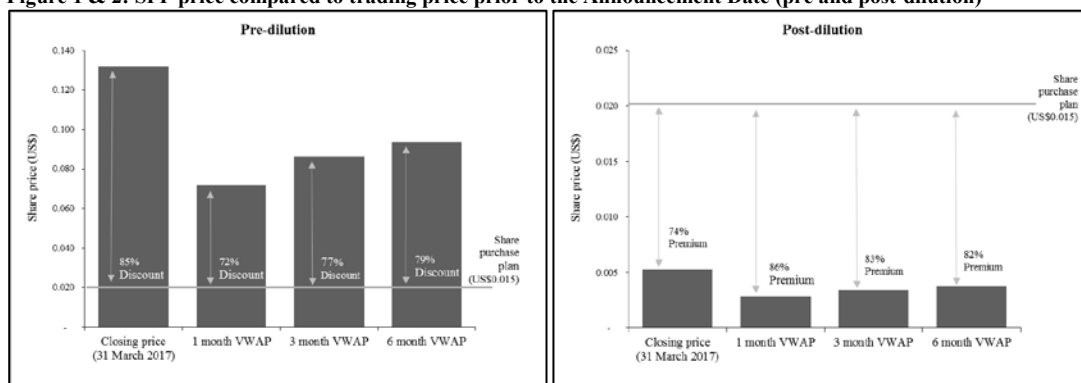
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<sup>7</sup> Based on the current number of shares



- Centerbridge, Ares and Ascribe will have a collective ownership of approximately 93.2% (pre warrants) in Boart Longyear. It is likely that there will be limited liquidity in the remaining outstanding shares as well as a further reduced coverage from analysts (currently only one analyst is following Boart Longyear) and also a lower possibility of any other transaction emerging, without the support of Centerbridge, Ares and Ascribe
- under the SPP, eligible shareholders will be able to acquire up to a total of AU\$5,000 worth of Boart Longyear shares at a price of AU\$0.02 (or US\$0.015 based on the exchange rate as at 19 April 2017), with the total amount raised under the SPP to be capped AU\$9 million. The offered purchase price compared to the VWAP of Boart Longyear shares (pre and post-dilution) prior to the Announcement Date, is set out in the figure below. For the post-dilution comparison we have adjusted the calculated VWAP for the number of additional shares issued as a part of the Recapitalisation.

**Figure 1 & 2: SPP price compared to trading price prior to the Announcement Date (pre and post-dilution)**



Source: S&P Capital IQ and KPMG Corporate Finance Analysis

- without the Recapitalisation and the support of the Company's lenders Boart Longyear's current business situation would likely result in some form of insolvency appointment for the Company and subsidiaries in other jurisdictions. Due to this being likely a multi jurisdiction insolvency process there would be heightened complexity and costs for Boart Longyear as a result. As such Non-associated Shareholders would have very limited chance of recovery of their investments
- currently Ares and Ascribe have significant blocking rights in the US due to their holdings of the Senior Secured Notes. These rights would likely lead any future court proceeding to result in a similar outcome except with an explicit zero recovery for Non-associated Shareholders
- we have not attributed any value to tax losses held by Boart Longyear in our assessment of fairness given the difficulty typically experienced by potential purchasers in satisfying the tests which allow them to utilise the tax losses held by acquired businesses and the uncertainty as to the specific utilisation profile applicable to potential purchasers. More often than not, potential acquirers do not attribute material value to tax losses even though they may have value for the existing shareholders.

### 3.3.3 Implications if the Recapitalisation is not approved

The Board will likely need to place the Company into voluntary administration, which may lead to the appointment of receivers and managers. If the Company was to go into voluntary administration or receivership, the following options may be available to raise funds:

- sale of company assets
- refinancing the debt
- alternative whole of company sale
- recapitalisation of the Company through the issue of new equity.

As pointed out in Section 3.3.1 the Company and its advisers have already considered several of these options in relation to the capital restructuring none of which was seen as superior to the Recapitalisation. Further, should the Company enter into insolvency we do not expect that Non-associated Shareholders would receive any value for their shares.

We note also that if the Recapitalisation is not approved some of the professional fees related to the Recapitalisation will already have been incurred even if the Recapitalisation is not approved and will reduce Boart Longyear's liquidity further. According to the Company as at 30 April 2017 approximately US\$25.0 million in professional fees will already have been incurred.

## 4 Other matters

In forming our opinion, we have considered the interests of Non-associated Shareholders as a whole. This advice therefore does not consider the financial situation, objectives or needs of individual shareholders. It is not practical or possible to assess the implications of the Recapitalisation on individual shareholders as their financial circumstances are not known. The decision of shareholders as to whether or not to approve the Recapitalisation is a matter for individuals based on, amongst other things, their risk profile, liquidity preference, investment strategy and tax position. Individual shareholders should therefore consider the appropriateness of our opinion to their specific circumstances before acting on it. As an individual's decision to vote for or against the proposed resolutions may be influenced by his or her particular circumstances, we recommend that individual shareholders including residents of foreign jurisdictions seek their own independent professional advice.

Our report has also been prepared in accordance with the relevant provisions of the Act and other applicable Australian regulatory requirements. This report has been prepared solely for the purpose of assisting Non-associated Shareholders in considering the Recapitalisation. We do not assume any responsibility or liability to any other party as a result of reliance on this report for any other purpose.

All currency amounts in this report are denominated in US\$ unless otherwise stated.

Neither the whole nor any part of this report or its attachments or any reference thereto may be included in or attached to any document, other than the notice of meeting to be sent to shareholders in relation to the Recapitalisation, without the prior written consent of KPMG Corporate Finance as to the form and context in which it appears. KPMG Corporate Finance consents to the inclusion of this report in the form and context in which it appears in the Notice of Meeting.

Our opinion is based solely on information available as at the date of this report as set out in Appendix 2. We note that we have not undertaken to update our report for events or circumstances arising after the date of this report other than those of a material nature which would impact upon our opinion. We refer readers to the limitations and reliance on information section as set out in Section 6.3 of our attached report.

The above opinion should be considered in conjunction with and not independently of the information set out in the remainder of this report, including the appendices.

Yours faithfully



Ian Jedlin  
Authorised Representative



Adele Thomas  
Authorised Representative

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## 5 The Recapitalisation

On 3 April 2017, Boart Longyear announced it had entered into a RSA to undertake the Recapitalisation. In conjunction with the Recapitalisation the Company also entered into the Second-Out ABL.

The objectives of the Recapitalisation are to provide Boart Longyear with a more sustainable capital structure which is critical in order to support its existing operations and future growth. In order to achieve this, the Recapitalisation reduces debt and interest costs, improves liquidity overtime and extends debt maturities. The Equitisation will permanently reduce existing debt by US\$196 million of Senior Unsecured Notes (plus accrued interest) and maturities of the debt outstanding will be extended until December 2022. The new ABL will upsize the Company's current working capital facility by US\$35 million and liquidity will be improved by the reduction of cash interest cost due to the reduction of debt as well as the adjustment of interest rates and conditions.

The Recapitalisation will be implemented as follows:

- *Equitisation* – The Company has issued US\$195 million of Senior Secured Notes and US\$284 million of Senior Unsecured Notes. Of the Senior Secured Notes, 50% are held by Centerbridge, Ares and Ascribe, with 90% of the Senior Unsecured Notes being held by Ares and Ascribe. Under the Recapitalisation US\$196 million in principal of the Senior Unsecured Notes (plus accrued interest) will be exchanged for 42.0% of the reorganised ordinary equity of Boart Longyear and the issue of the 7% warrants. Non-associated Shareholders will be diluted to 4.3% and Centerbridge will be diluted to 4.1% of the reorganised ordinary equity as a result of the Equitisation. The maturity of the remaining Senior Unsecured Notes of US\$88 million plus accrued interest to the Implementation Date, calculated at 1.5% on US\$88 million from 1 January 2017 to the Implementation Date, will be extended to 31 December 2022 and the interest rate will be reduced to 1.5% p.a. PIK (retroactive to 1 January 2017). The remaining notes are subordinated to all unsecured claims.

The Senior Secured Notes will be reinstated in an aggregate principal amount of US\$199.9 million and the maturity will be extended to 31 December 2022. The interest payment dates will be changed from annually April and October to June and December to better align with the cash cycle of the Company, with the first four coupon payments (beginning in April 2017) to be PIK at 12% or cash at 10% at the Company's option, after 31 December 2018 all coupons will be paid in cash at 10%.

Senior Unsecured Noteholders will also receive seven-year warrants for 5.0% of the reorganised equity with a strike price of the equity value implied by an Enterprise Value (EV) of US\$750 million less net debt on the Implementation Date expected to be in the range of US\$0.006 to US\$0.008 per warrant (Tranche A 7% Warrants) and warrants for 2.5% of the reorganised ordinary equity with a strike price of the equity value implied by an EV of US\$850 million less net debt on the Implementation Date expected to be in the range of US\$0.010 to US\$0.012 per warrant (Tranche B 7% Warrants). Ares and Ascribe will also each nominate one person to stand for election to the Board and jointly nominate one further person to stand for election.

As a result of the Equitisation of the Senior Unsecured Notes debt of the Company will be permanently reduced by US\$196 million, which will reduce interest cost and cash interest payments together with the reduced interest rate on the remaining Senior Unsecured Notes.

- *Conversion of CPS* – Pursuant to the Equitisation Centerbridge will convert the approximately 434 million CPS it is currently holding. Due to the conversion Non-associated Shareholders will be diluted further to 4.1%, whereas Centerbridge increases its share in the reorganised ordinary equity of Boart Longyear to 7.6%.
- *Term Loan amendments* – Subsequent to the Conversion of CPS, Centerbridge will increase its share in the reorganised ordinary equity to 56.0% in return for the Subsequent Term Loan Amendment. Centerbridge holds currently Term Loan A over US\$113.5 million (including accrued interest) and Term Loan B over US\$137.2 million (including accrued interest). Both Term Loans will be reinstated and the interest rate will be reduced from 12% p.a. to 10% PIK until December 2018 and 8% cash thereafter<sup>8</sup>. This will reduce interest cost permanently, however will have no positive impact on liquidity as both loans have already accrued interest in the past.

The maturity of the reinstated Term Loans will be extended to December 2022 and will have a non-call protection prior to December 2018. The Term Loans will be callable thereafter.

Post the Subsequent Term Loan Amendment Centerbridge will hold 56.0% of the reorganised ordinary equity, Senior Unsecured Noteholders will hold 42.0% and Non-associated Shareholders will hold 2.0%.

- *Warrants* – As explained above Senior Unsecured Noteholders will receive seven-year warrants over a maximum of 7.5% of the reorganised ordinary equity with strike prices expected to be between US\$0.006 and US\$0.008 (Tranche A 7% Warrants) and US\$0.010 and US\$0.012 (Tranche B 7% Warrants). Shareholders (other than Centerbridge) will also receive seven-year warrants over 2.5% of the reorganised ordinary equity of Boart Longyear with a strike price of the equity value expected to be in the range of AU\$0.021 to AU\$ 0.024<sup>9</sup> per warrant.
- *Liquidity* – Boart Longyear will receive a new revolving ABL facility over US\$75 million, which will replace the current ABL of US\$40 million, the DDTL of US\$20 million and the Second-Out ABL of US\$15 million. The maturity, fees and interest rate of the new ABL will be determined in conjunction with the implementation of the facility. The collateral arrangements supporting the DDTL will be unwound immediately upon its repayment.
- *Share Purchase Plan* – The Company will provide eligible shareholders with the opportunity up to a total of AU\$5,000 worth of shares at a price of AU\$0.02. The total amount of the SPP will be capped AU\$9 million. Any amounts raised under the SPP will reduce Centerbridge's, Ares' and Ascribe's commitment to back stop the new ABL and, if no third party financing is available on acceptable terms reduce the principal amount of the new ABL.

The impact of the Recapitalisation on the statement of financial position is discussed in further detail in Section 14.

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<sup>8</sup> If the Recapitalisation is implemented, the interest rate of 10% will apply retroactively to the balance outstanding in respect of Term Loans A and B at 31 December 2016.

<sup>9</sup> Based on an exchange rate of 0.7502 US\$/AU\$ on 19 April 2017

## 5.1 Conditions

The Recapitalisation is subject to a number of conditions which are set out in full in the Notice of Meeting (Section 14.1). The key conditions are:

- the independent expert failing to conclude that the Recapitalisation is "not fair" and "not reasonable" for Non-associated Shareholders of the Company
- Shareholders of the Company approving the required resolutions at the general meeting by the requisite majorities
- creditors of the Company approving the creditors' schemes of arrangement by the requisite majorities
- court approval of the creditors' schemes of arrangement
- the Company entering into director appointment agreements with lenders affiliated with each of Centerbridge, Ares and Ascribe
- the new ABL being duly executed by all the parties to it and all conditions precedent to the ABL being satisfied (other than those conditions relating to the creditors' schemes of arrangement becoming effective)
- the warranties given by the Company and the Centerbridge, Ares and Ascribe being true and correct in all material respects
- creditors obtaining approval under the Foreign Acquisitions and Takeovers Act 1975 (Cth)
- the issue of shares and warrants notes under the Recapitalisation, where relevant, being exempt from registration under section 3(a)(10) of the United States Securities Act of 1933 and
- the Company obtaining all other relevant regulatory approvals, confirmations, consents or waivers, including confirmation from the ASX that it approves the terms of the warrants.

The RSA can also be terminated by either the Company or Centerbridge, Ares and Ascribe (acting unanimously) in the event that a condition precedent becomes incapable of being satisfied by 31 December 2017, or as extended by an agreement.

## 6 Scope of the report

### 6.1 Purpose

There is no statutory requirement for the preparation of this IER. However, the Independent Directors have requested KPMG Corporate Finance to prepare this report to provide an assessment as to whether the Recapitalisation is fair and reasonable.

In undertaking this work, we have referred to the guidance by ASIC under RG 74 and RG 111 "Content of expert reports".

This report has been prepared for inclusion in the Notices of Meeting for the Non-associated Shareholders. The purpose of this meeting will be to seek the agreement of the Non-associated Shareholders to approve the Recapitalisation.



## 6.2 Basis of assessment

The term ‘fair and reasonable’ has no legal definition. RG 74 provides that any analysis should comply with the requirements of RG 111.

In relation to the concepts of ‘fair and reasonableness’, RG 111 notes:

- ‘fair and reasonable’ is not regarded as a compound phrase
- an offer is ‘fair’ if the value of the offer price or consideration is equal to or greater than the value of the securities subject to the offer
- the comparison should be made assuming 100.0% ownership of the ‘target’ and irrespective of whether the consideration is scrip or cash
- the expert should not consider the percentage holding of the ‘bidder’ or its associates in the target when making this comparison
- an offer is ‘reasonable’ if it is ‘fair’
- an offer might also be ‘reasonable’ if, despite being ‘not fair’, the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid before the close of the offer.

RG 111 provides that an offer is fair if the value of the consideration is equal to or greater than the value of the securities subject to the offer. It is a requirement of RG 111 that the comparison be made assuming 100.0% ownership of the ‘target’ and irrespective of whether the consideration is scrip or cash and without considering the percentage holding of the ‘bidder’ or its associates in the target prior to the bid. That is, RG 111 requires the value of Boart Longyear to be assessed as if the bidder was acquiring 100.0% of Boart Longyear. Adapting this test to an Item 7 of Section 611 transaction involves a comparison of the control value of the share prior to the transaction with the value of the shares that will be “received” by the shareholder post the transaction i.e. comparing the control value of a Boart Longyear share before the Recapitalisation with the value of a Boart Longyear share post the Recapitalisation.

In addition to the points noted above, RG 111 notes that the weight of judicial authority is that an expert should not reflect ‘special value’ that might accrue to the acquirer. Accordingly, when assessing the full underlying value of Boart Longyear, we have considered those synergies and benefits that would be available to more than one potential purchaser (or a pool of potential purchasers) of Boart Longyear. As such, we have not included the value of special benefits that may be unique to Centerbridge, Ares or Ascribe. Accordingly, our valuation of Boart Longyear has been determined regardless of the other party and any special benefits have been considered separately.

In considering whether the Recapitalisation is reasonable, we have considered the following factors:

- the rationale and implications of the Recapitalisation including the impact on its financial position and the potential dilution for Non-associated shareholders
- the extent of any implied premium over recent trading prices for a Boart Longyear share, if any, being paid by Centerbridge
- other alternatives considered and the prospects of a superior alternative offer emerging

- the consequences of not approving the Recapitalisation
- any other benefits or disadvantages of the Recapitalisation that we believe to be relevant.

### **6.3 Limitations and reliance on information**

In preparing this report and arriving at our opinion, we have considered the information detailed in Appendix 2 of this report. In forming our opinion, we have relied upon the truth, accuracy and completeness of any information provided or made available to us without independently verifying it. Nothing in this report should be taken to imply that KPMG Corporate Finance has in any way carried out an audit of the books of account or other records of Boart Longyear for the purposes of this report.

Further, we note that an important part of the information base used in forming our opinion is comprised of the opinions and judgements of Management. In addition, we have also had discussions with the Management in relation to the nature of the Company's business operations, its specific risks and opportunities, its historical results and its prospects for the foreseeable future. This type of information has been evaluated through analysis, enquiry and review to the extent practical. However, such information is often not capable of external verification or validation.

Boart Longyear has been responsible for ensuring that information provided by it or its representatives is not false or misleading or incomplete. Complete information is deemed to be information which at the time of completing this report should have been made available to KPMG Corporate Finance and would have reasonably been expected to have been made available to KPMG Corporate Finance to enable us to form our opinion.

We have no reason to believe that any material facts have been withheld from us but do not warrant that our inquiries have revealed all of the matters which an audit or extensive examination might disclose. The statements and opinions included in this report are given in good faith, and in the belief that such statements and opinions are not false or misleading.

The information provided to KPMG Corporate Finance included forecasts/projections and other statements and assumptions about future matters (forward-looking financial information) prepared by the Management. Whilst KPMG Corporate Finance has relied upon this forward-looking financial information in preparing this report, Boart Longyear remains responsible for all aspects of this forward-looking financial information. The forecasts and projections as supplied to us are based upon assumptions about events and circumstances which have not yet transpired. We have not tested individual assumptions or attempted to substantiate the veracity or integrity of such assumptions in relation to any forward-looking financial information, however we have made sufficient enquiries to satisfy ourselves that such information has been prepared on a reasonable basis.

Notwithstanding the above, KPMG Corporate Finance cannot provide any assurance that the forward-looking financial information will be representative of the results which will actually be achieved during the forecast period. Any variations in the forward looking financial information may affect our valuation and opinion.

The opinion of KPMG Corporate Finance is based on prevailing market, economic and other conditions at the date of this report. Conditions can change over relatively short periods of time. Any subsequent changes in these conditions could impact upon our opinion. We note that we have not undertaken to

update our report for events or circumstances arising after the date of this report other than those of a material nature which would impact upon our opinion.

#### **6.4 Disclosure of information**

In preparing this report, KPMG Corporate Finance has had access to all financial information considered necessary in order to provide the required opinion. Boart Longyear has requested KPMG Corporate Finance limit the disclosure of some commercially sensitive information relating to Boart Longyear and its subsidiaries. This request has been made on the basis of the commercially sensitive and confidential nature of the operational and financial information of the operating entities comprising Boart Longyear.



7 Company overview

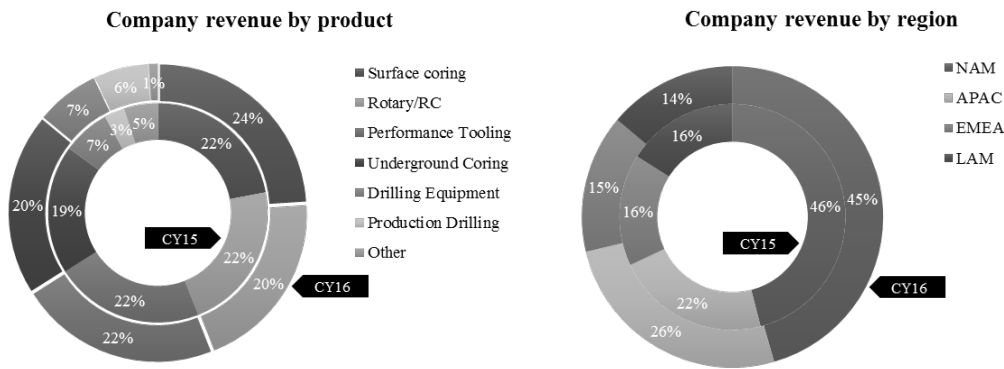
7.1 Overview

Boart Longyear is a leading provider of drilling services, drilling equipment and performance tooling for mining and drilling companies, with more than 120 years of expertise in the mineral drilling market. The Company also provides aftermarket parts and services, energy drilling, oil sands exploration, and production drilling. Boart Longyear comprises of two main operating divisions; global drilling services (Drilling Services) and global products (Products), which are discussed in further detail below. The integrated business model of providing both drilling services and drilling products globally gives Boart Longyear the ability to integrate knowledge gained from both divisions into the development of new products, and improve its drilling services offering.

Boart Longyear operates across four regions: Asia Pacific (APAC), North America (NAM), Europe, the Middle East and Africa (EMEA), and Latin America (LAM). In CY16, operations in the NAM region accounted for 45.0% of the Company's total revenue, followed by APAC with 26.0%, EMEA with 15.0% and LAM with 14.0%.

A split of Boart Longyear’s revenue by product and geographic region for CY15 and CY16 is shown below.

Figure 3: Boart Longyear’s revenue by product and region



Source: Boart Longyear financial report for CY16.

7.2 Recent developments

Boart Longyear operates a business that can be highly cyclical and typically follows major trends within the mining industry. The most recent cycle comprises of CY10 to the year to date (YTD) CY16. This cycle began with a low adjusted EBITDA of US\$222.0 million for CY10, reaching a peak in CY11 of US\$356.3 million, followed by a decrease to an adjusted EBITDA of US\$254.3 million for CY12. Adjusted EBITDA then decreased to a low of US\$31.4 million for CY14 and has increased slightly to reach US\$32.0 million for CY16. At February 2017 the YTD adjusted EBITDA was US\$2.1 million.

The revenue and earnings of Boart Longyear are linked to commodity prices. In a declining commodity pricing environment mining companies typically cancel or defer capital expenditure and exploration projects to focus on cost reductions and capital allocations, resulting in a reduction in global mining exploration activity and mining investments. In line with this, global mining capital expenditure on exploration fell to lows of US\$6.9 billion in CY16, according to SNL Metals Economics Group (SNL MEG). The trend in decreased mining exploration is expected to reverse going forward, with commodity prices predicted to appreciate, encouraging stronger mining investment and mining services expenditure in the period CY19 as noted in Appendix 5.

The percentage utilisation of operating drilling rigs in Drilling Services can be seen as an economic indicator for the performance of the division. During CY16, Boart Longyear's operating rig utilisation rate was approximately 32.3%, a decrease from 36.0% operating in CY15. Comparatively, at the top of the cycle, the percentage utilisation was approximately 55.0% to 65.0%.

For Products, order backlog can be seen as an economic indicator. Average backlog decreased 13.1% from CY15 to CY16. However, an increase in backlog at the beginning of 2017 reflects increased demand for drilling products. This measure also acts as a good leading indicator for future increases in volume for Drilling Services, as competitors increase drilling inventory in expectation of higher workflow.

In response to the continued downturn and an unsustainable capital structure, Boart Longyear implemented a strategic review of the business and cost saving initiatives to reduce spending. Boart Longyear has taken the following restructuring measures over recent years:

- controlling sales, general and administrative costs (SG&A) and other overhead related costs
- exiting certain loss-making drilling services project or territories
- leveraging the supply chain function across the business
- focusing on operational efficiencies and productivity at the drill rig level and across the global organisation.

The initiatives outlined above, result in reduced overall expenditure of approximately US\$1.4 billion. However these efforts have led to recapitalisation costs, employee and related costs, and other restructuring costs of US\$26.1 million during CY15 and US\$25.6 million in CY16. Boart Longyear has also reduced its cash requirements by reducing its capital expenditure plan for CY16 to US\$22.4 million from US\$282.8 million in CY10.

Going forward, Boart Longyear will focus on the following initiatives to improve business performance:

- maintaining and improving safety and compliance to reduce job related injuries and protect against potential safety risks
- focusing on expanding mining and mineral drilling customer bases by aiming to improve efficiency, productivity and commercial practices
- fostering strong customer relationships and carefully managing pricing and contract terms
- balancing investing new products that respond to customer needs, whilst also managing capital expenditure
- improving cash generation through effective liquidity and cost management

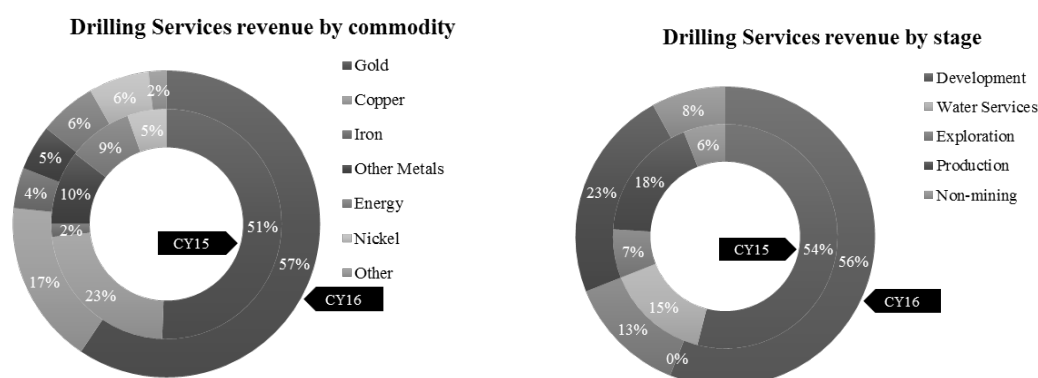
Strategically, Boart Longyear intends to focus on increasing data acquisition at drilling rigs for processes such as core orientation, core logging, survey and assay. This data can then be sent back to customers in an instantaneous, low-cost and user friendly manner.

### 7.3 Drilling Services

Drilling Services provides a broad range of drilling services to mining and energy companies, water utilities, geotechnical engineering firms, government agencies and other mining services companies in approximately 22 countries. The division primarily offers drilling services for commodities such as gold, copper, and nickel, as well as for the exploration and development of non-conventional energy sources such as oil shale, oil sands, coal, coal seam gas and geothermal energy. Boart Longyear specialises in a range of drilling services technology, including surface and underground diamond core drilling, underground percussive drilling, sonic drilling, surface rotary drilling, surface geotechnical drilling, and surface and underground reverse circulation drilling.

Analysis of Drilling Services revenue by commodity and stage for CY15 and CY16 is shown below.

**Figure 4: Drilling Services revenue by commodity and stage**



Source: Boart Longyear financial report for CY16.

Drilling Services provides services to major and intermediate mining companies which represented 85.0% of revenues during CY16, whilst junior mining companies and non-mining companies represented 7.0% and 8.0%, respectively. Major customers during CY16 included, but were not limited to, BHP Billiton Limited, Goldcorp Inc., Barrick Gold Corporation, Randgold, Goldcorp, Newmont and Rio Tinto Ltd.

Drilling Services operates in the greenfield, production and development stage of the mining cycle, with the development and production stages generating the majority of revenue. As detailed in Appendix 5, demand conditions are optimistic, yet the outlook for these activities is still uncertain and could remain at depressed levels for an extended period of time, or decline even further. In CY16 Drilling Services revenue, which accounts for 70.0% of the Company's revenue, decreased by 15.2% to US\$447.7 million. This decrease was driven by volume reduction, lower prices and changes in foreign exchange rates. Decreases in volume primarily related to drilling reductions in NAM and LAM, whilst price decreases primarily related to the APAC region. Drilling Services revenue was US\$66.0 million for the YTD to February 2017.

As at 31 December 2016, the Company had 879 drilling rigs deployed globally, making Boart Longyear the single largest provider of rigs to the mining and resources industries. With recent increases in commodity prices along with stronger product sales, which act as a leading indicator for increased volume in Drilling Services, there is an opportunity for revenue to grow in the near future. However, low rig utilisation rates have caused an oversupply of rigs in the market, creating a highly competitive environment resulting in price and margin pressures. As such the company has US\$5.9 million of assets classified as held for sale, consisting primarily of excess rigs and ancillary equipment. These assets have a historical cost of US\$29.5 million. At March 2017, Management identified no further surplus equipment. However, market conditions require that equipment and rigs are frequently reviewed. This may result in additional rigs being sold during the year if it is deemed unlikely that they will be put back into service in the medium term. However the impact of this is not expected to be material.

## **7.4 Products**

Products, designs, manufactures and sells a range of drilling equipment and performance tooling, including wireline core extraction systems, drilling rigs, diamond drill bits and drill rods for mine development, mine production and environmental and infrastructure drilling. The Company offers these products to environmental, mining, resources, infrastructure, and energy industries. Its coring tools include conventional diamond drill and advanced wireline coring systems used in minerals drilling.

Products predominantly sells exploration tooling and production tooling to drilling services contractors and mining companies.

Overall, Products accounted for 30.0% of the Company's total revenue during CY16. The division still carries significant inventory levels, which were built up during CY12 in the expectation that the upcycle in the mining industry would continue. The market contraction led to a reduction in orders causing a surplus of inventory. Whilst inventory levels have decreased 69.0% since CY12, levels still remain high as a percentage of revenue at 25.7%, with a decrease in inventory levels of only 1% from CY15 to CY16. As indicated previously, order backlog is seen as a measure of activity within Products. At 31 December 2016, there is sufficient inventory in place to fill most customer demand and purchase activities at production facilities are relatively low.

During CY16 Products revenue decreased by 6.1% to US\$194.7 million. This decrease was mainly due to unfavourable currency translations as well as moderate decreases in price and volume. Products revenue was US\$35.7 million for the YTD to February 2017.

Boart Longyear's research and development (R&D) activities focus on the development, design and testing of new and improved products. The Company works in co-operation with customers to identify issues and develop technical solutions. During CY16 the Company launched seven new products. The quality of Boart Longyear's drilling equipment continues to act as a barrier to competitors from low cost countries from entering the market (such as China and India), as the product quality, performance and safety standards of the Company's products are superior, particularly in the high-end hard rock deep drilling market.

## **8 Financial overview**

### **8.1 Going concern basis**

Boart Longyear's financial reports for CY16 were prepared by management on a going concern basis, which contemplates the continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. In this regard, the Directors highlight the following risks which give rise to material uncertainty:

- the Company incurred a net loss after tax of US\$156.8 million (CY15: US\$326.3 million)
- based on internal projections difficulties may arise in complying with the financial covenants and terms under the amended credit facility agreement in the absence of improved mining market conditions and financial performance of the Company

Further, the Company entered into a DDTL of US\$20 million with Centerbridge on 5 January 2017 to provide additional working capital whilst restructuring discussions continue.

Notwithstanding the above, the Directors were satisfied that it was appropriate to prepare the financial statements on a going concern basis having regard to the following factors:

- approval of the Company's proposed restructuring plan
- the Company's ability to generate forecast cash flows which requires:
  - sustaining cost reduction initiatives already implemented, whilst continuing to seek further cost reduction opportunities through efficiency initiatives and actively managing cash flows
  - accessing additional short-term funding in order to maintain cash flows
  - meeting cash interest payments due on 1 April 2017, or obtaining an agreement for the deferral of these payments.

However, Deloitte Touche Tohmatsu, the statutory auditor of Boart Longyear, issued a disclaimer of opinion on the CY16 financial statements stating that there is not sufficient, appropriate audit evidence and the uncertainties are so material and pervasive that they are unable to provide a basis for an audit opinion on the financial report. Accordingly, no opinion was expressed as to whether the financial report of Boart Longyear is in accordance with the Corporations Act 2001.



## 8.2 Financial performance

The historical consolidated financial performance of Boart Longyear for CY14, CY15 and CY16 are summarised below.

**Table 4: Financial performance**

Period US\$ million unless otherwise stated	12 months to 31-Dec-14	12 months to 31-Dec-15	12 months to 31-Dec-16
Revenue	866.6	735.2	642.4
Cost of goods sold	(822.9)	(734.8)	(556.6)
<b>Gross margin</b>	<b>43.7</b>	<b>0.4</b>	<b>85.8</b>
Other income	7.6	2.2	8.9
General and administrative expenses	(176.2)	(119.1)	(108.8)
Sales and marketing expenses	(29.4)	(25.2)	(28.4)
Restructuring expenses and related impairments	-	-	-
Other expenses	(30.7)	(57.5)	(18.4)
<b>Operating profit / (loss)</b>	<b>(185.0)</b>	<b>(199.2)</b>	<b>(60.8)</b>
Interest income	5.5	4.1	2.5
Finance costs	(72.2)	(72.8)	(72.7)
<b>Profit / (loss) before taxation</b>	<b>(251.7)</b>	<b>(267.9)</b>	<b>(131.0)</b>
Income tax expense	(81.0)	(58.3)	(25.8)
<b>Profit / (loss) after tax attributable to equity holders of the parent</b>	<b>(332.7)</b>	<b>(326.3)</b>	<b>(156.8)</b>
Basic (loss) earnings per share (cents)	(70.8)	(36.0)	(16.8)
Diluted (loss) earnings per share (cents)	(70.8)	(36.0)	(16.8)
<b>Financial metrics</b>			
Revenue growth	-	(15.2)%	(12.6)%
Gross margin	5.0%	0.1%	13.4%
Net operating profit / (loss) margin	(21.4)%	(27.1)%	(9.5)%
Operating expenses as a % of revenue	(27.3)%	(27.4)%	(24.2)%
Profit / (loss) after tax margin	(38.4)%	(44.4)%	(24.4)%

Source: Boart Longyear financial report for CY15 and CY16, and KPMG Corporate Finance Analysis.

With regard to the historical financial performance summarised above, we note the following:

- as the mining and resources markets have contracted, CY16 revenue of US\$642.4 million decreased by 12.6%, compared to CY15's revenue of US\$735.2 million. In relation to the revenue impact of the business divisions, we note the following:
  - CY16 revenue from Drilling Services decreased by 15.2% to US\$447.7 million compared to CY15 due to weaker sentiment in the mining industry for the fourth consecutive year, resulting in reduced spending on exploration and development. Whilst also affected by unfavourable foreign currency impacts, this negative price impact was less than CY15
  - CY16 revenue from Products decreased by 6.1% to US\$194.7 million compared to CY15, primarily due to unfavourable currency translations and slightly reduced price and volume.

- Boart Longyear undertook a further strategic review of the business, leading to the implementation of cost saving initiatives to combat the decline in revenues. As a result, expenses during CY16 comprising of adjusted Cost of Goods Sold (COGS) and adjusted SG&A totalled US\$666.3 million, representing a 14.7% decrease compared to CY15. This reduction is higher than the revenue decrease of 12.6%. Refer to Section 7.2 for further details on the cost saving initiatives
- during CY16, COGS were impacted by the cost reduction actions implemented over several years. As a result of these actions, adjusted COGS decreased as a percentage of revenue greater than that seen from CY14 to CY15, moving from 95.0% in CY15 to 86.7% in CY16. In absolute terms adjusted COGS decreased by 15.7% to US\$553.6 million in CY16 from US\$658.6 million in CY15
- part of the cost savings in CY16 focussed on reducing the SG&A run rate of both business divisions. SG&A expenses are classified in the statement of financial performance as ‘general and administrative expenses’ and ‘sales and marketing expenses’. During CY16, Boart Longyear realised additional cost savings of approximately US\$7.1 million or 5.0%, reducing CY16 SG&A expenses to US\$137.2 million compared to CY15 (CY15: US\$61.3 million or 29.8% in cost savings, reducing SG&A expenses to US\$144.3 million from CY14). Cost savings initiatives have slowed, as management have already exhausted a number of primary cost saving options in previous years
- Boart Longyear recognised US\$26.1 million of pre-tax restructuring costs in CY15 attributable to its cost saving initiatives across both business divisions. During CY16, restructuring costs of US\$25.6 million were incurred, a lower amount than CY15. These costs related to employee separations, exiting onerous leases, resizing of the business and impairments of inventory and equipment related to the relocation of manufacturing activities
- other expenses decreased US\$39.2 million to US\$18.3 million during CY16. These expenses primarily related to foreign exchange changes
- finance costs during CY16 decreased marginally by 1.0% to US\$72.7 million compared to CY15, primarily due to a decrease in interest on loans and bank overdrafts
- income tax expenses of US\$25.8 million for CY16, decreasing by 55.7% from CY15 is attributed to the following:
  - profits in countries with higher tax rates
  - significant losses in countries with lower tax rates
  - withholding taxes on intercompany transactions
  - non-recognition of CY16 losses
  - de-recognition of prior deferred tax assets (DTAs) as Boart Longyear is in a tax loss position in many of its operating jurisdictions for CY15.

### 8.3 Financial position

The historical consolidated financial position of Boart Longyear as at 31 December 2014, 31 December 2015, and 31 December 2016 are summarised below.

**Table 5: Financial position**

As at	31-Dec-14	31-Dec-15	31-Dec-16
US\$ million unless otherwise stated			
<b>Current assets</b>			
Cash and cash equivalents	168.8	113.4	59.3
Trade and other receivables	137.4	110.1	107.9
Inventories	241.3	166.3	165.0
Current tax receivable	15.4	6.6	4.4
Prepaid expenses and other assets	18.7	16.4	13.6
Assets classified as held for sale	-	-	5.9
<b>Total current assets</b>	<b>581.7</b>	<b>412.7</b>	<b>356.2</b>
<b>Non-current assets</b>			
Property, plant and equipment	279.3	176.5	127.7
Goodwill	102.5	99.7	100.0
Other intangible assets	77.3	54.4	43.9
Deferred tax assets	68.4	21.0	19.5
Non-current tax receivable	13.7	14.0	19.0
Other assets	17.5	13.5	10.3
<b>Total non-current assets</b>	<b>558.7</b>	<b>379.1</b>	<b>320.4</b>
<b>Total assets</b>	<b>1,140.4</b>	<b>791.7</b>	<b>676.6</b>
<b>Current liabilities</b>			
Trade and other payables	167.0	145.0	126.6
Provisions	23.9	19.5	13.0
Current tax payable	100.2	78.0	94.6
Loans and borrowings	-	0.1	0.1
<b>Total current liabilities</b>	<b>291.2</b>	<b>242.6</b>	<b>234.3</b>
<b>Non-current liabilities</b>			
Loans and borrowings	716.3	689.7	735.0
Deferred tax liabilities	17.7	14.8	18.9
Provisions	44.9	25.0	25.9
<b>Total non-current liabilities</b>	<b>779.0</b>	<b>729.5</b>	<b>779.8</b>
<b>Total liabilities</b>	<b>1,070.2</b>	<b>972.1</b>	<b>1,014.1</b>
<b>Net assets</b>	<b>70.2</b>	<b>(180.2)</b>	<b>(337.5)</b>
<b>Equity</b>			
Share capital	1,159.1	1,262.4	1,263.8
Reserves	(82.8)	(120.8)	(117.7)
Other equity	(137.2)	(137.2)	(137.2)
Retained earnings/(Accumulated losses)	(868.9)	(1,184.6)	(1,346.4)
<b>Total equity</b>	<b>70.2</b>	<b>(180.2)</b>	<b>(337.5)</b>
<b>Calculation of debtor and creditor days</b>			
Debtor days <sup>1</sup>	61.0	54.7	70.8
Creditor days <sup>1</sup>	74.1	72.1	83.0
<b>Statistics</b>			
Number of securities on issue	634.1	929.1	940.6
NA per securities (US\$) <sup>2</sup>	0.1	(0.2)	(0.4)
NTA per securities (US\$) <sup>3</sup>	(0.2)	(0.4)	(0.5)
Gearing	962.4%	-319.9%	-162.3%

Source: Boart Longyear financial report for CY15 and CY16, and KPMG Corporate Finance Analysis.

Note 1: Based on 365 days in a year.

Note 2: NA per security calculated as net assets divided by the number of securities on issue at period end

Note 3: NTA per security calculated as net tangible assets divided by the number of securities on issue at period end

Note 4: Gearing is calculated based on net debt divided by net assets plus net debt

With regard to the historical financial position summarised above, we note the following:

- as a result of an increased use of cash in operating activities in CY16, cash and cash equivalents decreased by US\$54.0 million, or 47.6%, to US\$59.3 million as at 31 December 2016. Included in this balance is US\$45.3 million relating to interest paid, as well as US\$6.9 million of restricted cash that cannot be accessed until certain conditions, pertaining to both the ABL and secure facility leases, are met
- inventories remained relatively constant at US\$165.0 million as at 31 December 2016 from US\$166.3 million as at 31 December 2015. The reduction primarily related to a US\$21.4 million decrease in third party sales and Global Drilling Services consumption. These decreases were partially offset by foreign currency exchange differences (US\$1.3 million). As at 31 December 2015, inventories decreased by US\$75.0 million, or 31.1%, to US\$166.3 million from 31 December 2014 with the decrease mainly attributable to write-down of inventories to net realisable value (US\$34.5 million), third party sales and Global Drilling Services consumption (US\$21.2 million) and foreign currency exchange and other non-cash changes (US\$18.4 million)
- as at 31 December 2016, the income tax receivable (US\$23.4 million) was classified as US\$4.4 million of current tax receivables and US\$19.0 million as non-current tax receivable. In addition, the Company has accounted for the potential tax payable arising from audits by the Canadian Revenue Authority (CRA) in its provisions, which is discussed further in Section 11
- in 2015, in response to challenging market conditions, the Company commenced a project to sell certain excess rigs and ancillary equipment that were underutilised. This project is expected to continue into 2017. As such there are US\$5.9 million of assets classified as Held for Sale as at 31 December 2016
- as at 31 December 2016, the net value of property, plant and equipment decreased by US\$48.8 million (27.7% to US\$127.7 million) from 31 December 2015. The decrease related to depreciation expenses of US\$48.6 million, disposals of US\$12.6 million, a transfer of US\$5.9 million of assets to assets held for sale, a transfer of US\$1.5 million to other intangibles and impairment charges of US\$0.9 million. These decreases were partially offset by US\$3.1 million in foreign currency movements and current year additions of US\$17.5 million
- the impairment charges of US\$0.9 million were the result of an individual asset impairment that considered prior use of the asset and expected future revenue. Utilisation rates lower than current levels could lead to future asset impairments
- the carrying balance of other intangible assets decreased by US\$10.5 million to US\$43.9 million as at 31 December 2016, due to impairment charges of US\$1.2 million and amortisation of US\$13.9 million partially offset by foreign currency exchange differences of US\$0.2 million, additions, and transfers of PP&E and intangible assets totalling US\$4.4 million
- DTAs as at 31 December 2016 decreased by 7.5% to US\$19.5 million from 31 December 2015
- trade and other payables as at 31 December 2016 decreased by US\$18.4 million, or 12.7% to US\$126.6 million. As at 31 December 2015, trade and other payables decreased by US\$22.0 million, or 13.2% to US\$145.0 million from 31 December 2014. Despite the creditor days figure increasing to

approximately 83 days at 31 December 2016 (31 December 2015: approximately 72 days), a lower level of manufacturing activity and continued focus on cost control led to the resultant decrease in trade and other payables

- provisions as at 31 December 2016 decreased by US\$5.5 million, or 12.4%, to US\$39.0 million as compared to 31 December 2015. This decrease is primarily the result of decreases in employee benefits due to a decrease in the number of employees as well as restructuring and termination costs. This was marginally offset by an increase in defined benefit plan liabilities. Provisions of US\$44.5 million as at 31 December 2015 decreased by 35.4% from US\$68.9 million as at 31 December 2014. The majority of this balance is made up of employee provisions, including annual leave, long service leave and bonuses. The remainder of the balance consists of provisions for restructuring and termination costs, onerous lease provisions and warranty obligations
- as at 31 December 2016, the current tax payable of US\$94.6 million related primarily to income tax payable, as well as other tax related expenses, attributable to Boart Longyear and entities in the consolidated group
- loans and borrowings as at 31 December 2016 totalled US\$735.1 million and increased by US\$45.3 million during CY16. See Section 10.2 for further detail.

## 8.4 Statement of cash flows

The historical consolidated statement of cash flows of Boart Longyear for CY14, CY15 and CY16 are summarised below.

**Table 6: Statement of cash flows**

For	CY14	CY15	CY16
<b>US\$ million unless otherwise stated</b>			
<b>Cash flow from operating activities</b>			
<b>Profit / (loss) for the year</b>	<b>(332.7)</b>	<b>(326.3)</b>	<b>(156.8)</b>
<i>Adjustments provided by operating activities:</i>			
Income tax expense recognised in profit	81.0	58.3	25.8
Finance costs recognised in profit	72.2	72.8	72.7
Depreciation and amortisation	102.4	83.9	62.5
Interest income recognised in profit	(5.5)	(4.1)	(2.5)
Other non-cash items	-	7.9	(18.8)
Impairment of current and non-current assets	48.5	71.8	2.0
Loss (gain) on sale or disposal of non-current assets	(1.7)	(1.3)	(3.8)
Loss on disposal of business	-	-	-
Non-cash foreign exchange loss	5.6	21.3	10.3
Shares issued to directors	-	-	0.7
Long-term compensation - cash rights	4.5	3.2	1.8
Equity-settle share-based payments	4.3	4.0	3.4
<i>Changes in net assets and liabilities, net of effects from acquisition and disposal of</i>			
Trade and other receivables	44.4	7.8	1.8
Inventories	40.7	21.2	21.4
Other assets	(3.4)	6.2	7.6
Trade and other payables	11.1	(4.9)	(16.5)
Provisions	(16.7)	(10.6)	(13.0)
Cash generated from operations	54.6	11.4	(1.4)
Interest paid	(60.7)	(47.4)	(45.3)
Interest received	5.5	4.1	2.5
Income taxes (paid) / received	(10.7)	(22.9)	(6.2)
<b>Net cash flows from operating activities</b>	<b>(11.3)</b>	<b>(54.9)</b>	<b>(50.4)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	(13.8)	(21.8)	(19.2)
Proceeds from sale of property, plant and equipment	6.2	2.4	16.4
Intangible costs paid	(4.4)	(2.8)	(3.2)
Investment in unaffiliated companies	-	(2.9)	(1.9)
<b>Net cash flows used in investing activities</b>	<b>(12.0)</b>	<b>(25.0)</b>	<b>(7.9)</b>
<b>Cash flows from financing activities</b>			
Payments for share purchases for LTIP	-	(0.2)	-
Payments for debt issuance costs	(3.2)	(1.4)	(0.1)
Proceeds from borrowings	281.0	-	25.7
Repayment of borrowings	(161.1)	(35.0)	(8.1)
Dividends paid	-	-	-
Proceeds from issuance of shares	27.2	83.7	-
<b>Net cash flows provided by / (used in) financing activities</b>	<b>143.9</b>	<b>47.1</b>	<b>17.5</b>
Net increase/(decrease) in cash held	120.6	(32.8)	(40.8)
Cash and cash equivalents at the beginning of the year	59.1	168.8	113.4
Effects of exchange rate changes on opening cash brought forward	(10.8)	(22.7)	(13.2)
<b>Cash and cash equivalents at the end of the year</b>	<b>168.8</b>	<b>113.4</b>	<b>59.3</b>

Source: Boart Longyear financial report for CY15 and CY16

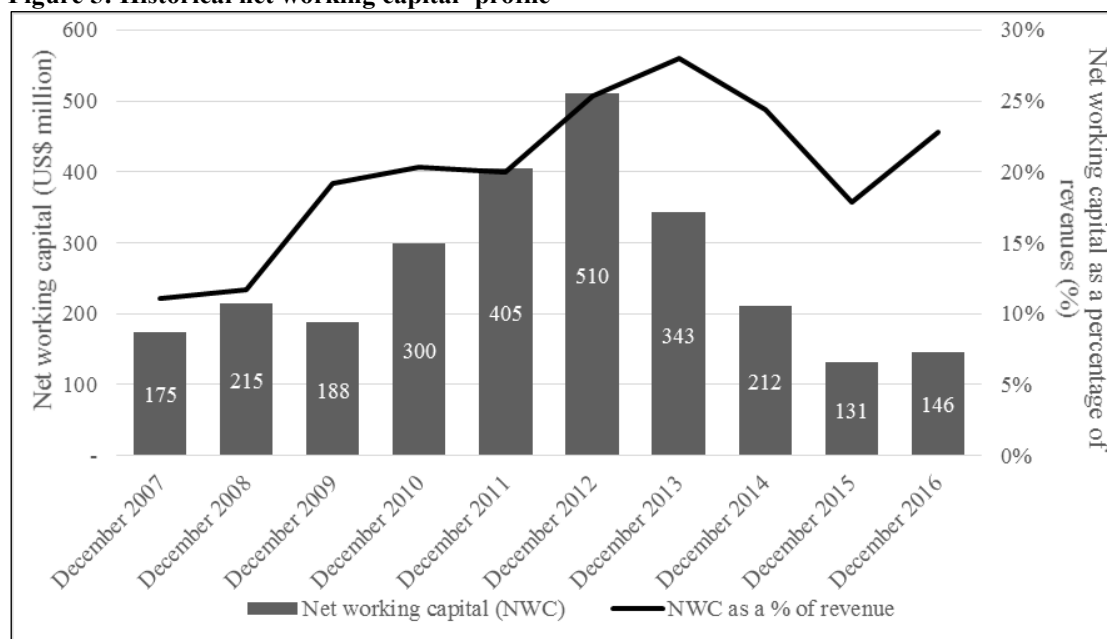
With regard to the historical statement of cash flows summarised above, we note the following:

- during CY16, net operating cash flows improved to negative US\$50.4 million (CY15: negative US\$54.9 million) primarily due to a decrease in cash taxes paid during the year, partially offset by a reduction in cash generated from working capital release as compared to CY15
- capital expenditure remained steady from CY15 to CY16 with outlays of US\$21.8 million and US\$19.2 million, respectively. CY16's expenditure was primarily directed towards refurbishment of rigs and other support equipment (US\$13.2 million), and product development activities (US\$3.0 million). The decrease in capital expenditure from CY15 to CY16 was partially offset by the proceeds from the sale of PP&E for US\$16.4 million
- current capex represents the amount required in a down-cycle to sustain the business. During a market upturn, this is estimated to be in the range of US\$60.0 million to US\$70.0 million (excluding potential acquisitions)
- during CY16, the Company recorded US\$17.5 million in net cash flows from financing activities compared to US\$47.1 million in CY15. The difference is primarily due to the issuance of shares for US\$83.7 million during CY15, representing the completion of equitisation of senior unsecured notes of US\$16.0 million held by Centerbridge. Proceeds from financing in CY16 predominantly relate to borrowings of US\$25.7 million, with US\$17.6 million relating to the ABL facility. In comparison, there were no proceeds from borrowings in CY15.

## 9 Working capital

The historical NWC balances of Boart Longyear are illustrated in the graph below.

**Figure 5: Historical net working capital<sup>1</sup> profile**



Source: Boart Longyear financial reports for CY08, CY09, CY10, CY11, CY12, CY13, CY14, CY15 and CY16.

Note 1: Calculation for net working capital = Trade and other receivables + Inventories – Trade and other payables.

With regard to the historical NWC above, we note the following:

- NWC increased US\$210 million from 31 December 2010 to 31 December 2012 due to significant build-up of inventories and equipment over the period
- NWC has been steadily declining since CY12 as the Company focused on carefully managing working capital levels to ensure that inventory is sufficient to meet demand but is not obsolete
- consolidation and integration of inventory management and supply chain functions combined with lower revenues has reduced the working capital requirements. The slight increase in net working capital from US\$131.0 million at 31 December 2015 to US\$146.0 million at 31 December 2016 was due to an increase in trade and other payables as opposed to an increase in inventories or receivables. NWC has increased in the beginning of 2017 with improving market conditions
- As a percentage of revenue NWC peaked in CY13 at 28.0% as revenue dropped significantly by 39.2% from CY12 to CY13. As NWC management initiatives were put in place NWC as a percentage of revenue has followed a downward trend, increasing slightly in CY16 due to a slight increase in trade payables and a corresponding decrease in revenue



- the majority of the Company's working capital is cyclical, with the balance decreasing towards the first and fourth quarters of the calendar year. The cyclical nature is primarily influenced by the seasonality in the mining and resources industry where shutdowns by mining companies at year end reduce mining activity and hence the demand for drilling services. A portion of the Company's working capital is counter cyclical as exploration drilling services provided to the oil & gas sector is traditionally provided during the second and third quarters of the year.

## 10 Liquidity and debt facilities

### 10.1 Debt facilities

Boart Longyear's debt facilities as at 28 February 2017 are summarised below.

**Table 7: Debt facilities**

US\$ million unless otherwise stated	Total facilities	Amount drawn	Available facility <sup>1</sup>	Interest Rate	Maturity
Senior Secured notes	195.0	195.0	-	10.0%	1-Oct-18
Senior Unsecured notes	284.0	284.0	-	7.0%	1-Apr-21
Term Loan - Tranche A	85.0	85.0	-	12.0%	3-Jan-21
Term Loan - Tranche B	105.0	105.0	-	12.0%	3-Jan-21
ABL	40.0	17.6	10.5	Variable	29-May-20
DDTL	20.0	20.0	-	12.0%	31-Dec-20

Source: Boart Longyear financial report for CY15 and CY16.

Note 1: Outstanding letters of credit as at 28 February 2017 reduce the amount of funds available to be drawn from the ABL. This is explained in further detail below.

Note 2: Applicable interest rates for the ABL are based on a base rate plus a margin, where:

- base rate = US dollar LIBOR or prime rate determined by the Bank of America.
- margin = based on leverage according to a pricing grid.

With regard to the debt facilities above, we note the following:

- the senior secured notes issued on 27 September 2013 of US\$195.0 million have an applicable interest rate of 10.0% and mature on 1 October 2018. The Company used the net proceeds to substantially repay bank loans and secure modifications in order to provide a flexible covenant structure
- the senior unsecured notes issued on 28 March 2011 of US\$284.0 million have an applicable interest rate of 7.0% and mature on 1 April 2021
- the Term Loan facility has an interest rate of 12% payable in kind and is structured into Term Loan A and Term Loan B. As at 28 February 2017 Term Loan A had principal outstanding of US\$85.0 million maturing on 3 January 2021, extended from 22 October 2020, as part of the DDTL terms. Term Loan B had principal outstanding of US\$105.0 million maturing on 3 February 2021, extended from 1 October 2018, in connection with the implementation of the DDTL
  - the Company has an ABL of US\$40.0 million. As at 28 February 2017 US\$17.6 million was outstanding as well as outstanding letters of credit amounting to US\$11.9 million, reducing remaining funds available through this facility. A provision in the facility currently restricts

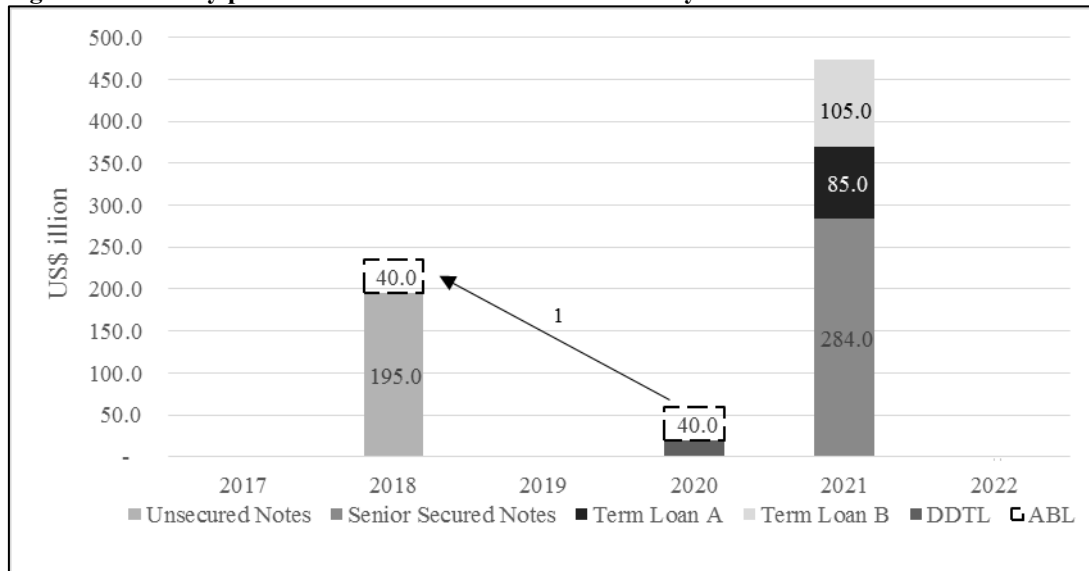
availability by US\$5 million until the Company maintains an unadjusted fixed charge coverage ratio of at least 1.0:1.0 for four consecutive quarters

- the ABL interest rate is based on 30-day US\$ LIBOR with the margin based on a pricing grid linked to the Company's leverage. As at 28 February 2017 the applicable margin was 3.5% for LIBOR based loans
- scheduled maturity is the earliest of
  - i. 90 days prior to maturity of senior secured notes
  - ii. 90 days prior to maturity of Term Loan A
  - iii. 90 days prior to maturity of Term Loan B
  - iv. 29 May 2020
- As at 28 February 2017, the ABL had US\$28.4 million outstanding
- on the 5 January 2017 the Company entered into a US\$20.0 million DDTL with Centerbridge. The purpose of this loan is to provide additional financial resources and working capital whilst the Company continued restructuring discussions with its lenders. The loan has a maturity date of 31 December 2020 and an interest rate of 12% PIK or 10% payable in cash
- by entering into the DDTL the terms for Term Loans A and B, also held with Centerbridge, have been modified as follows:
  - the maturity dates for both loans has been amended to 3 January 2021
  - the interest rates have been amended to 12% payable in kind or 10% payable in cash
  - the period for make-whole obligations under Term Loans A and B has been extended to 3 January 2021
  - the Company must maintain at least 90% of all its US, Canada and Australia tangible assets as collateral.
- As at 28 February 2017, accrued interest for the debt facilities was as follows:
  - Senior Secured Notes – US\$8.3 million
  - Senior Unsecured Notes – US\$8.1 million
  - Term Loan A - US\$29.7 million
  - Term Loan B - US\$33.1 million.

## 10.2 Debt maturity profile

Boart Longyear's debt maturity profile is illustrated below.

**Figure 6: Maturity profile of debt facilities as at 28 February 2017**



Source: Boart Longyear financial reports for CY16.

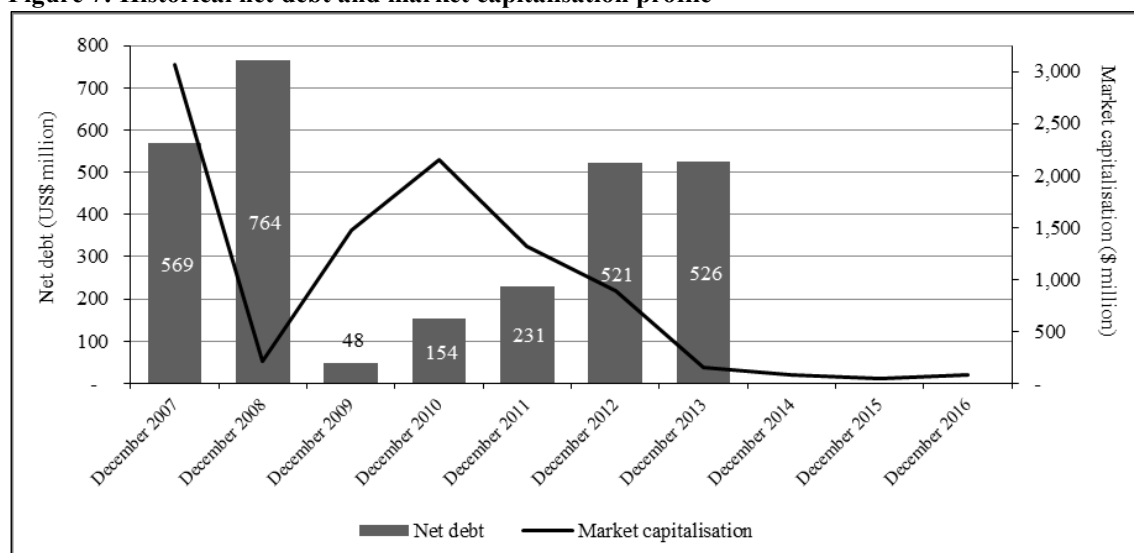
Regarding the graph above we note the following:

- if Term Loan B and 10% Senior Secured Notes have not been refinanced prior to July 2018, the ABL maturity of US\$40 million, accelerates to 2018 instead of 2020.
- this diagram is based on the maturity profile of the debt facility as at 28 February 2017

### 10.3 Historical net debt and market capitalisation profile

Boart Longyear's historical net debt<sup>10</sup> and market capitalisation profile is illustrated below.

**Figure 7: Historical net debt and market capitalisation profile**



Source: Boart Longyear financial reports for CY07, CY08, CY09, CY10, CY11, CY12, CY13, CY14, CY15, CY16, Standard & Poor's (S&P), Capital IQ, and KPMG Corporate Finance Analysis.

The contraction in the exploration market has led to customers reducing capital expenditure, resulting in low demand for exploration drilling with underground production drilling remaining relatively stable. This has produced an oversupply of drill rigs in the market, causing Boart Longyear to be impacted by low rig utilisation rates, a reduction in order backlogs and an increase in financial leverage. In response to the prolonged contraction in the mining market, the Company negotiated a number of amendments to its revolving credit facility to maintain liquidity, including significantly increasing their financial leverage, particularly during CY12 compared to prior years. This has coincided with a fall in market capitalisation in line with the mining down-cycle over time.

### 10.4 Credit rating

During the last twelve months (LTM), Boart Longyear was subject to a series of credit rating downgrades, as summarised below:

- 14 July 2016 – Moody's Investors Service (Moody's) revised the Company's credit rating as follows:
  - Corporate family rating downgraded to 'Caa2'
  - Probability of default rating downgraded to 'Caa2-PD'
  - Senior secured notes downgraded to 'Caa1'

<sup>10</sup> Net debt is calculated as gross debt less cash and cash equivalents

- Senior unsecured notes downgraded to ‘Caa3’.
- 6 April 2017 – S&P revised the Company’s credit ratings as follows:
  - Corporate credit rating downgraded to ‘CC’
  - Senior secured notes downgraded to ‘CCC-’
  - Senior unsecured notes downgraded to ‘C’.

Further reductions in liquidity may cause additional downgrades to the Company’s corporate and debt credit ratings.

## 11 Tax position

In relation to Boart Longyear’s tax position, we note the following:

- Boart Longyear is the head entity in the Australian tax consolidated group comprising the Australian wholly-owned entities. Under the Australian tax consolidation regime, these entities are treated as a single entity for income tax purposes
- Boart Longyear’s Canadian tax returns for CY05 and CY06 have been subject to a review by the Canada Revenue Agency (CRA). The contested areas relate to the transfer pricing structure and methodologies, management fees and intellectual property royalties
- CY05 and CY06 assessments made by the CRA were disputed by the Company and have been subsequently withdrawn by the CRA’s Competent Authority division. As a result, CA\$59.4 million of federal taxes, penalties and interest were reversed and a security of CA\$35.5 million, provided by Boart Longyear were released
- the CRA is currently reassessing the Company’s income tax returns for 2007 to 2012. The Company is appealing these reassessments through a multi-national dispute process to prevent double taxation of income
- the Company has provisioned for the tax audits for CY07 through to CY12. However, any unfavourable outcomes may potentially lead to additional liquidity required to pay federal taxes, interest and penalty fees estimated at approximately CA\$109.6 million. In addition, a requirement to post security would impact negatively on Boart Longyear’s liquidity, as the form of security previously provided is considered as outstanding debt and therefore influences the calculation of the gross debt under the covenants of the amended credit facility.

## 12 Capital structure and ownership

As at 18 April 2017, Boart Longyear had the following securities on issue:

- 950,617,966 ordinary shares, held by approximately 7,100 individual Shareholders
- 23,706,195 share options, held by six individual option holders.



## 12.1 Ordinary shareholders

Issued capital in Boart Longyear is listed and traded on the ASX. The table below summarises the top 20 ordinary shareholders as at 18 April 2017.

**Table 8: Top 20 Shareholders as at 18 April 2017**

Shareholder	Number of ordinary shares	Percentage of issued capital
Centerbridge Credit Partners	464,501,606	48.86%
FIL Investment Mgt	36,670,674	3.86%
Mr Anthony P Maurici	26,773,181	2.82%
Mr Alfred Otte	19,771,612	2.08%
Realindex Investments	19,266,985	2.03%
Dimensional Fund Advisors	17,303,062	1.82%
Boart Longyear Plans CTRL	14,855,319	1.56%
DWP Bank	12,067,209	1.27%
American Securities	10,671,037	1.12%
AOF Mgt	10,317,018	1.09%
LSV Asset Mgt	9,543,961	1.00%
Invesco	9,459,628	1.00%
Merrill Lynch Pierce Fenner & Smith	6,774,990	0.71%
Mr & Mrs Michael Abolakian	6,650,000	0.70%
Mr Marcus P Randolph	6,390,521	0.67%
BLY Aus Plans Control	6,025,748	0.63%
LT Incentive Plan Trust	5,453,872	0.57%
Invesco	5,300,000	0.56%
Mr & Mrs Darrell RJ Bresnahan	4,830,000	0.51%
American Depositary Receipts	4,493,184	0.47%
<b>Total shares held by top 20 shareholders</b>	<b>697,119,607</b>	<b>73.33%</b>
Other shareholders	253,498,359	26.67%
<b>Total shares on issue</b>	<b>950,617,966</b>	<b>100%</b>

Source: Share register analysis provided by Boart Longyear and KPMG Corporate Finance Analysis.

The top 20 registered shareholders account for approximately 73.33% of the ordinary shares on issue.

## 12.2 Options

During 2015, the Board established the 2015 Option Plan to assist with recruiting and retaining highly qualified employees. This provides an incentive for productivity, and an opportunity to share in the growth and value of the Company. The options granted pursuant to the 2015 Option Plan are subject to a share-price appreciation performance condition. Vested options can be exercised for 10 years from the vesting date. In CY16, 1,000,000 options were issued to Mr Mark Irwin, as a part of his new hire offer, with an exercise price of AU\$0.199, with an estimated fair value of US\$70,000. During CY16 of the 7,054,724 million options that forfeited related to terminated employees, 3,651,570 million options were

forfeited by Kent Hoots. 11,516,168 share options have vested in 2014 to 2016, with the remaining share options vesting in 2017 and 2020.

## 12.3 Share rights

Share rights are issued under the Long Term Incentive (LTI) plan and are designed to assist in retaining key executives, encourage a sustainable level of superior performance and to align the interests of executives with existing Shareholders, through providing an opportunity for executives to share in the growth and value of the Company. Performance share right LTI awards are based on reaching a target share price appreciation over a three year period. During CY16, 55,676,119 share rights were granted under the LTI plan. There were a total of 74,253,694 share rights outstanding at the end of the year with 9,280,718 vesting in early 2017, and the remaining share rights vesting at various dates through 2019.

## 12.4 Director's interest

As at 14 March 2017, the Directors held the following shares:

**Table 9: Director's interest**

Name	Position	Total interest in ordinary shares held
Marcus Randolph	Executive Chairman	6,390,521
Bret Clayton	Non-executive Director	1,749,731
Peter Day	Non-executive Director	1,810,505
Jonathan Lewinsohn	Non-executive Director (resigned from board effective 20 January 2017)	-
Jeffrey Long	Non-executive Director	1,156,855
Gretchen McClain	Non-executive Director	1,020,882
Rex McLennan	Non-executive Director	1,290,717
Jeffrey Olsen	CEO, Non-executive Director	135,000
Deborah O'Toole	Non-executive Director	1,115,751
Conor Tochilin	Non-executive Director (appointed effective 20 January 2017)	-
<b>Total</b>		<b>14,669,962</b>

Source: Share register analysis provided by Boart Longyear, ASX announcements

## 13 Share price performance and liquidity analysis

### 13.1 VWAP and liquidity analysis

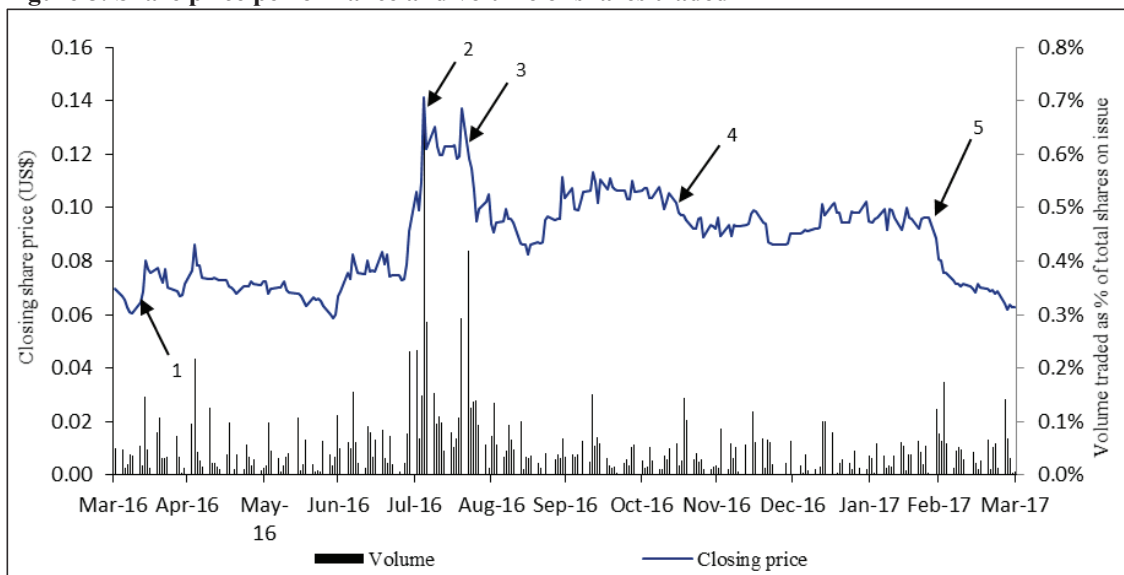
In assessing Boart Longyear's share price performance we have:

- analysed the price and volume performance of Boart Longyear over the one year period to 31 March 2017, being the day prior to announcement
- compared the share price movement to the Australian All Ordinaries and Metals and Mining indices over the one year period ended 31 March 2017

- assessed the VWAP and trading liquidity of Boart Longyear's shares for the one year period ending 31 March 2017.

Figure 8 depicts Boart Longyear's daily closing price on the ASX in US\$ (converted using a daily average exchange rate) in the year prior to 31 March 2017, along with the daily volume of shares traded on the ASX as a percentage of total issued capital over the period.

**Figure 8: Share price performance and volume of shares traded**



Source: S&P Capital IQ, KPMG Corporate Finance Analysis and ASX announcements.

As illustrated in Figure 8, Boart Longyear's closing share price and volume has remained relatively stable across the one year period with key movements primarily related to the release of financial reporting figures. The Company's share price post 31 December 2016 has a downward trend post release of the CY16 annual financial report, closing at US\$0.076 on 31 March 2017.

Significant announcements by Boart Longyear in the LTM to 31 March 2017 that may have had an impact on its recent share price include:

- 12 April 2016 – Boart Longyear released its CY15 annual financial report. This announcement was followed by an increase in the share price by 33.3% from a low of US\$0.06 on 8 April 2016 to a high of US\$0.08 on 13 April 2016
- 5 August 2016 – there was a sharp increase in Boart Longyear's trading volume and share price, from a low of US\$0.10 on 28 July 2016 to a high of US\$0.185 on 4 August 2016. This sudden movement was queried by the ASX. In response to this query Boart Longyear informed the ASX that they were not aware of any information generally unknown to the market that could provide and explanation for this change in trading patterns
- 22 August 2016 – Boart Longyear released its financial report for HY16, reporting a net loss of US\$52.1 million. The share price decreased by 30.7% from a high of US\$0.137 on 19 August 2016 to a low of US\$0.095 on 25 August 2016

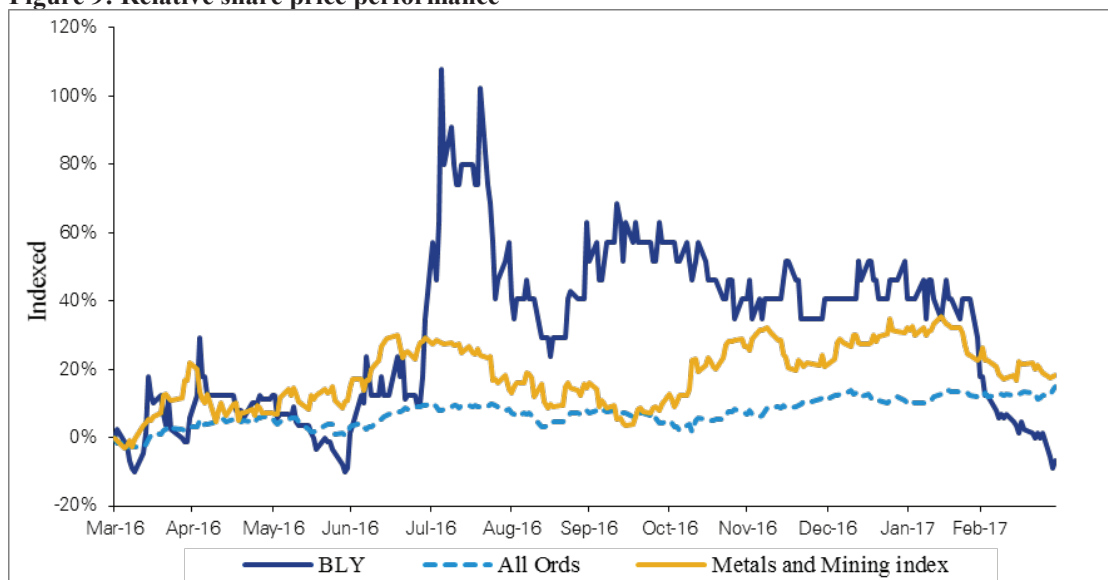


4. 17 November 2016 – Boart Longyear released its third quarter financial report for CY16, stating a net loss of US\$26.0 million for that period. The share price decreased by 9.8% from a high of US\$0.102 on 10 November 2016 to a low of US\$0.092 on 22 November 2016
5. 27 February 2017 – Boart Longyear released its annual financial report for CY16, stating a net loss of US\$156.8 million. The share price decreased by 20.8% over the following two weeks from a high of US\$0.096 on 24 February 2016 to a low of US\$0.076 on 31 March 2017

Further details in relation to all announcements made by Boart Longyear to ASX can be obtained from either the Company's website or ASX's website at [www.asx.com.au](http://www.asx.com.au).

The figure below illustrates a comparison of the trading performance of Boart Longyear's relative to the All Ordinaries Index and the Metals and Mining Index over the prior year to 31 March 2017. Boart Longyear significantly outperformed the index in July 2016, as both volume and price spiked prior to the release of Boart Longyear's annual report. This price spike reverted both in the lead up to, and immediately after the release of the half year financial report. Over the period to 31 March 2017, the Boart Longyear share price appreciated by 12.4%. Over the same period, the All Ordinary Index and Mining and Metals Index grew by 22.7% and 12.1%, respectively. The Boart Longyear share price displayed significantly greater volatility relative to both indices, which is not uncommon given the enhanced diversification of an index when compared to a single company, along with the small market capitalisation and liquidity of Boart Longyear.

**Figure 9: Relative share price performance**



Source: S&P Capital IQ and KPMG Corporate Finance Analysis

## 13.2 Dividends

No dividends have been issued for the half years ended 31 December 2016, 30 June 2016, 31 December 2015 or 30 June 2015.

## 14 Financial implications of the Recapitalisation

It is important to understand the impact of the Recapitalisation on Boart Longyear's financial position. In order to understand this, we have used the financial position of Boart Longyear as at 31 December 2016 as a base position and then created a pro-forma balance sheet based on the Recapitalisation to demonstrate the impact of each step below. In order to do this we have made certain assumptions which are discussed in further detail below the table. In particular, we have assumed that no existing shareholders will take up the SPP.

**Table 10: Pro-forma balance sheet following the Recapitalisation**

As at	31-Dec-16	Shares under Director compensation	Equitisation	Exercise of Preference Shares	Issuance under Subscription Agreement	Pro-forma post transaction	Post-Tranche A 7% Warrants	Post-Tranche B 7% Warrants	Post-Ordinary Warrants
US\$ million unless otherwise stated									
<b>Current assets</b>									
Cash and cash equivalents	59.3	-	-	-	-	59.3	59.3	59.3	59.3
Trade and other receivables	107.9	-	-	-	-	107.9	107.9	107.9	107.9
Inventories	165.0	-	-	-	-	165.0	165.0	165.0	165.0
Current tax receivable	4.4	-	-	-	-	4.4	4.4	4.4	4.4
Prepaid expenses and other assets	13.6	-	-	-	-	13.6	13.6	13.6	13.6
Assets classified as held for sale	5.9	-	-	-	-	5.9	5.9	5.9	5.9
<b>Total current assets</b>	<b>356.2</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>356.2</b>	<b>356.2</b>	<b>356.2</b>	<b>356.2</b>
<b>Non-current assets</b>									
Property, plant and equipment	127.7	-	-	-	-	127.7	127.7	127.7	127.7
Goodwill	100.0	-	-	-	-	100.0	100.0	100.0	100.0
Other intangible assets	43.9	-	-	-	-	43.9	43.9	43.9	43.9
Deferred tax assets	19.5	-	-	-	-	19.5	19.5	19.5	19.5
Non-current tax receivable	19.0	-	-	-	-	19.0	19.0	19.0	19.0
Other assets	10.3	-	-	-	-	10.3	10.3	10.3	10.3
<b>Total non-current assets</b>	<b>320.4</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>320.4</b>	<b>320.4</b>	<b>320.4</b>	<b>320.4</b>
<b>Total assets</b>	<b>676.6</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>676.6</b>	<b>676.6</b>	<b>676.6</b>	<b>676.6</b>
<b>Current liabilities</b>									
Trade and other payables	126.6	-	-	-	-	126.6	126.6	126.6	126.6
Provisions	13.0	-	-	-	-	13.0	13.0	13.0	13.0
Current tax payable	94.6	-	-	-	-	94.6	94.6	94.6	94.6
Loans and borrowings	0.1	-	-	-	-	0.1	0.1	0.1	0.1
<b>Total current liabilities</b>	<b>234.3</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>234.3</b>	<b>234.3</b>	<b>234.3</b>	<b>234.3</b>
<b>Non-current liabilities</b>									
Loans and borrowings	735.0	-	(196.0)	-	-	539.0	539.0	539.0	539.0
Deferred tax liabilities	18.9	-	-	-	-	18.9	18.9	18.9	18.9
Provisions	25.9	-	-	-	-	25.9	25.9	25.9	25.9
<b>Total non-current liabilities</b>	<b>779.8</b>	<b>-</b>	<b>(196.0)</b>	<b>-</b>	<b>-</b>	<b>583.8</b>	<b>583.8</b>	<b>583.8</b>	<b>583.8</b>
<b>Total liabilities</b>	<b>1,014.1</b>	<b>-</b>	<b>(196.0)</b>	<b>-</b>	<b>-</b>	<b>818.1</b>	<b>818.1</b>	<b>818.1</b>	<b>818.1</b>
<b>Net assets</b>	<b>(337.5)</b>	<b>-</b>	<b>196.0</b>	<b>-</b>	<b>-</b>	<b>(141.5)</b>	<b>(141.5)</b>	<b>(141.5)</b>	<b>(141.5)</b>
<i>Net assets per share (US\$)</i>	<i>-0.36</i>					<i>-0.01</i>	<i>-0.01</i>	<i>-0.01</i>	<i>-0.01</i>
<b>Equity</b>									
Issued ordinary shares	950.6	9.1	10,399.5	434.0	12,967.6	24,760.8	26,064.0	26,732.3	27,417.8
Non-associated	475.4	9.1	-	-	-	484.5	484.5	484.5	1,155.2
Non-associated % - ordinary shares	50.0%	50.5%	4.3%	4.1%	2.0%	2.0%	1.9%	1.8%	4.2%
Centerbridge - ordinary shares	464.5	-	-	434.0	12,967.6	13,866.1	13,866.1	13,866.1	13,866.1
Centerbridge % - ordinary shares	48.9%	48.4%	4.1%	7.6%	56.0%	56.0%	53.2%	51.9%	50.6%
Centerbridge - Preference Shares	434.0	-	-	(434.0)	-	-	-	-	-
Senior Unsecured Noteholders - ordinary shares	10.7	-	10,399.5	-	-	10,410.2	11,713.4	12,381.7	12,396.5
Senior Unsecured Noteholders % - ordinary shares	1.1%	1.1%	91.6%	88.3%	42.0%	42.0%	44.9%	46.3%	45.2%
Share capital	1,263.8	-	-	-	-	1,263.8	1,263.8	1,263.8	1,263.8
Reserves	(117.7)	-	-	-	-	(117.7)	(117.7)	(117.7)	(117.7)
Other equity	(137.2)	-	-	-	-	(137.2)	(137.2)	(137.2)	(137.2)
Retained earnings/(Accumulated losses)	(1,346.4)	-	196.0	-	-	(1,150.4)	(1,150.4)	(1,150.4)	(1,150.4)
<b>Total equity</b>	<b>(337.5)</b>	<b>-</b>	<b>196.0</b>	<b>-</b>	<b>-</b>	<b>(141.5)</b>	<b>(141.5)</b>	<b>(141.5)</b>	<b>(141.5)</b>

Source: Boart Longyear financial report for CY16, Boart Longyear RSA

Note: The calculation assumes that all warrants issued will be exercised.

*Step 1: Equitisation*

- decrease in loans and borrowings of US\$196.0 million (plus accrued interest) based on:
  - the Company exchanging US\$196.0 million in principal of the Senior Unsecured Notes (plus accrued interest from 1 January 2017) for 42.0% of the reorganised ordinary equity of Boart Longyear (subject to warrant dilution). This will result in a corresponding increase in net assets of US\$196.0 million of the Company. The maturity of the remaining US\$88 million in principal of the Senior Unsecured Notes plus accrued interest to the Implementation Date, calculated at 1.5% on US\$88 million from 1 January 2017 to the Implementation Date, will be extended to December 2022 and the interest rate will be reduced to 1.5% p.a. PIK. The interest payment dates will be changed from semi-annually in April and October of each year to quarterly in January, April, July and October. The remaining Senior Unsecured Notes are subordinated to all unsecured claims.
  - the Senior Secured Notes issued by the Company over US\$195.0 million will be reinstated at approximately US\$199.9 million, reflecting accrued interest, and the maturity will be extended to December 2022. The interest payment dates will be changed from annually April and October to June and December to better align with the cash cycle of the Company, with the first four coupon payments (beginning in April 2017) to be PIK at 12% or cash at 10% at the Company's option. After December 2018 all coupons will have to be paid in cash at 10%.
  - Senior Unsecured Noteholders will further receive seven-year warrants for 5.0% of the reorganised ordinary equity with a strike price of the equity value implied by an EV of US\$750 million EV less net debt at the Implementation Date (expected to be US\$0.006 to US\$0.008) and 2.5% of the reorganised ordinary equity with a strike price of the equity value implied by an EV of US\$850 million less net debt at the Implementation Date (expected to be US\$0.010 to US\$0.012).
  - as a result of the Equitisation and the related increase in ordinary shares the Non-associated Shareholders will be diluted to 4.3% and Centerbridge will be diluted to 4.1% of the reorganised ordinary equity.

*Step 2: Conversion of CPS*

- issue of approximately 434 million ordinary shares based on:
  - Centerbridge converting the approximately 434 million CPS it is currently holding. Due to the conversion Non-associated Shareholders will be diluted further to 4.1%, whereas Centerbridge increases its share in the reorganised ordinary equity of Boart Longyear to 7.6%.

*Step 3: Subsequent Term Loan Amendments*

- issue of 13.0 billion ordinary shares based on:
  - issuing additional ordinary shares to Centerbridge under the Subscription Agreement in consideration for the Subsequent Term Loan Amendments. As a result Centerbridge will increase its share in the reorganised ordinary equity to 56.0%. Centerbridge owns currently Term Loan A over US\$113.5 million (including accrued interest) and Term Loan B over US\$137.2 million

(including accrued interest). Both Term Loans will be reinstated and the interest rate will be reduced from 12% to 10% PIK until December 2018 and from 10% to 8% PIK thereafter.

- the maturity of the reinstated Term Loans will be extended to December 2022 and will have a non-call protection prior to December 2018. The Term Loans will be callable thereafter.
- post the issue of shares under the Subscription Agreement Centerbridge will hold 56.0% of the reorganised equity, Senior Unsecured Noteholders will hold 42.0% and Non-associated Shareholders will hold 2.0%.

#### *Step 4: Issue of Warrants*

- issue of 7% warrants and ordinary warrants:
  - in connection with the EQUITISATION, Senior Unsecured Noteholders will receive seven-year warrants over a maximum of 7.5% of the reorganised ordinary equity depending on strike prices based on the equity value implied by a certain EV of the Company on Implementation Date. Non-associated Shareholders will also receive seven-year warrants over 2.5% of the reorganised ordinary equity of Boart Longyear with a strike price of the equity value implied by an EV of US\$1,000 million less net debt at the Implementation Date. The impact on the share capital dependent on the exercise of each tranche of these warrants is displayed in Table 10 above.

#### *Further: Share Purchase Plan*

- issue of up to 450 million additional ordinary shares and increase in equity by AU\$9 million based on:
  - the Company offering to eligible shareholders the opportunity to purchase up to a total of AU\$5,000 per shareholder of shares in Boart Longyear at a price of AU\$0.02 per share, capped at a total amount of AU\$9 million.

#### *Net assets*

- an improvement in net assets from US\$(337.5) million to US\$(141.5) million
- this is also reflected in an improved capital structure for the Company by increasing the percentage of net assets to total assets from (49.9)% to (20.9)%.

#### *Cash*

- the immediate cash position pre and post the Recapitalisation will be unchanged, however the Recapitalisation facilitated additional debt capacity of total US\$35 million, through the provision of the DDTL and the Second-Out ABL
- the cash position of the Company will improve over time as the reduction in debt and cash interest payments increases the liquidity of the Company
- the SPP has the potential to increase liquidity of the Company by up to AU\$9 million
- the exercise of the warrants will improve the liquidity of the Company and is dependent on the final exercise price for each tranche.

### *Borrowings*

- a decrease in gross borrowings from US\$735.0 million to US\$539.0 million
- extension of the maturity of all debt instruments (Term Loan A and B, Secured Notes and remaining Unsecured Notes) to December 2022.

### *Interest Cost*

- the reduction in debt as well as the Subsequent Term Loan Amendment will reduce interest cost on a cash and non-cash level for the Company. After the Recapitalisation interest cost will reduce from approximately US\$72.8 million p.a. to approximately US\$52.8 million p.a. (assuming a full utilisation of the ABL and an interest rate comparable to the existing ABL), which will be further reduced to approximately US\$58.4 million p.a. in CY18
- due to the reduction in the Senior Unsecured Notes and as most of the debt agreements will have a PIK feature cash interest cost will decrease immediately after the Recapitalisation by approximately US\$41.1 million. Post December 2018 this will reduce to US\$19.9 million cash savings (compared to Pre-Recapitalisation) as the 10% interest on the Senior Secured Notes becomes payable in cash.

### *Equity*

- approximately up to 23,801.1 million ordinary shares will be issued as a result of the Recapitalisation, of which approximately 434.0 million ordinary shares relate to the conversion of CPS held by Centerbridge
- depending on the implied equity value by the EV of Boart Longyear on Implementation Date certain warrants will be exercisable for the Senior Unsecured Noteholders and the Non-associated Shareholders. The exercise of these warrants will lead to a further dilution of shareholders that do not exercise warrants. An overview of the effects on the percentage of shareholding depending on the EV of the Company at closing is displayed in Table 10
- the SPP has the potential to improve the equity basis of the Company and allows eligible shareholders to increase their shareholding at a price that reflects a discount to the VWAP before the announcement of the Recapitalisation. The SPP has the potential to improve the equity basis of the Company by maximum AU\$9 million.

## **15 Outlook**

Whilst Boart Longyear did not provide a forecast for CY17 revenue or EBITDA in the presentation of the financial results for CY16 in February 2017, the ASX announcement on 3 April 2017 outlined business scenarios based on a certain set of assumptions regarding the market environment and other business conditions. When considering the current restructuring discussions taking place, there is however a general degree of uncertainty around forecasting and the ability of the company to generate cash flows in the future.

In considering the outlook for Boart Longyear we have also considered the views set out by the only broker who in recent times has provided a view on forecasted profitability in relation to Boart Longyear.

## **16 Assessment of value Pre and Post-Recapitalisation**

### **16.1 General**

We have assessed whether the Recapitalisation is fair by comparing the value prior to the Recapitalisation, on a controlling basis, to that post the Recapitalisation on a non-controlling basis.

This section sets out our assessment of the underlying value of Boart Longyear shares prior to the Recapitalisation (inclusive of a premium for control), and after the Recapitalisation (exclusive of a premium for control). When assessing the value of 100.0% of Boart Longyear, we have considered those synergies and benefits which would generally be available to a broad pool of hypothetical purchasers. We have not included the 'special value', or the value of synergies specific to a particular acquirer, in this case Centerbridge, Ares and Ascribe. Accordingly, our valuation of a share in Boart Longyear has been determined regardless of the acquirer.

We have recognised the current difficulty in determining an appropriate value as a result of the previous decline and the current lows reached in the mining cycle. In this regard we have valued Boart Longyear as a going concern, which implicitly assumes that existing debt arrangements would continue or be refinanced. While we have not considered the financial distress of the Company in assessing enterprise value, we note that current debt is higher than enterprise value and therefore the ability of the Company to repay this outstanding debt is limited under the current structure.

### **16.2 Methodology**

#### **16.2.1 Valuation approach**

For the purpose of this report, fair value can be defined as the value that should be agreed in a hypothetical transaction between a knowledgeable, willing, but not anxious buyer and a knowledgeable, willing, but not anxious seller, acting at arm's length.

RG 111 indicates that it is appropriate for an independent expert to consider the following valuation methods:

- the discounted cash flow method (DCF)
- the capitalisation of future maintainable earnings or cash flows (capitalisation of earnings)

- the amount that would be distributed to security holders in an orderly realisation of assets
- the amount which an alternative acquirer might be prepared to pay, and/or
- the most recent quoted price of listed securities.

Each of the above methodologies is applicable in different circumstances (except using the most recent quoted price of listed securities). In selecting the appropriate methodology by which to value Boart Longyear, we have considered the Company's prospects and other available information presented to us. A summary of each of the approaches considered in preparing this report is set out in Appendix 3.

Due to the various uncertainties inherent in the valuation process, we have determined a range of values within which we consider the fair value of Boart Longyear to lie.

We have used the capitalisation of earnings method, based on adjusted EBITDA, as the primary method. We have adopted this method based on the following considerations:

- a capitalised earnings method is appropriate for a business that has a stable future maintainable level of earnings. We note that despite the decline in earnings for Boart Longyear, Management have reduced costs in an attempt to right-size the business, and managed cost issues in order to reduce earnings volatility going forward. We believe a capitalised earnings method is appropriate as there are a number of comparable companies that perform similar services, operate within the resources markets and have similar geographic presence to Boart Longyear. Additionally, a number of transactions have occurred since 2008 involving drilling companies within Australia and internationally
- a DCF approach is also widely used in the valuation of established industrial businesses. However, the inherent uncertainty associated with the cyclicity of Boart Longyear's business operations, and the volatility of changes in working capital, means that preparing reliable cash flow projections beyond the current order backlog is particularly challenging. This may reduce the robustness of any results derived from a DCF analysis. Whilst we have not utilised a DCF approach as our primary valuation approach, we have considered the Company's business scenarios provided by Management in forming our fairness assessment
- a net realisable assets approach is not considered appropriate as this method would not capture the growth potential and goodwill associated with the business
- trading prices for Boart Longyear shares have been highly volatile over the past 12 months, and more broadly in the period since listing. Accordingly, considerable judgement is required in deriving conclusions on the fundamental value of a Boart Longyear share. Nevertheless, we have also had regard to trading prices in our analysis of the assessed value per Boart Longyear share.

Ultimately, the value of the business operations of Boart Longyear has been determined through an iterative process, ensuring the value derived from our primary capitalised earnings methodology is consistent with the outcomes of our high-level DCF cross-check and our analysis of Boart Longyear's share price performance.

### 16.2.2 Selection of earnings metric

A capitalised earnings methodology can be applied to a number of different earnings or cash flow measures, including EBITDA, Earnings Before Interest and Tax (EBIT) and Net Profit after Tax (NPAT).

Given the services provided by the comparable companies, we consider EBITDA to be a superior metric as it provides a better view of the operating performance of the companies. As most of the companies have similar relative capital expenditure intensity, we are of the view that distortions as a result of different asset management strategies (e.g. purchasing versus leasing of plant and equipment) are immaterial.

EBIT multiples observed in the market may be distorted by the inclusion of earnings from equity-accounted investments for some of the comparable companies, additionally the availability of comparable data is limited due to the current underperformance of the industry where EBIT for recent and current years is often zero or negative.

P/E multiples are commonly used in the context of the share market and have the advantage of eliminating the distortion caused by equity-accounted investments. However, the key weakness of P/E multiples is that they do not take into consideration the financial risks associated with different capital structures. This is particularly important given the variability of the capital structures adopted by Boart Longyear's peers.

Having considered the above, we consider EBITDA to be the most appropriate metric for the capitalised earnings valuation of Boart Longyear's business operations. In adopting EBITDA, we have recognised the cyclical nature of the industry by applying 'through-the-cycle' earnings figures as well as 'through-the-cycle' capitalisation multiples. However we note that a valuation of the Company in the current stage of the cycle is complex, as this requires estimates about the length and the impact of the current industry cycle and therefore includes some optionality regarding the recovery of the industry.

### 16.2.3 Control premium considerations

The multiples applied in a capitalised earnings approach are generally based on data from quoted companies and recent transactions in a comparable sector, with appropriate adjustment after consideration has been given to the specific characteristics of the business being valued.

The multiples derived for comparable quoted companies are generally based on share prices reflective of the trades of small parcels of shares. As such, they generally reflect prices at which portfolio interests change hands. That is, there is no premium for control incorporated within such pricing. They may also be impacted by the level of liquidity in trading of the particular stock. Accordingly, when valuing a business en bloc (i.e. 100.0%) it is appropriate to also reference the multiples achieved in recent transactions, where a control premium and breadth of purchaser interest are more fully reflected.

RG 111.8 states that a control premium should be applied in transactions where a person acquired, or increase a controlling stake in a company. Further, RG 111.9 notes that experts focus on the substance of control, rather than the legal mechanism used to effect it. We note that Centerbridge, along with Ares and Ascribe do not currently maintain clear control of Boart Longyear, holding two outstanding Board positions and a shareholding of 48.9% of the ordinary shares of the Company. Following the transaction, Centerbridge, Ares and Ascribe will increase their ownership of outstanding shares to approximately





93.2% of the total shares, and will increase their Board representation to six out of a total seven Board positions. In line with this, our fairness assessment has been based on comparing the value of a share in Boart Longyear prior to the Recapitalisation, on a control basis, to that post the Recapitalisation on a non-controlling basis.

Consistent with these considerations, and in accordance with the requirements of RG 111, in valuing Boart Longyear we have assumed 100.0% ownership, and therefore included a premium for control when assessing the multiples implied by the comparable companies.

Observations from transaction evidence indicate that takeover premiums concentrate around a range between 20.0% and 35.0%<sup>11</sup> for completed takeovers. In transactions where it was estimated that the combined entity would be able to achieve significant synergies, the takeover premium was frequently estimated to be in excess of this range. Takeover premiums vary significantly and include:

- synergies, such as the removal of costs associated with the target being a listed entity and/or costs related to duplicated head office functions
- pure control premium in respect of the acquirer's ability to utilise full control over the cash flows of the target entity
- desire (or anxiety) for the acquirer to complete the transaction
- significant cost reductions having already been achieved.

In considering an appropriate control premium to apply to Boart Longyear we have recognised the inherent uncertainty associated with future earnings due to the cyclical nature of its business operations, which indicate that the control premium for Boart Longyear to be at the lower end of the range.

## **16.3 Capitalised earnings methodology**

### **16.3.1 Summary**

Our fairness assessment has been based on comparing the value of a share in Boart Longyear prior to the Recapitalisation, on a controlling basis, to that value post the Recapitalisation on a non-controlling basis. As noted in section 3, we have based our valuation on an analysis of 'through-the-cycle' maintainable earnings of the Company as well as capitalisation multiples for a similar period. Under this approach, KPMG Corporate Finance estimates the enterprise value of Boart Longyear's business operations prior to the transaction to be in the range of US\$550.0 million to US\$650.0 million on a control basis.

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<sup>11</sup> KPMG Corporate Finance analysis based on Mergerstat data for Australian transactions completed between 2001 and 2016, comparing the closing price of the target company one day prior to the takeover announcement to the final offer price.

**Table 11: Pre-Recapitalisation analysis**

	Report Section	Recapitalisation	
		Low	High
Maintainable earnings (EBITDA)	16.3.2	100.0	130.0
EBITDA multiple (on a controlling basis) (times)	16.3.3	5.5x	5.0x
<b>Enterprise Value of Boart Longyear</b>		<b>550.0</b>	<b>650.0</b>
Less: Debt as at 30 April 2017	16.4.2	(776.5)	(776.5)
Add: Cash as at 31 December 2016	8.3	59.3	59.3
Less: Cash burn (31 December 2016 - 30 April 2017) <sup>1</sup>		(27.7)	(27.7)
Add: Net working capital release <sup>2</sup>		41.0	41.0
Add: Assets held for sale	8.3	5.9	5.9
<b>Equity Value of Boart Longyear</b>		<b>(147.9)</b>	<b>(47.9)</b>
Issued shares (million) up to	14	959.7	959.7
<b>Equity value per share on a marketable, controlling basis (US\$)</b>		<b>(0.154)</b>	<b>(0.050)</b>
Foreign currency exchange rate as at 6 April 2017 (US\$:AU\$)		0.76	0.76
<b>Equity value per share on a marketable, controlling basis (AU\$)</b>		<b>(0.204)</b>	<b>(0.066)</b>

Source: CY16 Financial Report, KPMG Corporate Finance analysis

Note 1: Cash burn relates to expected cash expenditure between 31 December 2016 and 30 April 2017

Note 2: Net working capital release relates to the reduction in NWC available to support the maintainable EBITDA figures

Note 3: Differences in calculations due to rounding

Note 4: Number of shares reflects also the shares issued under the Director compensation before the Implementation Date

Our overall valuation approach in relation to the underlying value of Boart Longyear has been to estimate the EV of Boart Longyear using a capitalisation of earnings methodology. To calculate the equity value of Boart Longyear shares on a controlling basis we have:

- deducted net debt and Management's forecast cash outflow in the first four months of CY17
- added the expected cash inflow in relation to net working capital, due to the current surplus inventory and the expected reduction over the next months
- added the assets held for sale as surplus assets

The assessed valuation range reflects the current stage of the industry cycle being at a long term low and therefore adopts 'through-the-cycle' earnings which is higher than actual and forecasted earnings figures for CY17. The range also reflects some optionality as to when and by what magnitude the industry and Boart Longyear's earnings will recover.

In contrast to the Pre-Recapitalisation valuation, we have set out below the value per share on a Post-Recapitalisation basis, which is based on an equity value for a minority shareholder and the number of shares Post-Recapitalisation. This value per share Post-Recapitalisation also takes into account the reduction of net debt and considers the further expected cost of the Recapitalisation of US\$15.0 million if approved. This calculation results in a value range for a Boart Longyear share Post-Recapitalisation of US\$0.0011 to US\$0.0045. We note that the number of ordinary shares increases significantly from up to 959.7 million to up to 24,760.8 million as a result of the Recapitalisation. This results in a significant

dilution of Non-associated Shareholders ownership of Boart Longyear. The calculation is shown in the table below.

**Table 12: Post-Recapitalisation value analysis**

	Report Section	Recapitalisation	
		Low	High
Maintainable earnings (EBITDA)	16.3.2	100.0	130.0
EBITDA multiple (on a controlling basis) (times)	16.3.3	5.5x	5.0x
<b>Enterprise Value of Boart Longyear</b>		<b>550.0</b>	<b>650.0</b>
Less: Debt as at 30 April 2017	16.4.2	(580.5)	(580.5)
Add: Cash as at 31 December 2016	8.3	59.3	59.3
Less: Cash burn (31 December 2016 - 30 April 2017) <sup>1</sup>		(27.7)	(27.7)
Add: Net working capital release <sup>2</sup>		41.0	41.0
Add: Assets held for sale	8.3	5.9	5.9
Less: Transaction Cost		(15.0)	(15.0)
<b>Equity Value of Boart Longyear on a controlling basis</b>		<b>33.1</b>	<b>133.1</b>
less: Minority Discount (16.67%) <sup>3</sup>		(5.5)	(22.2)
<b>Equity Value of Boart Longyear on a minority basis</b>		<b>27.5</b>	<b>110.9</b>
Issued shares (million) post-proposal up to	14	24,760.8	24,760.8
<b>Equity value per share (US\$)</b>		<b>0.0011</b>	<b>0.0045</b>
Foreign currency exchange rate (US\$:AU\$)		0.76	0.76
<b>Equity value per share (AU\$)</b>		<b>0.0015</b>	<b>0.0059</b>

Source: KPMG Corporate Finance Analysis

Note 1: Tables may not cast due to rounding

Note 2: Net working capital release relates to the reduction in NWC available to support the maintainable EBITDA figures

Note 3: A 20.0% control premium translates into a 16.67% minority discount

Assessing the underlying value of Boart Longyear is not straight-forward, due to the volatility of earnings which are dependent on mining exploration spending, weather patterns, foreign exchange rates and global commodity markets. While KPMG Corporate Finance acknowledges that a recovery in the mining market and commodity prices, and foreign exchange movements could significantly increase Boart Longyear's earnings, there is continued risk from exposure to such factors. We have sought to balance these issues when valuing Boart Longyear.

### 16.3.2 Maintainable earnings

Mining services industry participants are exposed to a degree of earnings volatility throughout the mining cycle. While Boart Longyear has exhibited earnings volatility in recent years, cost cutting initiatives, along with expectations of an industry upswing support the view that the company will show greater earnings stability going forward as reflected in the business scenarios presented in the ASX announcement of 3 April 2017. These industry expectations along with Management's efforts to increase earnings stability going forward, makes the application of future maintainable earnings appropriate for Boart Longyear. Further to company specific factors, the level of maintainable earnings in the mining services industry is influenced by a number of factors. These include the trend and consistency of

historical performance, the stage of development of the business and the extent to which one-off or non-recurring transactions are reflected in the financial statements.

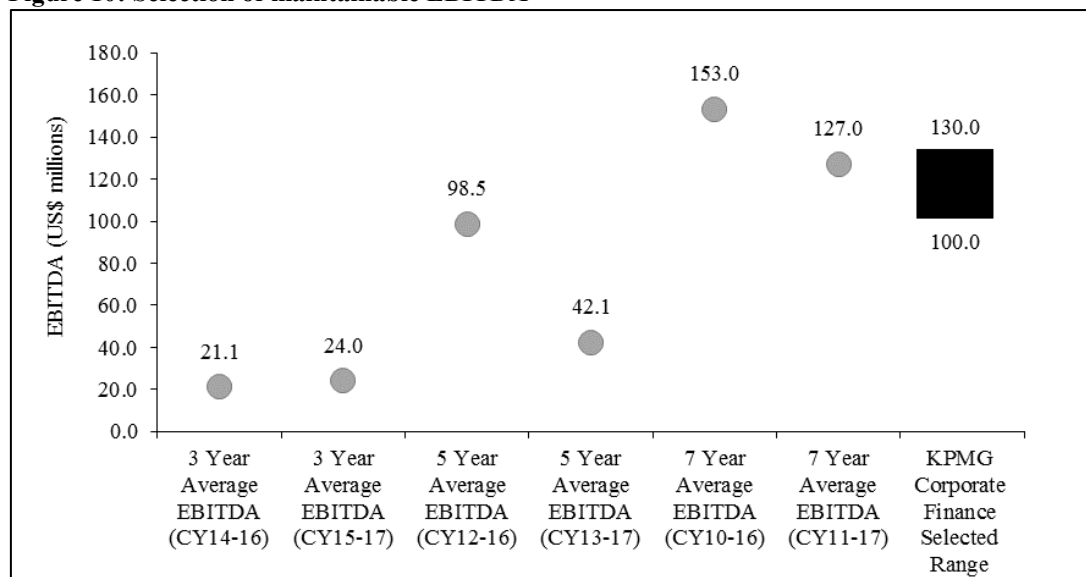
In order to select a level of maintainable earnings for Boart Longyear we have considered the historical financial results and operations and strategic plans of Boart Longyear. Earnings for each of these periods are summarised in Appendix 6, along with any adjustments for non-recurring items.

In relation to the selection of a maintainable EBITDA, we note the following:

- the historical financial performance of Boart Longyear has been discussed previously in Section 8.2. The decline in EBITDA is primarily a result of the slowdown in demand for drilling services arising from the reduced exploration activity by mining companies
- Boart Longyear's base case scenario assumes a cyclical increase in EBITDA from negative US\$7.5 million in CY17 to US\$185.0 million in CY21

Boart Longyear's business is impacted by industry cycles which have reached cyclical lows. In determining a maintainable EBITDA we have sought to reflect the nature of the cycle by looking at the average EBITDA of various three, five and seven year cycles having considered adjusted EBITDA and statutory EBITDA. Based on the considerations above, we have selected a maintainable EBITDA range of US\$100.0 million to US\$130.0 million, which in our view balances a 'through-the-cycle' view with the current position as well as not choosing too wide a range so as not to be meaningful. Our selected range as well as the various average historic EBITDA are illustrated in the figure below. We have also considered the company's business scenarios and do not consider our range inconsistent with respect to these scenarios.

**Figure 10: Selection of maintainable EBITDA**



Source: KPMG Corporate Finance Analysis

### 16.3.3 Capitalisation multiple

In selecting an appropriate range of maintainable EBITDA multiples to apply, we have considered the following:

- the trading and transaction multiples of broadly comparable companies and transactions within the drilling industry over a similar historic time period to that for our historic earnings analysis
- the historically low stage of the mining industry cycle, and the corresponding recent commodity price appreciations and forecast industry improvements going forward
- the market capitalisation and nature of the environment in which the comparable companies and target companies operate
- the expected growth profile of Boart Longyear and the relative market positioning of Boart Longyear in the drilling industry as set out in its base, upside and downside case
- the risks associated with Boart Longyear's ability to grow during an upcycle including required working capital investment and costs associated with training and deploying staff.

Considering the above we have selected an average EBITDA multiple of 5.0x to 5.5x (inclusive of a control premium) for the purpose of our valuation.

#### 16.3.3.1 Comparable company trading multiples

##### *EBITDA multiple*

The multiple applied in a capitalised earnings methodology should reflect the return expected by an investor in the business. Returns are dependent on various factors including a business' operational risks, growth profile, profitability, size and external environment, and the selected multiple should reflect these factors amongst others.

In selecting the multiple range to be applied, consideration is generally given to market evidence derived from listed comparable companies and recent transactions involving comparable businesses/assets, with an appropriate adjustment to reflect the specific characteristics of the business being valued.

To determine an appropriate comparable company peer group for Boart Longyear, we have had regard to the following:

- Boart Longyear's market position in providing drilling services and products to the global mining and energy industry. The companies in the peer group identified for comparison purposes are predominantly participants in the construction and engineering and diversified metals and mining industries. The companies selected provide diversified drilling services to mining clients, which operate in all areas of the globe and in all phases of the mining lifecycle
- Boart Longyear's business relationships with large diversified multinational miners including BHP Billiton Limited and Rio Tinto Ltd, allowing the business to develop a geographically diversified presence. Having considered the global presence of Boart Longyear's operations, we have considered the financial data and trading multiples of companies that operate globally. In consideration of this, we have considered companies in the APAC, EMEA, the US and Canada marketplaces.

In determining an EBITDA multiple that reflects earnings ‘through-the-cycle’, we have considered the earnings over three, five and seven year periods. We have considered these figures in reflection of the industry cycle downturn, and the historically low multiples that comparable companies have exhibited recently.

The table below sets out the implied EBITDA multiples for selected listed companies that are considered to be comparable to Boart Longyear.

**Table 13: Share market evidence**

Company Name	Market Focus <sup>1</sup>	Geographic Focus <sup>2</sup>	Market Cap (AU\$m) <sup>3</sup>	EBITDA Multiple				
				LTM <sup>4</sup>	NTM <sup>5</sup>	Average 3 year <sup>7</sup>	Average 5 year <sup>7</sup>	Average 7 year <sup>7</sup>
ASPAC								
AJ Lucas Group Limited	E/P	AU	115	45.0	nmf <sup>6</sup>	33.5	nmf <sup>6</sup>	nmf <sup>6</sup>
Ausdrill Ltd.	E/D/P	AU/AF	528	5.6	5.1	4.2	4.1	4.7
MACA Limited	E/D/P	AU	493	4.2	3.9	2.1	3.0	3.5
Mitchell Services Limited	E/P	AU	46	19.7	nmf <sup>6</sup>	nmf <sup>6</sup>	nmf <sup>6</sup>	24.4
Swick Mining Services Limited	P	AU	68	5.6	nmf <sup>6</sup>	4.0	3.4	4.1
US & CANADA								
Energold Drilling Corp.	E/P	G	36	nmf <sup>6</sup>	30.9	nmf <sup>6</sup>	19.1	16.4
Major Drilling Group International	E	AM	697	126.1	13.9	16.9	7.7	11.2
Orbit Garant Drilling	E/D/P	AM	74	12.0	6.9	14.9	6.8	7.6
EMEA								
Capital Drilling Ltd	E/D	AF	140	6.1	5.0	6.1	4.6	5.7
Foraco International SA	E/D/P	G	46	12.7	nmf <sup>6</sup>	12.7	8.7	7.3
Geodrill Limited	E/D	AF	121	4.3	3.8	4.3	4.4	5.1
Low				4.2	3.8	2.1	3.0	3.5
High				126.1	30.9	33.5	19.1	24.4
Median				9.0	5.1	6.1	4.6	6.5
Average				24.1	10.0	11.0	6.9	9.0

Source: S&P Capital IQ (data as at 31 March 2017) and KPMG Corporate Finance Analysis

Note 1: Stage of Mining Lifecycle: E=Exploration, D=Development, P=Production

Note 2: AU = Australia, AM = Americas, AF = Africa, G = globally diversified

Note 3: Applied a control premium of 20.0% to the market capitalisation

Note 4: LTM multiples calculated after normalisation adjustments applied to reported EBITDA

Note 5: NTM multiples based on next twelve months (NTM) of broker consensus forecasts sourced from S&P Capital IQ

Note 6: nmf = not meaningful figure

Note 7: Average multiples calculated based on average enterprise values and average reported EBITDA for the prior 3, 5 and 7 years to 31 March 2017.

A detailed analysis of these companies is set out in Appendix 4. In assessing the comparability of the companies detailed above, we have had regard to the following key factors.

#### Service mix

The companies within our peer group focus on the provision of drilling services to the mining industry globally. Similar to Boart Longyear, the core business operations of the companies selected relate to the provision of contract mining drilling for mining companies, along with smaller exposures to drilling manufacturing and other drilling services. As a result of this, we consider the set of comparable

companies to be exposed to similar industry and economic risks. Although, companies such as MacMahon Holdings Limited and WDS Limited also provide drill and blast services to companies operating in the production phase of the mining lifecycle, these companies provide a broad array of services along the Engineering, Procurement, Construction and Management service line, and are thus more diversified, and less comparable, than pure play drilling companies.

We have only considered comparable companies that operate in the mining drilling sector, and have not considered the drilling operations of companies that operate in the oil and gas industry. While this industry has grown rapidly as a result of the growth in the US shale oil industry, it is exposed to a different commodity, and consequently, different market factors.

Additionally, we have not considered civil or infrastructure drilling companies, such as Layne Christianson. These companies do not have exposure to the mining cycle and as such are more stable industrial construction and engineering companies.

### ***Market focus***

The comparable set of companies are exposed to different segments of the mining industry, with clients that perform activities at different stages of the mining lifecycle. The core stages of the cycle are illustrated in Table 13, including Exploration, Development and Production. The mining downcycle has led to mining companies reducing their exploration budget and capital expenditure, in attempts to conserve capital. This has led to a disproportionate reduction in drilling by exploration and development companies when compared to producing miners, which have lower fixed costs, and higher proven mineral reserves. This leads drilling companies with exposure to exploration and development to have a greater degree of mining cyclicality.

### ***Geographical diversification***

Mining services companies are exposed to different risk profiles in each geography they operate in, as a result of both the commodity mix that is present in a region, and the weather and other economic conditions that may be present in any particular location. The Australian mining industry has been significantly affected by the price declines in iron ore, on the Western Coast, and thermal and coking coal on the Eastern Coast. Commodity price appreciations in these exports have led to higher forecast growth, although this is yet to support sustained improvement in drilling industry conditions in Australia. Similar to Australia, the mining industry in North America has been supported by the proposal of significant infrastructure investment following the 2016 US presidential elections.

In addition to these factors, operations in developing markets are exposed to additional risks, warranting the inclusion of geographic market risk premiums. This is a contributing factor to the lower multiples observed in both Capital Drilling and Geodrill, with significant operations in developing markets in Africa.

Whilst many of the companies operate exclusively in Australia or North America, Foraco International SA and Energold Drilling Corporation benefit from geographic diversity. For example, Foraco International SA currently operates approximately 302 drill rigs internationally, focusing on services to regions such as South America (22.0% CY16 revenue), North America (22.0%), APAC (23.0%), EMEA (18.0%), the Middle East and Africa (15.0%).

Whether this geographic diversity translates into a premium or a discount depends on the specific circumstances in the relevant markets, as well as the nature and performance of the businesses located in these countries.

### ***Growth prospects***

The global construction and engineering sector is characterised by relatively flat earnings growth forecasts for a number of the comparable companies, particularly those operating in the APAC region in the near term. Further, due to the strong correlation exhibited between drilling services companies and the mining sector in general, the broad improvement in the mining industry is expected to support growth prospects going forward. Despite this, there are risks relating to how this industry growth will translate to mining services companies, and this is reflected in the lower multiples observed for APAC mining services companies at present.

### ***Size***

In the construction and engineering, and diversified metals and mining sectors, size is typically a substantial advantage. Larger companies have a greater pool of resources and capabilities to draw on and are likely to have a stronger market presence. Both of these factors assist in competing for the largest drilling contracts. The larger companies are also able to benefit from potentially substantial efficiencies that can be gained by achieving economies of scale and advantageous financing terms, particularly given the high fixed cost nature of the industry. Another advantage relates to the ability of larger market participants to absorb losses on specific projects and during market contractions. This is a common characteristic of the construction and engineering sector as a small number of loss-making drilling projects can have a substantial impact on short term profitability. Finally, the larger companies typically have the ability to achieve greater diversity in either their service mix or market and geographic focus, which may reduce volatility resulting from changes in underlying market conditions. Reflecting the advantages considered, particularly the lower risk profile and stronger financial position, larger companies in this sector typically trade at a premium.

In respect of the specific comparable companies, we note the following.

### ***APAC***

As illustrated in Table 13, five publicly listed companies were identified as having similar core business operations to that of Boart Longyear in the APAC region.

Based on LTM EBITDA trading multiples for the set of comparables operating in the APAC region, a range of 4.2x to 45.0x can be observed. NTM EBITDA multiples for the set of comparables operating in the APAC region are in a range of 3.9x to 5.1x.

Companies operating in the APAC region are subject to similar market conditions to Boart Longyear. These companies have broadly similar commodity concentrations with exposure to iron ore, coal, and to a lesser extent, coal seam gas (CSG). As a result, we have considered the industry factors for the APAC companies as a whole, specifically noting that the majority of these companies are solely focused on operations in Australia. As a consequence the businesses are highly susceptible to market conditions dominating the Australian mining and minerals market. Mining services companies are particularly sensitive to price and volume fluctuations of iron ore and coal, Australia's two largest exports. Australian exports of iron ore and coal have declined in price materially in the period after CY13 as noted in



Appendix 5. This has led to a material reduction in exploration and mine activity expenditure, and consequentially, drilling. Further, political uncertainty and environmental concern has led to lower CSG investment, as state governments have reduced the number of exploration licences, particularly in New South Wales. Lower capital expenditure in both of Australia's largest mining commodities, and weaker capital expenditure in CSG has had a negative influence on AJ Lucas Group Limited, a key provider of drilling services to the Australian mining and CSG industries. In addition to the delay in coal projects across Australia, weak demand for engineering and construction contracts has led to depressed operating cash flows in AJ Lucas Group Limited's primary reportable divisions, rendering the company's LTM and NTM EBITDA negative. Ultimately, the subdued market outlook for the drilling services industry is reflected in the low trading multiples of these companies

### ***Europe, Middle East and Africa***

As illustrated in Table 13, only three companies in the EMEA region were identified to be largely comparable to Boart Longyear.

#### ***Capital Drilling Limited***

Capital Drilling Limited's operations are predominantly located in Africa, a region that has experienced high growth in the past but more recently has faced challenging market conditions as exploration investment has declined. Despite this, recent improvements in overall market conditions are reflected in the NTM multiples for the company that are lower than the LTM multiples, indicating expectations that earnings will increase from their current levels in the near future. The company's implementation of cost cutting measures and maintenance of an almost debt free balance sheet, has allowed them to remove additional financing risks in the company and will allow them to respond quickly to upturns in the market.

#### ***Foraco International SA***

Foraco International SA benefits is a multinational drilling company, with industry focuses in both the mining and water industries. The wider geographic footprint, along with the industry diversification provides the company with a degree of earnings stability, and justifies a higher EBITDA multiple than less diversified peers. This, combined with a wider range of service offerings, with the ability to service mining companies across the mining lifecycle, supports lower risks to the company and consequently a higher EBITDA multiple.

#### ***Geodrill***

Geodrill, like Capital Drilling Limited, primarily bases its operations in Africa. As such it is exposed to the same market conditions as Capital Drilling Limited, resulting in NTM multiples that are lower than the LTM multiples, indicating expectations that the company's performance will improve in the coming year. This is highlighted by broker consensus forecasts for Geodrill for period ended 31 December 2017, suggesting a 19.8% increase in EBITDA in the 12 months to CY17.

### ***US and Canada***

As illustrated in Table 13, three publicly listed companies were identified as having similar core business operations to that of Boart Longyear in the US & Canada region. The following analysis provides a brief explanation of the factors impacting on the multiples and the reason for their high nature.

### *Energold Drilling Corporation*

Energold Drilling Corporation is a global drilling service provider, operating in the mining, energy, water and manufacturing sectors. Its energy division produces a large proportion of the company's revenue through oil sands drilling in Canada and the US. However, more recently this segment of the business has been declining with oil sands drilling coming under increased scrutiny from the public and environmental organisations. As a result Energold has put a greater focus on becoming a more environmentally and socially sensitive business by expanding its water, geothermal and geotechnical segments. These challenges along with those of the overall mining market are reflected in the declining share price of the company as well as the not meaningful LTM EBITDA multiple of the company, which is the result of negative EBITDA in CY16.

### *Major Drilling*

The EBITDA multiples observed for Major Drilling are higher than for the other companies in the peer group due to a number of reasons, primarily:

- despite a decrease in revenue for the year ending 30 April 2016, EBITDA grew from CA\$13.0 million in CY15 to CA\$20.0 million in CY16, driven by the company's focus on cost controls and disciplined pricing. The decrease in revenue was as a result of a reduction in exploration spending due to low commodity prices and a lack of funding for junior exploration companies
- Major Drilling is the largest company, in terms of market capitalisation, in the set of comparable companies. Consequently, Major Drilling's size and robust balance sheet enhances the company's ability to weather the downturn in demand for drilling services more efficiently than its smaller competitors. During the year ended 30 April 2016, Major Drilling improved its cost structure by shutting down operations in South Africa and Namibia
- the company has a higher profitability compared to the other comparable companies in the Americas and EMEA peer groups. Major Drilling has achieved a 23.0% EBITDA margin during the year ending 30 April 2016, which may also reflect the above mentioned cost cutting initiatives. We note that Major Drilling is able to maintain a higher EBITDA margin as a result of the stronger market position, which increases profitability in an industry characterised by high fixed costs
- historically, over the previous three years, Major Drilling has traded at an average three year EBITDA multiple of 16.9x. The value and share price of the company has been relatively stable, reflecting the company's strong balance sheet, which also positions the company to be able to capture future growth opportunities when the market recovers.

### *Orbit Garant Drilling, Inc.*

The EBITDA trading multiples of Orbit Garant Drilling, Inc. are potentially impacted by the following:

- as at 31 March 2017, Orbit Garant Drilling, Inc. traded at 12.0x LTM EBITDA. The relatively high EBITDA multiple can be attributed to growing revenue, which rose from CA\$79.0 million for CY15 to CA\$107.5 million for CY16. This increase in revenue and earnings during CY16 reflects increased customer demand and drilling volumes, despite continued pricing pressure in Canada. Orbit Garant Drilling has been able to consistently grow its earnings despite the industry downturn as a result of

sustained demand for drilling in the home market of Canada, and targeted market penetration in international markets

- the company's EBITDA figure of CA\$11.1 million for CY16, increased from CY15's EBITDA of CA\$1.8 million. According to broker consensus forecasts, the company's EBITDA estimate is CA\$11.0 million for CY17, suggesting a stabilisation of this growth in demand and as a result the NTM EBITDA multiple for CY15 is 6.9x.

### ***Consideration of market evidence***

Multiples based on share prices of listed comparable companies reflect the value of portfolio interests in the underlying company and are commonly assumed to exclude a premium for control. In order to compare market multiples observed with the acquisition of a controlling interest, we have applied a control premium of 20.0% in performing our analysis of the comparable companies which is at the low end of the observed premium.

From the 11 publicly listed companies identified for comparison purposes, we consider the most comparable companies to Boart Longyear to be:

- *Major Drilling* – There are strong parallels between Boart Longyear and Major Drilling in terms of their leading market position and global footprint in the international drilling services industry. Despite the companies' similar geographic footprint, and diversification of product offerings, Major Drilling is a larger company in terms of market capitalisation, and has increased its market share relative to Boart Longyear's throughout the mining industry downturn. Major Drilling's relatively strong balance sheet position in comparison to Boart Longyear places the company in a superior competitive position as the mining industry recovers and the mining services industry begins to expand back to cyclically higher levels. As a consequence of Major Drilling's net cash position and relative size compared to Boart Longyear and its competitors, we expect that Major Drilling would trade at premium. Major Drilling's NTM multiple of 13.9x respectively, is reflective of a more mature industrial company with stronger growth prospects and a stable balance sheet going forward. Thus, despite the similar geographic footprint and product and service offering, the multiples would not be reflective of the multiples applied to Boart Longyear
- *Ausdrill Ltd* – Ausdrill Ltd is arguably the most comparable company to Boart Longyear given the similarities in service mix between the two companies and to an extent, the proportion of revenue derived from the provision of drilling services and the manufacture and sale of drilling products. In the financial year ended 30 June 2016, Ausdrill Ltd generated 79.7% of its revenue from drilling services and 20.3% from the manufacture of drilling consumables. Similarly in CY16, Boart Longyear generated approximately 85.0% of its revenue from drilling services and 15.0% from the design, manufacture and sale of drilling equipment. As Boart Longyear's operations and customer base are more geographically diversified than Ausdrill Ltd we would expect Ausdrill Ltd to trade at a small discount to Boart Longyear, with the company's currently trading at LTM and NTM multiples of 4.5x and 5.0x respectively
- the remaining companies in the peer group are considered to be less comparable, but are still broadly relevant to demonstrate the impact of size, service mix, market focus and growth prospects on earnings multiples. These multiples, while not perfectly reflecting Boart Longyear, provide a good

perspective of the industry multiples observed. When considering the relative size of Boart Longyear, we have considered the multiples of highly comparable companies, such as Ausdrill Ltd, with those with a smaller market capitalisation, and a more comparable financial position.

### **16.3.3.2 Comparable company transaction multiples**

#### *Transaction Evidence*

The price paid in transactions is widely considered to represent the market value of a controlling interest in the company. The difference between the value of a controlling interest and a minority interest (as implied by the share price) is referred to as a premium for control. This premium can differ from transaction to transaction and is dependent on a range of factors, including the equity share acquired, the negotiating position of the parties, competitive tension in the sales process, the availability of synergies and the extent to which a buyer would pay away these synergies to gain control of the target.

We note the number of sizeable recent transactions involving APAC listed drilling services businesses is extremely limited with no major transaction having occurred since July 2014. Further to this, as a result of financial distress, and the prolonged depressed mining industry conditions, the recent transactions that have occurred have related primarily to insolvent asset purchases or turnaround acquisitions from receivers. These transactions have not been included due to their limited financial information and distressed nature. The acquisition of Hughes Drilling by Allegro Funds Pty Ltd on 31 December 2016 is an example of such a transaction.

As a consequence of these factors, we have considered those recent transactions involving sizable international drilling services businesses dating back to August 2008, although these multiples will be influenced by the market outlook in the countries they operate, as well as other company specific factors.

The table below sets out the EBITDA multiples implied by these transactions that involved companies operating in the drilling services industry within APAC and internationally.

**Table 14: Transaction evidence**

Date	Acquirer	Target	Transaction value (AUD million) <sup>1</sup>	Percentage acquired	EBITDA Multiple	
					LTM <sup>2</sup>	NTM <sup>3</sup>
APAC						
May-12	General Electric Company	Industrea Limited	679.3	100%	5.8	4.7
Aug-09	Ausdrill Ltd.	Brandrill Limited	102.4	100%	4.4	n/a <sup>4</sup>
Jul-08	AJ Lucas Group Limited	Mitchell Drilling Corp.	150.0	100%	7.0	n/a <sup>4</sup>
International						
Jul-14	Major Drilling Group International Inc.	Taurus Drilling Services ULC	23.3	100%	7.9	n/a <sup>4</sup>
Sep-12	Foraco International SA	John Nitschke Drilling Pty. Ltd.	60.0	100%	12.8	n/a <sup>4</sup>
May-12	Foraco International SA	WFS Sondagem Ltda.	77.5	51%	5.0	n/a <sup>4</sup>
Sep-11	Major Drilling Group International Inc.	Bradley Group Limited	90.6	100%	5.6	n/a <sup>4</sup>
Jun-11	Energold Drilling Corp.	Bertram International Corporation	41.0	100%	6.2	n/a <sup>4</sup>
Apr-11	Chesapeake Energy Corporation	Bronco Drilling Co. Inc.	310.7	100%	12.3	8.4
Apr-11	Western Energy Services Corp.	Stoneham Drilling Trust	233.0	100%	7.6	8.3
Aug-10	Seawell Limited	Allis-Chalmers Energy Inc.	951.4	100%	9.9	6.1
Low					4.4	4.7
High					12.8	8.4
Median					7.0	7.2
Average					7.7	6.9

Source: Company financial statements and announcements, S&P Capital IQ, KPMG Corporate Finance analysis

Note 1: Transaction value refers to enterprise value of the company as of the date of completion

Note 2: LTM multiples calculated based on EBITDA from most recently available results as at the transaction announcement date, after normalisation adjustments

Note 3: NTM multiples calculated based on broker consensus forecasts as at the transaction date

Note 4: n/a = not available

Further details on these transactions are set out in Appendix 4. Although the target companies are considered broadly comparable to Boart Longyear, it is necessary to consider the specific attributes of the target companies as well as the prevailing economic conditions at the time of the transaction.

The multiples implied by these transactions reflect a range of business specific factors, including:

- the type of drilling services offered and the sector focus of the business. Bronco Drilling and Allis-Chalmers Energy's operations focus on contract drilling services to oil and natural gas exploration and production companies in the US. Higher multiples are observed for the two transactions due to a large market and high demand for well drilling and servicing in the locations where the companies operate, such as Texas, resulting in a greater potential for growth and expansion
- the size of the target business implied by the transaction value. The transactions relating to Bronco Drilling, Stoneham Drilling Trust and Allis-Chalmers Energy were significantly larger in size. Generally, these multiples were executed at historical multiples of between 7.6x to 12.3x EBITDA and forecast multiples from 6.2x to 8.4x EBITDA. Therefore, larger transactions typically generate higher multiples
- the stake acquired in the transaction. All observed transactions involved the transfer of control between shareholders and therefore, invariably all transaction LTM EBITDA multiples reflect a control premium. The WFS Sondagem Limited transaction was a proportional takeover offer for 51.0% of the shares in the company. Although Foraco International SA did not achieve 100.0%

control, there is a strong likelihood a premium for control would have been paid as the “effective” control threshold of 50.0% was still reached

- the amount of synergies available to the acquirer. In transactions where it was estimated that the combined entity would be able to achieve significant synergies, takeover premiums and therefore implied multiples, in particular historical multiples, are likely to be higher. In this context, significant synergies were expected from the acquisition of Bronco Drilling by Chesapeake Energy Corporation. Chesapeake Energy Corporation operations centre on the exploration, development and production of oil and gas assets and therefore the acquisition of Bronco Drilling, given their complementary service offerings and specialised skill sets would imply an additional synergy premium
- the stage of the market cycle and the prevailing economic conditions when the transaction was undertaken. For example, in the APAC region, the acquisition of Mitchell Drilling Corporation by AJ Lucas Group Limited occurred prior to the onset of the Global Financial Crisis (GFC) and during the near peak of the mining and resources boom in Australia. Consequently, this transaction executed at historical EBITDA multiples higher than the other two transactions, highlighting the challenging economic conditions following the GFC.

#### ***Consideration of transaction evidence***

Market evidence derived from APAC transactions provides limited guidance as to an appropriate multiple for Boart Longyear. The most comparable transaction is considered to be:

- AJ Lucas Group Limited acquisition of Mitchell Drilling Corporation at 7.0x historical EBITDA. Mitchell Drilling Corporation provided drilling-related services to the natural resources industry. Similarities in core operations and geographic diversification between Mitchell Drilling Corporation and Boart Longyear provide a rough basis for comparability, however discrepancies in size and market focus between the two companies do exist. Further, the Mitchell Drilling Corporation transaction was executed at a time during a positive market environment for drilling services companies, influencing the observed multiple. As a result we would expect the differences in the prevailing market conditions at the time of the transaction to have a significant impact on the multiples.

Market evidence from international transactions indicates that:

- larger transactions generally take place at higher multiples. The larger acquisitions (Bronco Drilling, Stoneham Drilling Trust and Allis-Chalmers Energy) were executed at historical multiples from 7.6x to 12.3x EBITDA and forecast multiples from 6.2x to 8.4x EBITDA. However, it is important to note that all three transactions were associated with the acquisition of companies that were involved in the provision of drilling services to the US and Canadian oil and gas sector. The shale oil and gas industry grew materially in the period following the GFC, increasing the opportunities for production drilling contracting services companies. In contrast, mining services companies were challenged over this period by a sector-wide contraction in mining spend, reducing drilling utilisation rates (particularly for exploration drilling) and in the short term a reduction in growth opportunities. Consequently, we would expect these transactions to take place at higher multiples than Boart Longyear.

### ***Company specific considerations***

In determining an appropriate EBITDA multiple for Boart Longyear in the context of the available market evidence, it is necessary to consider the specific attributes of the business being valued. In this regard, we note there are a number of reasons that would justify higher multiples for Boart Longyear:

- Boart Longyear benefits from a strong, global orientated position providing drilling services and has a unique drilling product mix and product offering. The Company has a strong brand and reputation with a history of 120 years of expertise
- in terms of product and service offering and market focus, Boart Longyear is more diversified than many of the comparable companies and target companies. While the current mining cycle has had a negative influence on nearly all mining commodities within a similar timeframe, a broader commodity base is often likely to justify a more stable earnings profile. This, combined with the ability to service a wider range of mining companies at different stages of the mining lifecycle, would support a higher EBITDA multiple. The current cyclicity in exploration drilling has caused a shift towards more stable, less cyclical production-drilling operations, enhancing the predictability of earnings and margins, which Boart Longyear has the capability of achieving
- Boart Longyear benefits from a geographically diversified operations base. The company targets the key natural resources markets in regions including APAC, the US, EMEA, Canada and Latin America. Although, many of these markets are mature and established, Boart Longyear's geographic presence enables the company to position itself to capture opportunities in high-growth, emerging markets across regions such as Asia and the Middle East.

On the other hand, there are a number of factors that would constrain the appropriate multiples for Boart Longyear:

- Boart Longyear increased leverage in the period CY10 to CY12. This resulted in the company incurring material financial difficulty as the mining cycle peaked and deteriorated in the period between CY12 and CY16. The company's liquidity position has weakened over this period, while solvency has deteriorated and Boart Longyear's credit rating from credit agencies has fallen consistently. Ultimately, the leveraged nature of the business has increased the riskiness of the Company in many aspects and hindered the Company's ability to capitalise on potential growth opportunities currently and going forward.

## **16.4 Other valuation considerations**

### **16.4.1 Synergies**

Typically, the level of synergies able to be derived from a business combination is dependent on the nature of the respective businesses and their geographical and operational overlap. With Centerbridge, Ares and Ascribe being private equity firms respectively Management anticipates that there are no considerable opportunities to capture significant recurring benefits (or synergies) post the proposed transaction. Additionally Boart Longyear executed a number of cost saving initiatives since the downturn in the mining cycle. As a result of this, any further recurring benefits would likely be limited and only attributable to an industry buyer.

## 16.4.2 Net debt

Net debt is calculated as total borrowings (including revolving credit and senior notes) less cash and cash equivalents. We have determined the net debt balance to be US\$744.9 million as at 30 April 2017, as confirmed by Management, as presented below for the purpose of our valuation.

**Table 15: Boart Longyear's net debt**

As at	31-Dec-16	30-Apr-17
US\$ million		
Senior notes (unsecured)	284.0	284.0
Senior notes (secured)	195.0	195.0
Term Loan A	85.0	85.0
Term Loan B	105.0	105.0
ABL	17.6	18.0
ABL (2nd Out)	-	15.0
Accrued Interest (Term Loan A, Term Loan B and DDTL)	53.8	66.6
Accreted Interest Reimbursed (Term Loan A and Term Loan B)	-	(6.4)
DDTL	-	20.0
Less: Debt issuance costs	(5.9)	(5.7)
Total debt	734.5	776.5
Less: Cash and cash equivalents	(59.3)	(31.6)
<b>Net debt</b>	<b>675.2</b>	<b>744.9</b>

Source: Boart Longyear's financial report for CY16 and Management

## 16.4.3 Surplus assets and liabilities

Surplus assets represent those assets or investments that are not required in order for Boart Longyear to continue to realise its principal source of earnings. To determine the equity value, surplus assets must be added back to the enterprise value, whilst surplus liabilities, if any, are deducted.

Management has stated that due to current market conditions, equipment and rigs are frequently reviewed to determine if there are any rigs that are unlikely to be put back into service. These assets are classified as held for sale, as at 31 December 2016 there were US\$5.9 million in this category.

## 16.5 Valuation cross checks

### 16.5.1 High level DCF cross check

We have compared the range of values determined using our primary capitalisation of earnings methodology to that derived by a high level DCF methodology. Using high level forecast revenue and earnings projections, we have determined the discount range at an enterprise level that would be required to result in a valuation range comparable to the results of the capitalisation of earnings method.

The indicative valuation has been prepared based on the following assumptions:

- Boart Longyear's business scenarios for the period from CY17 to CY21 using the base case scenario



- our understanding of Boart Longyear's future prospects following discussions with Management for the period beyond CY17
- EBITDA projections were based on management expectations of industry performance in the period CY17 to CY21. In the terminal value calculation, we have adopted a rolling average adjusted EBITDA
- working capital movements have been calculated with reference to target ratios of payables and receivables, along with more detailed analysis of current and future inventory liquidation. In the terminal value calculation, we have estimated movement in working capital based on a percentage of sales
- tax has been calculated based on management forecasts of cash tax paid in each tax jurisdiction that the business operates. We have used a tax rate of 28% in the terminal value calculation
- projections for depreciation and capital expenditure requirements were provided by Boart Longyear. In the terminal value, we have assumed capital expenditures to be equal to depreciation at a sustainable level of US\$60 million
- the terminal value relies on the assumption that the business is in a steady state and that gross profit will grow at a constant rate into perpetuity. We have adopted a terminal growth rate of 2.5%, as we believe this is reflective of long-term growth rates.

Based on the assumptions above the required post-tax Weighted Average Cost of Capital (WACC) to result in a valuation range comparable to the results of the capitalised earnings method would be in a range of 13.4% to 14.5%.

This range is high when compared to the mining services industry, resulting in our view from the company specific risks inherent in an investment in Boart Longyear. In this respect there is no assurance at this point in time that the company's plan will be achieved, given the inherent uncertainty as to whether the industry will make a recovery, despite improving commodity prices. As such we do not consider that the discount rate implied by our analysis of our primary valuation to be unreasonable. As such we consider this analysis supports our overall valuation conclusions.

## 16.5.2 Market price

We have performed a cross check of our assessed value per share against the VWAP of Boart Longyear shares. Set out in the table below is an analysis of the periodic VWAPs and liquidity of Boart Longyear's shares for the 12-month period prior to and including 31 March 2017 (period before the announcement of

the Recapitalisation). For example, ‘1 week’ means five days prior to and including 31 March 2017.

Table 16 below summarises an analysis of the volume of trade in Boart Longyear’s shares on the ASX.

**Table 16: VWAP and liquidity analysis**

Period	Price (low) US\$	Price (high) US\$	Price VWAP US\$	Cumulative value US\$m	Cumulative volume m	% of issued capital
1 week	0.06	0.07	0.06	0.2	2.4	0.3
1 month	0.06	0.08	0.07	0.7	9.9	1.1
3 months	0.06	0.11	0.09	2.0	23.0	2.4
6 months	0.06	0.12	0.09	4.3	45.9	4.9
12 months	0.06	0.14	0.10	11.9	125.3	13.4

*Source: S&P Capital IQ and KPMG Corporate Finance Analysis*

With regard to the table above, we note the following:

- Boart Longyear’s shares have, prima facie, exhibited low liquidity over the 12 month period to 31 March 2017, with 13.5% of total shares on issue traded in the last 12 months and 4.9% traded in the last six months
- over the 12 month period to 31 March 2017, Boart Longyear’s shares traded at an average weekly volume of 2.4 million shares and value of approximately US\$229,000
- the VWAP has declined from US\$0.10 over the full 12 month period to US\$0.07 in the week prior to the announcement.

We note that there is relatively low free floating stock in Boart Longyear as a result of the 48.9% holdings of Centerbridge. In addition to this, the percentage of issued capital that traded over the past 12 months is considered low in comparison to Boart Longyear’s peers, and other publically listed companies. During the period set out above the VWAP of Boart Longyear exceeds our assessed value of the Company. We do not consider this to be unusual in such circumstances, given the low levels of liquidity and low price per share. The trading price may also reflect some optionality in terms of the timing and size of a recovery of the mining industry. As such we do not consider the trading price to indicate that our valuation is not appropriate.

## **Appendix 1 – KPMG Corporate Finance Disclosures**

### *Qualifications*

The individuals responsible for preparing this report on behalf of KPMG Corporate Finance are Ian Jedlin and Adele Thomas. Ian is an Associate of the Institute of Chartered Accountants Australia and New Zealand and a Senior Fellow of the Financial Securities Institute of Australia and holds a Master of Commerce from the University of New South Wales. Adele holds a Bachelor of Commerce, a Bachelor of Accounting and is a Member of the Institute of Chartered Accountants Australia and New Zealand, and South Africa. Both Ian and Adele have a significant number of years of experience in the provision of corporate financial advice, including specific advice on valuations, mergers and acquisitions, as well as the preparation of expert reports.

### *Disclaimers*

It is not intended that this report should be used or relied upon for any purpose other than KPMG Corporate Finance's opinion as to whether the Recapitalisation is fair and reasonable. KPMG Corporate Finance expressly disclaims any liability to any Boart Longyear shareholder who relies or purports to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose whatsoever.

Other than this report neither KPMG Corporate Finance nor the KPMG Partnership has been involved in the preparation of the Recapitalisation or any other document prepared in respect of the Recapitalisation. Accordingly, we take no responsibility for the content of the Recapitalisation as a whole or other documents prepared in respect of the Recapitalisation.

We note that the forward-looking financial information prepared by the Company does not include estimates as to the potential impact of any future changes in taxation legislation in Australia or any other jurisdictions. Future taxation changes are unable to be reliably determined at this time.

### *Independence*

In addition to the disclosures in our Financial Services Guide, it is relevant to a consideration of our independence that, during the course of this engagement, KPMG Corporate Finance provided draft copies of this report to Management for comment as to factual accuracy, as opposed to opinions which are the responsibility of KPMG Corporate Finance alone. Changes made to this report as a result of those reviews have not altered the opinions of KPMG Corporate Finance as stated in this report.

### *Consent*

KPMG Corporate Finance consents to the inclusion of this report in the form and context in which it is included with the Recapitalisation to be issued to the Shareholders. Neither the whole nor the any part of this report nor any reference thereto may be included in any other document without the prior written consent of KPMG Corporate Finance as to the form and context in which it appears.



*Boart Longyear Limited*  
*Independent Expert Report*  
*9 May 2017*

### *Declarations*

Our report has been prepared in accordance with professional standard APES 225 "Valuation Services" issued by the Accounting Professional & Ethical Standards Board (APESB). KPMG Corporate Finance and the individuals responsible for preparing this report have acted independently

## **Appendix 2 – Sources of information**

In preparing this report we have been provided with and considered the following sources of information:

*Publicly available information:*

- the Company Announcement regarding the Recapitalisation
- the Draft Notice of General Meeting
- annual reports for the three years ended 31 December 2014, 31 December 2015 and 31 December 2016
- company presentations and ASX announcements
- various broker and analyst reports
- various press and media articles
- various reports published by IBISWorld Pty Ltd
- data providers including S&P, S&P Capital IQ and Connect 4

*Non-public information:*

- Board papers and other internal briefing papers prepared by Boart Longyear and their advisers in relation to the Recapitalisation
- the RSA
- other confidential documents, presentations and work papers

In addition, we have held discussions with, and obtained information from Directors and senior management of Boart Longyear and their advisers.

## **Appendix 3 – Valuation methodologies**

### *Capitalisation of earnings*

An earnings based approach estimates a sustainable level of future earnings for a business ('maintainable earnings') and applies an appropriate multiple to those earnings, capitalising them into a value for the business. The earnings bases to which a multiple is commonly applied include Revenue, EBITDA, EBIT and NPAT.

In considering the maintainable earnings of the business being valued, factors to be taken into account include whether the historical performance of the business reflects the expected level of future operating performance, particularly in cases of development, or when significant changes occur in the operating environment, or the underlying business is cyclical.

With regard to the multiples applied in an earnings based valuation, they are generally based on data from listed companies and recent transactions in a comparable sector, but with appropriate adjustment after consideration has been given to the specific characteristics of the business being valued. The multiples derived for comparable quoted companies are generally based on security prices reflective of the trades of small parcels of shares. As such, multiples are generally reflective of the prices at which portfolio interests change hands. That is there is no premium for control incorporated within such pricing. They may also be impacted by illiquidity in trading of the particular stock. Accordingly, when valuing a business en bloc (100.0%) we would also reference the multiples achieved in recent mergers and acquisitions, where a control premium and breadth of purchaser interest are reflected.

An earnings approach is typically used to provide a market cross check to the conclusions reached under a theoretical DCF approach or where the entity subject to valuation operates a mature business in a mature industry or where there is insufficient forecast data to utilise the DCF methodology.

### *Discounted cash flow*

Under a DCF approach, forecast cash flows are discounted back to the Valuation Date, generating a net present value for the cash flow stream of the business. A terminal value at the end of the explicit forecast period is then determined and that value is also discounted back to the Valuation Date to give an overall value for the business.

In a DCF analysis, the forecast period should be of such a length to enable the business to achieve a stabilised level of earnings, or to be reflective of an entire operation cycle for more cyclical industries. Typically a forecast period of at least five years is required, although this can vary by industry and by sector within a given industry.

The rate at which the future cash flows are discounted ('the Discount Rate') should reflect not only the time value of money, but also the risk associated with the business' future operations. This means that in order for a DCF to produce a sensible valuation figure, the importance of the quality of the underlying cash flow forecasts is fundamental.

The Discount Rate most generally employed is the WACC, reflecting an optimal (as opposed to actual) financing structure, which is applied to unleveraged cash flows and results in an Enterprise Value for the business. Alternatively, for some sectors it is more appropriate to apply an equity approach instead, applying a cost of equity to leveraged cash flows to determine equity value.

In calculating the terminal value, regard must be had to the business' potential for further growth beyond the explicit forecast period. This can be calculated using either a capitalisation of earnings methodology or the 'constant growth model', which applies an expected constant level of growth to the cash flow forecast in the last year of the forecast period and assumes such growth is achieved in perpetuity.

#### *Net assets or cost based*

Under a net assets or cost based approach, total value is based on the sum of the net asset value or the costs incurred in developing a business to date, plus, if appropriate, a premium to reflect the value of intangible assets not recorded on the balance sheet.

Net asset value is determined by marking every asset and liability on (and off) the company's balance sheet to current market values. A premium is added, if appropriate, to the marked-to-market net asset value, reflecting the profitability, market position and the overall attractiveness of the business. The net asset value, including any premium, can be matched to the 'book' net asset value, to give a price to net assets, which can then be compared to that of similar transactions or quoted companies.

A net asset or cost based methodology is most appropriate for businesses where the value lies in the underlying assets and not the ongoing operations of the business (e.g. real estate holding companies). A net asset approach is also useful as a cross check to assess the relative riskiness of the business (e.g. through measures such as levels of tangible asset backing).

#### *Enterprise or equity value*

Depending on the valuation approach selected and the treatment of the business' existing debt position, the valuation range calculated will result in either an enterprise value or an equity value being determined.

An enterprise value reflects the value of the whole of the business (i.e. the total assets of the business including fixed assets, working capital and goodwill/intangibles) that accrues to the providers of both debt and equity. An enterprise value will be calculated if a multiple is applied to unleveraged earnings (i.e. revenue, EBITDA, EBITA or EBIT) or unleveraged free cash flow.

An equity value reflects the value that accrues to the equity holders. To compare an enterprise value to an equity value, the level of net debt must be deducted from the enterprise value. An equity value will be calculated if a multiple is applied to leveraged earnings (i.e. NPAT) or free cash flow, post debt servicing.

## Appendix 4 – Market evidence

### Share market evidence

The following table sets out the implied EBITDA multiples for selected listed companies operating in the drilling services and products and mining services industries.

**Table 17: Share market evidence**

Company Name	Market Focus <sup>1</sup>	Geographic Focus <sup>2</sup>	Market Cap (AU\$m) <sup>3</sup>	EBITDA Multiple				
				LTM <sup>4</sup>	NTM <sup>5</sup>	Average 3 year <sup>7</sup>	Average 5 year <sup>7</sup>	Average 7 year <sup>7</sup>
ASPAC								
AJ Lucas Group Limited	E/P	AU	115	45.0	nmf <sup>6</sup>	33.5	nmf <sup>6</sup>	nmf <sup>6</sup>
Ausdrill Ltd.	E/D/P	AU/AF	528	5.6	5.1	4.2	4.1	4.7
MACA Limited	E/D/P	AU	493	4.2	3.9	2.1	3.0	3.5
Mitchell Services Limited	E/P	AU	46	19.7	nmf <sup>6</sup>	nmf <sup>6</sup>	nmf <sup>6</sup>	24.4
Swick Mining Services Limited	P	AU	68	5.6	nmf <sup>6</sup>	4.0	3.4	4.1
US & CANADA								
Energold Drilling Corp.	E/P	G	36	nmf <sup>6</sup>	30.9	nmf <sup>6</sup>	19.1	16.4
Major Drilling Group International	E	AM	697	126.1	13.9	16.9	7.7	11.2
Orbit Garant Drilling	E/D/P	AM	74	12.0	6.9	14.9	6.8	7.6
EMEA								
Capital Drilling Ltd	E/D	AF	140	6.1	5.0	6.1	4.6	5.7
Foraco International SA	E/D/P	G	46	12.7	nmf <sup>6</sup>	12.7	8.7	7.3
Geodrill Limited	E/D	AF	121	4.3	3.8	4.3	4.4	5.1
Low				4.2	3.8	2.1	3.0	3.5
High				126.1	30.9	33.5	19.1	24.4
Median				9.0	5.1	6.1	4.6	6.5
Average				24.1	10.0	11.0	6.9	9.0

Source: S&P Capital IQ (data as at 31 March 2017) and KPMG Corporate Finance analysis

Note 1: Stage of Mining Lifecycle: E=Exploration, D=Development, P=Production

Note 2: AU = Australia, AM = Americas, AF = Africa, G = globally diversified

Note 3: Market Cap calculated at close of trade on 31 March 2017

Note 4: LTM multiples calculated after normalisation adjustments applied to reported EBITDA and PAT

Note 5: NTM multiples sourced from S&P Capital IQ

Note 6: nmf = not meaningful

Note 7: Average multiples calculated based on average enterprise values and reported EBITDA for the prior 5 years from 21 March 2017

The multiples are based on share market prices as at 31 March 2017 and are commonly assumed to exclude a premium for control. A brief description of each company is outlined below.

### APAC

#### AJ Lucas Group Limited

AJ Lucas Group Limited is a diversified infrastructure, construction, and mining services company that provides services to the energy, water and wastewater, resources, and property sectors. The company operates in three divisions, Drilling, Engineering and Construction, and Oil and Gas across three different



regions, Australia, Europe and the Asia Pacific. As at 30 June 2016 the company had net debt of AU\$135.5 million and a gearing (debt/equity) of 156.0%. For the financial year ended 30 June 2016 (FY16) the company generated revenue of AU\$125.5 million, an underlying EBITDA of AU\$14.6 million (EBITDA margin 15.1%), and a net loss of AU\$19.5 million. AJ Lucas did not issue a dividend in FY16.

#### *Ausdrill Ltd*

Ausdrill Ltd is a global mining and energy services group that provides exploration, mining development, surface and underground mining, manufacturing and infrastructure services. Similar to Boart Longyear, Ausdrill Ltd provides drilling services and manufactures drilling products. As at 31 December 2016 Ausdrill Ltd held net debt of AU\$191.3 million with a gearing of 23.9%. Operations are primarily in Australia, Africa and other regions, comprising 49.4%, 47.3% and 1.3% of revenue respectively. In FY16, Ausdrill Ltd delivered revenue of AU\$743.9 million, underlying EBITDA of AU\$124.9 million (EBITDA margin of 15.6%), and a net profit of AU\$20.2 million. As a proportion of total revenue, 84.0% was generated from the provision of services to gold companies, 8.2% from iron ore, and the remaining 7.8% from other commodities. On 22 February 2017 the company announced that it would be distributing a dividend of AU\$0.02 per share.

#### *MACA Limited*

MACA Limited is a mining, construction and road infrastructure company that offers contract mining, civil earthworks, road asset management, crushing and screening, and material haulage solutions. For FY16 MACA Limited had net debt of AU\$41.9 million and a gearing ratio of 20.0%. MACA Limited operates in Australia and Brazil with these regions making up 81.0% and 19.0% of the company's revenue respectively. In FY16 MACA Limited generated AU\$431.4 million in operating revenue, of which 92.5% came from the mining segment, 7.1% from civil contracting and the remaining 0.4% was unallocated. From this revenue the company reported underlying EBITDA of AU\$90.7 million (EBITDA margin 21.0%), and a net profit of AU\$26.9 million for FY16. Key revenue and profit commodity segments were iron ore, gold, and copper. On 20 February 2017 the company announced that it would pay a dividend of AU\$0.045 per share.

#### *Mitchell Services Limited*

Mitchell Services Limited provides exploration and mine site contract drilling services to the mining industry. The company operates a fleet of 35 drill rigs and carries out services such as auger drilling, rotary air blast drilling, rotary mud drilling, reverse circulation drilling, and diamond drilling. Comparatively Boart Longyear operates in services such as surface and underground diamond core drilling, underground percussive drilling, sonic drilling, surface rotary drilling, surface geotechnical drilling, and surface and underground reverse circulation drilling. As at 31 December 2016 Mitchell Services Limited had net debt of AU\$14.5 million, which equals a gearing of 77.0%. The operations of Mitchell Services Limited are all carried out in Australia. In FY16 the company reported revenue of AU\$33.0 million, an underlying EBITDA of AU\$0.5 million (EBITDA margin 1.6%), and a statutory loss of AU\$6.0 million. The company has not issued any dividends since FY12.

### *Swick Mining Services Limited*

Swick Mining Services Limited provides underground and surface drilling services to companies working with precious and base metals, and bulk commodities. The company operates 78 drilling rigs globally. As at 31 December 2016 the company had net debt of AU\$12.2 million, which equals a gearing of 13.8%. Whilst the businesses operations in Australia make up the majority of revenue (approximately 90%), it also has operations in the USA and Canada that generate the remaining revenue (10%). In FY16 the company reported revenue of AU\$124.9 million, underlying EBITDA of AU\$14.8 million (EBITDA margin 12.0%), and a loss of AU\$2.8 million. Swick Mining Services Limited drilling services cover a range of commodities, however the primary commodity markets are Gold, Copper, Lead, and Zinc. In December 2016 it was announced that the company would pay a dividend of AU\$0.4 cents per share in 2017.

### **EMEA**

#### *Capital Drilling Limited*

Capital Drilling Limited and its subsidiaries provide exploration, development, grade control, blast hole, and energy drilling services to mineral exploration and mining companies. The company also offers drilling and related logistic, equipment rental, and IT support services. Of these services, production makes up 75% of revenue followed by development, exploration and then underground. As at 31 December 2016 the company had net debt of US\$0.6 million and a gearing of 0.9%. The company operates a fleet of 94 drilling rigs, primarily in Africa which makes up approximately 96.7% of revenue with the remaining 3.3% coming from its international operations. In CY16 Capital Drilling Limited reported a revenue of US\$93.3 million, underlying EBITDA of US\$13.1 million (EBITDA margin 14.0%), and a loss of US\$4.8 million. The key commodities the company operates in are gold, iron ore and base metals (copper, nickel and zinc). In 2016 a final dividend of US\$0.01 per share was declared.

#### *Foraco International SA*

Foraco International SA provides drilling services primarily for the mining and water sectors worldwide. Its drilling services include diamond core, rotary, down-the-hole hammer, direct circulation, reverse circulation, air core, and rotary air blast drilling services. As at 31 December 2016 Foraco International SA had net debt of US\$103.3 million, which equals a gearing of 112.9%. Foraco International SA generated revenue through operations in South America (22%), North America (22%), Asia Pacific (23%), Europe (18%) and, Middle East and Africa (15%). For CY16 the company reported revenue of CA\$153.9 million, underlying EBITDA of CA\$10.5 million (EBITDA margin 6.8%), and gross profit of CA\$6.0 million. As of March 2016 the company had 302 drilling rigs, and was ranked as the third largest global driller. Foraco International Limited is diversified revenue generated in key commodities and resources including gold (27%), water (13%), nickel (13%), iron (13%), copper (10%), coal (10%), diamonds (7%), and other (7%). The company has not issued a dividend since CY13.

#### *Geodrill*

Geodrill provides exploration and development drilling services to mining companies with exploration, development and production operations. As at 31 December 2016 the company owned 45 drilling rigs, all based in Africa. At this time Geodrill's balance sheet carried net cash of negative US\$4.1 million. For CY16, the company reported revenue of US\$73.4 million, gross profit of US\$29.5 million, and

underlying EBITDA of US\$19.2 million (EBITDA margin 26%). Of this revenue 42.0% was generated in Ghana with Burkina Faso, Cote d'Ivoire, Mali and Zambia accounting for the remaining 58.0%.

### ***US and Canada***

#### ***Energold Drilling Corporation***

Energold Drilling Corporation, together with its subsidiaries, provides drilling services to the mining and energy sectors, primarily offering mineral drilling services comprising of surface and underground drilling services. The company also designs, manufactures, and sells mobile drilling rigs and related equipment for water wells, mineral exploration and environmental monitoring companies. Energold Drilling Corporation operates approximately 265 drill rigs in over 25 countries including North America, South America, Africa, Asia, Central America, the Caribbean and Middle East. For 30 September 2016, Energold Drilling Corporation had net debt of CA\$3.96 million, which equals a gearing of 5.2%. For the twelve month period to 30 September 2016 company generated revenue of CA\$70.4 million, gross profit of CA\$8.6 million and underlying EBITDA of negative CA\$8.1 million (EBITDA margin of negative 11.5%). During 2016 the company did not pay any dividends.

#### ***Major Drilling***

Major Drilling provides contract drilling services for companies primarily involved in mining and mineral exploration. The company offers a wide array of drilling services that include, surface and underground coring, directional, reverse circulation, geotechnical, environmental and shallow gas drilling services. As at 31 December 2016 the company owned 690 drill rigs across North America, South and Central America, Australia, Asia and Africa. As at 30 April 2016 the company had net debt of CA\$38 million and a gearing of approximately 9%. For the fiscal year ended 30 April 2016 the company reported a revenue of CA\$304.6 million, gross profit of CA\$70.0 million and, underlying EBITDA of CA\$20.0 million (EBITDA margin 6.6%). Gold accounted for 51% of this revenue followed by copper (22%), nickel (10%), zinc (2%) and other (15%). The most recent dividend Major Drilling issued was CA\$0.02 on 2 November 2015.

#### ***Orbit Garant Drilling, Inc.***

Orbit Garant Drilling, Inc. provides surface and underground diamond drilling services for each stage of mineral exploration, mine development, and production to major, intermediate, and junior mining companies. Of these services surface drilling makes up approximately 58% of revenue, followed by underground at 40% and manufacturing at 2%. The company has 226 drill rigs and predominantly operates in Canada with 96% of revenue generated in this region, whilst the other 4% is generated internationally. Similarly, the resource from which the company's revenue is generated is highly concentrated, with 77% of it coming from gold and the remaining 23% generated from base metals. As at 31 December 2016 Orbit Garant Drilling Inc. had net debt of CA\$9.9 million, which equals a gearing of 12.9%. For CY16 the company reported revenue of CA\$107.5 million, gross profit of CA\$10.2 million and underlying EBITDA of CA\$11.1 million (EBITDA margin 10.3%). Orbit Garant Drilling, Inc. did not issue a dividend in 2016.

### Transaction Evidence

The table below sets out the EBITDA multiples implied by recent transactions that involved companies operating in the drilling services industry within APAC and internationally.

**Table 18: Transaction evidence**

Table 18: Transaction Evidence						
Date	Acquirer	Target	Transaction value (AUD million) <sup>1</sup>	Percentage acquired	EBITDA Multiple	
					LTM <sup>2</sup>	NTM <sup>3</sup>
ASPAC						
May-12	General Electric Company	Industrea Limited	679.3	100%	5.8	4.7
Aug-09	Ausdrill Ltd.	Brandrill Limited	102.4	100%	4.4	n/a <sup>4</sup>
Jul-08	AJ Lucas Group Limited	Mitchell Drilling Corp.	150.0	100%	7.0	n/a <sup>4</sup>
International						
Jul-14	Major Drilling Group International Inc.	Taurus Drilling Services ULC	23.3	100%	7.9	n/a <sup>4</sup>
Sep-12	Foraco International SA	John Nitschke Drilling Pty. Ltd.	60.0	100%	12.8	n/a <sup>4</sup>
May-12	Foraco International SA	WFS Sondagem Ltda.	77.5	51%	5.0	n/a <sup>4</sup>
Sep-11	Major Drilling Group International Inc.	Bradley Group Limited	90.6	100%	5.6	n/a <sup>4</sup>
Jun-11	Energold Drilling Corp.	Bertram International Corporation	41.0	100%	6.2	n/a <sup>4</sup>
Apr-11	Chesapeake Energy Corporation	Bronco Drilling Co. Inc.	310.7	100%	12.3	8.4
Apr-11	Western Energy Services Corp.	Stoneham Drilling Trust	233.0	100%	7.6	8.3
Aug-10	Seawell Limited	Allis-Chalmers Energy Inc.	951.4	100%	9.9	6.1
Low					4.4	4.7
High					12.8	8.4
Median					7.0	7.2
Average					7.7	6.9

Source: Company financial statements and announcements, S&P Capital IQ, KPMG Corporate Finance analysis

Note 1: Transaction value refers to enterprise value of the company as of the date of completion

Note 2: LTM multiples calculated based on EBITDA from most recently available results as at the transaction announcement date, after normalisation adjustments

Note 3: NTM multiples calculated based on broker consensus forecasts as at the transaction date

Note 4: n/a = not available

A brief description of each transaction is outlined below.

### APAC transactions

#### Acquisition of Industrea Limited by General Electric Company

On 23 February 2011, General Electric Company acquired 100% of Industrea Limited for a cash consideration of AU\$470.2 million plus adjustments for cash, debt and other items. Industrea Limited provided mining products and services through its four divisions, Mining Equipment, Mining Technology, Mining Services and Gas Management. As at 30 June 2011 Mining Services generated majority of the company's revenue at 47.0%, followed by Mining Technology and Mining Equipment, contributing 33.0% and 20.0% respectively. Of this revenue 70% was generated in the APAC region. This acquisition allowed them to expand their product and service offerings for mining customers.

#### Acquisition of Brandrill Limited by Ausdrill Ltd

On 26 November 2009, Brandrill Limited's shareholders approved the offer by Ausdrill Ltd to acquire 100% of Brandrill Limited's shares for a total stock consideration of AU\$45.2 million plus adjustment for cash, debt and other items. This was a strategic merger for Ausdrill, allowing them to gain entry to the coal market. Under the deal, eligible Brandrill Limited shareholders received one Ausdrill Ltd share for

every 14.5 Brandrill Limited shares held at the record date for the merger. During CY09, Brandrill Limited's revenue was derived primarily from the Contracting division, accounting for 94.0% of the company's revenue (AU\$167.4 million). This division provided open cut and civil drilling, blasting services and exploration drilling services in Australia.

*Acquisition of Mitchell Drilling Corporation by AJ Lucas Group Limited*

On 22 August 2008, AJ Lucas Group Limited acquired a 100% stake in Mitchell Drilling Corporation for AU\$150.0 million. Of this AU\$150.0 million, AU\$120.0 million was to be paid in cash on closing of the deal, AU\$15.0 million through an equity placement escrowed for 12 months, and AU\$15.0 million to be paid in cash in 12 months subsequent to the deal closing. Mitchell Drilling Corporation provided drilling and ancillary services to the natural resources industry in the Americas and APAC region. These services included, seam drilling, dewatering and pumping, semi and under-balanced drilling, directional drilling and project management services. This acquisition allowed AJ Lucas Group Limited to consolidate their market position as a drilling services provider and to expand into coal seam gas, and coal industries.

***International transactions***

*Acquisition of Taurus Drilling Services ULC by Major Drilling*

On 1 August 2014, Major Drilling acquired a 100.0% stake in Taurus Drilling Services ULC for CA\$23.5 million. Of this CA\$23.5 million, CA\$15.9 million was paid in cash, CA\$7.5 million in Major Drilling Group International Inc. stock and CA\$4.3 million in assumption of debt on closing. An additional amount of CA\$11.5 million was also to be paid, contingent on growing EBITDA run rates above current levels. As a part of the acquisition Major Drilling retained Taurus Drilling Services ULC management teams and employees, as well as acquiring 39 drilling rigs, related inventory and contracts. In the LTM leading up to the transaction date the company generated a revenue of CA\$39.0 million and an EBITDA of CA\$8.0 million. This acquisition allowed Taurus Drilling Services ULC to expand out of their production drilling services and enter the underground percussive/longhole drilling sector.

*Acquisition of John Nitschke Drilling Pty Ltd by Foraco International SA*

On 19 November 2012, Foraco International SA acquired a 100.0% stake in John Nitschke Drilling Pty Ltd, for a consideration of AU\$60.0 million in cash and warrants. The consideration includes AU\$30.0 million in cash, an earn-out amount, 6 million warrants of Foraco International SA with the possibility to issue up to an additional 1 million warrants, depending on certain market conditions and a sum based on CY12 EBITDA. The warrants will be automatically convertible on the happening of certain events on or after 9 months from the closing date. John Nitschke Drilling Pty Ltd was a privately owned Australian based drilling service. As of 24 September 2012, the company's fleet consisted of 15 rigs, including 4 diamond/rotary rigs, 4 reverse circulation rigs, and 7 multi-purpose rigs, as well as ancillary equipment. This acquisition allowed Foraco International SA to strengthen its Australian operations with access to additional commodities and customers.

*Acquisition of WFS Sondagem Ltda by Foraco International SA*

On 20 April 2012, Foraco International SA acquired a 51.0% stake in WFS Sondagem Ltda, a Brazilian drilling service provider for US\$44.2 million. As part of the agreement, the company had an option to acquire the remaining 49.0% after three years, and the current minority shareholders of WFS Sondagem

Ltda had an option to sell the remaining 49.0% after three years. WFS Sondagem Ltda was a private company that provided mineral drilling services including diamond and reverse circulation drilling services. The company's drill rig fleet consisted of 86 rigs including 72 diamond rigs, 14 reverse circulation drill rigs and ancillary equipment. This acquisition allowed Foraco International SA to expand and strengthen its operations in Brazil.

*Acquisition of Bradley Group Limited by Major Drilling*

On 30 September 2011, Major Drilling acquired a 100% stake in Bradley Group Limited for CA\$95.0 million. Of this CA\$95.0 million, CA\$72.0 million would be payable in cash at the closing of the acquisition, with the balance of CA\$8.0 million being subject to a hold-back over 3 years. In addition, Major Drilling would repay CA\$10.0 million of Bradley Group Limited's debt and assume CA\$5.0 million in debt. Bradley Group Limited, a private company based in Rouyn Noranda, Canada, offered gold and diamond drilling services. The acquisition of Bradley Group's 124 rigs, approximately 80% of which were surface drilling rigs and 20% underground diamond drilling, allowed Major Drilling to further its focus on specialised drilling.

*Acquisition of Bertram International Corporation by Energold Drilling Corporation*

On 25 July 2011, Energold Drilling Corporation acquired a 100.0% stake in Bertram International Corporation for CA\$42.3 million. The initial consideration of the transaction was CA\$15.0 million in the form of cash and shares in Energold Drilling Corporation. Bertram International Corporation was a private company that offered oil sands coring, shot hole seismic, geothermal, diamond, and pipeline drilling services in the energy sector. This acquisition allowed Energold to gain entry into the niche energy sector.

*Acquisition of Bronco Drilling Co Inc by Chesapeake Energy Corporation*

On 3 June 2011, Chesapeake Energy Corporation completed acquired a 100% stake in Bronco Drilling Co Inc. for US\$11 a share, representing a value of approximately US\$315.0 million plus adjustments for debt, cash and other items. Bronco Drilling Co Inc. provided contract land drilling services to oil and natural gas exploration, and production companies in the US. During CY10, the company generated US\$124.4 million in revenue from its contract drilling division. As at 31 March 2011 the company had EBITDA of US\$26.9 million. This acquisition was a part of Chesapeake Energy Corporation's vertical integration strategy by allowing them to own two-thirds of the rigs they operated.

*Acquisition of Stoneham Drilling Trust by Western Energy Services Corporation*

On 10 June 2011, Western Energy Services Corporation acquired a 100% stake in Stoneham Drilling Trust for a consideration of CA\$190.0 million. Under the terms of the transaction, Stoneham Drilling Trust unit holders received either 61.538 Western Energy Services Corporation common shares or CA\$24.0 in cash, subject to a maximum of CA\$115.0 million in aggregate cash paid. Stoneham Drilling Trust provided contract drilling services to oil and natural gas exploration and production companies in Canada and the US. The company operated a fleet of approximately 19 drilling rigs. The acquisition increased Western Energy Services Corporation's position in the deep horizontal drilling market, giving it the largest deep capacity modern fleets at the time. As of 31 December 2010, Stoneham Drilling Trust generated CA\$106.1 million in total revenue, with 88.0% of revenue being derived in Canada and the remaining 12.0% in the US, and EBITDA of CA\$19.2 million.



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*Acquisition of Allis-Chalmers Energy Inc by Seawell Limited*

On 23 February 2011, Seawell Limited acquired a 100% stake in Allis-Chalmers Energy Inc, through a definitive merger agreement valued at approximately US\$890.0 million. The deal included the assumption of approximately US\$490.0 million of debt by Seawell Limited. Allis-Chalmers Energy Inc provided services and equipment to oil and natural gas exploration, and production companies in the US. It operated through three divisions: Oilfield Services, Drilling and Completion, and Rental Services. As of 31 December 2010, the company generated US\$659.7 million in total revenue, of which 60.0% was derived by the Drilling and Completion division. This division provided drilling, completion, and related services for oil and natural gas wells. This merger will increase the range of drilling services Seawell Limited can offer, providing its customers with fully integrated drilling services.

## **Appendix 5 – Industry overview**

To provide a context for assessing the future prospects of Boart Longyear, we have detailed below an overview of recent trends in commodity markets and the mining services markets both in Australia and globally. We have placed particular focus on the provision of drilling services and products.

### *Mining support services sector in Australia*

Contract mining services companies are primarily hired by the mining, resources and energy industry on a contractual basis to perform various operational functions on mining projects. The scope of work can range from preparation of mine sites for mining to undertaking the entire mining process for an agreed period of time. Contract miners have access to a large pool of machinery and a skilled workforce, which can assist in reducing costs for resource companies.

Boart Longyear operates in a niche division of the mining services market, providing drilling services and drilling products for all stages of the mining lifecycle.

### *Key industry trends*

The demand for contract mining services, particularly drilling services, is closely related to the underlying performance of the overall resources industry and is therefore cyclical in nature. The sustainability of Boart Longyear is directly related to the demand for drilling services and products primarily from the mining, resources, mining services and energy sectors, and to a lesser extent the non-mining markets.

There are two core identified industry trends which significantly impact the level of demand for mining services, particularly drilling services, in Australia and globally:

- *Bottoming of commodity prices* – relatively stable demand for commodities, and increasing supply of commodities in 2014 and 2015 led to a material decrease in commodity prices. Commentators<sup>12</sup> have noted that this general decrease in prices has reached cyclical lows and are now expected to begin increasing. This expectation has been supported by the proposal of capital intensive projects in the United States<sup>13</sup>, and decreased supply in the mining industry more broadly
- *declining capital expenditure in mining* – as commodity prices have decreased following the end of the mining boom, key commodity producers reduced capital expenditure to reflect lower operating margins, demand for resources and decreased access to capital. This has led to the postponing or cancellation of major projects globally, and lower demand for exploration and mining services products internationally.

### *Demand expectations for commodities*

Following the global financial crisis, mining experienced a temporary slowdown as a result of reduced capital investment by large companies, before global infrastructure and government investment stimulus supported increased investment in mining in the period from 2010 to 2012. As demand fell after 2012, the

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<sup>12</sup> Minerals Council of Australia, Positive Long Term Outlook for Industry, April 2016.

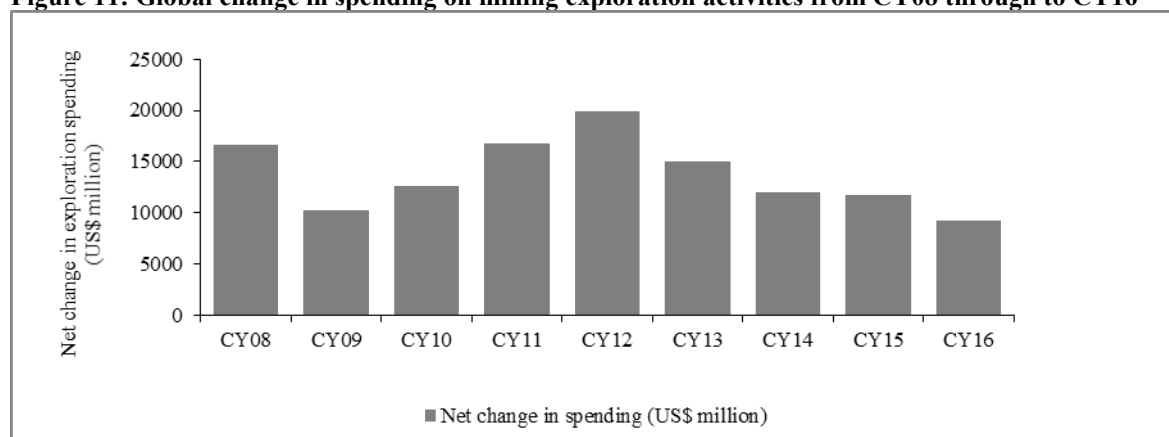
<sup>13</sup> IBISWorld, Mining Support Services in Australia Industry Report, February 2017, CNBC, *Why the gold price might be set for a rebound*, 2017.



mining industry reduced exploration expenditure, with increased mining output predominantly coming from the growth of currently operating mines. As commodity prices fell as a result of the oversupply in key commodities (including energy and base minerals) in 2013 onwards, exploration spending has decreased.

The change in global exploration expenditure from CY08 through to CY16 is illustrated in the graph below.

**Figure 11: Global change in spending on mining exploration activities from CY08 through to CY16**



Source: SNL MEG<sup>14</sup>

We note that gold and copper, comprise the majority of Boart Longyear's customer base. As such we set out the demand expectations for these areas below.

#### ***Demand expectations for gold***

According to IBISWorld<sup>15</sup>, global demand for gold is inversely related to global economic performance, due to gold being viewed as a store of value. Hence, subdued economic performance and political turbulence typically result in higher gold prices.

Gold prices increased materially following the GFC, as investors sought protection from political and economic uncertainty in the form of a safe haven asset class. Economic uncertainty prevailed as a result of the European sovereign debt crisis, continuing in 2013 with the Greek sovereign debt crisis. As political uncertainty subsequently subsided, gold prices declined, reaching lows around US\$1,100 a troy ounce in January 2016. This was in addition to increased supply of gold in 2015, which further reduced the net demand for gold on international markets.

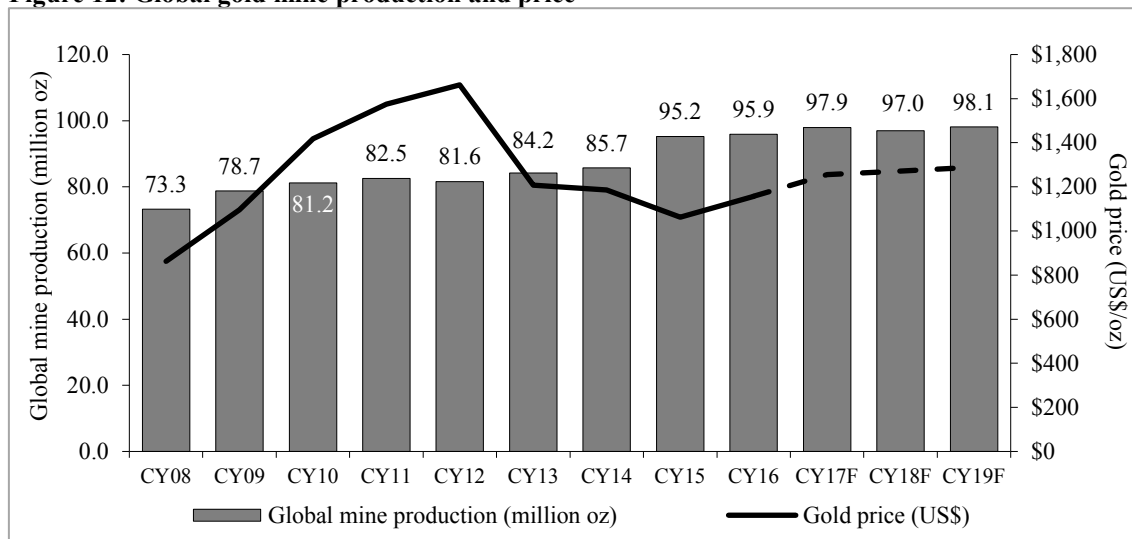
In 2016, political uncertainty around the proposed departure of the United Kingdom from the European Union, and the presidential election in the United States led to gold price appreciation, as investors again sought safety in safe haven asset classes.

<sup>14</sup> SNL MEG, Global Exploration Expenditure, March 2017

<sup>15</sup> IBISWorld, Industry Report - Gold Ore Mining in Australia, August 2016

The graph below illustrates the historical and forecast global gold production volumes.

**Figure 12: Global gold mine production and price**



Source: SNL MEG<sup>16</sup>

As gold mining companies have conserved capital and reduced expenditure on both mining expansion and mining exploration, there has been a material decrease in gold mining services expenditure. This has followed through to a decrease in demand for contract mining services, particularly drilling services for exploration activities as mining companies further reduce investment in Greenfield activities. Despite the decrease in the gold prices over the past five years, the forecast increase in prices going forward to CY19 are expected to lead to a moderate increase in Greenfield exploration drilling.

#### ***Demand expectation for copper***

According to IBISWorld<sup>17</sup>, copper is extensively used in the building and construction, electrical energy applications and telecommunications sectors. The global demand for copper is directly related to economic growth and investment levels in the infrastructure sector, along with technological manufacturing.

Copper prices fell to decade lows in 2015 as, similarly to other construction base metals, lower industrial and construction related demand for copper led to excess global supply and decreasing prices. Developing economies have significantly decreased their consumption of copper, as government stimulus infrastructure projects were finalised, and weaker manufacturing demand tempered global demand for copper. As a result of this, and despite buoyant demand for copper from manufacturing industries in developed economies such as Japan<sup>18</sup>, global consumption of copper remained flat between 2013 and 2016. In addition to reduced demand from weaker construction activity, copper has been substituted in

<sup>16</sup> SNL MEG, Gold Production March 2017

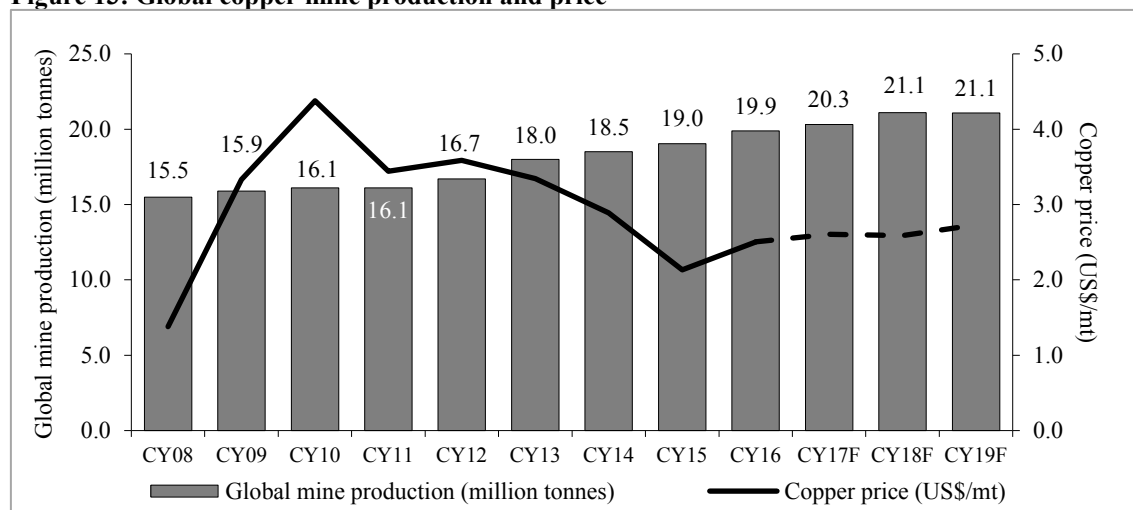
<sup>17</sup> IBISWorld, Industry Report – Copper Ore Mining in Australia, September 2016

<sup>18</sup> IBISWorld, Industry Report – Copper Ore Mining in Australia, September 2016

construction and manufacturing for cheaper building materials, leading to a structural decrease in the commodities use.

The graph below illustrates the global historical and forecast copper production.

**Figure 13: Global copper mine production and price**



Source: SNL MEG<sup>19</sup>

The historical decline in copper prices has led to producers adopting various cost restructuring measures to remain competitive in the market, resulting in the implementation of stringent capital allocation, asset reviews and the reduction of capital expenditure by miners.

#### ***Demand expectations for iron ore***

Global iron ore demand predominantly stems from the production of steel, used in both infrastructure construction and for manufacturing purposes. Demand for steel for use in manufacturing is closely related to economic growth, while steel used in the construction of large infrastructure projects is closely correlated with government and corporate investment.

As can be seen in figure 14 below, iron ore production increased immediately following the global financial crisis, as economic development in developing countries, and government infrastructure stimulus plans in developed countries requires significant quantities of iron ore. This increase in demand for steel in infrastructure more than offset the decreased demand for steel in manufacturing processes.

After strong demand in CY13 and CY14, increased supply, weak economic growth lead to lower demand. This caused an oversupply of iron ore in global commodity markets. This coincided with significant growth in inventory levels in key Chinese ports (which account for over two-thirds of global seaborne imports<sup>20</sup>).

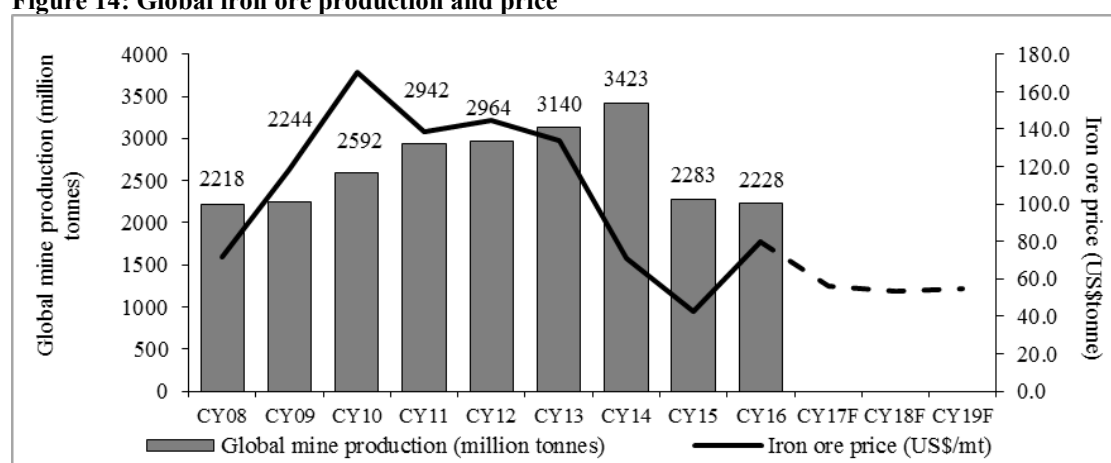
<sup>19</sup> SNL MEG, Copper Production Pipeline: Mine Development and Production, 2017

<sup>20</sup> Bloomberg, Iron ore midyear outlook, August 2016.

This increase in supply and flat demand led to global iron ore price declines in 2014 and 2015, resulting in price lows below US\$37 a tonne in December 2015. Following significant supply declines, as large producers cancelled capital expenditure plans, and mid-tier miners became insolvent or mothballed production, prices stabilised and rose to reach highs of US\$90 in February 2017. Despite ranging iron ore production forecasts in the market, there is a consensus around production increases in the period CY17 to CY19<sup>21</sup>.

The graph below illustrates the historical and forecast global iron ore production volumes and price.

**Figure 14: Global iron ore production and price**



Source: SNL MEG<sup>22</sup>, Bloomberg, Bloomberg Pulse forecasts<sup>23</sup>

#### Industry participants

The global mining services market is geographically dispersed with businesses skewed towards regions with high levels of minerals and commodities mining, as these form the key markets for contract mining services. From 2013 onwards, Boart Longyear has suffered a decline in its market share in the period corresponding to a significant decline in mining investment as shown above.

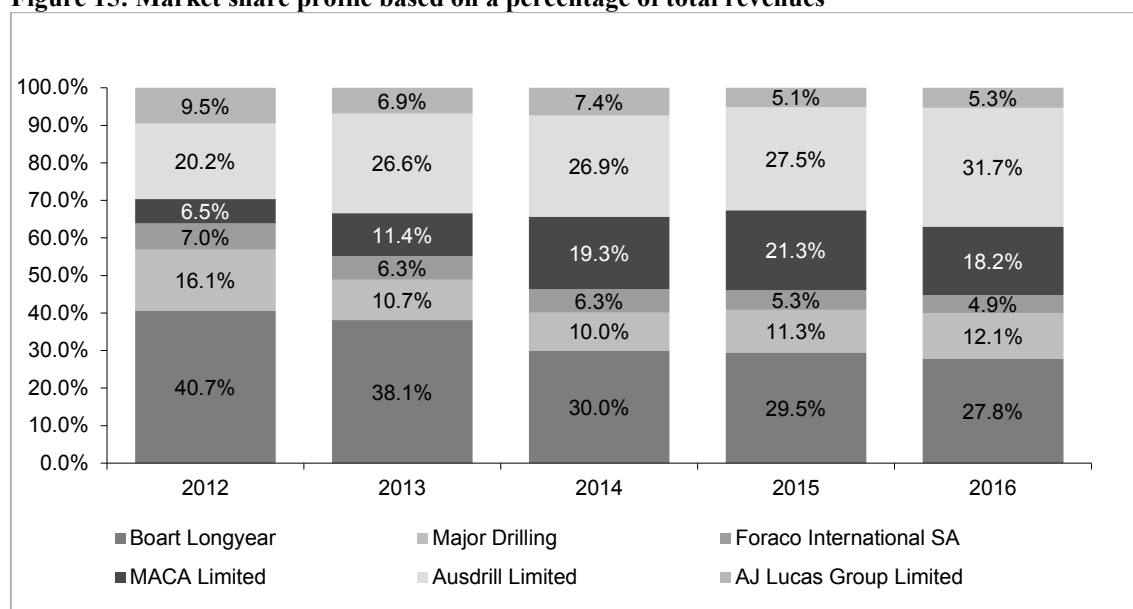
The graph below illustrates Boart Longyear's estimated market share (based on revenues) compared to the worldwide top 5 revenue earners from our comparable company peer group. For further detail on the comparable companies, see Appendix 4<sup>24</sup>.

<sup>21</sup> SNL MEG, 2017, Bloomberg Pulse Forecasts, accessed 20 March 2017, EIU, March 2017.

<sup>22</sup> SNL MEG, Copper Production Pipeline: Mine Development and Production, 2017

<sup>23</sup> Bloomberg Pulse Forecasts, accessed 20 March 2017.

<sup>24</sup> Source: S&P Capital IQ downloaded as at 13 March 2017

**Figure 15: Market share profile based on a percentage of total revenues<sup>25</sup>**

Source: S&P Capital IQ and KPMG Corporate Finance Analysis

These companies operate in a variety of jurisdictions and markets in addition to core business activities in mining and resources, which may have had a different impact on market share over time compared to Boart Longyear. When considering the industry specific nature of these businesses they may not be comparable on a like-for-like basis. In addition, foreign currency exchange fluctuations as well as acquisitions during the time period analysed have impacted the market share profile shown above, as they are reported in US dollars.

According to IBISWorld<sup>26</sup>, the mining support services market in Australia is fragmented. Leading players include large contract miners and exploration companies which provide mining services in addition to their primary activities. These companies place competitive pressures on pure play mining support services companies and those that operate in a niche division, such as Boart Longyear. Key companies in Australia include Boart Longyear, Ausdrill Ltd and Layne Christensen, collectively accounting for less than 10% of industry revenue<sup>27</sup>.

As a result of the fixed cost nature of the mining services industry, the decline in mining exploration and mine expansion has led to a decrease in revenues, gross margins and profitability in the industry. For drilling services, this has caused an oversupply of drill rigs as demand from mining activities decrease, resulting in the market becoming highly fragmented with many small scale businesses contesting for narrow regional or product markets globally.

<sup>25</sup>Total revenues have been calculated based on all 11 peers in the comparable company analysis in Section 16.3.3.1

<sup>26</sup>IBISWorld, Industry Report – Mining Support Services in Australia, February 2017

<sup>27</sup>IBISWorld, Industry Report – Mining Support Services in Australia, February 2017

### *Conclusion*

The major factors influencing the demand for drilling services in Australia and globally include the amount of capital expenditure on mining projects and exploration projects, and the demand for commodities.

Despite a range of factors influencing the lower capital expenditure in mining and resources in Australia and globally at present, this trend is expected to reverse going forward. Current short term and forecast commodity price appreciations, along with reduced supply as a result of lower mine expansion and exploration activity are likely catalysts for stronger mining investment and expenditure on mining services in the future.

As prices continue to stabilise and return to long term averages, we would expect the demand for mining services to also stabilise and grow in the medium term. This, together with the short term increases and forecast increases in commodity prices is likely to support industry growth in the medium term.



## Appendix 6 – Maintainable Earnings Analysis

For the period US\$ million	CY10	CY11	CY12	CY13	CY14	CY15	CY16
Boart Longyear Revenue	1,475.9	2,020.3	2,011.5	1,222.9	866.6	735.2	642.4
Boart Longyear EBITDA	221.8	356.3	254.3	(337.1)	(82.6)	(115.3)	1.6
Recapitalisation costs	-	-	-	-	45.5	0.6	7.5
Add: Impairment charges (Goodwill)	-	-	6.8	166.3	-	-	-
Add: Impairment charges (PP&E)	0.1	0.1	6.0	109.9	46.1	36.8	0.9
Add: Impairment charges (Inventory)	0.6	0.6	7.7	101.9	0.7	34.5	-
Add: Employee separation and related costs	2.3	0.2	23.0	44.8	12.5	16.0	8.0
Add: Impairment charges (Development asset)	-	-	8.5	14.6	-	-	-
Add: Impairment charges (Intangibles)	-	0.4	3.4	9.1	1.6	0.6	1.0
Add: Other restructuring and impairment charges	4.7	(0.1)	12.2	14.6	7.6	9.5	10.1
Less: Gain on termination of post-retirement medical plan	-	-	-	(16.9)	-	-	-
Other non-recurring items	-	-	-	-	-	17.2	2.9
Other income/expenses	6.8	1.2	4.6	28.0	-	-	-
<b>Normalised EBITDA of business operations</b>	<b>236.2</b>	<b>358.6</b>	<b>326.5</b>	<b>135.1</b>	<b>31.4</b>	<b>(0.1)</b>	<b>32.0</b>
<b>Averages</b>							
3 Year Average EBITDA (CY14-16)	21.1						
3 Year Average EBITDA (CY15-17)	24.0						
5 Year Average EBITDA (CY12-16)	98.5						
5 Year Average EBITDA (CY13-17)	42.1						
7 Year Average EBITDA (CY10-16)	153.0						
7 Year Average EBITDA (CY11-17)	127.0						

Source: Management and KPMG Corporate Finance Analysis

Note 1: nmf= not meaningful figure

Note 2: CY17 forecasts are based on Management forecast

## Appendix 7 – Glossary

Abbreviation	Description
US\$	United States dollars
AASB	Australian Accounting Standard Board
ABL	Asset backed loan
Announcement Date	3 April 2017
APESB	Accounting Professional & Ethical Standards Board
Ares	Ares Management, LLC, on behalf of its affiliated funds and accounts
Ascribe	Ascribe II Investments LLC on behalf of itself and its managed funds
ASIC	Australian Securities and Investments Commission
APAC	Asia Pacific
ASX	Australian Securities Exchange
AUS	Australian Dollar
Authorised Representative	Authorised representative of KPMG Corporate Finance
Board	Board of Directors of Boart Longyear
Boart Longyear or the Company	Boart Longyear Limited
CAS	Canadian dollars
Centerbridge	Centerbridge Partners, L.P.
CEO	Chief Executive Officer
CFO	Chief Financial Officer
COGS	Cost of Goods Sold
Corporations Act / the Act	Corporations Act 2001 (Cth)
CPS	Convertible preference shares
CRA	Canadian Revenue Authority
CSG	Coal seam gas
CYxx	Calendar Year ending 31 December
DCF	Discounted cash flow
Director	A director of Boart Longyear
Drilling Services	Boart Longyear's global drilling services business division
DTA	Deferred Tax Asset
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax depreciation and amortisation
EMEA	Middle East and Africa
Equitisation	the exchange of US\$196 million of 7% Senior Unsecured Notes for 42% of the Company's recapitalisation ordinary equity
FOS	Financial Ombudsman Service
FSG	Financial Services Guide
GFC	Global Financial Crisis
HYxx	Half Year ended xx



Abbreviation	Description
IER	Independent Expert Report
Implementation Date	Date of the implementation of the Recapitalisation
Independent Directors	Independent Directors of Boart Longyear
KPMG Corporate Finance	KPMG Financial Advisory Services (Australia) Pty Ltd (of which KPMG Corporate Finance is a division)
LAM	Latin America
LTI	Long term incentive
LTM	Last twelve months of available financial information
Major Drilling	Major Drilling Group International Inc.
Management	Management of Boart Longyear
Moody's	Moody's Investors Service
n/a	Not available
NAM	North America
nmf	Not meaningful figure
Non-associated Shareholders	Shareholders of Boart Longyear that are not associated with the Recapitalisation
NPAT	Net profit after tax
NTM	Next twelve months (based upon broker forecasts)
PDS	Product Disclosure Statement
PIK	Payable in kind
Products	Boart Longyear's global drilling products business division
R&D	Research and development
RG 111	ASIC Regulatory Guide 111 "Content of expert reports"
RG 74	ASIC Regulatory Guide 74 "Acquisitions approved by members"
RSA	Restructuring support agreement
Senior Unsecured Noteholders	Holders of the 7% Senior Unsecured Notes
S&P	Standard & Poor's
SG&A	General, administrative, sales and marketing expenses
SNL MEG	SNL Metals Economics Group
SPP	Share purchase plan to purchase up to AU\$5,000 worth of shares in the Company for AU\$0.02, capped at a maximum total amount of AU\$ 9 million
Subscription Agreement	Subscription Agreement pursuant to which the Company will issue Centerbridge ordinary shares in consideration for the Subsequent Term Loan Amendments
the Recapitalisation	The implementation of a restructuring support agreement between the Company, Centerbridge, Ares and Ascribe
US	United States
VP	Vice President
VWAP	Volume weighted average price
WACC	Weighted average cost of capital



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*9 May 2017*

Abbreviation	Description
YTD	Year to date


**KPMG Corporate Finance**

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## PART TWO – FINANCIAL SERVICES GUIDE

Dated 9 May 2017

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- derivatives;
- foreign exchange contracts;
- government debentures, stocks or bonds;
- interests in managed investment schemes including investor directed portfolio services;
- securities;
- superannuation;
- carbon units;
- Australian carbon credit units; and
- eligible international emissions units,

to retail and wholesale clients. We provide financial product advice when engaged to prepare a report in relation to a transaction relating to one of these types of financial products. The Authorised Representative is authorised by KPMG Corporate Finance to provide financial product advice on KPMG Corporate Finance's behalf.

**KPMG Corporate Finance and the Authorised Representative's responsibility to you**

KPMG Corporate Finance has been engaged by Boart Longyear (Client) to provide general financial product advice in the form of a Report to be included in an Explanatory Statement (Document) prepared by Boart Longyear in relation to the proposed recapitalisation transaction for Boart Longyear by Centerbridge (the Recapitalisation).

You have not engaged KPMG Corporate Finance or the Authorised Representative directly but have received a copy of the Report because you have been provided with a copy of the Document. Neither KPMG Corporate Finance nor the Authorised Representative are acting for any person other than the Client.

KPMG Corporate Finance and the Authorised Representative are responsible and accountable to you for ensuring that there is a reasonable basis for the conclusions in the Report.

**General Advice**

As KPMG Corporate Finance has been engaged by the Client, the Report only contains general advice as it has been prepared

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without taking into account your personal objectives, financial situation or needs.

You should consider the appropriateness of the general advice in the Report having regard to your circumstances before you act on the general advice contained in the Report.

You should also consider the other parts of the Document before making any decision in relation to the Transaction.

**Fees KPMG Corporate Finance may receive and remuneration or other benefits received by our representatives**

KPMG Corporate Finance charges fees for preparing reports. These fees will usually be agreed with, and paid by, the Client. Fees are agreed on either a fixed fee or a time cost basis. In this instance, the Client has agreed to pay KPMG Corporate Finance AU\$175,000 for preparing the Report. KPMG Corporate Finance and its officers, representatives, related entities and associates will not receive any other fee or benefit in connection with the provision of the Report. KPMG Corporate Finance officers and representatives (including the Authorised Representative) receive a salary or a partnership distribution from KPMG's Australian professional advisory and accounting practice (the KPMG Partnership). KPMG Corporate Finance's representatives (including the Authorised Representative) are eligible for bonuses based on overall productivity. Bonuses and other remuneration and benefits are not provided directly in connection with any engagement for the provision of general financial product advice in the Report.

Further details may be provided on request.

**Referrals**

Neither KPMG Corporate Finance nor the Authorised Representative pay commissions or provide any other benefits to any person for referring customers to them in connection with a Report.

**Associations and relationships**

Through a variety of corporate and trust structures KPMG Corporate Finance is controlled by and operates as part of the KPMG Partnership. KPMG Corporate Finance's directors and Authorised Representatives may be partners in the KPMG Partnership. The Authorised Representative is a partner in the KPMG Partnership. The financial product advice in the Report is provided by KPMG Corporate Finance and the Authorised Representative and not by the KPMG Partnership. From time to time KPMG Corporate Finance, the KPMG Partnership and related entities (KPMG entities) may provide professional services, including audit, tax and financial advisory services, to companies and issuers of financial products in the ordinary course of their businesses. KPMG entities have provided, and continue to provide, a range of audit, tax and advisory services to the Client for which professional fees are received. Over the past two years professional fees of AU\$384,000 have been received from the Client respectively. None of those services have related to the transaction or alternatives to the transaction.

No individual involved in the preparation of this Report holds a substantial interest in, or is a substantial creditor of, the Client or has other material financial interests in the transaction.

**Complaints resolution**

Internal complaints resolution process

If you have a complaint, please let either KPMG Corporate Finance or the Authorised Representative know. Formal complaints should be sent in writing to The Complaints Officer, KPMG, PO Box H67, Australia Square, Sydney NSW 1213. If you have difficulty in putting your complaint in writing, please telephone the Complaints Officer on 02 9335 7000 and they will assist you in documenting your complaint.

Written complaints are recorded, acknowledged within 5 days and investigated. As soon as practical, and not more than 45 days after receiving the written complaint, the response to your complaint will be advised in writing.

External complaints resolution process

If KPMG Corporate Finance or the Authorised Representative cannot resolve your complaint to your satisfaction within 45 days, you can refer the matter to the Financial Ombudsman Service (FOS). FOS is an independent company that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.

Further details about FOS are available at the FOS website [www.fos.org.au](http://www.fos.org.au) or by contacting them directly at:

Address: Financial Ombudsman Service Limited, GPO Box 3, Melbourne Victoria 3001

Telephone: 1300 78 08 08

Facsimile: (03) 9613 6399 Email: [info@fos.org.au](mailto:info@fos.org.au)

The Australian Securities and Investments Commission also has a freecall infoline on 1300 300 630 which you may use to obtain information about your rights.

**Compensation arrangements**

KPMG Corporate Finance has professional indemnity insurance cover as required by the Corporations Act 2001(Cth).

**Contact Details**

You may contact KPMG Corporate Finance or the Authorised Representative using the contact details:

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