Boart Longyear Limited

ABN 49 123 052 728

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Adelaide Airport
South Australia 5950, Australia
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www.boartlongyear.com

12 May 2017

Boart Longyear Recapitalisation – Update

Boart Longyear Limited (**ASX: BLY**) (**Boart Longyear** or the **Company**) announced on 3 April 2017 that the terms of a recapitalisation (the **Recapitalisation**) had been agreed with its major creditors. The Company has commenced dispatch of the notice of meeting today for the Annual General Meeting of the Company (the **AGM**) (the **Shareholders' Notice of Meeting**), at which shareholders will be asked to consider (amongst other things) the resolutions required to implement the Recapitalisation (the **Recapitalisation Resolutions**).

Shareholders' Meeting

The AGM is scheduled to be held at **1:00 pm on Tuesday, 13 June 2017 at the Melbourne Convention and Exhibition Centre, 1 Convention Centre Place, South Wharf, Melbourne Victoria 3006 Australia**.

The Shareholders' Notice of Meeting includes an independent expert's report prepared by KPMG Financial Advisory Services (Australia) Pty Ltd (**KPMG**) in relation to the Recapitalisation (the **KPMG Report**). KPMG has concluded that the Recapitalisation is **fair and reasonable to non-associated shareholders**.

The Independent Directors unanimously recommend that shareholders vote in favour of the Recapitalisation Resolutions, subject to no superior proposal emerging, as they believe that they are in the best interests of the Company and its shareholders. In coming to their recommendation to endorse the Recapitalisation, the Independent Directors have considered the factors set out in the Shareholders' Notice of Meeting.

The Shareholders' Notice of Meeting (including the KPMG Report) is attached to this announcement as Appendix A. Shareholders are encouraged to read this document carefully.

Creditors' Schemes

The Recapitalisation also will be implemented by two Australian schemes of arrangement (together, the **Creditors' Schemes**). The Supreme Court of New South Wales on 10 May 2017 approved the convening of meetings of those creditors who are affected by the Creditors' Schemes (the **Creditors' Scheme Meetings**), and the Company, today, is commencing the distribution of the explanatory statements for the Creditors' Schemes (the **Creditors' Explanatory Statements**).

If the relevant creditors approve the Creditors' Schemes, their implementation will be conditional on, among other things, shareholder approval of the Recapitalisation Resolutions and a further approval of the Supreme Court of New South Wales.

Attached to this announcement as Appendix B are:

- **Creditors' Explanatory Statements (without annexures) and the Schemes of Arrangement**: The Creditors' Explanatory Statements set out the important information about

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the Creditors' Schemes required by the Corporations Act. The Creditors' Explanatory Statements include a number of annexures, including the Schemes of Arrangement, which set out the formal, contractual terms on which it is proposed that the Company and certain of its creditors agree to pursue and implement the Creditors' Schemes.

- **KordaMentha Report**: The Creditors' Explanatory Statements also include an independent expert's report prepared by KordaMentha for the purposes of the Creditors' Schemes (the **KordaMentha Report**).

Shareholders should be aware that the Creditors' Explanatory Statements and the KordaMentha Report were prepared for the benefit of the affected creditors in the context of the Creditors' Schemes; they do not directly contemplate or address the interests of shareholders. The Shareholders' Notice of Meeting, however, is addressed to shareholders and has been prepared with their information requirements in mind.

The Shareholders' Notice of Meeting (including the KPMG Report) and the Creditors' Explanatory Statements (with all its annexures, including the KordaMentha Report and Schemes of Arrangement) will also be made available on the Company's website at http://www.boartlongyear.com/company/investors/.

Updated indicative timetable

Set out below is an updated indicative timetable for the Recapitalisation:

Event	Date
Creditors' Scheme Meetings	30 May 2017
AGM	13 June 2017
Second court hearing for the Creditors' Schemes	4 July 2017
Implementation date	11 July 2017

The dates in the above timetable are indicative only and subject to change.

Disclaimer

Nothing contained in this announcement constitutes investment, legal, tax or other advice. You should make your own assessment and take independent professional advice in relation to the information and any action on the basis of the information. This announcement does not constitute an offer to sell, or a solicitation of an offer to buy, securities in the United States or to, or for the account or benefit of, any "U.S. person" (as defined in Regulation S under the U.S. Securities Act of 1933, as amended (the "U.S. Securities Act")) ("U.S. Person"). Securities may not be offered or sold in the United States or to, or for the account or benefit of, U.S. Persons unless the securities have been registered under the U.S. Securities Act or pursuant to an exemption from, or in a transaction not subject to, registration. This

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announcement includes forward-looking statements within the meaning of securities laws. Forward looking statements can generally be identified by the use of words such as 'project', 'foresee', 'plan', 'expect', 'aim', 'intend', 'anticipate', 'believe', 'estimate', 'may', 'should', 'will' or similar expressions. Any forward-looking statements involve known and unknown risks and uncertainties, many of which are outside the control of the Company and its representatives. Forward-looking statements may also be based on estimates and assumptions with respect to future business decisions, which are subject to change. Any statements, assumptions, opinions or conclusions as to future matters may prove to be incorrect, and actual results, performance or achievement may vary materially from any projections and forward-looking statements.

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Appendix A – Shareholders Notice of Meeting (including KPMG Report)

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.

<u>Conditions to the Recapitalisation</u>

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)[1], 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

[1] 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

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[2] 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 [3] 7% Warrants issued to Ascribe under the Unsecured Creditors' Scheme; and*

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

[3] 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

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 www.linkmarketservices.com.au
By post:	Boart Longyear Limited c/ - Link Market Services Limited Locked Bag A14 Sydney South NSW 1235 Australia
Facsimile:	In Australia (02) 9287 0309 From outside Australia +61 2 9287 0309
By delivery:	Link Market Services Limited Level 12, 680 George Street Sydney NSW 2000 Australia or 1A Homebush Bay Drive, Rhodes, NSW 2138 Australia

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.

CONTENTS

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 Viterra Inc., a leading global agricultural products company primarily involved in the distribution, marketing and processing of grain and oilseeds. Viterra 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[4]	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[5]	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

[4] 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.

[5] 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[6] (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%
TOTAL	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	• Initial Term Loan Amendments • 10% Secured Note Amendments	Section 3.1 Section 3.2	

[6] 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	• 7% Unsecured Notes Release and Reinstatement • 7% Unsecured Notes Share and Warrant Issuance	Section 4.2 Section 4.3	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 at 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[7];

- (**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.

[7] 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
TOTAL	$293,940,000

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:

Maturity	31 December 2022
Interest rate	1.5% payable in kind
Ranking	Subordinated to unsecured interest accrued on Term Loans A and B
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
Covenants	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**).[8]

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[9], 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**).[10]

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

[8] 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.

[9] Assumes cash at the Implementation Date of between $25-$50 million.

[10] 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[11], 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/.

[11] 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 [12] 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.[13] 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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[12] 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.

[13] 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:

Subscription Right	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). An Ordinary Warrant will not confer any rights to dividends or to participate in any new issues of Shares without exercising the Ordinary Warrant. Shares allotted and issued on the exercise of an Ordinary Warrant upon allotment will rank *pari passu* 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.
Exercise Price	The Exercise Price for the Ordinary Warrants is the Australian dollar equivalent of the US dollar amount calculated in accordance with the following formula: $EP = \frac{TEV - ND}{N}$ Where: EP is the Exercise Price TEV is $1 billion 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 A$0.021 – A$0.024 per Ordinary Warrant[14], subject to final debt and

[14] 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.
Method of Exercise	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 (**Exercise Period**). Each Ordinary Warrant may be exercised during the Exercise Period by delivering a duly completed exercise notice to the Company.
Adjustments	The terms of the Ordinary Warrants will be adjusted in following circumstances: • (**pro-rata issues**) 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); • (**bonus issues**) 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; • (**reorganisation of capital**) 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; • (**dividend**) 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 • (**change in capital**) 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. 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.
Change of control	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. 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

	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.
Re-domiciling	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.
Transfer	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 disproportionally 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
Total Sources	**$280.9**

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
Total Uses	**$280.9**

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
Total Debt	**$824.7**	**($206.1)**	**$618.6**

(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
Total Gross Leverage Ratio	23.4x	17.0x
FYE 2018 EBITDA (2)	$72.5	$72.5
Total Gross Leverage Ratio	10.3x	7.5x
Net Long-Term Debt (3)	$721.4	$515.6
FY 2016 Adjusted EBITDA	32.0	32.0
Total Net Leverage Ratio	22.5x	16.1x
FYE 2018 EBITDA (2)	$72.5	$72.5
Total Net Leverage Ratio	10.0x	7.1x
FY 2016 Adjusted EBITDA	$32.0	$32.0
FYE 2017 Cash Interest (4)	39.4	-
Cash Interest Coverage Ratio	0.8x	NMF
FYE 2018 EBITDA (2)	$72.5	$72.5
Cash Interest Coverage Ratio	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
TOTAL	**950,617,966 (100.0%)**	434,001,968 (100%)	**24,760,818,000 (100.0%)**	0	**1,971,509,126 (100.0%)**	**685,444,285 (100.0%)**	**27,417,771,411 (100.0%)**	0	**0**

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%)
TOTAL	**950,617,966 (100.0%)**	434,001,968 (100%)	**24,760,818,000 (100.0%)**	0	**1,971,509,126 (100.0%)**	**685,444,285 (100.0%)**	**25,467,389,204 (100.0%)**	**1,264,937,922 (100.0%)**	**685,444,285 (100.0%)**

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%)
TOTAL	**950,617,966 (100.0%)**	434,001,968 (100%)	**24,760,818,000 (100.0%)**	0	**1,971,509,126 (100.0%)**	**685,444,285 (100.0%)**	**25,813,177,712 (100.0%)**	**933,919,527 (100.0%)**	**670,674,171 (100.0%)**

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:

	Shares	**Tranche A Warrants**	**Tranche B Warrants**	**Ordinary Warrants**
Centerbridge	12,712,754,506	0	0	0
Ares	4,382,908,974	411,927,535[15]	281,659,853	0
Ascribe	4,648,328,507	719,806,485[16]	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

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

[16] 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.[17]

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.

[17] 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[18] Immediately following the Recapitalisation, the Supporting Creditors and 7% Noteholders will together hold approximately 98% of the Shares (subject to

[18] 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[19] (35.8%)[20] 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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[19] 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.

[20] 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[21] (52.6%)[22] 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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[21] 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.

[22] 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' 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**

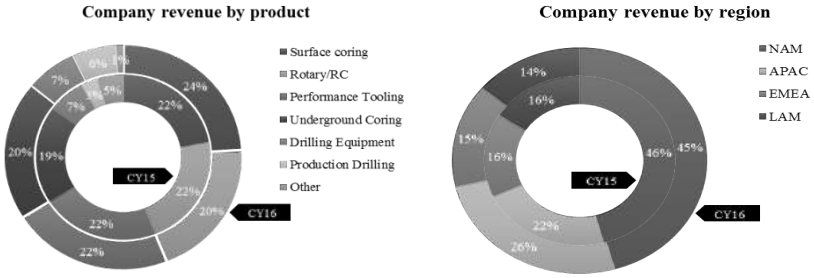
Under the Director Nomination Agreements, Ares and Ascribe are entitled to jointly appoint one person to stand for election to the Board at the AGM. Ares and Ascribe have nominated Mr Jason Ireland as the Ares and Ascribe Nominee. See Section 10.5 for further details.

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%.[23]

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 than 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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[23] 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:

Identity of the related party (including existing interest)	Refer to Sections 2.2 and 9.
Nature of the financial benefit	Up to 12,967,554,506 Shares under the Subscription Deed.[24]
Directors' recommendations	Refer to Section 8.2.
Directors' interest in the outcome	Refer to Section 14.4
Valuation of the financial benefit	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.
Dilution effect	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

[24] 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[25]	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

[25] 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[25]	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[26]	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

[26] 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[26]	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:

Milestone	Indicative Date
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
Total fees and expenses	**$33.8**

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 Votraint 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 Section11.4.

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 that 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.

Agreed form

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Ordinary Warrant Deed Poll

Boart Longyear Limited
ACN 123 052 728

2017

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CONTENTS

CLAUSE **PAGE**

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 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 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^2 is the new Exercise Price

EP^1 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^2 is the new number of Shares

N^1 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:

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 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. • 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.
Exercise Price:	The Exercise Price as adjusted and then in effect for the Warrant.
Dividend Rate:	0 (which reflects the fact that the anti-dilution adjustment provisions cover all dividends).
Interest Rate:	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.
Put or Call:	Call
Time to Expiration	The number of days from end date of the Exercise Period to the Reference Date divided by 365.
Settlement Date:	The scheduled date of payment of the Warrant Value.
Volatility:	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 + 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)] ÷ (V * √T)

D2 = [ln [S / X] + (R - (V^2 / 2)) * T)] ÷ (V * √T)

Black-Scholes Formula

W = [N(D1) * S] – [N(D2) * PV(X)]

Where "N" is the cumulative normal probability function

Value = W * Z

Example of a Hypothetical Ordinary Warrant (assuming V = 25[1]):[2]

Inputs:

Interest Rate = 4.00%

S = $50.00

X = $60.00

PV(X) = $55.43

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[1] Consider amending hypothetical to reflect V=40.

[2] 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:

D1 = [ln [S / X] + (R + (V^2 / 2)) * T)] ÷ (V * √T)

= (-0.1149)

D2 = [ln [S / X] + (R - (V^2 / 2)) * T)] ÷ (V * √T)

= (-0.4684)

Black-Scholes Formula

W = [N(D1) * S] – [N(D2) * PV(X)]

= $4.99

Total Ordinary Warrant Value

Value = W * Z

= $499]

-

Agreed form

ashurst

7% Warrant Deed Poll

Boart Longyear Limited
ACN 123 052 728

2017

CONTENTS

CLAUSE **PAGE**

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^2 is the new Exercise Price

EP^1 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^2 is the new number of Shares

N^1 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.

Exercise Price: The Exercise Price as adjusted and then in effect for the 7% Warrant.

Dividend Rate: 0 (which reflects the fact that the anti-dilution adjustment provisions cover all dividends).

Interest Rate: 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.

Put or Call: Call

Time to Expiration The number of days from end date of the Exercise Period to the Reference Date divided by 365.

Settlement Date: The scheduled date of payment of the Warrant Value.

Volatility: 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 + 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)] ÷ (V * √T)

D2 = [ln [S / X] + (R - (V^2 / 2)) * T)] ÷ (V * √T)

Black-Scholes Formula

W = [N(D1) * S] – [N(D2) * PV(X)]

Where "N" is the cumulative normal probability function

Value = W * Z

Example of a Hypothetical Warrant (assuming V = 25[1]):[2]

Inputs:

Interest Rate = 4.00%

S = $50.00

X = $60.00

PV(X) = $55.43

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[1] Consider amending hypothetical to reflect V=40.

[2] 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:

D1 = [ln [S / X] + (R + (V^2 / 2)) * T)] ÷ (V * √T)

= (-0.1149)

D2 = [ln [S / X] + (R - (V^2 / 2)) * T)] ÷ (V * √T)

= (-0.4684)

Black-Scholes Formula

W = [N(D1) * S] – [N(D2) * PV(X)]

= $4.99

Total Warrant Value

Value = W * Z

= $499]

-

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."*

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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[1] 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

[1] 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[2].

The combined effect of the Recapitalisation is summarised below:

- a reduction in debt of US$196.0 million[3] plus accrued interest
- a new ABL working capital facility of US$75.0 million[4]
- 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[5].

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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[2] Sourced from the Boart Longyear ASX announcement issued on 3 April 2017

[3] Sourced from the Boart Longyear ASX announcement issued on 3 April 2017

[4] Sourced from the Boart Longyear ASX announcement issued on 3 April 2017

[5] 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 cyclicality 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
Enterprise Value of Boart Longyear		**550.0**	**650.0**
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)[1]		(27.7)	(27.7)
Add: Net working capital release[2]		41.0	41.0
Add: Assets held for sale	8.3	5.9	5.9
Equity Value of Boart Longyear		**(147.9)**	**(47.9)**
Issued shares (million) up to	14	959.7	959.7
Equity value per share on a marketable, controlling basis (US$)		**(0.154)**	**(0.050)**
Foreign currency exchange rate as at 6 April 2017 (US$:AU$)		0.76	0.76
Equity value per share on a marketable, controlling basis (AU$)		**(0.204)**	**(0.066)**

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
Enterprise Value of Boart Longyear		**550.0**	**650.0**
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)[1]		(27.7)	(27.7)
Add: Net working capital release[2]		41.0	41.0
Add: Assets held for sale	8.3	5.9	5.9
Less: Transaction Cost		(15.0)	(15.0)
Equity Value of Boart Longyear on a controlling basis		**33.1**	**133.1**
less: Minority Discount (16.67%)[3]		(5.5)	(22.2)
Equity Value of Boart Longyear on a minority basis		**27.5**	**110.9**
Issued shares (million) post-proposal up to	14	24,760.8	24,760.8
Equity value per share (US$)		**0.0011**	**0.0045**
Foreign currency exchange rate (US$:AU$)		0.76	0.76
Equity value per share (AU$)		**0.0015**	**0.0059**

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

	Value per share (US$)	
US$ unless otherwise stated	**Low**	**High**
Assessed value per Boart Longyear share Pre-Recapitalisation	-	-
Assessed value per Boart Longyear share Post-Recapitalisation	0.0011	0.0045
Premium/(discount) (US$ per share)	**0.0011**	**0.0045**

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[6]. As such Non-associated Shareholders will have very limited ability to influence the future direction of the Company.

[6] 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

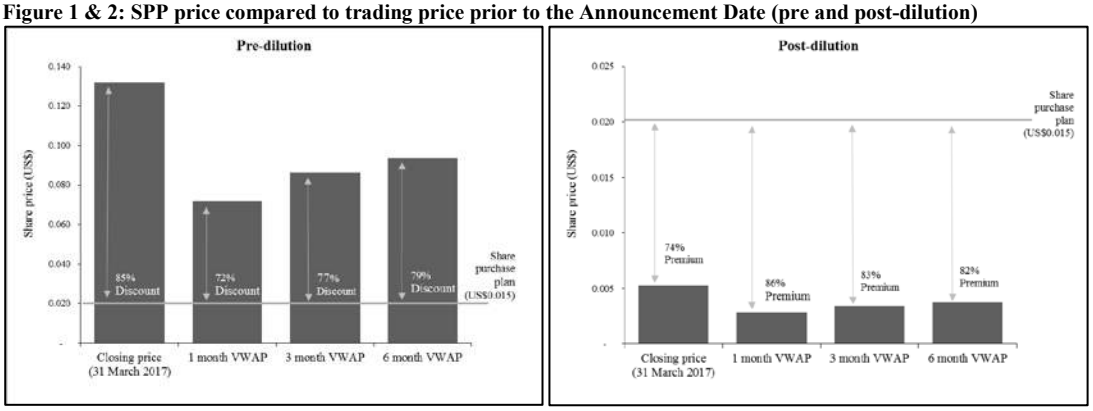
In forming our opinion, we have also considered a number of other factors as outlined below. Whilst we do not necessarily consider these to be advantages or disadvantages of the Recapitalisation, we consider it appropriate to address these considerations in arriving at our opinion:

- 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[7]) 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

[7] 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 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

Contents

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 exisiting 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[8]. 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[9] 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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[8] 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.

[9] 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

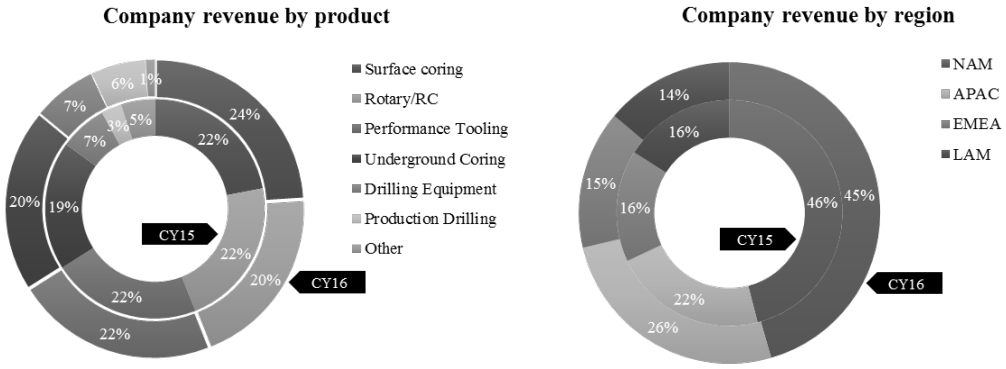
7.1 Overview

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

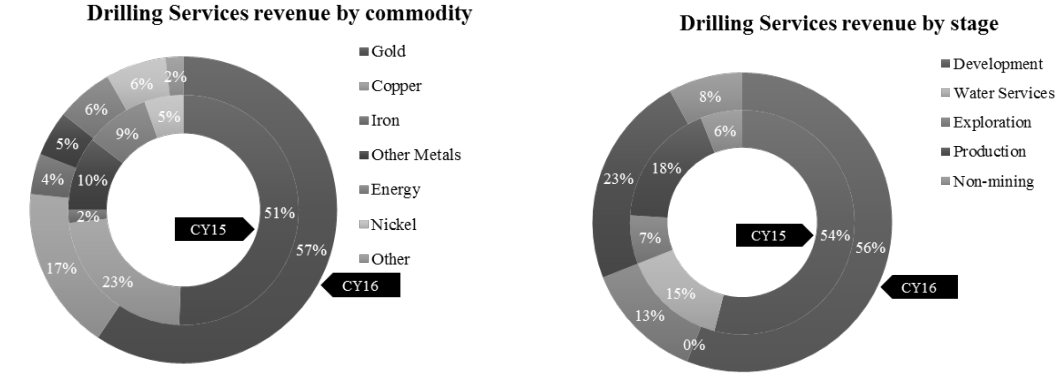
Strategically, Boart Longyear intends to focus on increasing data acquisition at drilling rigs for processes such as core orientation, core logging, survey and assay. This data can then be sent back to customers in an instantaneous, low-cost and user friendly manner.

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)
Gross margin	**43.7**	**0.4**	**85.8**
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)
Operating profit / (loss)	**(185.0)**	**(199.2)**	**(60.8)**
Interest income	5.5	4.1	2.5
Finance costs	(72.2)	(72.8)	(72.7)
Profit / (loss) before taxation	**(251.7)**	**(267.9)**	**(131.0)**
Income tax expense	(81.0)	(58.3)	(25.8)
Profit / (loss) after tax attributable to equity holders of the parent	**(332.7)**	**(326.3)**	**(156.8)**
Basic (loss) earnings per share (cents)	(70.8)	(36.0)	(16.8)
Diluted (loss) earnings per share (cents)	(70.8)	(36.0)	(16.8)
Financial metrics			
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 US$ million unless otherwise stated	31-Dec-14	31-Dec-15	31-Dec-16
Current assets			
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
Total current assets	**581.7**	**412.7**	**356.2**
Non-current assets			
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
Total non-current assets	**558.7**	**379.1**	**320.4**
Total assets	**1,140.4**	**791.7**	**676.6**
Current liabilities			
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
Total current liabilities	**291.2**	**242.6**	**234.3**
Non-current liabilities			
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
Total non-current liabilities	**779.0**	**729.5**	**779.8**
Total liabilities	**1,070.2**	**972.1**	**1,014.1**
Net assets	**70.2**	**(180.2)**	**(337.5)**
Equity			
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)
Total equity	**70.2**	**(180.2)**	**(337.5)**
Calculation of debtor and creditor days			
Debtor days[1]	61.0	54.7	70.8
Creditor days[1]	74.1	72.1	83.0
Statistics			
Number of securities on issue	634.1	929.1	940.6
NA per securities (US$)[2]	0.1	(0.2)	(0.4)
NTA per securities (US$)[3]	(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 US$ million unless otherwise stated	CY14	CY15	CY16
Cash flow from operating activities			
Profit / (loss) for the year	**(332.7)**	**(326.3)**	**(156.8)**
Adjustments provided by operating activities:			
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
Changes in net assets and liabilities, net of effects from acquisition and disposal of			
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)
Net cash flows from operating activities	**(11.3)**	**(54.9)**	**(50.4)**
Cash flows from investing activities			
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)
Net cash flows used in investing activities	**(12.0)**	**(25.0)**	**(7.9)**
Cash flows from financing activities			
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	
Net cash flows provided by / (used in) financing activities	**143.9**	**47.1**	**17.5**
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)
Cash and cash equivalents at the end of the year	**168.8**	**113.4**	**59.3**

Source: Boart Longyear financial report for CY15 and CY16

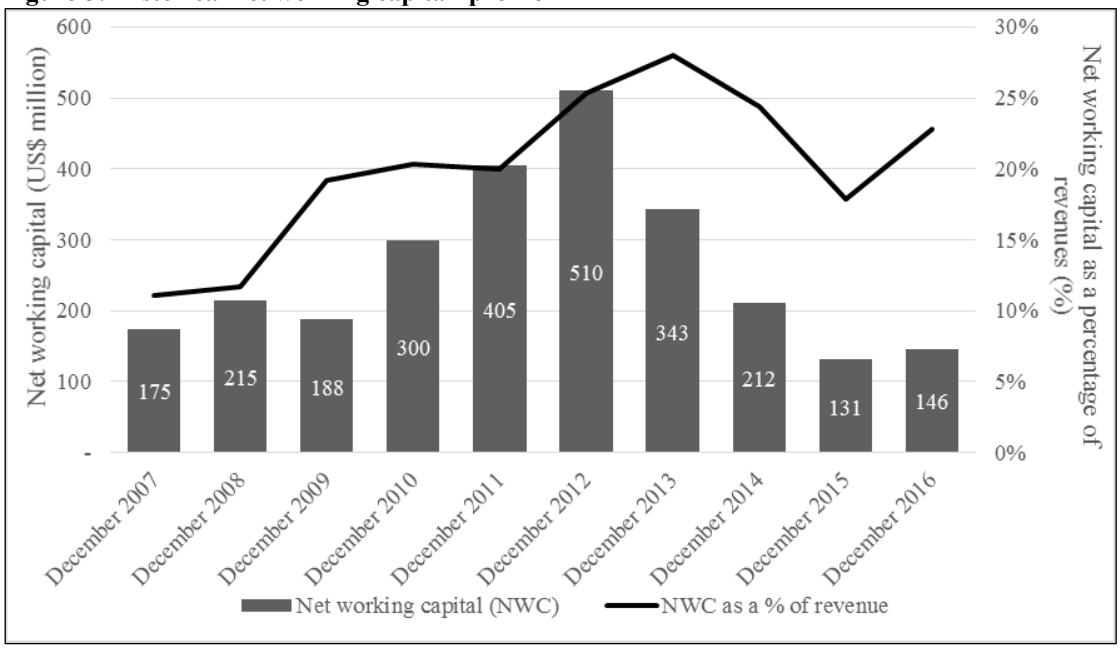
With regard to the historical statement of cash flows summarised above, we note the following:

- 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[1] 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 cyclicality 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[1]	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

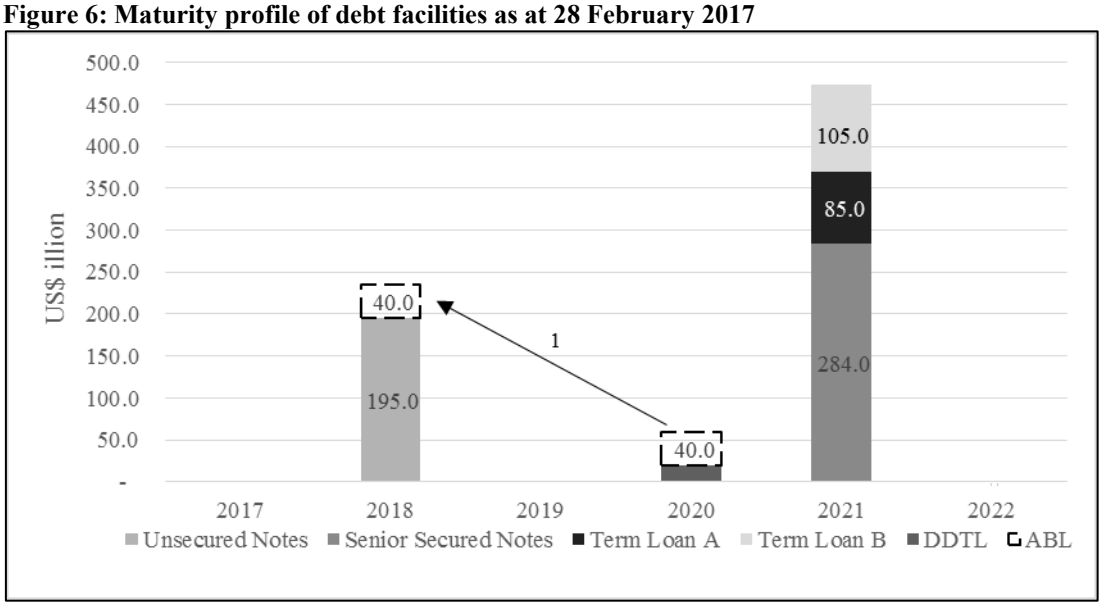
- the ABL interest rate is based on 30-day US$ LIBOR with the margin based on a pricing grid linked to the Company's leverage. As at 28 February 2017 the applicable margin was 3.5% for LIBOR based loans
- scheduled maturity is the earliest of
  i. 90 days prior to maturity of senior secured notes
  ii. 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.

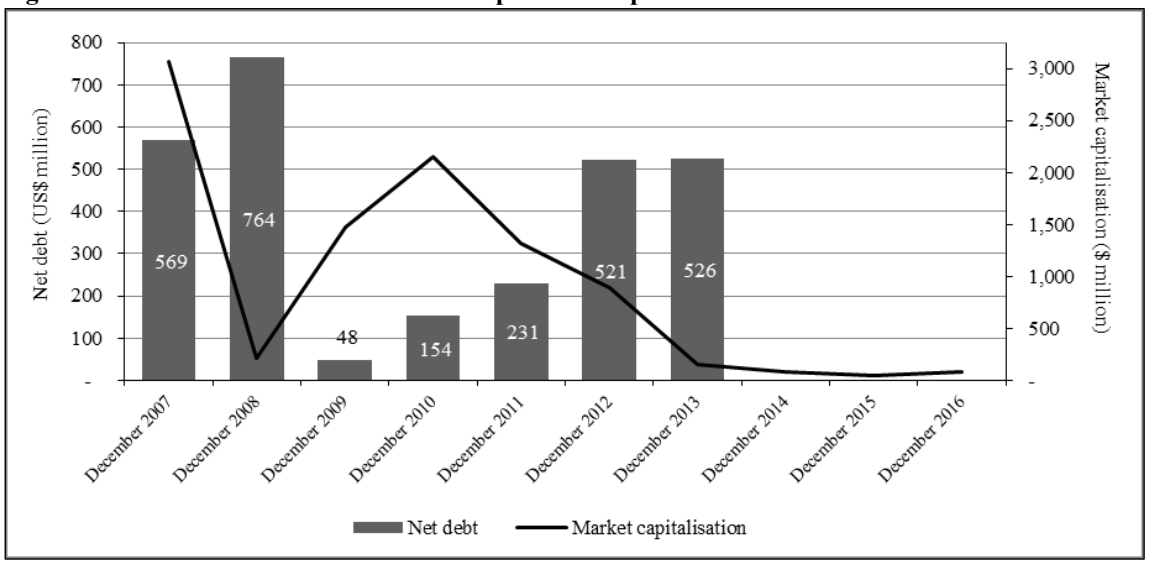
Regarding the graph above we note the following:

- 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[10] 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'

[10] 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%
Total shares held by top 20 shareholders	**697,119,607**	**73.33%**
Other shareholders	253,498,359	26.67%
Total shares on issue	**950,617,966**	**100%**

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)	-
Total		**14,669,962**

Source: Share register analysis provided by Boart Longyear, ASX announcements

13 Share price performance and liquidity analysis

13.1 VWAP and liquidity analysis

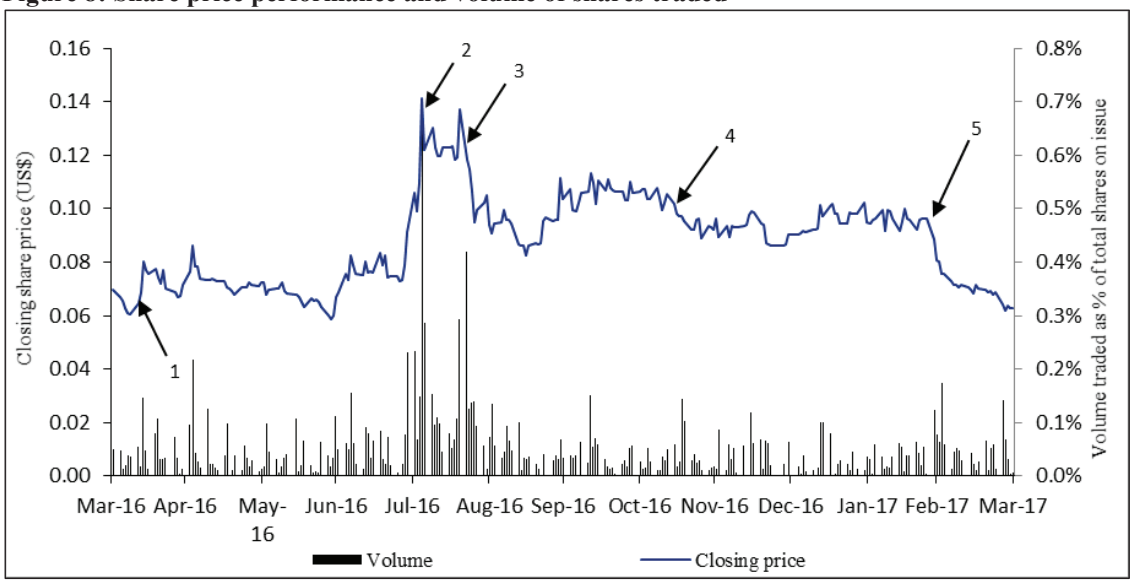
In assessing Boart Longyear's share price performance we have:

- 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:

1. 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

2. 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

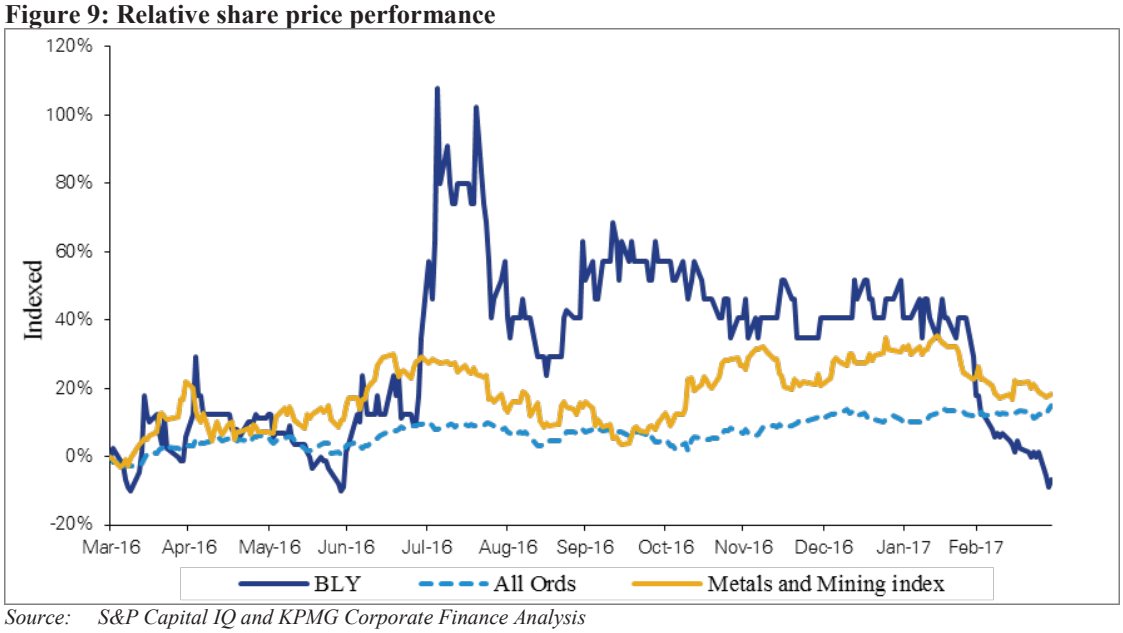
3. 22 August 2016 – Boart Longyear released its financial report for HY16, reporting a net loss of US$52.1 million. The share price decreased by 30.7% from a high of US$0.137 on 19 August 2016 to a low of US$0.095 on 25 August 2016

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.

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 US$ million unless otherwise stated	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
Current assets									
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 ther 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
Total current assets	**356.2**	**-**	**-**	**-**	**-**	**356.2**	**356.2**	**356.2**	**356.2**
Non-current assets									
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
Total non-current assets	**320.4**	**-**	**-**	**-**	**-**	**320.4**	**320.4**	**320.4**	**320.4**
Total assets	**676.6**	**-**	**-**	**-**	**-**	**676.6**	**676.6**	**676.6**	**676.6**
Current liabilities									
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
Total current liabilities	**234.3**	**-**	**-**	**-**	**-**	**234.3**	**234.3**	**234.3**	**234.3**
Non-current liabilities									
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
Total non-current liabilities	**779.8**	**-**	**(196.0)**	**-**	**-**	**583.8**	**583.8**	**583.8**	**583.8**
Total liabilities	**1,014.1**	**-**	**(196.0)**	**-**	**-**	**818.1**	**818.1**	**818.1**	**818.1**
Net assets	**(337.5)**	**-**	**196.0**	**-**	**-**	**(141.5)**	**(141.5)**	**(141.5)**	**(141.5)**
Net assets per share (US$)	*-0.36*					*-0.01*	*-0.01*	*-0.01*	*-0.01*
Equity									
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)
Total equity	**(337.5)**	**-**	**196.0**	**-**	**-**	**(141.5)**	**(141.5)**	**(141.5)**	**(141.5)**

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 cyclicality 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%[11] 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 cyclicality 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.

[11] 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
Enterprise Value of Boart Longyear		**550.0**	**650.0**
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)[1]		(27.7)	(27.7)
Add: Net working capital release[2]		41.0	41.0
Add: Assets held for sale	8.3	5.9	5.9
Equity Value of Boart Longyear		**(147.9)**	**(47.9)**
Issued shares (million) up to	14	959.7	959.7
Equity value per share on a marketable, controlling basis (US$)		**(0.154)**	**(0.050)**
Foreign currency exchange rate as at 6 April 2017 (US$:AU$)		0.76	0.76
Equity value per share on a marketable, controlling basis (AU$)		**(0.204)**	**(0.066)**

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
Enterprise Value of Boart Longyear		**550.0**	**650.0**
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)[1]		(27.7)	(27.7)
Add: Net working capital release[2]		41.0	41.0
Add: Assets held for sale	8.3	5.9	5.9
Less: Transaction Cost		(15.0)	(15.0)
Equity Value of Boart Longyear on a controlling basis		**33.1**	**133.1**
less: Minority Discount (16.67%)[3]		(5.5)	(22.2)
Equity Value of Boart Longyear on a minority basis		**27.5**	**110.9**
Issued shares (million) post-proposal up to	14	24,760.8	24,760.8
Equity value per share (US$)		**0.0011**	**0.0045**
Foreign currency exchange rate (US$:AU$)		0.76	0.76
Equity value per share (AU$)		**0.0015**	**0.0059**

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.

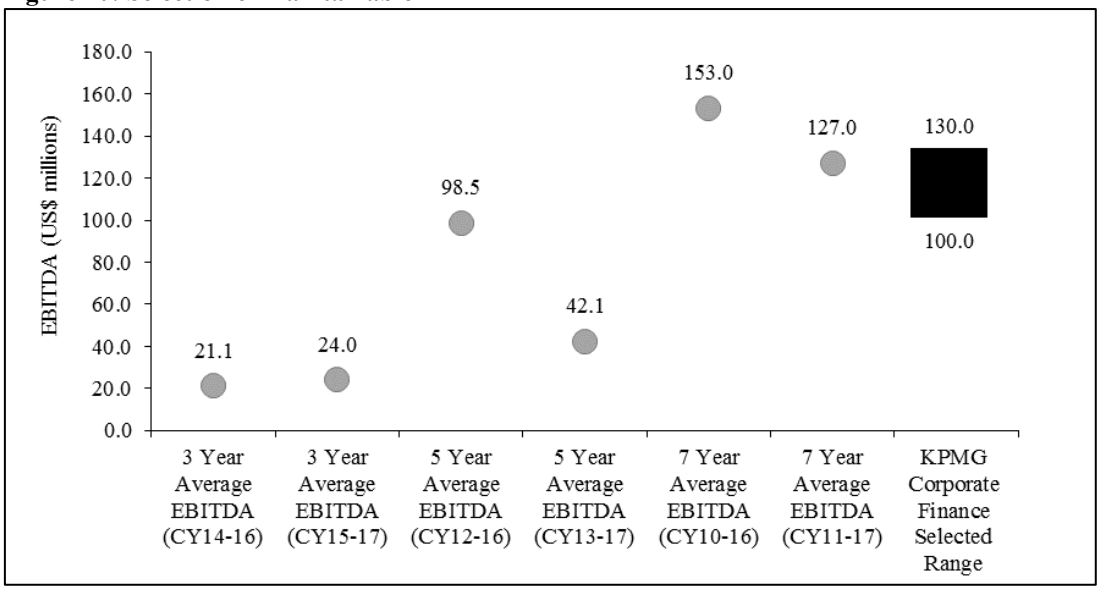
In order to select a level of maintainable earnings for Boart Longyear we have considered the historical financial results and operations and strategic plans of Boart Longyear. Earnings for each of these periods are summarised in Appendix 6, along with any adjustments for non-recurring items.

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[1]	Geographic Focus[2]	Market Cap (AU$m)[3]	EBITDA Multiple				
				LTM[4]	NTM[5]	Average 3 year[7]	Average 5 year[7]	Average 7 year[7]
ASPAC								
AJ Lucas Group Limited	E/P	AU	115	45.0	nmf[6]	33.5	nmf[6]	nmf[6]
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[6]	nmf[6]	nmf[6]	24.4
Swick Mining Services Limited	P	AU	68	5.6	nmf[6]	4.0	3.4	4.1
US & CANADA								
Energold Drilling Corp.	E/P	G	36	nmf[6]	30.9	nmf[6]	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[6]	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 companies 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 segements. 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)[1]	Percentage acquired	EBITDA Multiple LTM[2]	EBITDA Multiple NTM[3]
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[4]
Jul-08	AJ Lucas Group Limited	Mitchell Drilling Corp.	150.0	100%	7.0	n/a[4]
International						
Jul-14	Major Drilling Group International Inc.	Taurus Drilling Services ULC	23.3	100%	7.9	n/a[4]
Sep-12	Foraco International SA	John Nitschke Drilling Pty. Ltd.	60.0	100%	12.8	n/a[4]
May-12	Foraco International SA	WFS Sondagem Ltda.	77.5	51%	5.0	n/a[4]
Sep-11	Major Drilling Group International Inc.	Bradley Group Limited	90.6	100%	5.6	n/a[4]
Jun-11	Energold Drilling Corp.	Bertram International Corporation	41.0	100%	6.2	n/a[4]
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 cyclicality 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 positioned 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 US$ million	31-Dec-16	30-Apr-17
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 Reinbursed (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)
Net debt	**675.2**	**744.9**

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 CY21using 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.

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[1]	Geographic Focus[2]	Market Cap (AU$m)[3]	EBITDA Multiple				
				LTM[4]	NTM[5]	Average 3 year[7]	Average 5 year[7]	Average 7 year[7]
ASPAC								
AJ Lucas Group Limited	E/P	AU	115	45.0	nmf[6]	33.5	nmf[6]	nmf[6]
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[6]	nmf[6]	nmf[6]	24.4
Swick Mining Services Limited	P	AU	68	5.6	nmf[6]	4.0	3.4	4.1
US & CANADA								
Energold Drilling Corp.	E/P	G	36	nmf[6]	30.9	nmf[6]	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[6]	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 Carribean 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

Date	Acquirer	Target	Transaction value (AUD million)[1]	Percentage acquired	EBITDA Multiple LTM[2]	EBITDA Multiple NTM[3]
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[4]
Jul-08	AJ Lucas Group Limited	Mitchell Drilling Corp.	150.0	100%	7.0	n/a[4]
International						
Jul-14	Major Drilling Group International Inc.	Taurus Drilling Services ULC	23.3	100%	7.9	n/a[4]
Sep-12	Foraco International SA	John Nitschke Drilling Pty. Ltd.	60.0	100%	12.8	n/a[4]
May-12	Foraco International SA	WFS Sondagem Ltda.	77.5	51%	5.0	n/a[4]
Sep-11	Major Drilling Group International Inc.	Bradley Group Limited	90.6	100%	5.6	n/a[4]
Jun-11	Energold Drilling Corp.	Bertram International Corporation	41.0	100%	6.2	n/a[4]
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, Brandill 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.

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[12] 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[13], 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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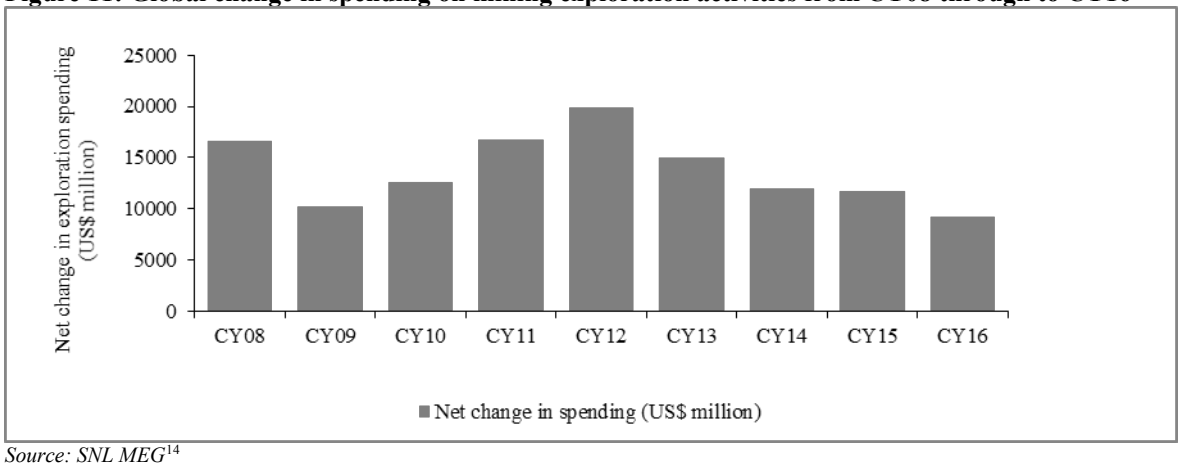
[12] Minerals Council of Australia, Positive Long Term Outlook for Industry, April 2016.

[13] 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[14]

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[15], 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.

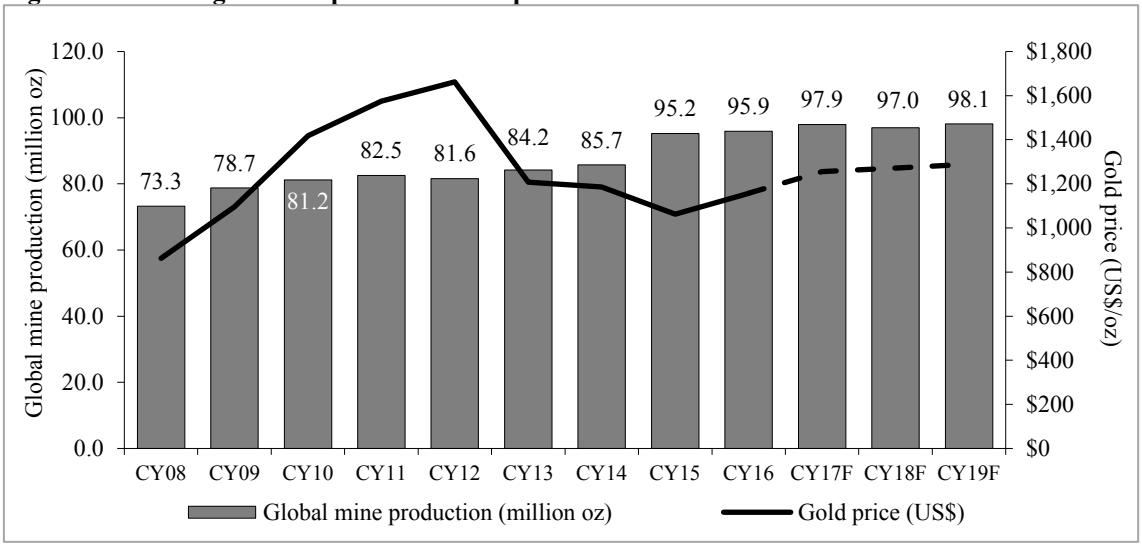
In 2016, political uncertainty around the proposed departure of the United Kingdom from the European Union, and the presidential election in the United States led to gold price appreciation, as investors again sought safety in safe haven asset classes.

[14] SNL MEG, Global Exploration Expenditure, March 2017

[15] 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[16]

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[17], 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[18], global consumption of copper remained flat between 2013 and 2016. In addition to reduced demand from weaker construction activity, copper has been substituted in

[16] SNL MEG, Gold Production March 2017

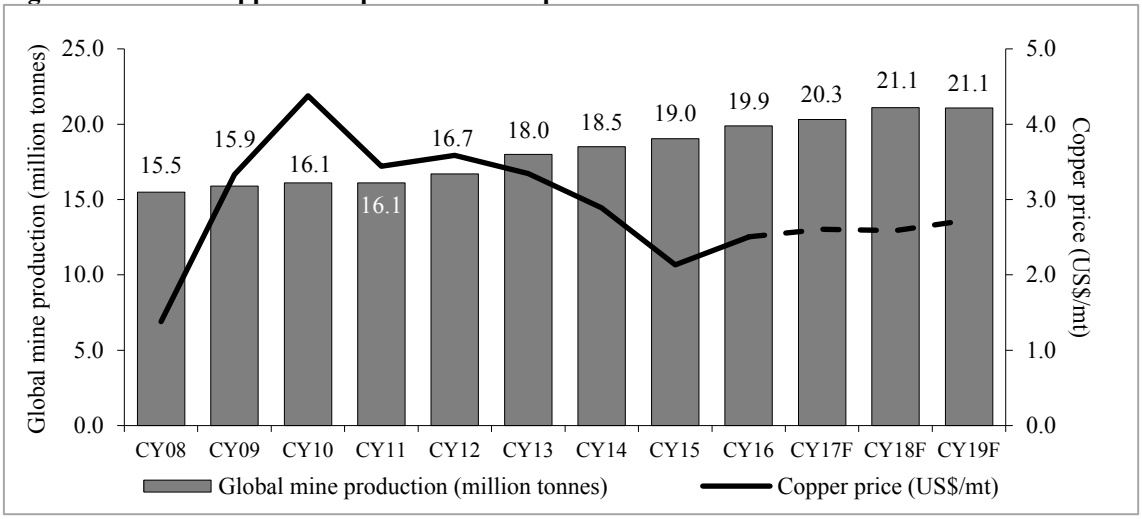
[17] IBISWorld, Industry Report – Copper Ore Mining in Australia, September 2016

[18] 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[19]

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[20]).

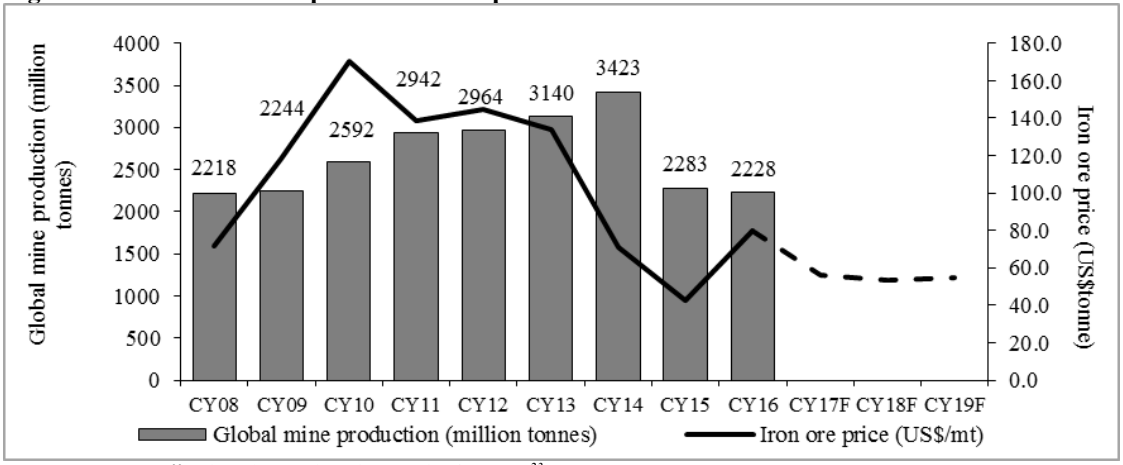
[19] SNL MEG, Copper Production Pipeline: Mine Development and Production, 2017

[20] 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[21].

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[22], *Bloomberg, Bloomberg Pulse forecasts*[23]

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[24].

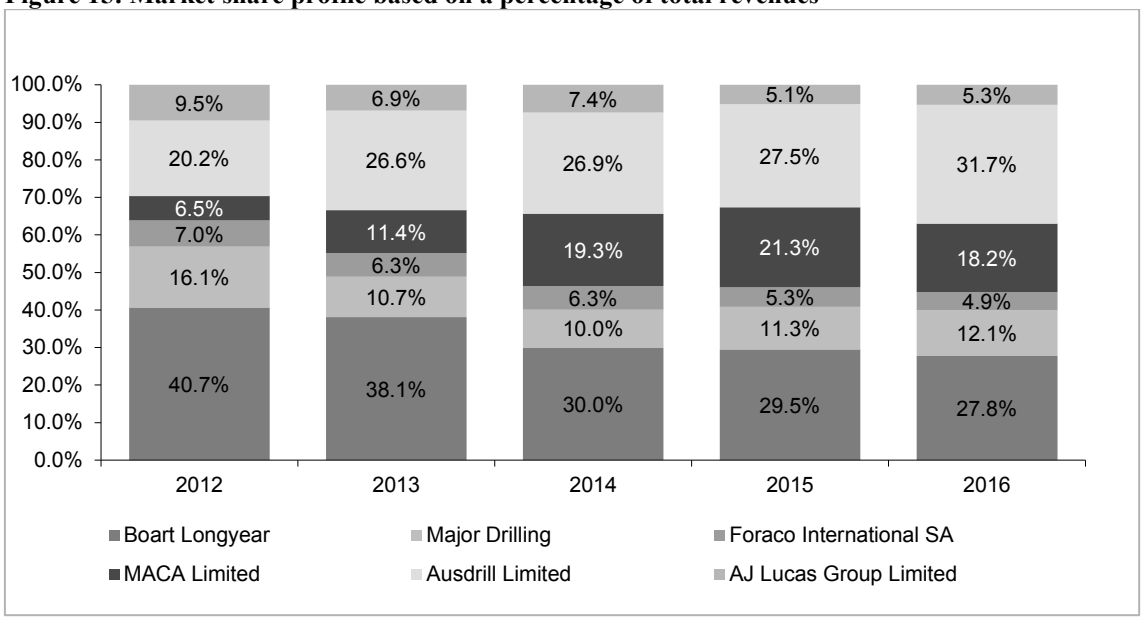
[21] SNL MEG, 2017, Bloomberg Pulse Forecasts, accessed 20 March 2017, EIU, March 2017.

[22] SNL MEG, Copper Production Pipeline: Mine Development and Production, 2017

[23] Bloomberg Pulse Forecasts, accessed 20 March 2017.

[24] Source: S&P Capital IQ downloaded as at 13 March 2017

Figure 15: Market share profile based on a percentage of total revenues[25]



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[26], 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[27].

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.

[25]Total revenues have been calculated based on all 11 peers in the comparable company analysis in Section 16.3.3.1
[26]IBISWorld, Industry Report – Mining Support Services in Australia, February 2017
[27]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	-	-	-
Normalised EBITDA of business operations	**236.2**	**358.6**	**326.5**	**135.1**	**31.4**	**(0.1)**	**32.0**
Averages							
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
AU$	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
CA$	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

Abbreviation	Description
YTD	Year to date

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DX: 1056 Sydney
www.kpmg.com.au

PART TWO – FINANCIAL SERVICES GUIDE

Dated 9 May 2017

What is a Financial Services Guide (FSG)?

This FSG is designed to help you to decide whether to use any of the general financial product advice provided by KPMG Financial Advisory Services (Australia) Pty Ltd **ABN 43 007 363 215**, Australian Financial Services Licence Number 246901 (of which KPMG Corporate Finance is a division) (**KPMG Corporate Finance**) and Ian Jedlin as an authorised representative of KPMG Corporate Finance (**Authorised Representative**), authorised representative number 404177, and Adele Thomas as an authorised representative of KPMG Corporate Finance, authorised representative number 404180**)**.

This FSG includes information about:

- KPMG Corporate Finance and its Authorised Representative and how they can be contacted
- the services KPMG Corporate Finance and its Authorised Representative are authorised to provide
- how KPMG Corporate Finance and its Authorised Representative are paid
- any relevant associations or relationships of KPMG Corporate Finance and its Authorised Representative
- how complaints are dealt with as well as information about internal and external dispute resolution systems and how you can access them; and the compensation arrangements that KPMG Corporate Finance has in place.

The distribution of this FSG by the Authorised Representative has been authorised by KPMG Corporate Finance.

This FSG forms part of an Independent Expert's Report (Report) which has been prepared for inclusion in a disclosure document or, if you are offered a financial product for issue or sale, a Product Disclosure Statement (**PDS**). The purpose of the disclosure document or PDS is to help you make an informed decision in relation to a financial product. The contents of the disclosure document or PDS, as relevant, will include details such as the risks, benefits and costs of acquiring the particular financial product.

Financial services that KPMG Corporate Finance and the Authorised Representative are authorised to provide

KPMG Corporate Finance holds an Australian Financial Services Licence, which authorises it to provide, amongst other services, financial product advice for the following classes of financial products:

- deposit and non-cash payment products;
- 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

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 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.
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:
KPMG Corporate Finance
A division of KPMG Financial Advisory Services (Australia) Pty Ltd
Tower Three
International Towers Sydney
300 Barangaroo Avenue
Sydney NSW 2000 Australia
PO Box H67
Australia Square
NSW 1213
Telephone: (02) 9335 7000
Facsimile: (02) 9335 7200

Ian Jedlin
C/O KPMG
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Annexure B – Creditors' Explanatory Statements (without annexures other than the KordaMentha Report and Schemes of Arrangement)

Explanatory Statement

pursuant to Section 412 of the *Corporations Act 2001* (Cth)

For the Creditors' Scheme of Arrangement between:

Boart Longyear Limited
ACN 123 052 728

Boart Longyear Australia Pty Ltd
ACN 000 401 025

Boart Longyear Management Pty Ltd
ACN 123 283 545

Votraint No. 1609 Pty Limited
ACN 119 244 272

(together, defined as the "Companies")

and

The Secured Scheme Creditors
(as defined in the Scheme)

In order for the Scheme to proceed, it must be approved by the Secured Creditors. Approval will be sought at the Scheme Meeting that will commence at 10:30am on 30 May 2017 at Level 11, 5 Martin Place, Sydney in New South Wales, Australia. Further details of the Scheme Meeting and on how to vote at the Scheme Meeting, as well as information about the proposed Scheme, are set out in this Explanatory Statement.

THIS IS AN IMPORTANT DOCUMENT AND REQUIRES YOUR IMMEDIATE ATTENTION.

You are encouraged to read it in its entirety, take professional advice, and consult with your professional advisers when making any decisions in connection with the Scheme, including deciding whether or not to vote in favour of it.

Explanatory Statement

pursuant to Section 412 of the *Corporations Act 2001* (Cth)

For the Creditors' Scheme of Arrangement between:

Boart Longyear Limited
ACN 123 052 728

Boart Longyear Australia Pty Ltd
ACN 000 401 025

Boart Longyear Management Pty Ltd
ACN 123 283 545

Votraint No. 1609 Pty Limited
ACN 119 244 272

(together, defined as the "Companies")

and

The 7% Scheme Creditors
(as defined in the Scheme)

and

The Subordinate Claim Holders
(as defined in the Scheme)

In order for the Scheme to proceed, it must be approved by the Noteholders. Approval will be sought at the Scheme Meeting that will commence at 11:30am on 30 May 2017 at Level 11, 5 Martin Place, Sydney in New South Wales, Australia. Further details of the Scheme Meeting and on how to vote at the Scheme Meeting, as well as information about the proposed Scheme, are set out in this Explanatory Statement.

THIS IS AN IMPORTANT DOCUMENT AND REQUIRES YOUR IMMEDIATE ATTENTION.

You are encouraged to read it in its entirety, take professional advice, and consult with your professional advisers when making any decisions in connection with the Scheme, including deciding whether or not to vote in favour of it.

ashurst

Legal adviser to the Companies

THIS DOCUMENT DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY SECURITIES OTHER THAN "TRANSACTION SECURITIES" (AS DEFINED HEREIN). NONE OF THE SECURITIES REFERRED TO IN THIS DOCUMENT MAY BE SOLD, ISSUED OR TRANSFERRED IN ANY JURISDICTION IN CONTRAVENTION OF APPLICABLE LAW.

THE TRANSACTION SECURITIES PROPOSED TO BE ISSUED PURSUANT TO THE SCHEME WILL NOT BE REGISTERED WITH THE U.S. SECURITIES AND EXCHANGE COMMISSION ("SEC") UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "U.S. SECURITIES ACT") OR THE SECURITIES LAW OF ANY STATE OR OTHER JURISDICTION UNLESS EXPRESSLY SPECIFIED HEREIN, AND ARE BEING OFFERED AND SOLD IN RELIANCE ON CERTAIN EXEMPTIONS FROM REGISTRATION UNDER THE U.S. SECURITIES ACT. CONSEQUENTLY, NEITHER THESE SECURITIES NOR ANY INTEREST OR PARTICIPATION THEREIN MAY BE OFFERED, SOLD ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE U.S. OR TO U.S. PERSONS (AS DEFINED IN THE U.S. SECURITIES ACT) UNLESS AN EXEMPTION FROM THE REGISTRATION REQUIREMENT OF THE U.S. SECURITIES ACT IS AVAILABLE. THE SCHEME NOTES AND THE SCHEME WARRANTS WILL BE ISSUED IN RELIANCE UPON THE EXEMPTION FROM REGISTRATION PROVIDED BY SECTION 3(A)(10) OF THE U.S. SECURITIES ACT. THE APPROVAL OF THE SUPREME COURT OF NEW SOUTH WALES OR SUCH OTHER COURT OF COMPETENT JURISDICTION PROVIDES THE BASIS FOR THE SCHEME NOTES AND THE SCHEME WARRANTS TO BE ISSUED WITHOUT REGISTRATION UNDER THE U.S. SECURITIES ACT, IN RELIANCE ON THE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT PROVIDED BY SECTION 3(A)(10). THE SHARES OBTAINABLE UPON CASHLESS EXERCISE OF THE SCHEME WARRANTS WILL BE ISSUED IN RELIANCE UPON THE EXEMPTION FROM REGISTRATION PROVIDED BY SECTION 3(A)(9) OF THE U.S. SECURITIES ACT. THE SHARES OBTAINABLE UPON CASH EXERCISE OF THE WARRANTS WILL ONLY BE ISSUED (i) IN THE UNITED STATES, TO INSTITUTIONAL "ACCREDITED INVESTORS" (AS DEFINED IN CLAUSES (1), (2), (3), (7) OR (8) OF CLAUSE (A) OF RULE 501 OF REGULATION D UNDER THE U.S. SECURITIES ACT) AND IN RELIANCE ON RULE 506(C) OF REGULATION D UNDER THE U.S. SECURITIES ACT AND (ii) OUTSIDE OF THE UNITED STATES IN AN "OFFSHORE TRANSACTION" WITHIN THE MEANING OF REGULATION S UNDER THE U.S. SECURITIES ACT.

Further important information is set out under the heading "IMPORTANT INFORMATION" in the enclosed Explanatory Statement.

If you have assigned, sold, or otherwise transferred, or assign, sell or otherwise transfer, your interests as a Noteholder or do so before the date of the Scheme Meeting you are requested to forward a copy of this document to the person or persons to whom you have assigned, sold or otherwise transferred, or assign, sell or otherwise transfer, your interests as a Noteholder. If you are in any doubt as to the action you should take, you should consult your professional adviser without delay.

NOTICE OF MEETING

(1) BOART LONGYEAR LIMITED ACN 123 052 728

(2) BOART LONGYEAR AUSTRALIA PTY LTD ACN 000 401 025

(3) BOART LONGYEAR MANAGEMENT PTY LIMITED ACN 123 283 545; and

(4) VOTRAINT NO. 1609 PTY LIMITED ACN 119 244 272

NOTICE OF MEETING OF CREDITORS TO CONSIDER AND, IF THOUGHT FIT, AGREE TO A SCHEME OF ARRANGEMENT

Capitalised terms in this Notice of Meeting that are not otherwise defined have the same meaning as is given to those terms in the enclosed Explanatory Statement.

To: the Noteholders in respect of Boart Longyear Management Pty Limited ACN 123 283 545, Boart Longyear Australia Pty Ltd ACN 000 401 025, Boart Longyear Limited ACN 123 052 728 and Votraint No. 1609 Pty Limited ACN 119 244 272.

Pursuant to section 411(1) of the *Corporations Act 2001* (Cth), the Supreme Court of New South Wales has ordered that a meeting of the Noteholders be convened to consider and, if thought fit, agree to (with or without modification) the proposed Scheme between the Noteholders, the Subordinate Claim Holders and the Companies.

1. Notice

NOTICE IS HEREBY GIVEN that a meeting of the Noteholders will be held at Ashurst, Level 11, 5 Martin Place, Sydney in New South Wales, Australia on **30 May 2017** at **11:30am** (the **"Scheme Meeting"**).

The purpose of the Scheme Meeting is for the Noteholders to consider and, if thought fit:

RESOLVE THAT pursuant to and in accordance with section 411 of the *Corporations Act 2001* (Cth), the scheme of arrangement proposed between the Companies, the Noteholders and the Subordinate Claim Holders, as contained and described in the Explanatory Statement, is agreed to (with or without alterations or conditions as approved by the Court, provided that such alterations or conditions do not change the substance of the Scheme, including the Steps, in any material respect) (the **"Resolution"**).

For further information the Noteholders should refer to the Explanatory Statement accompanying this Notice of Meeting, which is required by section 412 of the *Corporations Act 2001* (Cth) in relation to the Scheme.

2. **Agenda**

The agenda for the Scheme Meeting will be as follows:

(a) the Chairperson will address those present at the Scheme Meeting, and provide an explanation of the background to and purpose of the Scheme Meeting;

(b) there will be a general presentation in relation to the proposed Scheme and attendees will be given a reasonable opportunity to ask questions in relation to the Scheme;

(c) the procedure for voting on the Scheme will be explained; and

(d) the Resolution to agree to the Scheme will be put to the Noteholders present in person or by proxy, attorney or corporate representative at the Scheme Meeting for discussion and vote.

3. Attendance and voting at the Scheme Meeting

To be eligible to vote at the Scheme Meeting, you must be a Noteholder as at 4 May 2017 and must have lodged a completed Proxy Form with your Registered Participant in sufficient time to allow your Registered Participant to (a) complete a Voting Proof of Debt Form on your behalf and (b) lodge the Proxy Form and Voting Proof of Debt Form with the Information Agent by no later than 4.00 pm on 25 May 2017 (New York City Time).

The Chairperson will then adjudicate upon your Claim as set out in the Voting Proof of Debt Form based on the information contained in or provided with the Voting Proof of Debt Form, as well the information known to the Chairperson, for voting purposes only.

You may attend the meeting in person (or by corporate representative), appoint a proxy to attend in your place, or attend by attorney. Proxy Forms must be received by the Information Agent by 4.00 pm on 25 May 2017 (New York City Time). The Proxy Form and Voting Proof of Debt Form are set out at Annexures F and G (respectively) to the enclosed Explanatory Statement. If you wish to vote by attorney or corporate representative, your attorney or corporate representative should bring to the meeting evidence of his or her appointment including evidence of the authority under which the appointment was made.

NOTEHOLDERS ARE ENCOURAGED TO READ AND CAREFULLY CONSIDER THE EXPLANATORY STATEMENT ACCOMPANYING THIS NOTICE IN ITS ENTIRETY, TAKE PROFESSIONAL ADVICE AND CONSULT WITH THEIR PROFESSIONAL ADVISERS WHEN MAKING ANY DECISION IN CONNECTION WITH THE SCHEME, INCLUDING DECIDING WHETHER OR NOT TO VOTE IN FAVOUR OF THE SCHEME.

Dated 10 May 2017

CONTENTS

CLAUSE **PAGE**

Annexure

1. IMPORTANT INFORMATION

NOTEHOLDERS SHOULD READ THIS EXPLANATORY STATEMENT IN ITS ENTIRETY BEFORE MAKING A DECISION WHETHER OR NOT TO VOTE IN FAVOUR OF THE SCHEME

1.1 Orders to convene the Scheme Meeting

On 10 May 2017, the Court made orders under section 411(1) of the Corporations Act directing that a meeting of the Noteholders be convened to vote upon the proposed Scheme. This Explanatory Statement has been provided to the Noteholders in connection with the Scheme Meeting for the purpose of considering and, if thought fit, agreeing to the proposed Scheme between the Companies, the Noteholders and the Subordinate Claim Holders.

The Scheme Meeting will commence at:

11:30am on, 30 May 2017

at

Ashurst, Level 11, 5 Martin Place, Sydney NSW 2000, Australia

Further information on the Scheme Meeting and the procedure for voting is set out in **Section 11** of this Explanatory Statement.

IMPORTANT NOTICE ASSOCIATED WITH COURT ORDER UNDER SECTION 411(1) OF THE *CORPORATIONS ACT 2001* (CTH)

The fact that under section 411(1) of the *Corporations Act 2001* (Cth) the Court has ordered that a meeting be convened and has approved the Explanatory Statement required to accompany the notice of the meeting does not mean that the Court:

(a) has formed any view as to the merits of the proposed Scheme or as to how Noteholders should vote (on this matter Noteholders must reach their own decision); or

(b) has prepared, or is responsible for the content of, the Explanatory Statement.

The Court's order under section 411(1) is not an endorsement of, or any other expression of opinion on, the Scheme.

1.2 Prescribed information

Under section 412(1) of the Corporations Act and regulation 5.1.01 of the Corporations Regulations this Explanatory Statement must contain certain information to assist the Noteholders in deciding whether or not to vote in favour of the proposed Scheme. The table below indicates where in this Explanatory Statement that information can be found.

Prescribed information	Section of this Explanatory Statement
An explanation of the effect of the proposed Scheme	**Section 6**

Prescribed information	Section of this Explanatory Statement
The criteria and the date for determining the participants in the Scheme, the persons entitled to vote at the Scheme Meeting, and the persons who will be bound by the Scheme.	**Sections 6.11 and 11**
The expected dividend that would be paid to the Noteholders if the Companies were wound up within 6 months of the Court's order on the date of the First Court Hearing	**Section 7**
The Implied Value of the interests of the 7% Scheme Creditors if the Scheme were put into effect as proposed	**Section 7**
The material interests of the Directors of the Companies (including the effect of the Scheme on those interests)	**Section 10.2**
Certified copies of all financial statements to be lodged by the Companies with ASIC	**Annexure C**
Reports on the affairs of the Companies	**Annexure D**
The scale of charges that the Scheme Administrators propose to charge to implement the Scheme	**Annexure E**
A list of the names of all known 7% Scheme Creditors and the debts owed to those 7% Scheme Creditors	**Annexure H**

1.3 **Responsibility statement**

The Companies have provided and are responsible for all information in this Explanatory Statement (other than the KordaMentha Information). The Companies and their Directors, officers, employees, and advisers expressly disclaim and do not assume any responsibility for the accuracy or completeness of the KordaMentha Information.

This Explanatory Statement has been prepared solely for use by the Noteholders for the purpose of evaluating whether or not to vote in favour of the Scheme. No other person apart from the Companies and KordaMentha (only in respect of the KordaMentha Information) has been authorised to make any representation or warranty, express or implied, as to its accuracy or completeness. Nothing contained in this Explanatory Statement is, or should be relied on as, a representation, assurance or guarantee as to the benefits of the Scheme over any alternative for the Noteholders.

KordaMentha has prepared the KordaMentha Report in relation to the Companies and the proposed Scheme based, in part, on information provided by the Companies. Except to the extent that the Companies are responsible for the information they have provided to KordaMentha for the purpose of the KordaMentha Report (and the Companies take

responsibility for that information) KordaMentha takes responsibility for the KordaMentha Information.

The KordaMentha Information consists of the information in **Section 7** of this Explanatory Statement, the KordaMentha Report in Annexure B and certain other information or statements in this Explanatory Statement that have been identified as being sourced from, or attributed to, KordaMentha.

No person has been authorised to give any information or to make any representation in connection with the Scheme other than the representations contained in this Explanatory Statement.

1.4 Not financial product or other advice

This Explanatory Statement is not financial product advice. It has been prepared without reference to your particular investment objectives, financial situation, tax situation, needs or specific circumstances. You should not construe any statements made in this Explanatory Statement as investment, tax or legal advice. Your decision whether to vote for or against the proposed Scheme will depend on an assessment of your own individual circumstances. As the financial, legal and taxation consequences of the Scheme may be different for each Noteholder, it is recommended that you seek your own professional financial, legal and taxation advice before making your decision.

1.5 Forward-looking statements

Certain statements in this Explanatory Statement relate to the future. The forward-looking statements in this Explanatory Statement are not based solely on historical facts, but rather reflect the current expectations of the Companies as at the date of this Explanatory Statement. These statements generally may be identified by the use of forward-looking words or phrases such as "believe", "aim", "expect", "anticipate", "intend", "foresee", "likely", "should", "plan", "may", "estimate", "potential", or other similar words and phrases. Similarly, statements that describe the Companies' objectives, plans, goals or expectations are or may be forward looking statements.

Forward-looking statements are based on numerous assumptions regarding present and future circumstances. As such, forward-looking statements involve known and unknown risks, uncertainties, assumptions and other important factors that could cause the actual result, performance or achievement to be materially different from the future result, performance or achievement expressed or implied by those statements.

Given this, Noteholders are cautioned not to place undue reliance on any forward-looking statements made by the Companies in this document or elsewhere.

Other than as required by law, none of the Companies, their Directors, or any other person gives any representation, assurance or guarantee that the occurrence of any event, outcome, performance or achievement expressed or implied in any forward-looking statement in this Explanatory Statement will actually occur. The Companies have no intention of updating or revising any forward-looking statements, regardless of whether new information, future events or any other factors affect the information contained in this Explanatory Statement, except as required by law.

1.6 ASIC

A copy of this Explanatory Statement has been given to ASIC pursuant to section 412(7) of the Corporations Act. Neither ASIC nor any of its officers takes any responsibility for the contents of this Explanatory Statement.

1.7 **Date of this Explanatory Statement**

The date of this Explanatory Statement is 10 May 2017.

1.8 **Defined terms and interpretation**

Capitalised words used in this Explanatory Statement have the meanings set out **Section 12.2**, unless the context otherwise requires or a term has been defined elsewhere in the text of the Explanatory Statement. Some of the attachments to this Explanatory Statement contain their own defined terms and should be read accordingly.

Section 12.1 contains general guidelines for interpreting this Explanatory Statement.

1.9 **Noteholders outside Australia**

This Explanatory Statement has been prepared to reflect the applicable disclosure requirements of Australia, which may be different from the requirements applicable in other jurisdictions. The financial information included in this document is based on financial statements that have been prepared in accordance with accounting principles and practices generally accepted in Australia, which may differ from generally accepted accounting principles and practices in other jurisdictions.

The implications of the Scheme for Noteholders who are resident in, have a registered address in or are citizens of and/or are taxable in jurisdictions other than Australia may be affected by the laws of the relevant jurisdiction. Such overseas Noteholders should inform themselves about and observe any applicable legal requirements. Any person outside Australia who is resident in, or who has a registered address in, or is a citizen of and/or is taxable in, an overseas jurisdiction and who is to receive or subscribe for any Transaction Securities should consult its professional advisers and satisfy itself as to the full observance of the laws of the relevant jurisdiction in connection with the Scheme, including obtaining any requisite governmental or other consents, observing any other requisite formalities and paying any issue, transfer or other taxes due in such jurisdiction.

1.10 **Foreign jurisdiction disclaimers**

THIS EXPLANATORY STATEMENT AND THE SCHEME DO NOT CONSTITUTE AN OFFER OF SECURITIES IN ANY JURISDICTION IN WHICH IT WOULD BE UNLAWFUL. THIS EXPLANATORY STATEMENT DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY SECURITIES OTHER THAN THE TRANSACTION SECURITIES. NONE OF THE SECURITIES REFERRED TO IN THIS EXPLANATORY STATEMENT MAY BE SOLD, ISSUED OR TRANSFERRED IN ANY JURISDICTION IN CONTRAVENTION OF APPLICABLE LAW.

This Explanatory Statement may not be distributed to any person in any country outside Australia except in respect of those jurisdictions described below and in the manner contemplated below.

(a) **United States**

The Transaction Securities proposed to be issued pursuant to the Scheme will not be registered with the U.S. Securities and Exchange Commission (the **SEC**) under the U.S. Securities Act of 1933, as amended (the **U.S. Securities Act**) or the securities laws of any state or other jurisdiction unless expressly specified herein, and are being issued in reliance on certain exemptions from registration under the U.S. Securities Act. Consequently, neither these securities nor any interest or participation therein may be offered, sold, assigned, transferred, pledged, encumbered or otherwise disposed of in the U.S. or to U.S. Persons (as defined in

the U.S. Securities Act) unless an exemption from the registration requirement of the U.S. Securities Act is available.

(i) **Scheme Notes and Scheme Warrants**

The Scheme Notes and Scheme Warrants will be issued and delivered in reliance upon exemptions from the registration requirements of the U.S. Securities Act, including that provided by section 3(a)(10) of the U.S. Securities Act (**Section 3(a)(10)**). In order to qualify for the exemption from the registration requirements of the U.S. Securities Act provided by Section 3(a)(10), there must be a hearing on the fairness of the Scheme's terms and conditions to the holders, which all the holders are entitled to attend in person or through representatives to oppose the sanctioning of the Scheme by the Court, and with respect to which notification will be given to all the holders. For the purpose of qualifying for the exemption from the registration requirements of the U.S. Securities Act provided by Section 3(a)(10), the Companies intend to rely on the Court's hearing to sanction the Scheme.

In addition, any 7% Scheme Creditor who is an Affiliate of the Companies at the time of or within 90 days prior to any resale of the Scheme Notes or the Scheme Warrants will be subject to certain U.S. transfer restrictions relating to such securities. Scheme Notes or Scheme Warrants may not be sold without registration under the U.S. Securities Act, except pursuant to an available exemption from the registration requirements of the U.S. Securities Act or in a transaction not subject to such requirements (including a transaction that satisfies the applicable requirements for resale outside of the United States pursuant to Regulation S). Persons who may be deemed to be Affiliates of the Companies include individuals who, or entities that, control directly or indirectly, or are controlled by or are under common control with the Companies and may include certain officers and directors of the Companies and the principal shareholders of the Companies. Noteholders will be required to make their own determination of their Affiliate status and should consult their own legal advisers prior to any sale of the Scheme Notes or the Scheme Warrants.

(ii) **Warrant Shares**

In connection with the issue of the Warrant Shares upon the cash exercise of the relevant Scheme Warrants, the relevant holder of the Scheme Warrants will be required to confirm, by delivering a duly executed Representation Letter to the Companies (with their Notice of Exercise), that the relevant holder is a person eligible to receive securities under the U.S. Securities Act and agree in writing to certain representations and covenants, amongst other things. If the confirmations required by the Representation Letter cannot be or are not given, the relevant holder will only be able to exercise their Scheme Warrants as a cashless exercise. Accordingly:

(A) all 7% Scheme Creditors will be required to deliver a duly executed Representation Letter (with their Notice of Exercise) as a condition to cash exercise of their Scheme Warrants and the issue of resulting Warrant Shares; and

(B) subsequent holders of 7% Scheme Warrants (that is, those who are not Scheme Creditors) will also be required to deliver a duly executed Representation Letter (with their Notice of Exercise) on the cash exercise of Scheme Warrants,

(together, the 7% Scheme Creditors and subsequent holders of Scheme Warrants described above are the **Applicable Warrant Holders**).

The Warrant Shares will be issued and delivered in reliance upon exemptions from the registration requirements of the U.S. Securities Act. The Warrant Shares to be issued upon cashless exercise will be issued in reliance upon the exemption from registration provided by Section 3(a)(9) of the U.S. Securities Act. The Warrant Shares to be issued upon cash exercise will be issued in the United States solely to persons where such person is an institutional² "accredited² investor"² (**Accredited Investor**) within the meaning of clauses (1), (2), (3), (7) or (8) of clause (a) of Rule 501 of Regulation D under the U.S. Securities Act (**Regulation D**) in reliance on Rule 506(c) of Regulation D. Outside the United States, the Warrant Shares to be issued upon cash exercise will be issued only in offshore transactions in reliance on Regulation S.

Upon Issuance, the Warrant Shares to be issued upon cash exercise will be "restricted² securities"² (as² defined² by² Rule² 144(a)(3)² under² the² U.S.² Securities Act) and may not be offered, sold, pledged or otherwise transferred prior to the date that is one year after the later of (x) the date of original issue and (y) the last date on which either BLY or any affiliate of the BLY was the owner of such shares (or any predecessor thereto) except (i) in an offshore transaction complying with Regulation S under the U.S. Securities Act, (ii) in the United States, to an Accredited Investor, (iii) pursuant to an exemption from registration under the Securities Act provided by Rule 144 (if applicable) or (iv) pursuant to an effective registration statement under the U.S. Securities Act, and in each of cases (i) through (iv) in accordance with any applicable securities laws of any state of the United States and any other jurisdiction. If at any time an offer, sale or transfer of Warrant 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, the holder will and each subsequent holder is required to, notify any purchaser of the Warrant Shares of the resale restrictions set forth in this paragraph.

Subject to the outcome of the re-domiciliation discussions which are ongoing, the Directors of the Companies understand that none of the Transaction Securities will be listed on a U.S. securities exchange, with any securities regulatory authority of any State or other jurisdiction of the United States or with any inter dealer quotation system in the United States. The Companies do not intend to take action to facilitate a market in any of the Transaction Securities in the United States. Consequently, the Companies believe that it is unlikely that an active trading market in the United States will develop for any such securities.

Neither the SEC nor any U.S. federal, state or other securities commission or regulatory authority has registered, approved or disapproved any of the Transaction Securities or passed upon the accuracy or adequacy of this Explanatory Statement. Any representation to the contrary is a criminal offence in the United States.

7% Scheme Creditors should consult their own legal, financial and tax advisers with respect to the legal, financial and tax consequences of the Scheme in their particular circumstances.

The issuance of the Transaction Securities to the 7% Scheme Creditors (as explained in detail in this Explanatory Statement) relates to the issuance of

notes and warrants in an Australian company and is proposed to be made by and pursuant to a scheme of arrangement under Australian company law. Accordingly, the Scheme is subject to the disclosure requirements, rules and practices applicable to Australian schemes of arrangement and the information in this Explanatory Statement is not the same as that which would have been disclosed if the Explanatory Statement had been prepared for the purposes of complying with the registration requirement of the U.S. Securities Act or in accordance with the laws or regulations of any other jurisdiction. Financial information regarding the Companies referred to in this Explanatory Statement has been or will have been prepared in accordance with Australian accounting standards that may not be comparable to the accounting standards applicable to financial statements of U.S. companies or companies whose financial statements are prepared in accordance with generally accepted accounting principles in the United States.

It may be difficult for 7% Scheme Creditors in the United States to enforce their rights and claims arising out of U.S. federal securities laws against officers and directors of the Companies who are residents of countries other than the United States, and it may not be possible to sue the Companies in a non U.S. court for violations of U.S. securities laws.

(b) **Canada**

No prospectus has been filed with any securities commission or similar authority in Canada in connection with the issuance of the Transaction Securities. In addition, no securities commission or similar authority in Canada has reviewed or in any way passed upon this document or the merits of the securities described herein, and any representation to the contrary is an offence under applicable Canadian securities laws.

The issuance of Transaction Securities pursuant to the Scheme will be exempt from the prospectus requirements under applicable Canadian securities legislation. As a consequence of this exemption, certain protections, rights and remedies provided by Canadian securities legislation, including statutory rights of rescission or damages, will not be available in respect of such Transaction Securities to be issued in connection with the Scheme.

The Transaction Securities will be subject to restrictions on resale in Canada. BLY is not² presently² a² "reporting² issuer"² as² such² term² is² defined² under² applicable² Canadian securities legislation in any province or territory of Canada. Canadian investors are advised that subject to the outcome of re-domiciliation discussions which are ongoing, the Transaction Securities are not and will not be listed on any stock exchange in Canada and that no public market presently exists or is expected to exist for the Transaction Securities in Canada following implementation of the Scheme. Canadian investors are further advised that BLY is not required to file, and currently does not intend to file, a prospectus or similar document with any securities regulatory authority in Canada qualifying the resale of the Transaction Securities to the public in any province or territory of Canada. Accordingly, the Transaction Securities may be subject to an indefinite hold period under applicable Canadian securities laws unless resales are made in accordance with applicable prospectus requirements or pursuant to an available exemption from such prospectus requirements. Canadian investors are advised to seek legal advice prior to any contemplated resale of any of the Transaction Securities.

It may be difficult for Scheme Creditors in Canada to enforce their rights and claims arising out of Canadian provincial or territorial securities laws against

officers and directors of BLY who are residents of countries other than Canada, and it may not be possible to sue BLY in a non-Canadian court for violations of Canadian securities laws.

(c) **Cayman Islands**

No offer or invitation to subscribe for Scheme Shares or Warrants may be made to the public in the Cayman Islands.

(d) **Italy**

The offering of Scheme Shares and Warrants in the Republic of Italy has not been authorised by the Italian Securities and Exchange Commission (Commissione Nazionale per le Società e la Borsa (**CONSOB**)) pursuant to the Italian securities legislation and, accordingly, no offering material relating to the securities may be distributed in Italy and the securities may not be offered or sold in Italy in a public offer within the meaning of Article 1.1(t) of Legislative Decree No. 58 of 24 February 1998, as amended (**Decree No. 58**), other than:

(i) to qualified investors (**Qualified Investors**), as defined in Article 100 of Decree No. 58 by reference to Article 34-ter of CONSOB Regulation no. 11971 of 14 May 1999, as amended (**Regulation No. 1197l**); and

(ii) in other circumstances that are exempt from the rules on public offer pursuant to Article 100 of Decree No. 58 and Article 34-ter of Regulation No. 11971.

Any offer, sale or delivery of the securities or distribution of any offer document relating to the Scheme Shares or the Warrants in Italy under the paragraphs above must be:

(iii) made by investment firms, banks or financial intermediaries permitted to conduct such activities in Italy in accordance with Legislative Decree No. 385 of 1 September 1993 (as amended), Decree No. 58, CONSOB Regulation No. 16190 of 29 October 2007 (as amended) and any other applicable laws; and

(iv) in compliance with all relevant Italian securities, tax and exchange controls and any other applicable laws.

Any subsequent distribution of the Scheme Shares or Warrants in Italy must be made in compliance with the public offer and prospectus requirement rules provided under Decree No. 58 and the Regulation No. 11971, unless an exception from those rules applies. Failure to comply with such rules may result in the sale of such securities being declared null and void and in the liability of the entity transferring the securities for any damages suffered by the investors.

(e) **Netherlands**

The information in this document has been prepared on the basis that any offer of Scheme Shares and Warrants will be made pursuant to an exemption under the Directive 2003/71/EC (**Prospectus Directive**), as amended and implemented in the Netherlands, from the requirement to publish a prospectus for offers of securities.

An offer to the public of Scheme Shares or Warrants has not been made, and may not be made, in the Netherlands except pursuant to one of the following exemptions under the Prospectus Directive as implemented in the Netherlands:

(i) to any legal entity that is authorised or regulated to operate in the financial markets or whose main business is to invest in financial instruments;

(ii) to any legal entity that satisfies two of the following three criteria: (i) balance sheet total²of²at²least²€20,000,000;²(ii)²annual²net²turnover²of²at²least²€40,000,000²and²(iii)²own²funds²of²at²least²€2,000,000²(as²shown²on²its last annual unconsolidated or consolidated financial statements);

(iii) to any person or entity who has requested to be treated as a professional client in accordance with the EU Markets in Financial Instruments Directive (Directive 2004/39/EC, "MiFID"); or

(iv) to any person or entity who is recognised as an eligible counterparty in accordance with Article 24 of the MiFID.

(f) **Switzerland**

The Scheme Shares and Warrants may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange (**SIX**) or on any other stock exchange or regulated trading facility in Switzerland. This document has been prepared without regard to the disclosure standards for issuance prospectuses under art. 652a or art. 1156 of the Swiss Code of Obligations or the disclosure standards for listing prospectuses under the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland. Neither this document nor any other offering material relating to the securities may be publicly distributed or otherwise made publicly available in Switzerland. The Scheme Shares and Warrants may only be offered to regulated financial intermediaries such as banks, securities dealers, insurance institutions and fund management companies as well as institutional investors with professional treasury operations.

Neither this document nor any other offering or marketing material relating to the Scheme Shares and the Warrants have been or will be filed with or approved by any Swiss regulatory authority. In particular, this document will not be filed with, and the issuance of Scheme Shares and Warrants will not be supervised by, the Swiss Financial Market Supervisory Authority (**FINMA**).

This document is personal to the recipient only and not for general circulation in Switzerland.

1.11 **Privacy**

The Chairperson, the Information Agent, the Scheme Administrators and Companies may collect, use and disclose personal information in the process of implementing the Scheme. This information may include the names, contact details, bank account details or other details of Noteholders and the names of persons appointed by Noteholders to act as proxy, corporate representative or attorney at the Scheme Meeting. The primary purpose of collecting this information is to assist the Chairperson, the Information Agent, the Scheme Administrators and the Companies in the conduct of the Scheme Meeting and to enable the Scheme to be implemented by the Scheme Administrators.

If this personal information is not collected, the Chairperson, the Information Agent, the Scheme Administrators and the Companies may be hindered in, or prevented from, conducting the Scheme Meeting and implementing the Scheme.

Personal information may be disclosed to the Court, the Chairperson, the Information Agent, the Scheme Administrators, the Companies, third party service providers, professional advisers, ASIC, FIRB, ASX and other regulatory authorities and, in addition, where disclosure is required by law or where you have consented to the disclosure.

Noteholders have the right to access personal information that has been collected about them. Noteholders should contact the Companies in the first instance about exercising that right.

If you have questions regarding privacy, contact the Companies at the address below:

Boart Longyear Limited
26 Butler Boulevard
Burbridge Business Park
Adelaide Airport
South Australia 5950
AUSTRALIA

It is the responsibility of Noteholders who appoint a named person to act as their proxy or attorney at the relevant Scheme Meeting to inform their proxy or attorney of the matters outlined above.

1.12 **Documents available for inspection**

Documents referred to in this Explanatory Statement that are not reproduced in the Annexures to this Explanatory Statement or have not otherwise been provided to Noteholders will be made available for inspection by Noteholders upon request.

To request access, contact the Companies' at the address below:

Boart Longyear Limited
26 Butler Boulevard
Burbridge Business Park
Adelaide Airport
South Australia 5950
AUSTRALIA

To the extent that documents referred to in this Explanatory Statement are confidential to the Companies, other members of the Group or third parties, or if the Companies cannot legally disclose such documents, the Companies reserve the right:

(a) not to make such documents available for inspection; or

(b) to make only masked copies of, or extracts from, such documents available for inspection.

1.13 **Questions**

If you have any questions in relation to the Scheme, the lodgement of Proxy Forms or Voting Proof of Debt Forms, you are encouraged to contact the Scheme Administrators at:

Attention: Boart Longyear Ballot Processing
c/o Prime Clerk LLC
830 Third Avenue
3rd Floor
New York
NY 10022
United States

Email: boartballotprocessing@primeclerk.com

2. KEY DATES AND STEPS

Event	Date
Voting Entitlement Record Date	4 May 2017
Deadline for receipt of Voting Proof of Debt Forms and Proxy Forms	4.00 pm 25 May 2017 (New York City Time)
Scheme Meeting of all Noteholders	30 May 2017
Second Court Date	4 July 2017
Lodgement of Second Court Orders with ASIC (Effective Date)	No later than 10:00am on the Business Day after the day on which the Court makes the Second Court Orders
Calculation Date	The second Business Day after the Effective Date
Implementation Date (including implementation of Steps 4 to 8 under the Scheme)	Five Business Days after the Effective Date, unless otherwise advised by the Scheme Administrators

NOTE

All dates and times referred to in this Explanatory Statement and the documents attached to it are to times in Sydney, Australia except where otherwise stated. The dates set out in the above table are indicative only and may be subject to change. The Companies reserve the right to vary the times and dates set out above, subject to the Corporations Act and the approval of any variations by the Court or ASIC where required.

Noteholders are encouraged to take the following steps in advance of the Scheme Meeting:

(a) **Read this Explanatory Statement in full**

The Companies encourage you to take professional advice, and to consult with your professional advisers, when making any decisions in connection with the Scheme.

(b) **Consider FIRB requirements**

If you are a foreign person, including a foreign corporate entity, for the purposes of the FATA, consider whether you need to provide a notification to the Treasurer of the Commonwealth of Australia in respect of the acquisition of Scheme Shares and Scheme Warrants on implementation of the Scheme. If you require such approval, and do not obtain it in advance of the Implementation Date, you may be exposed to penalties and an order requiring you to dispose of your Scheme Shares and Scheme Warrants and it is a condition of the Scheme that you obtain such approval to the extent that it is required.

7% Scheme Creditors should seek their own independent legal advice in respect to FATA requirements.

See **Section 6.2(a)** of the Explanatory Statement for further information about FATA requirements in connection with the Scheme.

(c) **Consider attending and voting at the Scheme Meeting**

See **Section 11** for detailed information in relation to the Scheme Meeting.

3. OVERVIEW OF EXPLANATORY STATEMENT AND SCHEME

3.1 Why you are receiving this Explanatory Statement

This Explanatory Statement contains information about the proposed Scheme and is required by section 412(1) of the Corporations Act to be issued together with each Notice of Meeting issued to a Noteholder.

You have been sent this Explanatory Statement because, according to the records of the Companies as at the First Court Date, you are a Noteholder.

Receipt of this Explanatory Statement does not amount to confirmation that you have a valid claim against or are owed any amount by the Companies.

If you are a Noteholder as at the Voting Entitlement Record Date (irrespective of whether or not you were a Noteholder as at the date of this Explanatory Statement), you will be eligible to vote at the Scheme Meeting provided that the Information Agent receives a completed Voting Proof of Debt Form and Proxy Form from your Registered Participant by no later than 4.00 pm, 25 May 2017 (New York City Time).

Any Noteholder who wishes to attend and vote at the Scheme Meeting in person will still need to properly complete, sign and return the Voting Proof of Debt Form and Proxy Form to their Registered Participant (with itself nominated as proxy) in sufficient time to enable the Registered Participant to complete and certify the Voting Proof of Debt Form and the Proxy Form and forward the same to the Information Agent by no later than 4.00 pm on 25 May 2017 (New York City Time).

Additionally, if you wish to vote by attorney or corporate representative, such attorney or corporate representative should bring to the Scheme Meeting evidence of his or her appointment including authority under which the appointment was made.

The Voting Proof of Debt Form is set out in Annexure G and the Proxy Form is set out in Annexure F of this Explanatory Statement.

Further details of the Scheme Meeting, including the procedure for voting, can be found in **Section 11** of this Explanatory Statement.

3.2 Summary of the Scheme procedure

The proposed scheme is a creditors' scheme of arrangement. A creditors' scheme of arrangement is a compromise or arrangement between a company or companies and its creditors (or any class of them) effected in accordance with Part 5.1 of the Corporations Act.

The resolution to agree to the Scheme at the Scheme Meeting must be passed by a majority in number (more than 50%) of the Noteholders who are present and voting at the Scheme Meeting (either in person or by proxy, corporate representative or attorney) being a majority whose Admitted Claims together amount to at least 75% of the Debt owing to the Noteholders present and voting at the Scheme Meeting (either in person or by proxy, corporate representative or attorney) (**Requisite Majority**).

If the Scheme is agreed to by the Requisite Majority, in order to become effective, the Scheme must then be approved by the Court on the Second Court Date. The Court may grant its approval subject to such alterations or conditions as it thinks fit. However, the Scheme will not take any effect if any alterations the Court makes or the conditions the Court imposes change the substance of the Scheme in any material respect.

If the Scheme is approved by the Court, and the Second Court Orders are lodged with ASIC, then the Scheme will become effective. Once all the conditions precedent (detailed in **Section 6.2** below) set out in the Scheme are satisfied, the Steps to effect the Scheme will be undertaken.

Once the Scheme becomes effective, it will be binding upon the Companies, the Subordinate Claim Holders and all 7% Scheme Creditors, including those 7% Scheme Creditors that did not vote in favour of the Scheme, or those that did not attend, or vote at, the Scheme Meeting.

It will also be binding upon the Trustee, the Released Obligor Individuals, the Obligors and the Scheme Administrators, as a result of them each having signed a Deed Poll.

If, in the opinion of the Scheme Administrators, it is not possible to give effect to the Scheme, each of the Companies, the Obligors, Released Obligor Individuals, the Trustee and the 7% Scheme Creditors are required to do all things reasonably necessary to put each other party in the position it would have been in if none of the Steps under the Scheme had occurred.

3.3 Why is the Scheme being proposed?

In August 2016, in conjunction with the release of its half-year financial results for the year ended 30 June 2016, BLY announced that it had engaged Houlihan Lokey to evaluate its capital structure options in order to ensure long term sustainability and BLY's ability to participate in the recovery of the mining market.

The Group's capital structure exposes it to a variety of market, operational and liquidity risks. To address these risks, the Group sought to identify options available to it to make its capital structure more sustainable, including by addressing the debt maturities due to occur in October 2018, the Group's high levels of debt relative to current market conditions and the Group's underlying financial performance.

3.4 Objects and purpose of the Scheme

The Scheme forms part of a comprehensive recapitalisation of the Group, comprising the Recapitalisation Transactions. The Recapitalisation Transactions will primarily be implemented by this Scheme and the Secured Creditor Scheme, which are interdependent. The purpose of the Recapitalisation Transactions is to provide the Group with a more sustainable capital structure.

The Recapitalisation Transactions will achieve this by:

(a) reducing the Group's debt and its interest costs;

(b) providing additional liquidity to the Group;

(c) extending the maturity of the Group's debt;

(d) adjusting the rate of interest payable on certain of the Group's debt obligations (described in more detail in **Section 5**), the manner in which interest is paid and the timing of those payments.

Each of the Recapitalisation Transactions, with the exception of the Share Purchase Plan, are inter-conditional such that if either or both of the BLY Schemes or any one or more Shareholder Resolutions is not approved by the requisite majority of creditors or Shareholders (as applicable) or any other relevant condition is not satisfied, the other Recapitalisation Transactions will not proceed.

In summary, the Recapitalisation Transactions comprise:

(a) **This Scheme**

The principal objects and purposes of the Scheme itself are to reduce the Debt owing by the Companies to the 7% Scheme Creditors. The Scheme, if implemented, will effect the following:

(i) the principal debt plus accrued interest owed by the Companies to the 7% Scheme Creditors will be reduced from US$293,940,000 as at 1 April 2017 to US$88,000,000, plus accrued but unpaid interest to be calculated by applying an interest rate of 1.50% to the principal amount of US$88,000,000 for the period from 1 January 2017 to the Implementation Date;

(ii) the issue of such number of Scheme Shares to the 7% Scheme Creditors equivalent to approximately 42% of the ordinary equity of BLY post implementation of the Recapitalisation Transactions before the issue of the Scheme Warrants and the Warrants Issue ; and

(iii) the issue of Scheme Warrants equivalent to approximately 74% of the Companies' outstanding Warrants on issue immediately following the Implementation Date under both BLY Schemes;

(iv) amendments to the terms upon which the remaining Debt (being in the amount of US$88,000,000) shall be owed to the 7% Scheme Creditors by the Companies, including a reduction of the interest rate to 1.5%, payable in kind, amendments to financial covenants and an extension of the maturity date (as set out in more detail in **Section 6.5**);

(v) mutual releases by the 7% Scheme Creditors and the Obligors of one another in respect any Claims arising out of any failure to comply with obligations under the Finance Documents prior to the Implementation Date;

(vi) mutual releases by the 7% Scheme Creditors and the past and present directors and officers of the Obligors, who sign a deed poll, in respect of any Claims relating to events that occurred between 28 March 2011 and the Implementation Date (although the Companies are not aware of any potential Claims that may be available against any of those people);

(vii) mutual released by the 7% Scheme Creditors of one another in respect of Claims arising out of a failure to comply with the Finance Documents prior to the Implementation Date;

(viii) the compromise of Subordinate Claims, being claims for a debt owed to a person in that person's capacity as a Shareholder or arising from buying, holding, selling or otherwise dealing in Shares such that:

(A) any right a person has to bring a Subordinate Claim against BLY is limited to the amount actually recovered by BLY from any policy of insurance that responds to the Subordinate Claim, less any expenses incurred by BLY or the insurer in connection with the Subordinate Claim; and

(B) BLY is released from an obligation to pay any amount to the Subordinate Claim Holder in excess of the limit outlined in (A) above.

The Scheme, of itself, will have no effect on unsecured trade creditors of the Companies or on the secured or unsecured creditors of the Companies, other than the 7% Scheme Creditors and the Subordinate Claim Holders. Except to the extent set out above (and in more detail below) in relation to the directors and officers of the Companies, it will also have no effect on employees of the Companies who, subject to ordinary course changes in employment arrangements, will continue their employment.

(b) **Secured Creditor Scheme**

The Secured Creditor Scheme is proposed to effect the following key Recapitalisation Transactions:

(i) the Initial Term Loan Amendments (**Section 5.2(a)**);

(ii) the 10% Secured Note Amendments (**Section 5.2(b)**);

(iii) mutual releases in respect of certain Claims by:

(A) the Secured Scheme Creditors and the Obligors of one another;

(B) the Secured Scheme Creditors and the directors / officers of the Companies who execute Deeds Poll of one another; and

(C) Secured Scheme Creditors of one another,

(c) **Other Recapitalisation Transactions**

The other Recapitalisation Transactions involve:

(i) the unwinding of the DDTL (**Section 5.4(a)**);

(ii) the New ABL Revolver (**Section 5.4(a)**);

(iii) the CPS Conversion (**Section 5.4(b)**);

(iv) the Subscription Deed and the Subsequent Term Loan Amendments (**Section 5.4(c)**);

(v) the Warrants Issue (**Section 5.4(d)**); and

(vi) the Share Purchase Plan (**Section 5.4(e)**).

Section 6 of this Explanatory Statement contains detailed information on the terms of the Scheme. The Scheme itself is set out at Annexure A.

3.5 **Support for the Scheme**

Noteholders with over 75% of the Debt have signed the Restructuring Support Agreement and agreed to support the Scheme.

Further details regarding the Restructuring Support Agreement are set out in **Section 4.3** of this Explanatory Statement and a summary of its terms appears in Annexure J.

3.6 **Debt**

As at 1 April 2017 the Companies owe a total amount of US$293,940,000 to 7% Scheme Creditors under the Finance Documents, consisting of a principal amount of

US$284,000,000 and accrued interest in the amount of US$9,940,000 under the terms of the Indenture.

3.7 **Transaction Costs**

The Costs associated with the Scheme, including legal and adviser Costs of the Companies and certain of the Noteholders, fees payable under the Indenture, fees payable in respect of the proposed amendments to the Indenture contemplated by the Scheme and the Scheme Administrators' Costs are estimated to be between US$30,000,000 and US$35,000,000 (inclusive of GST). Some of these Costs have already been paid by the Companies.

3.8 **Noteholders and amounts owed to them**

A list which provides the names of all known Noteholders as at **March/April 2017** and the debts owed to those Noteholders is set out in Annexure H to this Explanatory Statement.

3.9 **Noteholders should obtain advice**

The Companies are not in a position to make an assessment of the prospects of success of any individual Noteholder's Claims, the quantum of recovery which may be available to individual Noteholders if the Scheme does not proceed or the future value of any Scheme Shares and Scheme Warrants if the Scheme proceeds. These are matters for each Noteholder to consider.

As the legal, financial and taxation consequences of the Scheme may be different for each Noteholder, Noteholders should seek professional legal, financial and taxation advice in relation to the Scheme.

3.10 **Overview of rights of creditors pre and post Recapitalisation Transactions**

	Rights pre Recapitalisation Transactions	Rights post Recapitalisation Transactions
Part 1 – Unsecured Creditor Scheme		
	Indenture	
Principal	US$196,000,000	US$88,000,000 plus accreted / accrued interest from 1 January 2017 to the Implementation Date calculated by applying a rate of 1.5% to a principal amount of US$88,000,000.
Maturity date	1 April 2021	31 December 2022
Change of control trigger	Yes	Waived for Recapitalisation Transactions but otherwise retained
Secured / unsecured claim	• Principal and interest are unsecured. • Claims for principal and interest under the 10% Secured Notes Indenture and claims for principal and a certain amount of interest under the Term Loan A and Term Loan B are secured. • Claims for the remaining amount of interest under the Term Loan A and the Term Loan B rank equally with claims under the Indenture.	• Principal and interest remain unsecured. • Claims pursuant to Indenture are subordinated to claims for principal and interest under the Term Loan A, Term Loan B and 10% Secured Notes Indenture.
Interest rate and manner of payment	7% paid in cash	1.5% paid in kind

	Rights pre Recapitalisation Transactions	Rights post Recapitalisation Transactions
	Other	
Shares	Not applicable	Ordinary shares in BLY issued to Noteholders such that they hold 42% of the ordinary shares in BLY post implementation of the BLY Schemes, prior to the issue of Scheme Warrants.
Warrants	Not applicable	Scheme Warrants (comprising A Warrants and B Warrants) issued to Noteholders such that they hold approximately 74% of all Warrants on issue immediately following the Implementation Date under both BLY Schemes. The Exercise Price is expected to be between US$0.006 - US$0.008 for A Warrants and between US$0.010 - US$0.012 for B Warrants, subject to final debt and cash figures on the Implementation Date.
Part 2 – Subscription Deed		
Issue of shares to Centerbridge	Centerbridge currently holds approximately 48.9% of all ordinary shares and 100% of preference shares in BLY	In exchange for reduction of the interest rate from 12% to 10% to 8% under Term Loan A and Term Loan B, Centerbridge will be issued with further ordinary shares, such that it holds 56% of ordinary shares in BLY. Its preference shares will be converted to ordinary shares.
Part 3 – Director Nomination Agreements		
Directors (Centerbridge)	4 Centerbridge nominees on the board	Once only right to nominate 5 Centerbridge nominees to the board
Directors (Ares and Ascribe)	No nomination rights	Once only right to nominate 1 Ares, 1 Ascribe and 1 Joint nominee to the board

Rights pre Recapitalisation Transactions				Rights post Recapitalisation Transactions		
Part 4 – Secured Creditor Scheme						
	Term Loan A	**Term Loan B**	**10% Secured Notes Indenture**	**Term Loan A**	**Term Loan B**	**10% Secured Notes Indenture**
Maturity date[1]	4 January 2021	4 January 2021[2]	1 October 2018	31 December 2022	31 December 2022	31 December 2022
Change of control trigger	Yes	Yes	Yes	Waived for Recapitalisation Transactions but otherwise retained, and definition made less restrictive to conform to definition in 10% Secured Notes Indenture	Waived for Recapitalisation Transactions but otherwise retained, and definition made less restrictive to conform to definition in 10% Secured Notes Indenture	Waived for Recapitalisation Transactions but otherwise retained
Call schedule	Call date January 2021 and early repayment make whole compensation	Call date January 2021 and early repayment make whole compensation	Call date October 2018 and early repayment make whole compensation	Can be repaid early from 1 January 2019 without any make whole payment	Can be repaid early from 1 January 2019 without any make whole payment	No change

[1] Under the Recapitalisation Transactions, the 4 January 2017 DDTL amendments are reversed such that the maturity dates for TLA and TLB are extended from 22 October 2020 and 1 October 2018, respectively.

[2] Prior to the 4 January 2017 DDTL amendment, the maturity date for the TLB was 1 October 2018, coinciding with the maturity date for the 10% Notes.

	Rights pre Recapitalisation Transactions			Rights post Recapitalisation Transactions		
Secured / unsecured claim	Principal is secured but accruing interest is secured to the extent permitted under the debt cap.	Principal is secured but accruing interest is secured to the extent permitted under the debt cap.	Principal and interest are secured	Accrued and accruing unsecured interest is given priority over unsecured note holders	Accrued and accruing unsecured interest is given priority over unsecured note holders	No change
Interest rate and manner of payment	12% payment in kind (**PIK**) or 10% cash pay at BLY Issuer's option	12% PIK or 10% cash pay at BLY Issuer's option	10% cash pay	10% PIK until December 2018, then 8% PIK	10% PIK until December 2018, then 8% PIK	12% PIK at BLY Issuer's[2] option until December 2018, then 10% cash pay
Interest payment dates	March, June, September and December	March, June, September and December	April and October each year	No change	No change	June and December each year
Security	Second priority in respect of working capital assets and non-working capital assets[3]	Third priority in respect of working capital assets and first priority in respect of non-working capital assets[4]	Third priority in respect of working capital assets and first priority in respect of non-working capital assets	No change	No change	No change
IP Subsidiary Guarantee	Guarantee by BLY IP Inc.	Guarantee by BLY IP Inc.		No change	No change	Subordinated unsecured guarantee by BLY IP Inc.

[3] PIK and make whole are unsecured to the extent exceeding the debt cap.

[4] PIK and make whole are unsecured to the extent exceeding the debt cap.

4. BACKGROUND TO THE SCHEME

4.1 Financial arrangements with the 7% Scheme Creditors

The Companies' financial arrangements with the 7% Scheme Creditors proposed to be affected by the Scheme comprise the Indenture.

In August 2016, in conjunction with the release of its half-year financial results for the year ended 30 June 2016, BLY announced that it had engaged Houlihan Lokey to evaluate capital structure options (the **Capital Structure Review**) in order to ensure long term sustainability and BLY's ability to participate in the recovery of the mining market.

On 5 January 2017, BLY announced that it had entered into a US$20,000,000 credit facility with CBP (a TLA Purchaser, TLB Purchaser and holder under the 10% Secured Notes Indenture). This facility was established to provide additional financial resources to support ongoing restructuring discussions with the Companies' lenders as well as to provide additional working capital in the first quarter of 2017, when the Group's working capital needs are typically at their seasonal peak due to the start-up of drilling projects globally.

The material terms of the DDTL facility are, as follows:

(a) (**commitment**) a commitment of US$20,000,000 in aggregate principal amount;

(b) (**collateral**) the DDTL is secured by US$50,000,000 of collateral in the form of certain of BLY's drilling rigs in the United States, Canada and Australia and the intellectual property held by BLY IP Inc.;

(c) (**maturity date**) if not revoked earlier by BLY, the facility maturity date is 31 December 2020;

(d) (**interest rate**) the rate of interest payable in kind is 12% per annum or 10% payable in cash at BLY's option, in each case payable quarterly in arrears; and

(e) (**other terms and conditions**) the DDTL includes other customary terms and conditions, including customary covenants and events of default that are substantially the same as those in Term Loan A and Term Loan B.

In conjunction with the execution of the DDTL, the Companies and CBP also modified certain terms of the Term Loan A and Term Loan B as follows. If the Recapitalisation Transactions are implemented, the amendments to the Term Loan A and the Term Loan B described below will be reversed.

(a) (**maturity dates**) were amended from 1 October 2020 and 1 October 2018, respectively, to 4 January 2021;

(b) (**interest rates**) were amended from 12% per annum payable in kind to either 12% payable in kind or 10% payable in cash at BLY's option;

(c) (**make-whole obligations**) the period for the make-whole obligations under Term Loan A and Term Loan B was extended to 4 January 2021; and

(d) (**tangible assets**) BLY agreed to at all times maintain at least 90% of all its US, Canada and Australia tangible assets, including the collateral for the DDTL, as collateral supporting Term Loan A and Term Loan B.

On 6 April 2017, following announcement of the Recapitalisation Transactions, S&P Global (**S&P**) undertook a further review of BLY'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 notes issued under the 10% Secured Notes Indenture and 7% Notes lowered to "CCC-" and "C", respectively; and

(d) the recovery ratings on notes issued under the 10% Secured Notes Indenture and 7% Notes remain unchanged at "2" and "5", respectively.

Given the proximity to the Companies' most recent capital raising in 2015, current equity capital market fluctuations and prevailing market conditions, the Directors do not consider that a further capital raising exercise at this stage will raise enough funds to address the Companies' current requirements.

4.2 **Alternatives considered**

The Companies consider that the Recapitalisation Transactions, which include the Scheme, will achieve the primary objectives of the Capital Structure Review, namely creating a more sustainable capital structure and increasing financial flexibility to allow the Companies to better manage through a difficult operating environment.

The Companies are not considering, nor are they aware of any superior alternate proposals for either obtaining the necessary financing or reducing the existing debt and/or cash interest requirements of the Companies. During the course of preliminary negotiations, the Companies explored a range of potential options. The Companies' existing debt quantum and terms, as well as the respective rights of their existing creditors with respect to the Companies' assets, ultimately precluded additional loan options other than those already disclosed. The Companies consider that the only currently executable alternative to the Scheme is insolvency filings, which would provide a significantly inferior outcome for the Noteholders, Shareholders of BLY and the Companies' other creditors and stakeholders.

4.3 **Restructuring Support Agreement**

On 2 April 2017, the Companies, the Obligors and certain of the Noteholders (who hold, in aggregate, more than 75% of the Debt) entered into the Restructuring Support Agreement, which requires each of those parties to support, facilitate, implement and consummate the restructuring contemplated by the Restructuring Support Agreement.

The terms of the Restructuring Support Agreement are summarised in the table extracted from an ASX announcement released by BLY on 3 April 2017 entitled "*Boart Longyear Reaches Recapitalisation Agreement with Key Stakeholders to Reduce Debt, Extend Maturities and Improve Liquidity*", at Annexure J.

4.4 **Exclusivity and break fee provisions**

BLY is required to comply with certain exclusivity obligations under the Restructuring Support Agreement, for the duration of an exclusivity period (commencing at the time of the execution of the RSA by all parties to it, and ending on the earlier of the completion of the Recapitalisation Transactions, the termination of the RSA, or 31 December 2017), including:

(a) **No shop restriction** – BLY 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;

(b) **No talk restriction** – Subject to a fiduciary carve-out (summarised below), BLY must not:

(i) 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;

(ii) provide any non-public information regarding BLY's businesses or operations to a person for the purposes of enabling or assisting that person to make a Competing Proposal; or

(iii) 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.

(c) **Notification** – BLY must notify the creditors who are parties to the RSA (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 BLY Board to consider certain Competing Proposals received after entering into the Restructuring Support Agreement and before Shareholders approve the Recapitalisation Transactions at the Shareholder Meeting, if:

(i) 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;

(ii) the BLY Board, acting in good faith, determines that the Competing Proposal is a Superior Proposal or that such action which the BLY Board proposes to take may reasonably be expected to lead to a Competing Proposal that is a Superior Proposal; and

(iii) the BLY Board, acting in good faith, determines after receiving written legal advice from BLY's external legal advisors (and, if appropriate, BLY'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 BLY Board's fiduciary or statutory duties under applicable law.

(d) **Matching right**

The Restructuring Support Agreement requires that, if BLY determines that a Competing Proposal is a Superior Proposal, BLY 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 BLY 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 BLY Board must review the Counterproposal in good faith to determine whether it is more favourable to BLY than the Superior Proposal.

If the BLY Board determines that the Counterproposal is more favourable to BLY, Shareholders and unsecured creditors of BLY 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, BLY 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) BLY will effect a change of recommendation of the BLY 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 BLY 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 BLY 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 BLY 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 BLY to Supporting Creditors if:

(i) 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 BLY's shares within 6 months of such an announcement;

(ii) prior to the date the Recapitalisation Transactions are completed, any director of BLY (other than Conor Tochilin or Jeffrey Long, who will recuse themselves with respect to any vote regarding the Recapitalisation Transactions):

(A) withdraws or adversely modifies his/her recommendation in favour of the transaction or recommends a Superior Proposal;

(B) does not recommend that the Shareholders approve the Shareholder Resolutions in the Notice of Meeting; or

(C) makes a public statement with the effect that the Shareholder Resolutions are no longer recommended,

other than as a result of KPMG Financial Advisory Services (Australia) Pty Ltd (being the independent expert engaged to prepare an independent expert's report indicating whether, in its view the Recapitalisation Transactions are fair and reasonable to Shareholders other than the Supporting Creditors) determining that the Recapitalisation Resolutions are "not fair" and "not reasonable" for Shareholders who are not the Supporting Creditors; or

(iii) the Supporting Creditors terminate the Restructuring Support Agreement if (amongst other reasons) BLY materially breaches the Restructuring Support Agreement.

In addition, BLY 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).

5. THE RECAPITALISATION TRANSACTIONS

5.1 Second-Out ABL

At the same time as they announced that they had entered into the Restructuring Support Agreement, the Companies announced on 3 April 2017 that they had entered into an additional US$15,000,000 facility with lenders affiliated with CBP, Ares and Ascribe (**Second-Out ABL Facility**). The Second-Out ABL Facility has been established to provide short-term financial support to the Companies until the Recapitalisation Transactions can be completed. It was fully drawn-down by the Companies on 20 April 2017.

If the Recapitalisation Transactions are implemented, the Second-Out ABL, together with the DDTL, will be repaid in full through the New ABL Revolver (described in **Section 5.4(a)** below) and the rig transfers and amendments to the Term Loan A and Term Loan B associated with the DDTL will be reversed.

5.2 Secured Creditor Scheme

(a) Initial Term Loan Amendments

Term Loan A and Term Loan B were entered into by the Companies as part of the CBP led Restructuring and most recently amended on 4 January 2017 and 2 April 2017 in conjunction with the Companies entering into the DDTL (as described in **Section 4**) and the Second Out ABL. If the Recapitalisation Transactions are implemented, these amendments to the Term Loan A and Term Loan B will be unwound and replaced by the Term Loan Amendments.

The amendment to the call schedule allows the Companies to repay the Term Loan A and Term Loan B after December 2018 without having to repay the make whole amount. The amended covenants will allow the Companies to obtain the New ABL Revolver, re-domicile BLY and the BLY Issuer and consummate other transactions contemplated by the Scheme.

The Initial Term Loan Amendments involve:

(i) (**maturity**) an extension of the maturity date to 31 December 2022;

(ii) (**Change of control**) waiver of rights arising from any Change of Control Event arising as a result of the implementation of the Scheme and the consummation of the transactions contemplated thereby;

(iii) (**call schedule**) non-call protection prior to December 2018, callable at par thereafter without penalty;

(iv) (**covenants**) amendments to the covenants to be generally consistent with the 10% Secured Notes Indenture and will enable the New ABL Revolver to share the collateral package for Term Loan A;

(v) (**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 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 additional $40 million of additional secured debt capacity; and

(vi) (**IP subsidiary**) BLY IP Inc., an intellectual property subsidiary which guarantees the Term Loan A and Term Loan B, providing a subordinated

unsecured guarantee in respect of the debt issued under the 10% Secured Notes Indenture.

(b) **10% Secured Note Amendments**

The 10% Secured Note Amendments involve:

(i) (**interest rate**) the current interest rate of 10% per annum, payable in cash, being payable at BLY's option either at an increased rate of 12% payable in kind or at a rate of 10% in cash up to and including the December 2018 interest payment date, then payable in cash at 10% thereafter - if the Scheme is implemented, the interest rate of 12.00% will apply retroactively to the balance outstanding in respect of the 10% Secured Notes Indenture at 31 December 2016;

(ii) (**maturity**) an extension of the maturity date to 31 December 2022;

(iii) (**Change of Control**) waiver of rights arising from any Change of Control Event arising as a result of the implementation of the Scheme and the consummation of the transactions contemplated thereby;

(iv) (**covenants**) covenants improved such that no significant restricted payment baskets or permitted investment baskets exist which would allow any collateral to exit the system;

(v) (**secured debt cap**) a 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 additional US$40 million of additional secured debt capacity; and

(vi) (**new guarantee**) BLY IP Inc., an intellectual property subsidiary which guarantees the Term Loan A and Term Loan B, providing a subordinated unsecured guarantee; and

(vii) (**interest payment dates**) amended to 30 June and 31 December annually from 1 April and 1 October.

5.3 **The Scheme**

The Scheme involves:

(a) the release of an amount of approximately US$205,940,000 comprised of principal plus accrued/accreted interest (as at 1 April 2017) owed to the Noteholders pursuant to the Indenture;

(b) the issue to Noteholders of 42% of the ordinary equity of BLY post implementation of the Recapitalisation Transactions before the issue of the Scheme Warrants and the Warrants Issue; and

(c) the remaining US$88,000,000 principal debt owed to the Noteholders pursuant to the Indenture (plus accrued / accreted interest to the Implementation Date, calculated by applying an interest rate of 1.5% to the US$88,000,000 principal amount from 1 January 2017 to the Implementation Date) being reinstated with an interest rate of 1.5% payable in kind (the **Subordinated Notes**).

The other terms of the Subordinated Notes are summarised below:

Maturity	31 December 2022
Ranking	Subordinated to unsecured interest accrued on the Term Loan A and Term Loan B
Secured debt cap	A secured debt cap of not less than US$420,000,000 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 US$40 million of New ABL Revolver capacity and (c) a potential additional US$40 million of additional secured debt capacity
Covenants	Consistent terms with existing Indenture

In addition to receiving ordinary equity of BLY, Noteholders will also receive the Scheme Warrants (being 1,303,200,947 A Warrants and 668,308,178 B Scheme Warrants, equivalent to approximately 74% of the Companies' Warrants on issue immediately following the Implementation Date under both BLY Schemes) and certain of the Noteholders will also be entitled to certain director appointment rights (as set out in **Section 5.6**), if the Recapitalisation Transactions are implemented.

The Exercise Price for the A 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 Group on the Implementation Date

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

The Exercise Price is expected to be in the range of $0.006 – $0.008 per A Warrant[5], subject to final debt and cash figures on the Implementation Date.

The Exercise Price for the B 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 $850 million

[5] Assumes cash at the Implementation Date of between $25-$50 million

ND is net debt of the Group on the Implementation Date

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

The Exercise Price is expected to be in the range of $0.010 – $0.012 per B Warrant[6], subject to final debt and cash figures on the Implementation Date.

The Scheme Warrants have substantially the same terms as the Existing Shareholder Warrants described in **Section 5.4(d)**, except for the Exercise Price. Additionally, the Scheme Warrants may be exercised without payment of cash in certain circumstances. To the extent BLY is not admitted to the official list of ASX or is otherwise prohibited from adjusting the terms of the Scheme Warrants as a result of a dividend or distribution, the Scheme Warrants will prohibit BLY from effecting such a dividend or distribution, unless such distribution is consented to in writing by holders of the Scheme Warrants holding more than 50% of the total number of Scheme Warrants outstanding on the record date for the payment of such dividend or distribution.

Ares has notified the Companies that 25% of the A Warrants (or up to 139,879,578 A Warrants) which it is entitled to be issued under the Scheme are to be issued to Ascribe.

5.4 Other Recapitalisation Transactions

The other Recapitalisation Transactions will only be implemented if and when the BLY Schemes become effective.

(a) New ABL Revolver

The BLY Group will secure a new revolving ABL facility from a third party lender in the aggregate principal amount of US$75,000,000, subject to this amount being reduced dollar for dollar by the amount raised by BLY pursuant to the Share Purchase Plan (defined in **Section 5.4(e)** below) (**New ABL Revolver**). CBP, Ares and Ascribe have agreed to backstop the New ABL Revolver based on their relative percentage shareholding in BLY post implementation of the Recapitalisation Transactions (excluding any existing Shares held by Ascribe and excluding the Warrants) only if third party financing is not available on acceptable terms.

The New ABL Revolver will be used to replace the Existing ABL Revolver and repay the Second-Out ABL and DDTL if and when the BLY Schemes become effective. In accordance with the RSA, asset transfers associated with the DDTL will be reversed and the amendments to the Term Loan A and Term Loan B in connection with the DDTL will also be unwound. The New ABL Revolver will be backstopped by CBP, Ares and Ascribe based on their relative percentage shareholding in BLY post implementation of the Recapitalisation Transactions (excluding any existing Shares held by Ascribe and excluding the Warrants) only if third party financing is not available on acceptable terms.

The collateral under the New ABL Revolver will be the collateral package securing the Existing ABL Revolver plus any collateral or guarantees that secure or guarantee the Term Loan A that do not currently secure or guarantee the Existing ABL Revolver.

(b) CPS Conversion

Under the Recapitalisation Transactions, it is proposed that all the Convertible Preference Shares held by CCP II Dutch Acquisition – E2, B.V be converted into

[6] Assumes cash at the Implementation Date of between $25-$50 million

Shares (the **CPS Conversion**). The CPS Conversion will be implemented after the issuance of Shares under the Scheme as summarised below:

Step 1	Pursuant to the terms of the Scheme, Shares will be issued to the Noteholders.
Step 2	The CPS Conversion will occur.
Step 3	Pursuant to the terms of the Subscription Deed, Shares will be issued to CBP as consideration for the Subsequent Term Loan Amendments.

(c) **Subscription Deed and Subsequent Term Loan Amendments**

The TLA Purchasers and TLB Purchasers have entered or will enter into the Subscription Deed with BLY and the Subsequent Term Loan Amendments with the Companies and the Obligors. These agreements involve:

(i) (**Subsequent Term Loan Amendments**) the Term Loan A and the Term Loan B will be further amended such that the current interest rate of 12% per annum is reduced to 10% payable in kind until December 2018, then to 8% payable in kind thereafter – if the Subsequent Term Loan Amendments become effective, the interest rate of 10.00% will apply retroactively to the balance outstanding in respect of the Term Loan A and the Term Loan B at 31 December 2016 – the Subsequent Term Loan Amendments will only become effective if the Subscription Deed is executed, the BLY Schemes become effective and the Secured Creditor Scheme is implemented;

(ii) (**Subscription Deed**) in exchange for the reduction of the interest rates pursuant to the Subsequent Term Loan Amendments, BLY will issue to the TLA Purchasers and the TLB Purchasers 52.4% of the ordinary equity in BLY post implementation of the Recapitalisation Transactions such that CBP will hold a total of 56% of Shares immediately following completion of the Subscription Deed – the Subscription Deed will only become effective if BLY Schemes become effective and Shares will only be issued pursuant to it following the issue of Shares pursuant to the Scheme and the occurrence of CPS Conversion.

(d) **Warrants Issue**

Under the terms of the RSA, BLY will, subject to Shareholder approval, issue Existing Shareholder Warrants to existing Shareholders (other than the CBP Registered Holders) as at as at the Record Date (the **Warrants Issue**).

The Warrants Issue will be made by BLY pursuant to a prospectus which BLY proposes to lodge with ASIC (the **Prospectus**).

The terms of the Existing Shareholder Warrants will be set out in further detail in the Prospectus and are summarised below:

Entitlement	Each Existing Shareholder Warrant confers on its holder the right to subscribe for one Share, subject to any adjustment (set out below). An Existing Shareholder Warrant will not confer any rights to dividends or to participate in any new issues of Shares without

	exercising the Existing Shareholder Warrant. Shares allotted and issued on the exercise of an Existing Shareholder Warrant upon allotment will rank pari passu 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.
Exercise Price	The "Exercise Price" for the Existing Shareholder Warrants is the Australian dollar equivalent of the US dollar amount 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 $1 billion **ND** is net debt of the Group on the Implementation Date **N** is the number of Shares on the Implementation Date after the issue of Scheme Shares under this Scheme and the Subscription Deed The Exercise Price is expected to be in the range of A$0.021 – A$0.024 per Existing Shareholder Warrant[7], subject to final debt and cash figures on the Implementation Date. The Exercise Price of the Existing Shareholder Warrants will be calculated in Australian dollars based on the prevailing exchange rate on the Implementation Date. The Exercise Price is payable in cash.
Method of Exercise	Each Existing Shareholder 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 (**Exercise Period**). Each Existing Shareholder Warrant may be exercised during the Exercise Period by delivering a duly completed exercise notice to BLY.
Adjustments	The terms of the Existing Shareholder Warrants will be adjusted in certain circumstances, including the following: • (**pro-rata issues**) the Exercise Price will be reduced in accordance with Listing Rule 6.22.2 in respect of pro rata issues (other than bonus issues); • (**bonus issues**) the number of Shares over which Existing Shareholder Warrants will be exercisable will be increased by the number of Shares the holder would have received if the Existing Shareholder Warrant had been exercised before the record date of the bonus issue; • (**reorganisation of capital**) the rights of the holder of the Existing Shareholder Warrant (and the Exercise Price) will be changed to the extent necessary to comply with the

[7] Based on an exchange rate of 1.333 as of 19 April 2017 and assumes cash at the Implementation Date of between $25-$50 million.

	Listing Rules applying to a reorganisation of capital; • (**dividend**) if during the Exercise Period BLY 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 Existing Shareholder Warrants will be exercisable will be increased and the Exercise Price will be decreased for the payment of a dividend or other distribution; • (**change in capital**) on a change in capital, the rights of the holder of the Existing Shareholder Warrant will be changed to reflect what the holder would have received if the Existing Shareholder Warrant had been exercised prior to the record date for that change in capital.
Change of control	On a change of control transaction (which includes a sale of all or substantially all of the assets of BLY but excludes a public stock merger), BLY will cancel the Existing Shareholder Warrants and pay the holder the warrant value (determined in accordance with a Black-Scholes model) in cash. Where the change of control transaction is a public stock merger, BLY shall procure that the acquirer or successor entity shall assume the obligations of BLY and the warrant will become exercisable into the public stock except where the market capitalisation is less than $500 million where the Existing Shareholder Warrant will be cancelled and the holder will be paid the warrant value in cash unless it elects for the Existing Shareholder Warrant to remain on foot and become exercisable over the public stock.
Transfer	BLY will seek quotation of the Existing Shareholder Warrants on ASX. For so long as the Existing Shareholder Warrants are quoted on ASX, they will be freely tradeable on ASX.

A total of up to 685,444,285 Existing Shareholder Warrants will be issued pursuant to the Warrants Issue.

The Exercise Price for the Existing Shareholder 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 $1 billion

ND is net debt of the Group on the Implementation Date

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

(e) **Share Purchase Plan**

In addition, BLY proposes to offer Shareholders the opportunity to participate in a share purchase plan (the **Share Purchase Plan** or **SPP**).

Under the SPP, eligible Shareholders holding Shares as at the Record Date or the trading day prior to announcement of the Recapitalisation Transactions, will be entitled to apply for up to A$5,000 worth of Shares at a price of A$0.02 per Share, to raise up to a maximum amount of A$9 million. The amount raised by BLY under the SPP will reduce the amount by which CBP, Ares and Ascribe backstop the New ABL Revolver (as set out in **Section 5.4(a)**).

5.5 **Capital Structure following Recapitalisation Transactions**

Shares held following Recapitalisation Transactions

Immediately following the Recapitalisation Transactions, the Shares will be held as follows:

Entity	Equity post-Recapitalisation Transactions (approximate %)*	Equity post-Recapitalisation Transactions (figures in millions of shares)(approximate number)
CBP	56.0%	13,866
Other existing Shareholders****	2.0%	485
Ascribe**	19.2%	4,746
Ares	18.0%	4,465
Other 7% Noteholders***	4.8%	1,199
Total	**100%**	**24,761**

* *Reflects shareholding percentages prior to dilution from warrants*

** *Includes Shares associated with Ascribe's pre-restructuring Share ownership*

*** *Assumes that no other Noteholders are existing Shareholders*

**** *Excludes Ascribe's pre-restructuring Shares*

Warrants held following Recapitalisation Transactions

Immediately following the Recapitalisation Transactions, the Warrants on issue in BLY will be the Scheme Warrants issued to the persons nominated to BLY by the 7% Scheme Creditors as at the time of issue, as well as the Existing Shareholder Warrants issued under the Warrants Issue to existing Shareholders (other than the CBP Registered Holders).

Entity	Scheme Warrants (figures in millions of shares)(approximate number)	Existing Shareholder Warrants (figures in millions of shares)(approximate number)
CBP	-	-
Other existing Shareholders	-	671
Ascribe*	898	15
Ares	846	-
Other 7% Noteholders	227	-
Total	**1,972**	**685**

However, Ares has notified the Companies that 25% of the A Warrants (or up to 139,879,578 A Warrants) which it is entitled to be issued under the Scheme are to be issued to Ascribe.

* *Includes warrants associated with Ascribe's pre-restructuring Share ownership*

5.6 **Governance Matters**

In light of the significant equity interests being acquired by CBP, Ares and Ascribe under the Recapitalisation Transactions, the Companies have agreed to grant each certain once-only director appointment rights pursuant to the Director Nomination Agreements.

Under the Director Nomination Agreements:

(a) Ares will be entitled to nominate one person to stand for election to the board of BLY (**BLY Board**);

(b) Ascribe will be entitled to nominate one person to stand for election to the BLY Board;

(c) Ares and Ascribe will be entitled to jointly nominate one person to stand for election to the BLY Board; and

(d) CBP are entitled to nominate five persons to stand for election to the BLY Board, one of whom will serve as Chairman (and this would supersede and replace CBP's existing director appointment rights under the implementation agreement dated on or around 23 October 2014 entered into by the Companies, among others, in relation to the CBP led recapitalisation in 2015).

5.7 **Re-domiciliation**

BLY 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 CBP, Ares and Ascribe agree) as soon as possible after implementation of the Recapitalisation Transactions and in any case on or before 15 April 2018 (the **Re-domiciliation**), unless the Companies, CBP, Ares and Ascribe jointly determine in their reasonable discretion that the Re-domiciliation would not be in the best interests of BLY.

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

(a) that a vote by holders of 50% in amount of the then issued and outstanding common stock or shares of the Successor will be required to amend the organisational 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 organisational documents if such amendment would adversely and disproportionally affect the rights, obligations or liabilities of any particular shareholder under such organisational documents relative to all shareholders generally;

(b) 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 US$750,000,000; provided that in the event such vote is sought and not obtained, then the Secured Debt Cap will be increased by up to US$40,000,000, solely for the purpose of, and solely to the extent of, the incurrence of additional secured debt by the Group to provide additional liquidity and the initial signatories to the RSA shall be entitled to participate as lenders of any such additional secured debt in the same proportions as in the New ABL Revolver;

(c) 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;

(d) not to change the number of such Successor's directors so long as the Director Nomination Agreements are in effect;

(e) not to permit a redemption or repurchase of the common stock or shares of such Successor on a non-pro rata basis; and

(f) not to enter into a transaction with an affiliate of such Successor or CBP, 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 authorising 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.

6. THE SCHEME EXPLAINED

6.1 Overview of the outcome of the Scheme

The table below illustrates the anticipated outcome for the Companies and the 7% Scheme Creditors following implementation of the Scheme with respect to the debt owed to the 7% Scheme Creditors under the Indenture and the Shareholders of BLY:

Affected outcome	Before implementation of Scheme	Upon implementation of the Scheme (before the issue of Warrants)
Total Aggregate Amount owed to 7% Scheme Creditors	US$293,940,000*	US$88,000,000, plus accrued / unpaid interest calculated at 1.50% on US$88,000,000 from 1 January 2017 up to the Implementation Date
Shareholders of BLY	7% Scheme Creditors – approximately 1.1% Existing Shareholders (excluding the CBP Registered Holders and known 7% Scheme Creditors) – approximately 50%	7% Scheme Creditors – approximately 42% Existing Shareholders (excluding the CBP Registered Holders) – approximately 2%

**Debt as at 1 April 2017*

6.2 Steps prior to the Scheme becoming effective

The implementation of the Scheme is subject to the prior satisfaction of various conditions precedent. The conditions precedent include those listed in clause 3 of the Scheme (see Annexure A).

A summary of the conditions precedent to the Scheme being implemented is set out below.

(a) **Foreign Investment Approval**

In the case of each 7% Scheme Creditor and each Secured Creditor who notified the Treasurer of the Commonwealth of Australia in accordance with FATA (**Prescribed Creditor**) that it proposes to acquire Transaction Securities under the Scheme or Shares under the Subscription Deed (the **Action**) and paid any applicable fee, one of the following occurs at or before 8.00 am on the Second Court Date,:

(i) the day that is 10 days after the end of the decision period mentioned in section 77 of FATA passes without an order prohibiting the Action having been made under section 67 or 68;

(ii) if an interim order is made under section 68 of FATA, the end of the period specified in the order passes without an order prohibiting the Action under section 67 having been made; or

(iii) the Prescribed Creditor receives a no objection notice (within the meaning of FATA) in respect of the Action that notice being unconditional other than the Standard Tax Conditions or such other conditions which are acceptable to the Prescribed Creditor acting reasonably.

(b) **Shareholder approval**

The due passing of the Shareholder Resolutions at the Shareholder Meeting.

(c) **ASX approval**

ASX provides written approval of the terms of the Scheme Warrants to be issued pursuant to the Scheme or otherwise waives the requirement.

(d) **ASX waiver**

ASX provides a waiver of ASX Listing Rule 10.1 in respect of the amendments to the Term Loan A and Term Loan B to be implemented by the Secured Creditor Scheme.

(e) **Holder approval**

The Scheme is agreed to by the Requisite Majority of Noteholders.

(f) **Director Nomination Agreements**

Each of the Director Nomination Agreements have been executed by the parties to them.

(g) **Deeds Poll and Undertaking**

As at 8.00 am on the Second Court Date, the Scheme Administrator Deed Poll, the Obligors Deed Poll and the Undertaking continue in full force and effect and each of those Deeds Poll and the Undertaking still benefits the beneficiaries named in it.

(h) **Independent expert**

As at 8.00am on the Second Court Date, the independent expert appointed by BLY, has not concluded that the Transaction Resolutions are "not fair" and "not reasonable".

(i) **New ABL Revolver**

As at 8.00 am on the Second Court Date, the New ABL Revolver has been duly executed and delivered by all parties to it and all conditions precedent to the New ABL Revolver have been satisfied (other than conditions precedent relating to the Scheme and the Secured Creditor Scheme becoming effective pursuant to section 411(10) of the Corporations Act, the Subsequent Term Loan Amendments becoming effective and the Final Chapter 15 Order being entered).

(j) **Amendments**

As at 8.00 am on the Second Court Date, all conditions precedent to the Fourth Supplemental Indenture have been satisfied (other than the execution of that

document and the conditions precedent relating to the Scheme and the Secured Creditor Scheme becoming effective pursuant to section 411(10) of the Corporations Act).

(k) **Subscription Deed**

As at 8.00 am on the Second Court Date, the Subscription Deed has been duly executed and delivered by all parties to it, remains in full force and effect, and all conditions precedent to the Subscription Deed have been satisfied (other than conditions precedent relating to this Scheme becoming effective and the Secured Creditor Scheme becoming effective pursuant to section 411(10) of the Corporations Act).

(l) **Subsequent Term Loan Amendments**

As at 8.00 am on the Second Court Date, the Subsequent Term Loan Amendments have been duly executed and delivered by all parties to them, and all conditions precedent to the Subsequent Term Loan Amendments have been satisfied (other than the conditions precedent relating to the Scheme and the Secured Creditor Scheme becoming effective pursuant to section 411(10) of the Corporations Act and being implemented).

(m) **Regulatory Approvals**

As at 8.00 am on the Second Court Date, any approvals or consents, which are not otherwise described in clause 3.1 in the BLY Schemes but which are required by law or by any Government Agency to have been obtained in order to implement this Scheme or the 7% Creditor Scheme, have been obtained on an unconditional basis and remain in full force and effect.

(n) **Warranties**

As at 8.00 am on the Second Court Date, the Warranties are true and correct in all material respects.

(o) **Restructuring Support Agreement**

The Restructuring Support Agreement has not been terminated in accordance with its terms.

(p) **Court approval**

The Court approves the Scheme in accordance with section 411(4)(b) of the Corporations Act, including with any alterations made or required by the Court under section 411(6) of the Corporations Act (which alterations do not change the substance of the Scheme, including the Steps, in any material respect, or impose unduly onerous obligations on the parties, acting reasonably).

(q) **Other conditions**

Any other conditions made or required by the Court under section 411(6) of the Corporations Act in relation to the Scheme (which conditions do not change the substance of the Scheme, including the Steps, in any material respect, or impose unduly onerous obligations on the parties, acting reasonably) have been satisfied.

Section 411(6) of the Corporations Act allows the Court to approve the Scheme with various alterations and variations.

(r) **Secured Creditor Scheme**

The Secured Creditor Scheme becomes effective pursuant to section 411(10) of the Corporations Act.

(s) **Effective**

The Second Court Orders coming into effect.

Section 411(10) provides that the Court order approving the Scheme does not have any effect until an official copy of the order is lodged with ASIC, and upon being so lodged, the order takes effect, or is taken to have taken effect, on and from the date of lodgement or such earlier date as the Court determines and specifies in order to approve the Scheme.

6.3 **Standstill**

During the period on and from the Effective Date up to the completion of Step 8 (Compromise of Subordinate Claims) under the Scheme (the **Standstill Period**), no 7% Scheme Creditor or the Trustee may, except for the purpose of enforcing the terms of the Scheme, or any Deed Poll or as otherwise expressly provided by the Scheme, dispose of, transfer or exercise certain of its rights under the Finance Documents. The terms of the standstill are in clause 8.1 of the Scheme. Its purpose is to ensure that the Scheme can be implemented in an orderly manner, in accordance with its terms.

If the Scheme is not implemented by the Sunset Date, being 31 December 2017, the Scheme will automatically terminate and the standstill shall cease to apply in relation to any 7% Scheme Creditor.

6.4 **Steps to implement the Scheme**

The Scheme provides for the restructuring of the Debt owed by the Companies to the Noteholders to take place in the sequence set out below. These Steps are set out in full in clause 7.5 of the Scheme. This document only summarises key parts of the Steps and does not include every part of each Step. Noteholders should review the complete Steps in the Scheme carefully.

If in the opinion of the Scheme Administrators, as a result of an event failing to occur, or take effect, it is not possible to put the Scheme into effect, the 7% Scheme Creditors, the Obligors, those directors and officers who have executed deeds poll and the Trustee are to place each other in the positions they would have been in had any Steps already taken not been so taken.

Date	Source document	Step
Effective Date (the date all of the conditions precedent in **Section 6.2** are satisfied)	Scheme	Scheme Administrators execute the 7% Scheme Creditor Deed Poll as attorney for the 7% Scheme Creditors.
		7% Scheme Creditors give the Trustee: • all instructions and consents it requires in relation to the execution of the Fourth Supplemental Indenture; and

Date	Source document	Step
		• directions to do all things required to be done by it to give effect to the Scheme. The Scheme Administrators notify the Trustee of the giving of these instructions.
		Trustee executes the Trustee Deed Poll and consents to the Scheme and undertakes to perform actions attributed to it under the Scheme.
		Trustee (on behalf of itself and 7% Scheme Creditors) and the Obligors execute the Fourth Supplemental Indenture and deliver it to Scheme Administrator to be held in escrow.
		Scheme Administrators notify the Companies of: • the Effective Date; and • the Implementation Date.

		Trustee provides to Scheme Administrator:
		• details for each 7% Scheme Creditor; and
		• as at the Implementation Date:
		  • the amount owed to each 7% Scheme Creditor by the Companies;
		  • the total amount owed to the 7% Scheme Creditors by the Companies.

Calculation Date (second Business Day after the Effective Date)	Scheme	Scheme Administrator calculates: • the Debt Contribution Amount for each 7% Scheme Creditor; • the Total Debt Contribution Amount; • the number of Scheme Shares and Scheme Warrants to be issued to the 7% Scheme Creditors; and • the number of Scheme Shares and Scheme Warrants to be issued to each 7% Scheme Creditor.
		Scheme Administrator notifies the Trustee and the Companies of the calculations referred to above.

Date	Source document	Step
Implementation Date (5 Business Days after the Effective Date or as extended by the Scheme Administrator)	Scheme	BLY issues Scheme Shares to the 7% Scheme Creditors (approximately 42% of the ordinary equity of BLY post implementation of the Recapitalisation Transactions, before the issue of the Scheme Warrants).
	Restructuring Support Agreement	The Convertible Preference Shares are converted.
	Subscription Deed	Shares are issued to the TLA Purchasers and TLB Purchasers.
	Scheme	BLY issues the Scheme Warrants to the 7% Scheme Creditors (or their nominees).
	Scheme	• Companies and 7% Scheme Creditors release one another from any claims arising out of failure to comply with Finance Documents in accordance with Scheme. • 7% Scheme Creditors, on one hand, and directors / officers who have signed Released Obligor Individual Deeds Poll, on the other, release one another from Claims in accordance with Scheme.
		7% Scheme Creditors release Obligors from their obligations to pay the Total Debt Contribution Amount.
		Scheme Administrator releases the Fourth Supplemental Indenture from escrow.
	Subsequent Term Loan Amendments	The Subsequent Term Loan amendments become effective.
	Scheme	BLY is released from obligations to pay an amount in respect of a Subordinate Claim in excess of the proceeds of applicable insurance actually recovered, net of any expenses incurred by BLY.

6.5 **Proposed terms of the Fourth Supplemental Indenture**

A copy of the Fourth Supplemental Indenture to be implemented by the Scheme is at Schedule 3 to the Scheme.

In summary, if the Scheme is implemented, the Fourth Supplemental Indenture will have the following effect:

(a) (**principal debt**) the principal debt plus accrued interest owed by the Companies to the 7% Scheme Creditors will be reduced from approximately US$293,940,000 to US$88,000,000 plus accrued / unpaid interest to be calculated by applying an interest rate of 1.50% to the principal amount of US$88,000,000 for the period from 1 January 2017 to the Implementation Date;

(b) (**maturity**) the maturity date of the Indenture will be extended to 31 December 2022;

(c) (**interest rate**) the rate of interest payable by the BLY Issuer will be reduced from a rate of 7.0% per annum to a rate of 1.50% per annum and will be capitalised. Capitalised interest will be subordinated to unsecured interest accrued on the Term Loan A and Term Loan B;

(d) (**covenants**) the existing permitted secured debt cap will be increased to an amount equal to US$420 million plus further amounts to permit accrued interest and principal amounts in respect of notes issued under the 10% Secured Notes Indenture, the incurrence of an additional $40 million of New ABL Revolver capacity and a potential additional US$40 million of additional secured debt capacity. Covenants will be amended such that the domicile of BLY and the BLY Issuer is not limited to Australia or the United States and will otherwise be consistent with the terms of the Indenture;

(e) (**interest claims**) future and existing interest claims under the Term Loan A, Term Loan B and the 10% Secured Notes Indenture will be senior to all claims under the Indenture.

6.6 **Other terms of the Scheme**

If the Scheme is implemented, in addition to the amendments described above:

(a) the 7% Scheme Creditors and the Obligors will release one another in respect of any Claim they have against one another arising out of any failure to comply with obligations under the Finance Documents prior to the Implementation Date;

(b) the 7% Scheme Creditors and the past and present directors and officers of the Obligors, who sign a deed poll, will release one another from all Claims relating to any fact, matter, circumstance or event that arose or occurred in respect of, or in connection with, any Obligor between 28 March 2011 and the Implementation Date (although the Companies are not aware of any potential Claims that may be available against any of those people);

(c) the 7% Scheme Creditors release each other person that is a 7% Scheme Creditor from all Claims relating to any fact, matter, circumstance or event that arose or occurred as a result of any person's failure to comply with any Finance Document between 28 March 2011 and the Implementation Date;

(d) the 7% Scheme Creditors of one another in respect of certain Claims arising out of a failure to comply with the RSA prior to the Implementation Date; and

(e) the 7% Scheme Creditors will waive any rights which arose out of or in connection with a Change of Control Event.

6.7 **Outcome for the 7% Scheme Creditors**

If the Scheme is implemented, the 7% Scheme Creditors will:

(a) receive Scheme Shares and Scheme Warrants in an amount calculated in accordance with the formula set out in the Scheme;

(b) to the extent of the Total Debt Contribution Amount (being approximately US$205,610,000 as at 1 April 2017), release each Obligor (including the Companies) from their obligation to pay the Total Debt Contribution Amount under the Finance Documents;

(c) be owed in aggregate the principal amount of US$88,000,000 by the Companies under an amended version of the Indenture, (these amendments are set out in **Section 6.5**);

(d) the 7% Scheme Creditors and the Obligors will release one another from any Claims which arose out of a failure to comply with the terms of the Finance Documents prior to the Implementation Date;

(e) the 7% Scheme Creditors and the directors / officers of BLY who have executed a deed poll will release one another from all Claims relating to any fact, matter, circumstance or event that arose or occurred in respect of, or in connection with, any Obligor between 28 March 2011 and the Implementation Date;

6.8 **Outcome for the Companies**

(a) If the BLY Schemes are implemented, the outcomes for the Companies are:

(i) under this Scheme:

(A) the Total Aggregate Amount owed by the Companies to the 7% Scheme Creditors will be reduced from US$293,940,000 as at 1 April 2017 to principal in the amount of US$88,000,000, plus accrued but unpaid interest to be calculated by applying an interest rate of 1.50% to the principal amount of US$88,000,000 for the period from 1 January 2017 to the Implementation Date;

(B) the terms on which the remaining debt is owed to the 7% Scheme Creditors under the Indenture will be amended (as set out in **Section 6.5**);

(C) BLY will issue Scheme Shares and Scheme Warrants to the 7% Scheme Creditors on implementation of Step 3 (New Share issue) and Step 4 (New Warrant issue) of the Scheme; and

(D) the rights of Subordinate Claim Holders to bring Subordinate Claims against BLY will be limited to any amount actually recovered by BLY under any Applicable Insurance Policy applicable to that Subordinate Claim, less expenses incurred in connection with that Subordinate Claim; and

(ii) under the Secured Creditor Scheme

(A) the terms on which the remaining debt is owed to the Secured Scheme Creditors under the Finance Documents will be amended (as set out in **Section 5.2**); and

(b) In accordance with the terms of the Restructuring Support Agreement the Companies will perform the following steps:

(i) the BLY Issuer will enter into the New ABL Revolver;

(ii) the BLY Issuer will use the funds made available pursuant to the New ABL Revolver to repay:

(A) the DDTL;

(B) the Existing ABL Revolver; and

(C) the Second Out ABL;

(iii) the collateral arrangements and the amendments to the Term Loan A and the Term Loan B associated with the DDTL will be unwound;

(iv) existing Shareholders will be diluted and will hold (excluding CBP Registered Holders) in aggregate 2% of the reorganised equity (subject to warrant dilution);

(v) the Convertible Preference Shares held by CBP will be converted into Shares, after the Shares are issued pursuant to Step 3 (New Share issue) of the Scheme and before the Shares are issued to the TLA Purchasers and the TLB Purchasers pursuant to the Subscription Deed;

(vi) pursuant to the Subscription Deed BLY will issue shares to the TLA Purchasers and the TLB Purchasers, such that they hold 56% of all Shares on issue post completion of the Recapitalisation Transactions;

(vii) the Subsequent Term Loan Amendments will take effect, such that the interest rate payable to the TLA Purchasers pursuant to the Term Loan A and the interest rate payable to the TLB Purchasers pursuant to the Term Loan B is reduced to 10% payable in kind up until December 2018 and then to 8% payable in kind after that time;

(viii) BLY will issue Existing Shareholder Warrants to existing Shareholders (excluding CBP);

(ix) each of CBP, Ares and Ascribe will enter into separate director nomination agreements with BLY, pursuant to which:

(A) Ares will be entitled to nominate the Ares Nominee Director to stand for election to the BLY Board;

(B) Ascribe will be entitled to nominate the Ascribe Nominee Director to stand for election to the BLY Board;

(C) Ares and Ascribe will be entitled to jointly nominate the Ares / Ascribe Joint Nominee Director to stand for election to the BLY Board; and

(D) CBP will be entitled to nominate the CBP Nominee Directors to stand for election to the BLY Board;

(x) BLY will procure that the appointments of the candidates nominated by Ares, Ascribe and CBP to stand for election to the BLY Board are voted on by Shareholders at the Shareholder Meeting;

(xi) BLY will apply for confirmation from ASX that BLY continues to have a structure and operations suitable for listing post implementation of the Scheme; and

(xii) the Companies will apply to the U.S. Bankruptcy Court for an order recognising the Court's approval of the Scheme and the Secured Creditor Scheme.

6.9 **Outcome for the Obligors**

If the Scheme is implemented, the outcome of the Scheme for the Obligors (other than the Companies) is that to the extent of the Total Debt Contribution Amount (being the Total Aggregate Amount of US$293,940,000 as at 1 April 2017, less US$88,000,000 plus accrued / unpaid interest calculated at 1.50% on $US88,000,000 from 1 January 2017 to the Implementation Date) only, the Obligors will be released from their obligation to pay the Total Debt Contribution Amount under the Finance Documents.

Following implementation of the Scheme, the obligations of the Obligors under the Finance Documents will continue and, except to the extent amended, varied or released under the Scheme, will retain all of their rights, powers and obligations under the Finance Documents.

6.10 **Summary of Australian shareholder rights and protections**

The Corporations Act affords a number of rights to members, and includes a number of minority shareholder protections. These rights and protections include, but are not limited to, the following:

(a) **Right to request a general meeting of members**: Section 249D of the Corporations Act provides that the directors of a company must call and arrange to hold a general meeting of members on the valid request of members with at least 5% of the votes that may be cast at the general meeting.

(b) **Right to requisition a general meeting of members**: Section 249F of the Corporations Act provides that members with at least 5% of the votes that may be cast at a general meeting of the company may call, and arrange to hold, a general meeting.

(c) **Right to propose resolutions at a general meeting of members**: Section 249N of the Corporations Act provides that the following may give a company notice of a resolution that they propose to move at a general meeting:

(i) members with at least 5% of the votes that may be cast on the resolution; or

(ii) at least 100 members who are entitled to vote at the general meeting.

The notice must be in writing, set out the wording of the proposed resolution and be signed by the members proposing to move the resolution. The resolution must be considered at the next general meeting that occurs more than 2 months after the notice is given.

(d) **Information access rights**: The Corporations Act affords rights to shareholders to access certain information about the Companies. These include the right to

inspect the Companies' registers of members and minute books for members' meetings.

(e) **Ability to seek relief for "oppressive conduct"**: Part 2F.1 of the Corporations Act provides for a "statutory oppression" remedy for members, which provides the court with broad powers to grant relief to a member if the conduct of the company is either:

(i) contrary to the interests of the members as a whole; or

(ii) oppressive to, unfairly prejudicial to, or unfairly discriminatory against, a member (or members) whether in that capacity or another capacity.

Examples of oppressive or unfair conduct can include:

(iii) an issue of shares by the directors to the disadvantage of a minority;

(iv) improper diversion of business or business opportunities; and

(v) denial of access to information.

The orders a court can make on the finding of oppressive or unfair conduct are broad, and may include:

(vi) that the company be wound up;

(vii) that the company's constitution be amended or repealed;

(viii) regulating the conduct of the company's affairs in the future; and

(ix) authorising a member to institute, prosecute, defend or discontinue specified proceedings in the name and on behalf of the company (e.g. by way of statutory derivative action).

The acquisition of Shares and other interests in BLY is regulated by Chapter 6 of the Corporations Act. For a brief discussion about relevant restrictions imposed by Chapter 6, see **Section 9(f)** of this Explanatory Statement.

Further, rights attaching to the Shares and the terms and conditions of the Warrants (see **Section 10.4**) provide certain other protections to Noteholders of those securities.

6.11 **Who will be bound by the Scheme?**

If the Scheme becomes effective, it will bind each 7% Scheme Creditor, each Subordinate Claim Holder and the Companies. By operation of the Deeds Poll, provided that they are executed, it will bind the Scheme Administrators, the Obligors, the Trustee and any person who is or was a director or officer of any Obligor between 28 March 2011 and the Implementation Date and who has signed a Released Obligor Individual Deed Poll.

If you are a Noteholder and you do not vote at the Scheme Meeting, or you vote against the Scheme, you will be bound by the Scheme, provided that the Scheme is agreed to by the Requisite Majority and is approved by the Court, and you remain a Noteholder as at the Effective Date.

6.12 **Execution risks**

The execution risks that could prevent the Scheme being implemented include:

(a) the Shareholder Resolutions are not passed by the Shareholders at the Shareholder Meeting;

(b) the Requisite Majority do not agree to the Scheme;

(c) the Requisite Majority do not agree to the Secured Creditor Scheme;

(d) the Court does not approve the Scheme or it approves the Scheme with alterations or conditions that change the substance of the Scheme, including the Steps, in a material way;

(e) a person objecting to the Scheme appeals against the Court's orders approving the Scheme (and potentially seeks a stay of those orders pending resolution of that appeal) or applies for injunctive relief and the Court orders the stay or grants an injunction without requiring the person to give the usual undertaking as to damages;

(f) the conditions precedent to the Scheme are not satisfied including, but not limited to, the Secured Creditor Scheme not becoming effective pursuant to section 411(10) of the Corporations Act; or

(g) the Restructuring Support Agreement is terminated in accordance with its terms.

It is also fundamental to the operation of the Scheme that:

(a) the Trustee performs its obligations in connection with the Scheme. The Trustee has undertaken to sign and provide a deed poll on the Effective Date under which they agree to be bound by the Scheme;

(b) the Scheme Administrators perform their obligations in connection with the Scheme; and

(c) the 7% Scheme Creditors perform their obligations in connection with the Scheme. Under the Scheme, each 7% Scheme Creditor will irrevocably direct the Scheme Administrators to execute and deliver, as its attorney and agent, a 7% Scheme Creditor Deed Poll under which it agrees to complete certain actions.

6.13 **Modification of the Scheme**

(a) **Modifications by the Noteholders**

It is possible that a Noteholder may propose a modification to the terms of the Scheme at the Scheme Meeting (prior to passing of the Resolution to agree the Scheme) or apply to the Court for a modification of the terms of the Scheme.

Although it is permissible for a Noteholder to propose a modification and for a Scheme Meeting to consider a resolution to approve the modification proposed, Noteholders should be aware that the consequences of modifying the terms of the Scheme include:

(i) if the modification is materially adverse to the Companies or any particular 7% Scheme Creditor or class of them, it may give rise to a basis, which may not otherwise exist, for the Court to refuse to approve the modified Scheme. In such circumstances, the Scheme will not become effective (in either the modified or original form);

(ii) the Companies may not consent to the modified Scheme and therefore the Companies may not be prepared to seek the Court's approval of the modified Scheme; and

(iii) depending on the nature and extent of the modifications and their impact upon the overall Scheme, the modifications could effectively invalidate any previously obtained consents and, if so, then the consequences may be that further consents would need to be obtained.

(b) **Modifications by the Court**

Under section 411(6) of the Corporations Act, the Court may approve the proposed Scheme at the Second Court Hearing subject to alterations or conditions as it thinks just.

The conditions precedent to the Scheme (outlined in **Section 6.2** above) include that the Scheme will only come into effect if, among other things, the Court's alterations or conditions (if any) to the Scheme do not change the substance of the Scheme, including the Steps, in any material way.

6.14 **The Scheme Administrators**

If the Scheme is agreed to by the Noteholders and approved by the Court, the Scheme Administrators will be appointed in accordance with the terms of the Scheme Administrators Deed Poll. Scott Kershaw and Jenny Nettleton of KordaMentha have agreed to act as Scheme Administrators.

Under the terms of the Scheme Administrators Deed Poll, each Scheme Administrator:

(a) consents to the Scheme;

(b) agrees to be bound by the Scheme as if they were a party to the Scheme; and

(c) undertakes:

(i) to accept all appointments, authorisations and directions, to perform all obligations and undertake all actions attributed to him or her under the Scheme;

(ii) to do all things necessary and execute all further documents necessary to give full effect to the Scheme and all transactions contemplated by it; and

(iii) not to act inconsistently with any provision of the Scheme.

The Scheme Administrators' liability in the performance or exercise of their powers, obligations and duties under the Scheme is limited in accordance with the Scheme.

The remuneration of the Scheme Administrators, their partners and staff will be calculated on a time basis at the hourly rates set out in Annexure E to this Explanatory Statement. The Scheme Administrators' Costs of administering the Scheme are estimated to be up to AU$200,000.

6.15 **Challenging the Scheme Administrators generally**

A 7% Scheme Creditor who is aggrieved by any act, omission or decision of the Scheme Administrators may appeal to the Court under section 1321 of the Corporations Act. The Court may confirm, reverse or modify the act or decision, or remedy the omission, as the case may be, and make such orders and directions as the Court thinks fit.

7. THE KORDAMENTHA REPORT

7.1 Scope of the KordaMentha Report

Ashurst, on behalf of the Companies, has engaged KordaMentha to prepare a report addressing the following matters:

(a) the solvency of the Group following the implementation of the BLY Schemes. Ashurst requested that solvency be determined:

(i) following completion of the Scheme; and

(ii) with reference to section 95A of the Corporations Act.

(b) the value of the assets of the Group generally relative to the debts owing under the Finance Documents;

(c) the expected dividend that would be respectively available to the 7% Scheme Creditors, Secured Scheme Creditors and Subordinate Claim Holders if the BLY Schemes are not implemented and the Companies were to be wound up within 6 months of the hearing of the application for an order under section 411(1) and (1A) of the Act;

(d) the expected dividend that would be respectively paid to the 7% Scheme Creditors, Secured Scheme Creditors and Subordinate Claim Holders if the BLY Schemes are put into effect as proposed;

In relation to (d) Ashurst instructed KordaMentha that:

(i) the requirement to calculate the expected dividend that would be paid to 7% Scheme Creditors and Secured Scheme Creditors if the Scheme were to be put into effect as proposed is drawn from S 8201(b) in Part 2 of Schedule 8 of the Corporations Regulations;

(ii) if, in response to paragraph 7.1(a) above, KordaMentha concluded that the Companies would be solvent following the implementation of the BLY Schemes, the Companies would not be wound up following the implementation of the BLY Schemes and based on the terms of the BLY Schemes, despite the calculation required by the Corporations Regulations, no dividend would actually be paid to the Secured Scheme Creditors and 7% Scheme Creditors. In these circumstances, the instruction in paragraph 7.1(d) above still requires KordaMentha to calculate the dividend that would be paid to Secured Scheme Creditors and 7% Scheme Creditors if the BLY Schemes were implemented, which dividend must be calculated as if a winding up follows the implementation of the BLY Schemes even though it would not do so in KordaMentha's opinion; and

(iii) if KordaMentha concludes in response to paragraph 7.1(a) above that the Companies would be solvent following the implementation of the BLY Schemes, in order to reduce the risk that a reader of their report might be confused by the use of the term "expected dividend" in circumstances where the Companies are not being wound up, Ashurst requested that where KordaMentha addresses the calculation described in paragraph 7.1(d) above in their report they refer to implied value of the interests of the Secured Scheme Creditors and the 7% Scheme Creditors (**Implied Value**) instead of "expected dividend".

(e) the likely outcome for the Group if the BLY Schemes are not implemented:

(i) having regard to the Companies' existing financial position, and projections; and

(ii) for the purposes of considering this matter only, assuming that there is no standstill in place in respect of the interest payments due to the 7% Scheme Creditors and the Secured Scheme Creditors on 1 April 2017.

7% Scheme Creditors should consider the entire KordaMentha Report, which is at Annexure B, before deciding how to vote.

7.2 **Expected dividends / Implied Value to creditors**

Subject to the assumptions made in the KordaMentha Report, KordaMentha is of the opinion that:

(a) If the BLY Schemes are not implemented and the Companies are wound up within six months of the First Court Date, then the expected dividends which would be paid to the Secured Scheme Creditors, 7% Scheme Creditors and holders of Subordinate Claims would be as follows.

Scheme Creditors	Return (cents in $)
TLA Purchasers	32.6
TLB Purchasers	35.4
10% Noteholders	22.1
Holders under the Indenture	Nil
Subordinate Claims	Nil

KordaMentha notes that if the Group was to be placed into an insolvency process, there are two primary ways in which the assets of the Group could be realised for the Secured Scheme Creditors and 7% Scheme Creditors:

(i) in an orderly and coordinated way, with the appointment of external controllers made only to a limited number of key entities in the Group, leaving much of the Group's operations outside of the formal insolvency process; or

(ii) in an uncontrolled manner, whereby most if not all Group entities fall into insolvency proceedings in their respective jurisdictions.

For the purposes of determining the expected dividend to Secured Scheme Creditors and 7% Scheme Creditors if the Companies are wound up, KordaMentha has assumed a controlled insolvency process could be achieved, by way of a limited insolvency.

KordaMentha notes that an uncontrolled insolvency process would result in lower realisations and hence a lower expected dividend to Secured Scheme Creditors than in a controlled insolvency scenario.

(b) If the BLY Schemes are put into effect as proposed, the Implied Value of the interests of the Secured Scheme Creditors, 7% Scheme Creditors and holders of Subordinate Claims after implementation of the BLY Schemes would be as follows.

Scheme Creditors	Implied Value (cents in $)
TLA Purchasers	47.2
TLB Purchasers	64.3
10% Noteholders	61.0
Holders under the Indenture	Nil
Subordinate Claims	Nil

7.3 **KordaMentha's conclusions on asset value and solvency**

(a) Subject to the assumptions made in the KordaMentha Report, KordaMentha is of the opinion that the Group will be solvent after implementation of the BLY Schemes.

(b) In respect to its opinion set out in (a) above, KordaMentha notes that:

(i) as at the date of the KordaMentha Report, the Group has not paid accrued interest of approximately $19,700,000 owing pursuant to the 10% Secured Notes Indenture and the Indenture, which was due on 1 April 2017 (the **Coupon Payment**);

(ii) it is proposed under the terms of the BLY Schemes that the Coupon Payment be deferred in the case of the 10% Secured Notes Indenture portion and equitized in the case of the Indenture portion;

(iii) the Group has obtained agreement to their non-payment of the Coupon Payment from a majority of the 10% Noteholders in relation to the 10% Secured Notes Indenture and a majority of the Noteholders in relation to the Indenture as a term of the Restructuring Support Agreement;

(iv) the Group has advised that it is entitled to withhold payment of the Coupon Payment pending the determination of the BLY Schemes; and

(v) if the payment of interest is required in relation to some of the secured notes under the 10% Secured Notes Indenture or some of the unsecured notes under the Indenture, KordaMentha's solvency opinion expressed above at (a) is withdrawn.

(c) Subject to the assumptions made in the KordaMentha Report, KordaMentha is of the opinion that the enterprise value of the Group is $266,600,000, which is less than the Group's secured indebtedness.

7.4 **Conclusions as to most likely outcome if Scheme not implemented**

Subject to the assumptions made in the KordaMentha Report, KordaMentha is of the opinion that, if the BLY Schemes are not implemented, the Group would likely be placed into external administration.

7.5 **KPMG Report and valuation methodology**

BLY has engaged KPMG Financial Advisory Services (Australia) Pty Ltd (of which KPMG Corporate Finance is a division) to prepare an independent expert's report indicating

whether, in KPMG Corporate Finance's view the Recapitalisation transaction is fair and reasonable to non-associated shareholders of BLY (the **KPMG Report**).

The KPMG Report includes an enterprise value of the Group which differs from the enterprise value of the Group included in the KordaMentha Report.

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 applied to derive an enterprise value for the Group utilising through-the-cycle multiples observed for comparable companies.

KordaMentha's enterprise valuation of $246.5 to $286.6 million is based on the Group'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 Group.

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.

If creditors would like to view the KPMG Report, it is expected to be disclosed to ASX in due course and will be available at http://www.boartlongyear.com/company/investors/announcements/.

8. REASONS NOTEHOLDERS MAY CONSIDER VOTING FOR THE SCHEME

The reasons why the Noteholders may consider voting in favour of the Scheme include:

(a) **Debt for equity swap and potential for uplift in value from ownership of Transaction Securities when compared to insolvency process**

If the Scheme is approved, the Noteholders will release the Obligors from their obligations to pay a portion of the Debt to the Noteholders and will receive Scheme Shares and Scheme Warrants from BLY.

As security holders, the Noteholders may have the opportunity to realise the value of their converted debt through any increase in the value of the Scheme Shares or Scheme Warrants on sale, transfer or exercise. The Noteholders may consider that the potential to recover value through sale, transfer or exercise of the Scheme Shares or Scheme Warrants is an advantage when compared to the likely crystallisation of loss that would occur for some or all Noteholders on an insolvency event.

Further, Noteholders may consider that a formal insolvency process is likely to be destructive to the realisable value of the Companies' business and assets, which may further diminish the recoverable value of the Debt owed to them.

(b) **Avoidance of uncertainties associated with insolvency**

The Scheme will provide a means by which the debt owed to the Noteholders under the Indenture will be restructured without the appointment of a voluntary administrator, liquidator or receiver and manager to the Companies or the Obligors.

The Scheme will minimise disruption to the business and the diminution of value that could occur as a consequence of such appointments. Any appointment of an administrator, liquidator or receiver and manager may result in certain counterparties being entitled to terminate contracts with the Companies. This would be detrimental to the ongoing businesses of the Companies, particularly with respect to the Companies' relationships with its key customers, and would affect the value that could be realised out of a sale of the assets of the Companies and the Group.

Given the global nature of the Companies, an insolvency proceeding in Australia could lead to a number of similar protections being sought in a number of other countries world-wide.

(c) **Avoidance of insolvency expenses**

The legal, administrative and funding costs associated with the administration, liquidation or receivership and management of the Companies would be avoided if the Scheme is approved and implemented. KordaMentha have estimated that the costs of an insolvency process involving the Companies and other Obligors would be approximately AU$30 million (consisting of realisation costs in relation to insolvency professionals, legal counsel, valuation firms, investment banks and other professional costs).

(d) **Transaction certainty**

Effecting a restructuring by way of the Scheme will provide greater transaction certainty for the Noteholders and the Companies (which will continue to operate

the business) than could be achieved without the Scheme in circumstances in which the Noteholders do not unanimously consent to the proposed restructuring.

In the event that the Court makes orders approving the Scheme and those orders are lodged with ASIC (and subject to satisfaction of the conditions precedent), the steps that give effect to the restructure will have the force of law.

(e) **Ability for Companies to continue to trade and raise additional funds**

If the Scheme is implemented, the potential for the Companies to continue to trade and operate their businesses will be improved by a lower debt burden and enhanced liquidity through (i) a reduced cash interest burden and (ii) the New ABL Revolver. Over time, the Companies could generate an uplift in value for all of BLY's Shareholders and Warrant Holders (including the Noteholders in their capacity as Shareholders and Warrant Holders).

The decrease in overall debt (and corresponding effect on the Companies' balance sheets) may enable the Companies to explore further fund raising opportunities in the future for the purpose of business growth and expansion (subject to the terms of the Fourth Supplemental Indenture).

(f) **Statutory protections for Shareholders in BLY**

As BLY is a public company, its Shareholders will have certain statutory protections, details of which are set out in **Section 6.10**. Further, as the Scheme Shares are listed on ASX, those securities may be more readily sold or transferred by the Noteholders in the future when compared to both distressed debt and securities in an unlisted company.

(g) **Limit on Subordinate Claims**

If the Scheme is implemented, the rights of Subordinate Claim Holders to bring Subordinate Claims against BLY will be limited, reducing its potential exposure to the risks associated with such claims.

These potential advantages must be considered in light of the potential disadvantages of the Scheme, which are discussed in **Section 9** below.

Noteholders are encouraged to obtain independent legal, financial and taxation advice in relation to their own individual circumstances.

9. REASONS NOTEHOLDERS MAY CONSIDER VOTING AGAINST THE SCHEME

The reasons why the 7% Scheme Creditors may consider voting against the Scheme include:

(a) Insolvency return

Noteholders may consider voting against the Scheme if they consider there is potential for a better return to them under a formal solvency process.

If the Scheme is not implemented, it is likely that an insolvency event will occur in relation to the Companies. In that circumstance, some Noteholders may consider that there would be a better return to them than the return available under the Scheme.

Noteholders should have regard to the opinions in the KordaMentha Report in this regard (summarised in **Section 7**).

(b) Release of substantial portion of debt owed to Noteholders

As a result of implementation of the Scheme, and subject to any limitations set out in the Scheme, the 7% Scheme Creditors will release the Companies and the Obligors from all Claims and obligations under the Finance Documents to the extent of the Total Debt Contribution Amount and, following that release, will have no further right to recover the Total Debt Contribution Amount as a debt from the Companies or any of the Obligors.

The Total Debt Contribution Amount as at 1 April 2017 is estimated to be US$205,610,000, representing approximately 70% of the total outstanding Debt.

The release of the Total Debt Contribution Amount under the Scheme, and the loss of rights to recover that amount as a debt from the Companies and the Obligors, should be considered in light of the conclusions set out in the KordaMentha Report, which estimate that Noteholders would recover nothing in the event the Companies were subject to a formal insolvency process.

(c) Benefits obtained by Centerbridge under the Recapitalisation Transactions

7% Scheme Creditors may consider voting against the Scheme if they form the view that the benefits conferred on Centerbridge by the Recapitalisation Transactions are disproportionate to those conferred on other creditors by those same transactions.

If the Recapitalisation Transactions are implemented, Centerbridge will obtain the following benefits which 7% Scheme Creditors may consider significant:

The percentage of ordinary shares in BLY held by Centerbridge will increase to 56% as a result of a new issue of shares being made in consideration of Centerbridge agreeing to reduce its contractually agreed rate of PIK interest on the Term Loan A and Term Loan B from 12% to 10% (until December 2018) and then 8% thereafter. The increase to 56% described above will occur as follows:

(i) Centerbridge's existing shareholding of 48.9% will be diluted by the issue of shares to Noteholders when the Scheme is implemented;

(ii) Centerbridge will then convert the Convertible Preference Shares it currently holds to ordinary shares, which will result in Centerbridge holding 3.7% of the shares in BLY; and

(iii) further shares will be issued to Centerbridge under the Subscription Deed such that Centerbridge holds 56% of the ordinary shares in BLY.

Centerbridge will be entitled to nominate 5 directors for appointment to the board of BLY. Currently, Centerbridge is entitled to nominate 4 directors for election to the board of BLY pursuant to an appointment agreement concluded as part of a restructuring transaction that took place in 2015.

With the exception of Ares and Ascribe, who will be entitled to nominate one director to be elected to the board of BLY each, along with an additional joint nominee, no other creditors will receive these benefits.

The effect of the Recapitalisation Transactions on Noteholders is set out in Part 1 of the table in **Section 3.10**. Other aspects of the Recapitalisation Transactions are set out in Parts 2 to 4 of the table in **Section 3.10**. When considering that table, 7% Scheme Creditors should bear in mind that Centerbridge holds 100% of the Term Loan A and the Term Loan B and a portion of the notes issued under the 10% Secured Notes Indenture.

Whilst Centerbridge, as the holder of the Term Loan A and the Term Loan B, is required to waive any rights which arise in its favour as a result of a change of control which occurs as a consequence of the implementation of the Recapitalisation Transactions, 7% Scheme Creditors may form the view that the concession being made by Centerbridge in this regard is less significant than that made by other creditors because Centerbridge will be the beneficiary of that change of control as it is the recipient of Shares, as described above.

7% Scheme Creditors may also consider that the concession made by Centerbridge in relation to the extension of maturity dates applicable to the Term Loan A, Term Loan B and 10% Secured Notes Indenture under the Scheme is less significant than that made by other Secured Creditors on the basis that the maturity dates under the Term Loan A and the Term Loan B are currently 4 January 2021, whilst the maturity date under the 10% Secured Notes Indenture is currently 1 October 2018.

(d) **Shares and Warrants in the Companies**

The Scheme, if implemented, will result in the 7% Scheme Creditors holding Shares and Warrants. The Claims of the 7% Scheme Creditors as Shareholders will rank behind the Claims of any secured or unsecured creditors of the BLY. As a Shareholder, any returns (in the form of dividends or capital returns) are dependent on the financial performance of BLY and the amount which the BLY Board determines should be distributed to Shareholders. As debt holders, the return to the Noteholders under the Indenture is in the form of interest, which is a contractual right which takes priority over the rights of Shareholders.

In addition, some of the 7% Scheme Creditors may be subject to prudential requirements which impose obligations and requirements in connection with holding Shares which would not apply to the holding of debt.

(e) **BLY's business**

There are risks associated with holding equity securities in BLY. No assurances can be given in respect of the future performance or prospects of BLY, the value of, or return on, Shares in BLY or the ability of any Shareholder to sell their Shares in the future.

(f) **Chapter 6 restrictions**

BLY is an ASX listed public company with more than 50 members and, as such, is subject to Chapter 6 of the Corporations Act. Chapter 6 imposes certain restrictions on the acquisition of "relevant interests" in Shares. These include the following:

(i) a person cannot acquire a relevant interest in Shares if, because of that acquisition, that person's (or another person's) voting power in BLY increases:

(A) from 20% or below to more than 20%; or

(B) from a starting point that is above 20% and below 90%,

other than in ways permitted by the Corporations Act (the **Takeovers Prohibition**); and

(ii) becoming associated with other Shareholders, in relation to matters such as voting Shares and determining appointments to the BLY Board, where the aggregated shareholdings of the associated Shareholders would breach the Takeovers Prohibition.

A "relevant interest" under the Corporations Act is a broad concept. Generally speaking, a person will have a relevant interest in securities where they are the holder of the securities, where they can exercise or control the voting rights attached to those securities or dispose of, or control the disposal of, those securities.

Importantly, in the context of the Takeovers Prohibition, a person's "voting power" in BLY is calculated by aggregating the number of Shares in which that person has a relevant interest with the number of Shares in which each person who is an "associate" of that person has a relevant interest. Generally speaking, two or more persons will be taken to be associates in relation to BLY if:

(i) they are body corporates belonging to the same corporate group;

(ii) they have entered into an agreement, arrangement or understanding for the purpose of controlling or influencing the composition of the BLY Board or the conduct of BLY's affairs; or

(iii) they are acting, or proposing to act, "in concert" in relation to BLY's affairs.

While the acquisition of the Scheme Shares by the 7% Scheme Creditors pursuant to the Scheme falls within an exception to the Takeovers Prohibition (see item 17 of section 611 of the Corporations Act), the restrictions and other legal considerations outlined above will apply in respect of any increases to the voting power of any such person following implementation of the Scheme – for example, pursuant to the exercise of a Warrant.

Furthermore, as a Shareholder, a 7% Scheme Creditor will be subject to certain ongoing notification requirements under the Corporations Act. For example, a 7% Scheme Creditor must make the notifications described below:

(i) in circumstances where they (together with their associates) have relevant interests in voting shares of BLY or interests representing **5% or more** of the total votes of BLY (or if the person has made a takeover bid for voting shares or interests in BLY) (this is called a **Substantial Holding**), by

lodging an ASIC Form 603 "Notice of Initial Substantial Shareholder" with BLY and ASX;

(ii) for **each 1% (or more) change** in their Substantial Holding, by lodging a Form 604 "Notice of Change of Interests of Substantial Shareholder" with BLY and ASX;

(iii) if they cease to have a Substantial Holding (that is, their relevant interest in voting shares of BLY or interests in the total votes of BLY, **falls below 5%**), by lodging a Form 605 "Notice of Ceasing to be a Substantial Shareholder" with BLY and ASX.

Generally speaking, these forms must be lodged within two Business Days after the 7% Scheme Creditor (or their associate, as the case may be) becomes aware of either the transaction effecting the change or the change in percentage holding itself.

7% Scheme Creditors should seek their own independent legal advice on the effect of Chapter 6 of the Corporations Act on the Companies.

(b) **Release of directors and officers of the Companies and Obligors**

The Scheme provides for the 7% Scheme Creditors to release the Obligors and any person who is or was a director or officer of any of the Obligors between 28 March 2011 and the Implementation Date and who signs a Released Obligor Individual Deed Poll from all Claims relating to any fact, matter, circumstance or event that arose or occurred in respect of, or in connection with, any Obligor between 28 March 2011 and the Implementation Date.

Noteholders may consider that they have a potential Claim against one or more of these individuals or Obligors, which would result in a recovery in favour of the 7% Scheme Creditors and may, accordingly, wish to vote against the Scheme and pursue that Claim, whether by placing the Companies or the Obligors or any of them into external administration or otherwise (although the Companies are not aware of any potential Claims that may be available against any of those people).

These potential disadvantages must be considered in light of the potential advantages of the Scheme, which are discussed in **Section 8** above.

Noteholders are encouraged to obtain independent legal, financial and taxation advice in relation to their own individual circumstances. 7% Scheme Creditors are not obliged to follow the recommendation of the Companies and may decide to vote against the Scheme.

10. ADDITIONAL INFORMATION

10.1 Ongoing analysis of business operations

Noteholders should be aware that BLY, with the assistance of outside consultants, is currently conducting a detailed jurisdiction-by-jurisdiction analysis of the 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 BLY to prioritise fixing. As part of this process, BLY 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, BLY makes no representation that the Group will continue to operate in the same number of locations as it does presently.

Noteholders should consider consulting their professional advisers before deciding whether to vote in favour of the Scheme.

10.2 Material interests of Directors

The current directors of the Companies are:

(a) In respect of BLY:

(i) Bret Clayton

(ii) William Peter Day

(iii) Jeffrey Long

(iv) Gretchen McClain

(v) Rex John McLennan

(vi) Jeffrey Robert Olsen

(vii) Deborah O'Toole

(viii) Marcus Randolph

(ix) Conor Tochilin

(b) In respect of BLY Australia:

(i) Fabrizio Rasetti

(ii) Matthew Robert Broomfield

(iii) Jeffrey Robert Olsen

(iv) Shannon Emrick

(c) In respect of the BLY Issuer:

(i) Matthew Robert Broomfield

(ii) Jeffrey Robert Olsen

(iii) Fabrizio Rasetti

(d) In respect of Votraint:

(i) Fabrizio Rasetti

(ii) Matthew Robert Broomfield

(iii) Jeffrey Robert Olsen

(iv) Shannon Emrick

(together, the **Directors**).

Except as disclosed below or elsewhere in this Explanatory Statement, as at the date of this Explanatory Statement, no Director of either of the Companies has any interest, whether as a Director, member or creditor of the Companies or otherwise, that is material in relation to the Scheme, and the Scheme has no effect on the interests of any Director of the Companies that is different to the effect on the like interests of other persons.

The current ownership of Shares by each Director is disclosed and regularly updated on BLY's²ASX website. The Directors have received approximately half of their Director fees in Shares for approximately the past two years and, therefore, each of them currently holds Shares in BLY, with the exception of Conor Tochilin (who, as a CBP employee, does not receive fees and holds no Shares). Jeffrey Olsen (who is Managing Director) has not received any Shares for his Director fees, however holds Shares in BLY. The Directors' Shares will be subject to the same dilution and treated as any other individual Shareholder in the proposed restructuring.

The BLY Board has approved special, one-time fees ranging from US$30,000 to US$45,000 for the Directors (excluding Jeffrey Olsen and Conor Tochilin) for the additional work and efforts provided by the Directors to support the restructuring being pursued by the Companies. The special payment will be paid in May 2017. The special fee is not contingent on an outcome for the restructuring, but is based on the effort and exertions of the Directors to this point. Otherwise, the Directors are not entitled to receive any bonus, grant or other specific compensation as a consequence of the conclusion of the Recapitalisation Transactions or any related milestone in the process.

On implementation of the Scheme, and in accordance with the terms of the Restructuring Support Agreement, the number of Directors will be nine including the Chief Executive Officer. Ares and Ascribe will each be entitled to nominate one director each and one director jointly, and CBP will nominate five CBP Nominee Directors.

If the Scheme is implemented, each 7% Scheme Creditor will release certain people who were Directors or officers of any Obligor (being those Directors or officers who sign a Released Obligor Individual Deed Poll in the form of Schedule 7 to the Scheme) from all Claims relating to events that arose or occurred in respect of, or in connection with, any Obligor between 28 March 2011 and the Implementation Date.

10.3 **Material interests of Scheme Administrators**

The Scheme Administrators will be entitled to remuneration for their services as explained in **Section 6.14**. The hourly rates which will apply for the Scheme Administrators' services are set out at Annexure E.

10.4 **Rights and liabilities of Scheme Shares**

The Scheme Shares proposed to be issued to Noteholders will be of the same class and will, once issued, rank equally in all respects with existing Shares (including equal voting rights and equal rights to dividends, profits and capital).

The rights and liabilities attaching to the Scheme Shares are identical in all material respects to the terms of the existing Shares.

The following is a summary of some of the key rights of the holders of Shares. This summary is not exhaustive nor does it constitute a definitive statement of the rights and liabilities of Shareholders under the Constitution. The Constitution is also available on the BLY's website (http://www.boartlongyear.com/company/corporate-profile/corporate-governance/constitution-of-boart-longyear-limited-2/)

(a) **Voting**

Subject to any rights or restrictions for the time being attached to any class or classes of Shares, every Shareholder present in person or by proxy at a general meeting of BLY has one vote on a show of hands and one vote per Share held on a poll.

(b) **Meetings and notices**

Each Shareholder is entitled to receive notice of and to attend and vote at general meetings of BLY and to receive all notices, accounts and other documents required to be sent to Shareholders under the Constitution, the Corporations Act or the ASX Listing Rules.

The quorum for a meeting of members is two Shareholders.

(c) **Transfers**

Subject to the Constitution, the Corporations Act, the ASX Settlement Rules and the ASX Listing Rules, a Shareholder may transfer all or any Shares by:

(i) a written transfer in the usual or common form or in any form the directors of BLY may prescribe or in a particular case accept, properly stamped (if necessary) and delivered to BLY;

(ii) a proper ASX Settlement and Transfer Corporation Pty Ltd transfer, which is to be in the form required or permitted by the Corporations Act or the ASX Settlement Rules; or

(iii) any other electronic system established or recognised by the ASX Listing Rules in which BLY participates in accordance with the rules of that system.

(d) **Powers of directors**

Subject to the Corporations Act and to any provision of the Constitution, the directors will manage, or cause the management of, the business of BLY. The directors may exercise, or cause to be exercised, all powers of BLY that are not, by the Corporations Act or by the Constitution, required to be exercised by BLY in general meeting.

(e) **Shareholder liability**

As the Scheme Shares being offered pursuant to the Scheme are fully paid shares in BLY, they are not subject to any calls for money by the Board.

(f) **Alteration of the Constitution**

The Constitution can only be amended by a special resolution passed by at least 75% of the total number of votes cast by Shareholders voting in person, by proxy, by attorney or in the case of corporate Shareholders, by corporate representative.

10.5 **Certified copy of Financial Statements**

Certified copies of the financial statements in respect of the Companies to be lodged with ASIC as required by paragraph 8203(b) of Schedule 8 of the Corporations Regulations are set out at Annexure C to this Explanatory Statement.

10.6 **Report as to affairs of Companies – ASIC Form 507**

The report and information in respect of the Companies required by ASIC Form 507 and paragraph 8203(a) of Schedule 8 of the Corporations Regulations is set out at Annexure D to this Explanatory Statement.

10.7 **The Noteholders**

The relevant details of all known Noteholders as required by paragraphs 8201(c), (d), and (e) of Schedule 8 of the Corporations Regulations is set out at Annexure H to this Explanatory Statement.

11. THE SCHEME MEETING AND VOTING PROCEDURES

11.1 Time and place

The Scheme Meeting will be held to consider and, if thought fit, approve the Scheme at:

11:30am am on Tuesday, 30 May 2017

at

Ashurst, Level 11, 5 Martin Place, Sydney NSW 2000, Australia

11.2 Chairperson

It is intended that the Scheme Meeting will be chaired by Marcus Derwin, of FTI Consulting, or such other person as the Court may specify when making its orders under section 411(1) of the Corporations Act.

11.3 Agenda for the Scheme Meeting

The proposed agenda for the Scheme Meeting is as follows:

(a) the Chairperson will address those present at the Scheme Meeting, providing an explanation of the background to and purpose of the meeting;

(b) there will be a general presentation in relation to the proposed Scheme and attendees will be given a reasonable opportunity to ask questions in relation to the Scheme;

(c) the procedure for voting on the Scheme will be explained;

(d) the resolution to approve the Scheme will be put to the Noteholders present in person or by proxy, attorney or corporate representative at the Scheme Meeting for a vote.

11.4 Classes of 7% Scheme Creditors

In making its orders under section 411(1) of the Corporations Act to convene the Scheme Meeting, the Court did not order that the 7% Scheme Creditors be divided into separate classes. As such all 7% Scheme Creditors will all vote as one class.

11.5 Eligibility and entitlement to vote

Only Noteholders as at the Voting Entitlement Record Date are eligible to vote at the Scheme Meeting.

DTC (and its nominee) is included as a 7% Scheme Creditor to obtain the benefit of certain provisions of this Scheme and for technical reasons. DTC (through its nominee, Cede & Co) is the registered holder of the 7% Notes. Accordingly, if the Scheme becomes Effective, DTC will be a 7% Scheme Creditor solely in that capacity, as it receives principal and interest on the 7% Notes.

To avoid double counting of interests in the 7% Notes at the Scheme Meeting, the voting procedure will be based on Cede & Co., in its capacity as nominee of DTC, in accordance with its usual procedures, appointing the Registered Participants as its proxies under the Omnibus Proxy in respect of the principal amount of the 7% Notes shown on its records maintained in book-entry form as being held by them as at the Voting Entitlement Record Date.

Voting is not compulsory. However, Noteholders who do not vote at the Scheme Meeting will be bound by the Scheme, provided that the Scheme is agreed to by the Requisite Majority and approved by the Court.

Voting at the Scheme Meeting will be conducted by poll.

11.6 **How to vote at the Scheme Meeting**

A Noteholder who wishes to vote at the Scheme Meeting must ensure that they lodge a completed Proxy Form (set out in Annexure F to this Explanatory Statement) with their Registered Participant in sufficient time to allow their Registered Participant to (a) complete a Voting Proof of Debt Form (set out in Annexure G to this Explanatory Statement) on behalf of the Noteholder and (b) lodge the Proxy Form and Voting Proof of Debt Form (together, the **Voting Forms**) with the Information Agent by no later than 4.00 pm on 25 May 2017 (New York City Time) in order to establish the amount of the relevant Noteholder's Claim against the Companies under the Indenture for voting purposes.

Noteholders should also consider **Section 11.7** below in relation to the adjudication of Voting Proof of Debt Forms by the Chairperson.

(a) **Voting by proxy**

If a Noteholder does not wish to attend the Scheme Meeting in person, they can either appoint the Chairperson of the Scheme Meeting or another person as proxy to attend and vote at the Scheme Meeting on behalf of the Noteholder as directed by the Noteholder.

(b) **Voting in person**

Any Noteholder who wishes to attend and vote at the Scheme Meeting in person will still need to properly complete, sign and return a Proxy Form (with itself nominated as proxy) to their Registered Participant in sufficient time to enable the Registered Participant to complete and certify the Voting Forms and forward the same to the Information Agent by no later than 4.00 pm on 25 May 2017 (New York City Time).

Where the Noteholder is a corporation, it may appoint a proxy, attorney or corporate representative to attend the Scheme Meeting on its behalf. Any attorney or corporate representative should bring to the Scheme Meeting evidence of his or her appointment including authority under which the appointment was made.

11.7 **Adjudication of Voting Proof of Debt Forms**

The Chairperson of the Scheme Meeting has power to admit (wholly or in part) or reject a proof of debt or Claim, for the purposes of voting at the Scheme Meeting.

The Chairperson will adjudicate upon the Noteholder's Claim as set out in a Voting Proof of Debt Form based on the information contained in or provided with the Voting Proof of Debt Form, as well the information known to the Chairperson and Information Agent. This may result in the Noteholder 's Claim being rejected, in whole or in part, or admitted for a higher or lower amount.

Any Noteholder who is aggrieved by the Chairperson's decision to admit or reject (in whole or in part) a Voting Proof of Debt Form or Claim for voting purposes may appeal the

decision in Court by application to the Court filed within 48 hours of the decision, which application is to be heard at the time and place scheduled for the Second Court Hearing.

The admission of a Noteholder's Claim is for voting purposes only and does not constitute an admission of the existence or amount of the Noteholder's Claim against the Companies or any other person, and will not bind the Companies or the Noteholders concerned for any other purpose.

In the event of voluntary administration or liquidation of the Companies, the voluntary administrator or liquidator may adjudicate upon the Noteholder's Claim, if any, on a different basis than that which is used to adjudicate on the Noteholder's Claim for the purpose of voting at the Scheme Meeting, and therefore may admit Claims for a higher or lower amount. Noteholders are encouraged to obtain their own advice regarding the possible treatment of their Claims in a voluntary administration or liquidation scenario.

11.8 Modification of Scheme at Scheme Meeting

Noteholders may propose modifications to the Scheme at the Scheme Meeting. However, Noteholders should be aware that there are risks associated with modifying the terms of the Scheme at the Scheme Meeting. For more detail on these risks, refer to **Section 6.13** of this Explanatory Statement.

11.9 Lodgement of documents and further queries

Complete Voting Proof of Debt Forms and Proxy Forms should be lodged in accordance with the instructions on those forms.

If you have any questions in relation to the Scheme Meetings, including completing and lodging Voting Proof of Debt Forms or Proxy Forms, please contact:

Attention: Boart Longyear Ballot Processing
c/o Prime Clerk LLC
830 Third Avenue
3rd Floor
New York
NY 10022
United States

Email: boartballotprocessing@primeclerk.com

12. INTERPRETATION AND GLOSSARY

12.1 Interpretation

The following general interpretation guidelines are included to assist Noteholders in understanding this document.

(b) Unless otherwise stated, all data contained in charts, graphs and tables is based on information available as at the date of this Explanatory Statement. All numbers are rounded unless otherwise indicated.

(c) A reference to:

(i) AU$, AUD or cents, is to Australian currency, unless otherwise stated; and

(ii) USD or US$ is to the currency of the United States of America, unless otherwise stated.

(d) All references to time are references to the time in Sydney, Australia.

(e) A reference to:

(i) a "section" or "paragraph" is to a section or paragraph of this Explanatory Statement;

(ii) 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;

(iii) a document (including this document) or agreement, or a provision of a document (including this document) or agreement, is to that document, agreement or provision as amended, supplemented, replaced or novated;

(iv) a party to an agreement includes a successor in title, permitted substitute or a permitted assign of that party;

(v) 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; and

(vi) anything (including a right, obligation or concept) includes each part of it.

(f) A singular word includes the plural, and vice versa.

(g) If a word or phrase is defined, any other grammatical form of that word or phrase has a corresponding meaning.

(h) A word which suggests one gender includes the other genders.

(i) If an example is given of anything (including a right, obligation or concept), such as by saying that it includes something else, the example does not limit the scope of that thing.

(j) A reference to a matter being **"to the knowledge"** of the Companies means that the matter is to the best of the knowledge and belief of the Directors as at the date of this Explanatory Statement, after making reasonable enquiries in the circumstances.

(k) A reference to **"information"** is to information of any kind in any form or medium, whether formal or informal, written or unwritten.

(l) The word **"agreement"** includes an undertaking or other binding arrangement or understanding, whether or not in writing.

(m) The expressions **"subsidiary"**, **"holding company"** and **"related body corporate"** have the same meanings as is given to those expressions in the Corporations Act.

12.2 **Glossary of terms**

Capitalised terms used in this Explanatory Statement have the meanings set out below.

Noteholders should be aware that some of the documents in the Annexures to this Explanatory Statement have their own defined terms, which are sometimes different from those in this Glossary.

7% Note means the 7% senior notes issued under the Indenture.

7% Scheme Creditors means the Noteholders as at the Effective Date.

7% Scheme Creditor Deed Poll means the deed poll executed by the Scheme Administrator as attorney and agent for the 7% Scheme Creditors pursuant to the Scheme in substantially the form set out in Schedule 4 of the Scheme.

7% Unsecured Note Amendments means the proposed amendments to the Indenture, described in Section 5.3(a) and Section 5.3(c) of this Explanatory Statement.

10% Noteholders means each "Holder" or "Securityholder" as those terms are defined in the 10% Secured Notes Indenture.

10% Secured Note Amendments means the proposed amendments to the 10% Secured Notes Indenture, described in Section 5.2(b) of this Explanatory Statement.

10% Secured Notes Indenture means the indenture dated 27 September 2013, between the BLY Issuer and U.S. Bank National Association, as trustee and collateral agent, amongst others, in respect of 10.00% secured notes due 2018, as amended, varied, or amended and restated from time to time.

A Warrants means the total number of A Warrants to be issued to the Noteholders in accordance with Step 4 (New Warrant issue) of the Scheme, of a number to be calculated in accordance with the formula set out in the Scheme and on the terms set out in schedule 8 of the Scheme.

Accrued Interest means the interest that would have accrued on the principal amount of the Securities under the Indenture in the period from and including 1 January 2017 to the Implementation Date if:

(a) as at 1 January 2017, the principal amounts of the Securities had been US$88,000,000 and not US$284,000,000; and

(b) the rate of interest payable on the principal amounts of the Securities during that period had been 1.5% and not 7%.

Administrative Requirements means the conditions precedent to the Fourth Supplemental Indenture.

Admitted Claim means, in respect of a Noteholder, the amount for which the Noteholder's Claims against the Companies are admitted by the Chairperson for the purpose of voting at the relevant Scheme Meeting.

Affiliate has the meaning given to "affiliate" within the meaning of Rule 405 of the U.S. Securities Act.

Aggregate Amount means, in respect of a 7% Scheme Creditor, the amount of principal and accrued but unpaid interest owing by the Companies, whether actually or confidentially, to that 7% Scheme Creditor immediately prior to the commencement of Step 3 (New Share issue) of the Scheme on the Implementation Date.

Applicable Insurance Policy means any available policy of insurance under which BLY is entitled to indemnity in respect of any Subordinate Claim.

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 Nominee Director means the person nominated by Ares to be considered by Shareholders for election at the Shareholders Meeting as a director of BLY pursuant to the Director Nomination Agreement whose notice of candidature is received by BLY by the date required by the Constitution.

Ares / Ascribe Joint Nominee Director means the person jointly nominated by Ares and Ascribe to be considered by Shareholders for election at the Shareholders Meeting as a director of BLY pursuant to the Director Nomination Agreements whose notice of candidature is received by BLY by the date required by the Constitution.

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 Nominee Director means the person nominated by Ascribe to be considered by Shareholders for election at the Shareholders Meeting as a director of BLY pursuant to the Director Nomination Agreement whose notice of candidature is received by BLY by the date required by the Constitution.

ASIC means the Australian Securities and Investments Commission.

ASX means ASX Limited or the financial market operated by ASX Limited, as the context requires.

ASX Listing Rules means the listing rules of ASX, as waived or modified by ASX in respect of BLY, the Scheme or otherwise.

B Warrants means the total number of B Warrants to be issued to the Noteholders in accordance with Step 4 (New Warrant issue) of the Scheme, of a number to be calculated in accordance with the formula set out in the Scheme and on the terms set out in Schedule 8 of the Scheme.

BLY means Boart Longyear Limited ACN 123 052 728.

BLY Australia means Boart Longyear Australia Pty Ltd ACN 000 401 025.

BLY Issuer means Boart Longyear Management Pty Limited ACN 123 283 545.

BLY Schemes means the Scheme and the Secured Creditor Scheme.

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

Calculation Date means the day that is the second Business Day after the Effective Date.

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

CBP Nominee Directors means those persons (not exceeding five) nominated by Centerbridge Partners, L.P. on behalf of CBP, and its and their affiliates and managed funds to be considered by Shareholders for election at the Shareholders Meeting as a director of BLY pursuant to the Director Nomination Agreement whose notice of candidature is received by BLY by the date required by the Constitution.

CBP Registered Holders means CCP II Dutch Acquisition – E2, B.V. and CCP Credit SC II Dutch Acquisition – E, B.V.

Centerbridge means Centerbridge Partners L.P. and those entities affiliated with it.

Chairperson means Marcus Derwin of FTI Consulting (or, if he is unavailable, Michael McCreadie of the FTI Consulting).

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.

Change of Control Event means any change of control event, in each case howsoever described, which occurs under any of the Finance Documents at any time, up to and including the Implementation Date.

Companies means the BLY Issuer, BLY, BLY Australia and Votraint.

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 BLY, other than the proposed recapitalisation of BLY to be implemented through the Recapitalisation Transactions, including, but not limited to, any proposal, agreement, arrangement or transaction, received in writing within the period from the date on which the RSA has been duly executed by all parties expressed to be parties to it, to the date the Recapitalisation Transactions are completed, which the BLY Board determines, in good faith and in consultation with BLY's counsel, if completed, would mean a person who is not a party to the RSA (either alone or with any associate of that third party) may:

(a) directly or indirectly acquire a Relevant Interest (as defined in the Corporations Act) in 20% or more of the Shares or 50% or more of the share capital of any material subsidiary of BLY;

(b) acquire Control (as defined in the Corporations Act) of BLY;

(c) directly or indirectly acquire a legal, beneficial or economic interest in, or Control of, all or a material part of BLY's business or assets or the business or assets of BLY taken as a whole; or

(d) otherwise directly or indirectly acquire or merge with BLY or acquire a material subsidiary of BLY.

Constitution means the constitution of BLY, as amended from time to time.

Conversion means the issue of Shares on conversion of the Convertible Preference Shares.

Convertible Preference Shares means the convertible preference shares in the capital of BLY.

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

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

Costs means costs, charges, fees and expenses.

Court means the Supreme Court of New South Wales.

DDTL means the term loan security agreement, dated 4 January 2017, by and among BLY IP Inc., the guarantors party thereto, and Wilmington Trust, National Association, as administrative agent, providing for the issuance of term loan securities due 2020.

Debt means, at any time, the total amount owing by the Companies to the Noteholders under the Finance Documents.

Debt Contribution Amount means, in relation to each 7% Scheme Creditor, its share of the Total Debt Contribution Amount to be calculated under the Scheme by the Scheme Administrators.

Deed Poll means the Scheme Administrators Deed Poll, the Trustee Deed Poll, the 7% Scheme Creditors Deed Poll, the Obligors Deed Poll or the Released Obligor Individual Deed Poll(s), as the context requires, and Deeds Poll means all of them or any combination of them, as the context requires..

Directors means the directors appointed to the Companies as at the date of this Explanatory Statement.

Director Nomination Agreement means:

(a) the agreement between CBP and BLY in relation to the nomination of the CBP Nominee Directors to stand for election to the board of BLY;

(b) the agreement between Ares and BLY in relation to the nomination of the Ares Nominee Director and the Ares/Ascribe Joint Nominee Director to stand for election to the board of BLY; or

(c) the agreement between Ascribe and BLY in relation to the nomination of the Ascribe Nominee Director and the Ares/Ascribe Joint Nominee Director to stand for election to the board of BLY,

as the context requires, and Director Nomination Agreements means all of the above or any combination of them, as the context requires.

EBITDA means earnings before interest, taxes, depreciation and amortization.

Effective Date means the date on which each of the conditions precedent in the Scheme have been satisfied.

Event of Default has the meaning given to that term in the Indenture.

Existing ABL Revolver means the revolving credit and security agreement, dated 29 May 2015, among PNC Bank as lender and as agent, the BLY Issuer as borrower, and the guarantors party thereto.

Existing Shareholder Warrants means the tranche of Warrants to be issued by BLY to existing Shareholders (other than the CBP Registered Holders) pursuant to the Warrants Issue.

Explanatory Statement means this document.

FATA means the *Foreign Acquisitions and Takeovers Act 1975* (Cth).

Final Chapter 15 Order means an order of the United States Bankruptcy Court Southern District of New York granting recognition to this Scheme and the Secured Creditor Scheme and giving full force and effect thereto.

Finance Documents means each of the documents listed in Schedule 1 of the Scheme.

FIRB means Foreign Investment Review Board.

First Court Date means the date of the hearing of an application for the First Court Orders or, if the hearing of that application is adjourned, the date to which the hearing is adjourned.

First Court Orders means the orders of the Court convening the Scheme Meeting under section 411(1) of the Corporations Act.

First Court Hearing means the hearing of an application for the First Court Orders, including any adjourned hearing.

Fourth Supplemental Indenture means the fourth supplemental indenture substantially in the form set out in Schedule 3 of the Scheme which fourth supplemental indenture will take effect pursuant to Step 7 (Amendment) of the Scheme.

Group means BLY and each of its Subsidiaries.

Guarantee Agreement has the meaning given to that term in the Indenture.

Implementation Date means the later of:

(a) five Business Days after the Effective Date; and

(b) if the Scheme Administrator forms the opinion that Steps 3 (New Share issue) to 8 (Compromise of Subordinate Claims) cannot occur on the date in (a) above, such later date on which, in the opinion of the Scheme Administrator, Steps 3 (New Share issue) to 8 (Compromise of Subordinate Claims) can occur on the same day, being a date that is not later than the Sunset Date.

Implied Value has the meaning given to that term in section 7.1(d)(iii).

Indenture means the indenture dated 28 March 2011 between the BLY Issuer, as issuer, BLY, as guarantor, and U.S. Bank National Association, as trustee, amongst others, as amended by the first supplemental indenture dated 14 June 2013, the second supplemental indenture dated 27 September 2013 and the third Supplemental Indenture dated 2 April 2017 and, as amended, varied, or amended and restated from time to time.

Information Agent means Prime Clerk LLC.

Initial Term Loan Amendments means the proposed amendments to the Term Loan A and the Term Loan B, described in **Section 5.2(a)** of this Explanatory Statement.

KordaMentha means KordaMentha of Level 5 Chifley Tower, 2 Chifley Square, Sydney, New South Wales 2000.

KordaMentha Report means the independent expert report dated 1 May 2017 prepared by KordaMentha, a copy of which is set out at **Annexure B**.

KordaMentha Information means the information in Section 7 of this Explanatory Statement, the KordaMentha Report and certain other information in this Explanatory Statement that is identified as having been provided by or attributed to KordaMentha.

New ABL Revolver means a new revolving credit and security agreement, providing a facility in an aggregate principal amount up to US$75,000,000.

New Shares means the total number of Shares to be issued in accordance with Step 3 (New Share issue) to be calculated in accordance with the following formula:

B = A/(1-0.915512292431746) – A, where:

A is the number of Shares on issue as at the Implementation Date

B is the number of New Shares to be issued

Noteholder has the meaning given to the term "Holder" in the Indenture.

Nominee Directors means the CBP Nominee Directors, Ares Nominee Director and the Ascribe Nominee Director.

Notice of Meeting means the notice of Scheme Meeting that is to be sent to Noteholders with this Explanatory Statement.

Obligors means each of:

(a) BLY Issuer;

(b) BLY;

(c) BLY Australia;

(d) Votraint;

(e) Boart Longyear Canada;

(f) Boart Longyear Chile Limitada;

(g) Boart Longyear Comercializadora Limitada;

(h) Boart Longyear Company;

(i) Boart Longyear Manufacturing and Distribution Inc.;

(j) Boart Longyear Manufacturing Canada Ltd.;

(k) Boart Longyear S.A.C.;

(l) Boart Longyear Suisse Sarl;

(m) Longyear Canada, ULC;

(n) Longyear Holdings Inc.; and

(o) Longyear TM, Inc.

Obligors Deed Poll means the deed poll executed by the Obligors dated on or around 12 May 2017.

Omnibus Proxy means an omnibus proxy pursuant to which Cede & Co. (as nominee of DTC) is expected to appoint those Registered Participants shown in the records of Cede & Co. and/or DTC as holding an interest in the 7% Notes held by DTC as its proxies in respect of the principal amount of the relevant 7% Notes shown on its records as being held by such Registered Participants on the Voting Entitlement Record Date.

Proxy Form means the form used by Noteholders to appoint a proxy to vote on their behalf at the Scheme Meeting, substantially in the form set out at Annexure F.

Recapitalisation Transactions means the transactions described in **Section 5**, including this Scheme and the Secured Creditor Scheme.

Record Date means the date that BLY issues the Existing Shareholder Warrants to existing Shareholders (other than the CBP Registered Holders), in accordance with **Section 5.4(d)** of this Explanatory Statement.

Registered Participant means a person recorded directly in the records of Cede & Co. and DTC as holding an interest in any 7% Note in an account held with DTC.

Released Obligor Individual means each person who was, at any time between 28 March 2011 and the Implementation Date inclusive, a director or officer of any Obligor who has executed, or at any time executes (including by way of joinder), a Released Obligor Individual Deed Poll.

Released Obligor Individual Deed Poll means the deed poll substantially in the form set out in Schedule 7 of the Scheme.

Relevant Interest has the meaning given in sections 608 and 609 of the Corporations Act.

Representation Letter means a letter in the form as set out in Annexure I or such other form as may be required by BLY from time to time, which must be duly executed and accompany each Notice of Exercise in respect of Warrants to be exercised by Applicable Warrant Holders.

Resolution means the resolution contained in the Notice of Meeting which will be put to Noteholders at the Scheme Meeting.

RSA or Restructuring Support Agreement means the Restructuring Support Agreement entered into between, among others, BLY and BLY Issuer, dated 2 April 2017 as may be amended, modified or supplemented from time to time.

Scheme means the compromise or arrangement under Part 5.1 of the Corporations Act between the BLY Issuer, BLY, BLY Australia, Votraint, the 7% Scheme Creditors and the Subordinate Claim Holders, a copy of which is set out at Annexure A to this document, subject to any alterations or conditions made or required by the Court.

Scheme Administrator means Scott Kershaw and Jenny Nettleton of KordaMentha, or any other person who accepts the appointment to the role of scheme administrator of this Scheme, subject to section 411(7) of the Corporations Act provided, in each case, they have each executed a deed poll in substantially the same form as the Scheme Administrators Deed Poll.

Scheme Administrators Deed Poll means the deed poll substantially in the form set out in Schedule 6 of the Scheme and executed by the Scheme Administrators.

Scheme Meeting means the meeting of Noteholders ordered by the Court to be convened under section 411(1) of the Corporations Act in relation to this Scheme, and includes any adjournment of that meeting.

Scheme Notes means notes pursuant to the Indenture as amended by the Fourth Supplemental Indenture.

Scheme Shares means the Shares to be issued by BLY in accordance with Step 3 (New Share issue) of the Scheme.

Scheme Warrants means the A Warrants and B Warrants, to be issued by BLY in accordance with Step 4 (New Warrant issue) of the Scheme.

Second Court Date means the first day of the hearing of an application made to the Court for the Second Court Orders or, if the hearing of such application is adjourned for any reason, means the first day to which the hearing is adjourned.

Second Court Hearing means the hearing of an application made to the Court for the Second Court Orders, including any adjourned hearing.

Second Court Orders means the orders of the Court approving the Scheme under section 411(4)(b) (and, if applicable, section 411(6)) of the Corporations Act.

Second Out ABL means the term loan securities agreement entered into as of 2 April 2017 among the BLY Issuer, as issuer, BLY 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.

Secured Creditors means the TLA Purchasers, the TLB Purchasers and the 10% Noteholders.

Secured Creditor Scheme means the compromise or arrangement under Part 5.1 of the Corporations Act between the Companies and the Secured Scheme Creditors, proposed by the Companies and approved by the Court.

Secured Scheme Creditors means the TLA Purchasers, the TLB Purchasers and the 10% Noteholders as at the Effective Date.

Securities has the meaning given to that term in the Indenture.

Share Purchase Plan means the share purchase plan to be made available by BLY

Shareholder means each person entered in the register of members of BLY as the holder of at least 1 (one) fully paid ordinary share in BLY as at the date for determining entitlements to vote at the Shareholder Meeting.

Shareholder Meeting means the general meeting of the Shareholders of BLY to be held on or around 13 June 2017 to consider and vote on the Shareholder Resolutions, amongst other matters.

Shareholder Resolutions means resolutions at the Shareholder Meeting:

(a) for the purposes of ASX Listing Rule 7.1 and for all other purposes, to approve BLY issuing:

(i) New Shares and Warrants pursuant to this Scheme, to the 7% Scheme Creditors; and

(iii) Warrants to Shareholders, other than affiliates of CBP;

(b) for the purposes of item 7 of section 611 of the Corporations Act, ASX Listing Rule 10.11 and Chapter 2E of the Corporations Act and all other purposes, to approve BLY issuing Shares to CBP and CBP acquiring Shares pursuant to the Subscription Deed;

(c) for the purposes of item 7 of section 611 of the Corporations Act and for all other purposes to approve:

(i) Ares; and

(ii) Ascribe,

acquiring Shares pursuant to the Scheme; and

(d) appointing the Nominee Directors as directors of BLY.

Shares means fully paid ordinary shares in the capital of BLY.

Standstill Period has the meaning given in clause 6.3.

Step means any of Steps 1 (Deeds and Amendment Documents) to 8 (Compromise of Subordinate Claims) set out in clause 7.5 of the Scheme and Steps mean all of them.

Subordinate Claim means a "subordinate claim" within the meaning of subsection 563A(2) of the Corporations Act, against BLY in respect of any fact, matter, circumstance or event which has arisen or occurred at any time prior to the commencement of Step 8 (Compromise of Subordinate Claims) of the Scheme.

Subordinate Claim Holder means any person who, as at immediately prior to the commencement of Step 8 (Compromise of Subordinate Claims) of the Scheme, has or, but for the Scheme, would be entitled to make, a Subordinate Claim.

Subscription Deed means the agreement between BLY and CBP pursuant to which Shares will be issued to CBP (or their nominee).

Subsequent Term Loan Amendments means the agreement between the TLA Purchasers and the Obligors to amend the interest rate applicable to the Term Loan A and the agreement between the TLB Purchasers and the Obligors to amend the interest rate applicable to the Term Loan B, described in **Section 5.4(c)** of this Explanatory Statement.

Subsidiaries has the meaning given in the Corporations Act and, as applied to BLY, Subsidiary shall include the BLY Issuer, BLY Australia, Votraint, Boart Longyear Company, Boart Longyear Manufacturing Canada Ltd., Boart Longyear Suisse Sarl, Boart Longyear Chile Limitada, Boart Longyear Canada, Longyear Holdings, Inc., Boart Longyear Manufacturing and Distribution Inc., Boart Longyear Comercializadora Ltda., Longyear TM, Inc., BLY IP Inc., Longyear Canada, ULC, BL DDL NY Holdings Inc., BL DDL Holdings Pty, Ltd., BL DDL Holdings II Pty, Ltd., BL Canada DDL Inc., BL Canada Holdings Inc., and Boart Longyear S.A.C.

Sunset Date means 31 December 2017.

Superior Proposal means a bona fide written competing proposal of the kind referred to in (b) or (c) of the definition of Competing Proposal that the BLY Board, acting in good faith, and after receiving written legal advice from the BLY's counsel and advice from its financial advisor, determines:

(a) 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;

(b) would, if completed substantially in accordance with its terms, be more favourable to Shareholders (as a whole) and the creditors of BLY than the Recapitalisation Transactions (having regard to the fact that trade creditors will be paid in full under the Recapitalisation Transactions) taking into account all terms and conditions of the competing proposal; and

(c) 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 has the meaning given in clause 4.4.

TEV means total enterprise value of the Group.

Term Loan A means the Term Loan A Securities Agreement, dated 22 October 2014, between the BLY Issuer, as issuer, BLY, BLY Australia and Votraint, as guarantors, amongst others and Wilmington Trust, National Association, as administrative agent, amongst others, pursuant to which term loan securities due 2021 were issued, as amended, varied or amended and restated from time to time.

Term Loan Amendments means the Initial Term Loan Amendments and the Subsequent Term Loan Amendments.

Term Loan B means the Term Loan B Securities Agreement dated 22 October 2014, between the BLY Issuer, as issuer, BLY, BLY Australia and Votraint, as guarantors, amongst others and Wilmington Trust, National Association, as administrative agent,

pursuant to which term loan securities due 2021 were issued, as amended, varied, or amended and restated from time to time.

TLA Purchasers means the "Purchasers" as that term is defined in the Term Loan A.

TLB Purchasers means the "Purchasers" as that term is defined in the Term Loan B.

Total Aggregate Amount means the aggregate amount of principal and accrued but unpaid interest owing by the companies, whether actually or contingently to the 7% Scheme Creditors under the Finance Documents immediately prior to the commencement of Step 3 (New Share issue) on the Implementation Date.

Total Debt Contribution Amount means the Total Aggregate Amount *less* US$88,000,000, less Accrued Interest.

Transaction Securities means the Scheme Shares and the Scheme Warrants.

Trustee means U.S. Bank National Association in its capacity as trustee under the Indenture and any successor trustee under that document.

Trustee Deed Poll means the deed poll substantially in the form set out in Schedule 5 of the Scheme and to be executed by the Trustee pursuant to the Scheme.

U.S. Exchange Act means the U.S. Securities Exchange Act of 1934, as amended.

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

Undertaking means the undertaking given by the Trustee to execute the Trustee Deed Poll in accordance with the Scheme.

U.S. Bankruptcy Court means the United States Bankruptcy Court for the Southern District of New York.

Voting Entitlement Record Date means the First Court Date.

Voting Proof of Debt Form means a proof of debt form substantially in the form set out at Annexure G, which may be lodged with the Information Agent by a Noteholder for the purpose of voting at the relevant Scheme Meeting.

Votraint means Votraint No. 1609 Pty Limited ACN 119 244 272.

Warrant Holder means each person who holds a Warrant.

Warrant Shares means Shares issued by BLY on exercise of Warrants and otherwise in accordance with the terms and conditions of the Warrants.

Warranties means any warranties given by the Companies in favour of the Noteholders (as that term is defined under this Explanatory Statement) under the RSA and any warranties given by the Noteholders (as that term is defined under this Explanatory Statement) in favour of each other or the Companies under the RSA in contemplation of the transactions to be effected by, or in connection with, this Scheme and the Secured Creditor Scheme.

Warrants means warrants issued by BLY.

Warrants Issue means the issue of warrants by BLY to existing Shareholders in accordance with **Section 5.4(d)** of the Explanatory Statement.

ANNEXURE A

Scheme of Arrangement

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Scheme of Arrangement

Boart Longyear Limited
ACN 123 052 728

and

Boart Longyear Management Pty Limited
ACN 123 283 545

and

Boart Longyear Australia Pty Limited
ACN 000 401 025

and

Votraint No. 1609 Pty Limited
ACN 119 244 272

and

The 7% Scheme Creditors

and

The Subordinate Claim Holders

CONTENTS

Schedule

THIS SCHEME OF ARRANGEMENT is made on 2017

BETWEEN:

(1) **Boart Longyear Management Pty Limited** ACN 123 283 545 of 26 Butler Boulevard, Burbridge Business Park, Adelaide Airport in the State of South Australia (**BLY Issuer**);

(2) **Boart Longyear Limited** ACN 123 052 728 of 26 Butler Boulevard, Burbridge Business Park, Adelaide Airport in the State of South Australia (**BLY**);

(3) **Boart Longyear Australia Pty Ltd** ACN 000 401 025 of 26 Butler Boulevard, Burbridge Business Park, Adelaide Airport in the State of South Australia (**BLA**);

(4) **Votraint No. 1609 Pty Limited** ACN 119 244 272 of 26 Butler Boulevard, Burbridge Business Park, Adelaide Airport in the State of South Australia (**Votraint**);

(5) the **7% Scheme Creditors**; and

(6) the **Subordinate Claim Holders**.

RECITALS:

(A) This Scheme is proposed in connection with: (a) Claims against the BLY Issuer by the Holders under the Finance Documents; (b) Claims against BLY by the Holders under the Finance Documents; (c) Claims against BLA by the Holders under the Finance Documents; (d) Claims against Votraint by the Holders under the Finance Documents; (e) any Subordinate Claim of any Subordinate Claim Holder.

(B) Each Obligor, pursuant to the Obligors Deed Poll, has consented to this Scheme, agreed to be bound by this Scheme as if it were a party to this Scheme and undertaken to perform all obligations and actions attributed to it under this Scheme.

(C) The Scheme Administrators, pursuant to the Scheme Administrators Deed Poll, have consented to act as Scheme Administrators, consented to this Scheme, agreed to be bound by this Scheme as if they were a party to this Scheme and undertaken to perform all obligations and actions attributed to the Scheme Administrators under this Scheme.

(D) The Trustee has undertaken that, immediately after it has received the instructions referred to in, or contemplated by, Step 1 (Deeds and Amendment Documents), the Trustee will, pursuant to the Trustee Deed Poll perform all actions attributed to it under this Scheme.

THE PARTIES AGREE AS FOLLOWS:

1. INTERPRETATION

1.1 Definitions

The following definitions apply in this document.

7% Scheme Creditors means the Holders as at the Effective Date.

7% Scheme Creditor Deed Poll means the deed poll executed by the Scheme Administrator as attorney and agent for the 7% Scheme Creditors as contemplated by clauses 5.2 and 7.5(a)(i)(A) of this Scheme in substantially the form set out in Schedule 4.

10% Noteholders means each "Holder" or "Securityholder" as those terms are defined in the 10% Secured Notes Indenture.

10% Secured Notes Indenture means the indenture dated 27 September 2013, between, amongst others, the BLY Issuer, as issuer, BLY, BLA and Votraint, as guarantors, amongst others, and U.S. Bank National Association, as trustee and collateral agent, in respect of the 10.00% secured notes, as amended, varied, or amended and restated from time to time.

A Warrants means the total number of Warrants to be issued to the Holders (or their nominee) on the terms set out in Schedule 8 in accordance with Step 4 (New Warrant issue) to be calculated in accordance with the following formula:

$A = B \times C / (1 - B)$

Where:

A is the number of A Warrants to be issued to all Holders

B is 5.0%

C is the sum of the total number of Shares on issue on the Implementation Date after the issue of the New Shares and the Conversion of the Convertible Preference Shares, plus the number of Shares to be issued pursuant to the Subscription Deed.

Accrued Interest means the interest that would have accrued on the principal amount of the Securities under the Indenture in the period from and including 1 January 2017 to the Implementation Date if:

(a) as at 1 January 2017, the principal amounts of the Securities had been US$88,000,000 and not US$284,000,000; and

(b) the rate of interest payable on the principal amounts of the Securities during that period had been 1.5% and not 7%.

Administrative Requirements means the conditions precedent to the amendment and supplement of the Indenture other than the conditions precedent relating to this Scheme or the Secured Creditor Scheme becoming Effective.

Aggregate Amount means, in respect of a 7% Scheme Creditor, the amount of principal and accrued but unpaid interest owing by the Companies, whether actually or contingently, to that 7% Scheme Creditor immediately prior to the commencement of Step 3 (New Share issue) on the Implementation Date.

Applicable Insurance Policy means any available policy of insurance under which BLY is entitled to indemnity in respect of any Subordinate Claim.

Ares Nominee Director means the person nominated by Ares Management LLC, on behalf of its affiliated funds and accounts, to be considered by Shareholders for election at the Shareholders Meeting as a director of BLY pursuant to the Director Nomination Agreement whose notice of candidature is received by BLY by the date required by the Constitution.

Ares / Ascribe Joint Nominee Director means the person jointly nominated by Ares Management LLC, on behalf of its affiliated funds and accounts, and Ascribe II Investments LLC to be considered by Shareholders for election at the Shareholders Meeting as a director of BLY pursuant to the Director Nomination Agreements whose notice of candidature is received by BLY by the date required by the Constitution.

Ascribe Nominee Director means the person nominated by Ascribe II Investments LLC, to be considered by Shareholders for election at the Shareholders Meeting as a director of

BLY pursuant to the Director Nomination Agreement whose notice of candidature is received by BLY by the date required by the Constitution.

ASIC means the Australian Securities and Investments Commission.

ASX means ASX Limited or the financial market operated by ASX Limited, as the context requires.

ASX Listing Rules means the listing rules of ASX, as waived or modified by ASX in respect of BLY, the Scheme or otherwise.

B Warrants means the total number of Warrants to be issued to the Holders (or their nominee) on the terms set out in Schedule 8 in accordance with Step 4 (New Warrant issue) of a number to be calculated in accordance with the following formula:

$A = B \times C / (1 - B)$

Where:

A is the number of B Warrants to be issued to all Holders

B is 2.5%

C is the sum of the total number of Shares on issue on the Implementation Date after the issue of the New Shares, the Conversion of the Convertible Preference Shares and the issue of A Warrants pursuant to this Scheme, plus the number Shares to be issued under the Subscription Deed.

BLY Schemes means this Scheme and the Secured Creditor Scheme.

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

Calculation Date means the day that is the second Business Day after the Effective Date.

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

CBP Nominee Directors means those persons (not exceeding five) nominated by Centerbridge Partners, L.P. on behalf of CBP, and its and their affiliates and managed funds to be considered by Shareholders for election at the Shareholders Meeting as a director of BLY pursuant to the Director Nomination Agreement whose notice of candidature is received by BLY by the date required by the Constitution.

Change of Control Event has the meaning given in clause 8.2(c).

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.

Companies means the BLY Issuer, BLY, BLA and Votraint.

Constitution means the constitution of BLY, as amended from time to time.

Conversion means the issue of Shares on conversion of the Convertible Preference Shares.

Convertible Preference Shares means the 434,001,986 convertible preference shares in the capital of BLY held by CCP II Dutch Acquisition - E2, B.V.

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

Costs means costs, charges, fees and expenses.

Court means the Supreme Court of New South Wales.

Debt Contribution Amount means, in relation to each 7% Scheme Creditor, its share of the Total Debt Contribution Amount to be calculated by the Scheme Administrator as follows:

A = (B / C) x D, where:

A is the relevant 7% Scheme Creditor's Debt Contribution Amount

B is the relevant 7% Scheme Creditor's Aggregate Amount

C is the Total Aggregate Amount

D is the Total Debt Contribution Amount

Deed Poll means the Scheme Administrators Deed Poll, the Trustee Deed Poll, the 7% Scheme Creditors Deed Poll, the Obligors Deed Poll or the Released Obligor Individual Deed Poll(s), as the context requires, and Deeds Poll means all of them or any combination of them, as the context requires.

Demands has the meaning given in clause 6.5(c).

Director Nomination Agreement means:

(a) the agreement between Centerbridge Partners, L.P. on behalf of CBP, and its and their affiliates and managed funds, and BLY in relation to the nomination of the CBP Nominee Directors to stand for election to the board of BLY;

(b) the agreement between Ares Management LLC, on behalf of its affiliated funds and accounts, and BLY in relation to the nomination of the Ares Nominee Director and the Ares/Ascribe Joint Nominee Director to stand for election to the board of BLY; or

(c) the agreement between Ascribe II Investments LLC and BLY in relation to the nomination of the Ascribe Nominee Director and the Ares/Ascribe Joint Nominee Director to stand for election to the board of BLY,

as the context requires, and Director Nomination Agreements means all of the above or any combination of them, as the context requires.

Effective means, when used in relation to this Scheme, the coming into effect of the Second Court Orders pursuant to section 411(10) of the Corporations Act.

Effective Date means the date on which each of the conditions precedent in clause 3.1 has been satisfied.

FATA means the *Foreign Acquisitions and Takeovers Act 1975* (Cth).

Final Chapter 15 Order means an order of the United States Bankruptcy Court Southern District of New York granting recognition to this Scheme and the Secured Creditor Scheme and giving full force and effect thereto.

Finance Document means each of the documents listed in Schedule 1.

First Court Date means the date of the hearing of an application for the First Court Orders or, if the hearing of that application is adjourned, the date to which the hearing is adjourned.

First Court Orders means the orders of the Court convening the Scheme Meeting under section 411(1) of the Corporations Act.

Fourth Supplemental Indenture means the fourth supplemental indenture substantially in the form set out in Schedule 3 of this Scheme which fourth supplemental indenture will take effect pursuant to Step 7 (Amendment) of the Scheme

Governmental Agency means any government or representative of a government or any governmental, semi-governmental, administrative, fiscal, regulatory or judicial body, department, commission, authority, tribunal, agency, competition authority or entity and includes any minister (including the Treasurer of the Commonwealth of Australia), ASIC, the Australian Competition and Consumer Commission, the Australian Taxation Office, ASX and any regulatory organisation established under statute or any stock exchange.

Guarantee Agreement has the meaning given to that term in the Indenture.

Holder has the meaning given to that term in the Indenture.

Implementation Date means the later of:

(c) five Business Days after the Effective Date; and

(d) if the Scheme Administrator forms the opinion that Steps 3 (New Share issue) to 8 (Compromise of Subordinate Claims) cannot occur on the date in (a) above, such later date on which, in the opinion of the Scheme Administrator, Steps 3 (New Share issue) to 8 (Compromise of Subordinate Claims) can occur on the same day, being a date that is not later than the Sunset Date.

Indenture means the indenture dated 28 March 2011 between the BLY Issuer, as issuer, BLY, as guarantor, and U.S. Bank National Association, as trustee, amongst others, as amended by the first supplemental indenture dated 14 June 2013, the second supplemental indenture dated 27 September 2013 and the third Supplemental Indenture dated 2 April 2017, as amended, varied, or amended and restated from time to time.

Liabilities has the meaning given in clause 6.5(a).

Losses has the meaning given in clause 6.5(b).

New Equity means the New Shares and the New Warrants.

New Money ABL means a new revolving ABL facility in an aggregate principal amount equal to US$75,000,000 to be entered into by the Companies.

New Shares means the total number of Shares to be issued in accordance with Step 3 (New Share issue) to be calculated in accordance with the following formula:

B = A/(1-0.915512292431746) – A, where:

A is the number of Shares on issue as at the Implementation Date

B is the number of New Shares to be issued

New Warrants means the A Warrants and the B Warrants.

Nominee Directors means any CBP Nominee Director, the Ares Nominee Director and the Ascribe Nominee Director.

Obligors means each of:

(a) BLY Issuer;

(b) BLY;

(c) BLA;

(d) Votraint;

(e) Boart Longyear Canada;

(f) Boart Longyear Chile Limitada;

(g) Boart Longyear Comercializadora Limitada.;

(h) Boart Longyear Company;

(i) Boart Longyear Manufacturing and Distribution Inc.;

(j) Boart Longyear Manufacturing Canada Ltd.;

(k) Boart Longyear S.A.C.;

(l) Boart Longyear Suisse Sarl;

(m) Longyear Canada, ULC;

(n) Longyear Holdings Inc.;

(o) Longyear TM, Inc.

Obligors Deed Poll means the deed poll executed by the Obligors dated on or around 12 May 2017.

Released Obligor Individual means each person who was, at any time between 28 March 2011 and the Implementation Date inclusive, a director or officer of any Obligor who has executed, or at any time executes (including by way of joinder), a Released Obligor Individual Deed Poll.

Released Obligor Individual Deed Poll means the deed poll substantially in the form set out in Schedule 7 of this Scheme.

Relevant Documents means this Scheme, the Obligors Deed Poll and the Fourth Supplemental Indenture.

RSA means the Restructuring Support Agreement entered into between, among others, BLY and BLY Issuer, dated 2 April 2017 as may be amended, modified or supplemented from time to time.

Scheme means the compromise or arrangement under Part 5.1 of the Corporations Act between the BLY Issuer, BLY, BLA and Votraint, the 7% Scheme Creditors and the Subordinate Claim Holders as set out in this document, subject to any alterations or conditions made or required by the Court.

Scheme Administrator means Scott Kershaw and Jenny Nettleton of Korda Mentha, or any other person who accepts the appointment to the role of scheme administrator of this

Scheme, subject to section 411(7) of the Corporations Act provided, in each case, they have each executed a deed poll in substantially the same form as the Scheme Administrators Deed Poll.

Scheme Administrators Deed Poll means the deed poll substantially in the form set out in Schedule 6 of this Scheme and executed by the Scheme Administrators.

Scheme Meeting means the meeting of Holders ordered by the Court to be convened under section 411(1) of the Corporations Act in relation to this Scheme, and includes any adjournment of that meeting.

Second Court Date means the first day of hearing of an application made to the Court for the Second Court Orders or, if the hearing of such application is adjourned for any reason, means the first day to which the hearing is adjourned.

Second Court Orders means the orders of the Court approving this Scheme under section 411(4)(b) (and, if applicable, section 411(6)) of the Corporations Act.

Secured Scheme Creditors means, the TLA Purchasers, the TLB Purchasers and the 10% Noteholders as at the Effective Date.

Secured Creditor Scheme means the compromise or arrangement under Part 5.1 of the Corporations Act between the Companies and the Secured Scheme Creditors, being the compromise or arrangement proposed by the Companies and approved by the Court.

Securities has the meaning given to that term in the Indenture.

Shareholder means each person entered in the register of members of BLY as the holder of at least 1 (one) Share as at the date for determining entitlements to vote at the Shareholder Meeting.

Shareholder Meeting means the general meeting of the Shareholders of BLY to be held to consider and vote on the Shareholder Resolutions, amongst other matters.

Shareholder Resolutions means resolutions at the Shareholder Meeting:

(a) for the purposes of ASX Listing Rule 7.1 and for all other purposes, to approve BLY issuing:

(i) New Shares and New Warrants pursuant to this Scheme, to the 7% Scheme Creditors; and

(iii) Warrants to Shareholders, other than affiliates of CBP;

(b) for the purposes of item 7 of section 611 of the Corporations Act, ASX Listing Rule 10.11 and Chapter 2E of the Corporations Act and all other purposes, to approve BLY issuing Shares to CBP and CBP acquiring Shares pursuant to the Subscription Deed;

(b) for the purposes of item 7 of section 611 of the Corporations Act and for all other purposes to approve:

(i) Ares; and

(ii) Ascribe,

acquiring New Shares pursuant to the Scheme; and

(c) appointing the Nominee Directors as directors of BLY.

Shares means fully paid ordinary shares in the capital of BLY.

Stamp Duty means any stamp, transaction or registration duty or similar charge imposed by any Governmental Agency and includes any interest, fine, penalty, charge or other amount in respect of the above.

Standard Tax Conditions means the conditions set out in Part A of the document entitled "Taxation Conditions of Certain No Objection Decisions" released by the Foreign Investment Review Board dated 3 May 2016.

Standstill Period has the meaning given in clause 8.1(a).

Step means any of Steps 1 (Deeds and Amendment Documents) to 8 (Compromise of Subordinate Claims) set out in clause 7.5 and Steps means all of them.

Subordinate Claim means a "subordinate claim" within the meaning of subsection 563A(2) of the Corporations Act, against BLY in respect of any fact, matter, circumstance or event which has arisen or occurred at any time prior to the commencement of Step 8 (Compromise of Subordinate Claims).

Subordinate Claim Holder means any person who, as at immediately prior to the commencement of Step 8 (Compromise of Subordinate Claims), has or, but for this Scheme, would be entitled to make, a Subordinate Claim.

Subscription Deed means the agreement between BLY and CBP pursuant to which Shares will be issued to CBP (or its nominee).

Subsequent Term Loan Amendments means the agreement between the TLA Purchasers and the Obligors to amend the interest rate applicable to the Term Loan A and the agreement between the TLB Purchasers and the Obligors to amend the interest rate applicable to the Term Loan B.

Sunset Date means 31 December 2017.

Term Loan A means the Term Loan A Securities Agreement, dated 22 October 2014, between, amongst others, the BLY Issuer, as issuer, BLY, BLA and Votraint, as guarantors, amongst others, and Wilmington Trust, National Association, as administrative agent and collateral agent, pursuant to which term loan securities were issued, as amended, varied or amended and restated from time to time.

Term Loan B means the Term Loan B Securities Agreement dated 22 October 2014, between, amongst others, the BLY Issuer, as issuer, BLY, BLA and Votraint, as guarantors, amongst others, and Wilmington Trust, National Association, as administrative agent and collateral agent, pursuant to which term loan securities were issued, as amended, varied, or amended and restated from time to time.

TLA Purchasers means the "Purchasers" as that term is defined in the Term Loan A.

TLB Purchasers means the "Purchasers" as that term is defined in the Term Loan B.

Total Aggregate Amount means the aggregate amount of principal and accrued but unpaid interest owing by the companies, whether actually or contingently, to the 7% Scheme Creditors under the Finance Documents immediately prior to the commencement of Step 3 (New Share issue) on the Implementation Date.

Total Debt Contribution Amount means the Total Aggregate Amount *less* US$88,000,000, less Accrued Interest.

Transaction Party means the parties to the Finance Documents.

Trustee means U.S. Bank National Association in its capacity as trustee under the Indenture and any successor trustee under that document.

Trustee Deed Poll means the deed poll substantially in the form set out in Schedule 5 of this Scheme and to be executed by the Trustee as contemplated in clause 7.5(a)(i)(C) of this Scheme.

Undertaking means the undertaking given by the Trustee to execute the Trustee Deed Poll in accordance with this Scheme.

Warranties means any warranties given by the Companies in favour of the Holders (as that term is defined under this Scheme and the Secured Creditor Scheme) under the RSA and any warranties given by the Holders (as that term is defined under this Scheme and the Secured Creditor Scheme) in favour of each other or the Companies under the RSA in contemplation of the transactions to be effected by, or in connection with, this Scheme and the Secured Creditor Scheme.

Warrants means warrants issued by BLY on the terms set out in Schedule 8.

1.2 **Rules for interpreting this document**

Headings are for convenience only, and do not affect interpretation. The following rules also apply in interpreting this document, 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 document) or agreement, or a provision of a document (including this document) or agreement, is to that document, agreement or provision as amended, supplemented, replaced or novated;

(iii) a party is a reference to a person who is bound by this Scheme, and any person who agrees to be bound whether by deed poll or otherwise;

(iv) a person includes a natural person, partnership, joint venture, Government Agency, association, corporation or other body corporate;

(v) a clause, term, schedule or attachment is a reference to a clause or term of, or, schedule or attachment to this Scheme;

(vi) this Scheme includes all schedules and attachments to it;

(vii) a law includes:

(A) any constitutional provision, treaty, decree, statute, regulation, by-law, ordinance or instrument;

(B) any order, direction, determination, approval requirement, licence or licence condition made, granted or imposed under any of them;

(C) any judgment; and

(D) any rule or principle of common law or equity,

and is a reference to that law as amended, supplemented, consolidated, replaced, overruled or applied to new or different facts;

(viii) an agreement other than this Scheme includes an undertaking, or legally enforceable arrangement or understanding, whether or not in writing;

(ix) **"dollars"** or **"US$"** or **"$"** is to an amount in the currency of the United States of America unless otherwise indicated;

(x) **"AU$"** is to an amount in the currency of the Commonwealth of Australia;

(xi) a thing (including, but not limited to, a chose in action or other right) includes a part of that thing; and

(xii) anything (including a right, obligation or concept) includes each part of it.

(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.

(f) Unless expressly provided otherwise, an agreement on the part of two or more persons binds them severally.

(g) Unless expressly provided otherwise, a reference to a date or time is to that date or time in Sydney, New South Wales.

1.3 **Non Business Days**

If the day on or by which a person must do something under this document is not a Business Day the person must do it on or by the next Business Day.

1.4 **The rule about "contra proferentem"**

This document is not to be interpreted against the interests of a party merely because that party proposed this document or some provision of it or because that party relies on a provision of this document to protect itself.

2. **THIRD PARTIES**

2.1 **Capacity of Trustee**

Any action taken (including the giving of any release) in connection with this Scheme by the Trustee, or on its behalf, is done in its capacity as trustee under the Indenture and not in the Trustee's personal capacity.

2.2 **Deeds Poll**

(a) This Scheme attributes actions to persons other than the Companies, the 7% Scheme Creditors and the Subordinate Claim Holders, being the Trustee, each Obligor (other than the Companies), each Released Obligor Individual and the Scheme Administrator.

(b) The Trustee has agreed or will agree, by executing the Trustee Deed Poll, to perform the actions attributed to it under this Scheme subject to the instructions set out in clause 4 and clause 7.5(a)(i)(B)(aa) of this Scheme.

(c) Each Obligor (other than the Companies), each Scheme Administrator and each Released Obligor Individual has agreed or will agree, by executing the relevant Deed Poll, to perform the actions attributed to it under this Scheme, and is taken to be a party to this Scheme on and subject to the provisions of the relevant Deed Poll.

(d) This Scheme also contemplates:

(i) the 7% Scheme Creditors entering into a deed poll as set out in clause 5.2; and

(ii) that any person who is entitled to become a Released Obligor Individual may enter into a Released Obligor Individual Deed Poll either on, before or after the Effective Date.

3. CONDITIONS PRECEDENT

3.1 Conditions

This Scheme is conditional upon, and will have no force or effect until, the satisfaction of each of the following conditions precedent:

(a) (**FATA**) in the case of each 7% Scheme Creditor and each other creditor of the Companies who notified the Treasurer of the Commonwealth of Australia in accordance with FATA (**Prescribed Creditor**) that it proposes to acquire Shares or Warrants or both under this Scheme or the Subscription Deed (the **Action**) and paid any applicable fee, one of the following occurs at or before 8.00 am on the Second Court Date:

(i) the day that is 10 days after the end of the decision period mentioned in section 77 of FATA passes without an order prohibiting the Action having been made under section 67 or 68;

(ii) if an interim order is made under section 68 of FATA, the end of the period specified in the order passes without an order prohibiting the Action under section 67 having been made; or

(iii) the Prescribed Creditor receives a no objection notice (within the meaning of FATA) in respect of the Action that notice being unconditional other than the Standard Tax Conditions or such other conditions which are acceptable to the Prescribed Creditor acting reasonably.

(b) (**Shareholder approval**) at or before 8.00 am on the Second Court Date the Shareholder Resolutions are passed by the requisite majority of Shareholders;

(c) (**ASX approval**) ASX provides written confirmation that the terms of the New Warrants are appropriate and equitable for the purposes of ASX Listing Rule 6.1 or otherwise waives the requirement for the warrants to comply with ASX Listing Rule 6.1;

(d) (**ASX waiver**) ASX provides a waiver of ASX Listing Rule 10.1 in respect of the Amended Term Loan A and the Amended Term Loan B;

(e) (**Holder approval**) the Scheme is agreed to by a majority of the Holders present and voting in person or by proxy at the Scheme Meeting, holding at least 75% of

the debt owed by the Companies to those Holders, in accordance with section 411(4)(a)(i) of the Corporations Act;

(f) (**Director Nomination Agreement**) each Director Nomination Agreement has been executed by the parties to that Director Nomination Agreement;

(g) (**deeds poll**) as at 8.00 am on the Second Court Date:

(i) the Scheme Administrators Deed Poll and the Obligors Deed Poll have been executed by the Scheme Administrators and the Obligors and continue to benefit the beneficiaries named in those deeds poll in accordance with their terms; and

(ii) no such Deed Poll has been terminated;

(h) (**undertaking**) as at 8.00 am on the Second Court Date:

(i) the Undertaking has been executed by the Trustee and continues to benefit the beneficiaries named in that Undertaking in accordance with its terms; and

(ii) no such Undertaking has been terminated;

(i) (**independent expert**) as at 8.00 am on the Second Court Date, KPMG Financial Advisory Services (Australia) Pty Ltd, the independent expert appointed by BLY, has not concluded that the Shareholder Resolutions are "not fair" and "not reasonable";

(j) (**New Money ABL**) as at 8.00 am on the Second Court Date, the New Money ABL has been duly executed and delivered by all parties to it and all conditions precedent to the New Money ABL have been satisfied (other than conditions precedent relating to this Scheme becoming Effective, the Secured Creditor Scheme becoming effective pursuant to section 411(10) of the Corporations Act, the Subsequent Term Loan Amendments becoming effective and the Final Chapter 15 Order being entered);

(k) (**Amendment**) as at 8.00 am on the Second Court Date, each of the Administrative Requirements have been satisfied (other than the execution of the Fourth Supplemental Indenture, the conditions precedent relating to this Scheme becoming Effective and the Secured Creditor Scheme becoming effective pursuant to section 411(10) of the Corporations Act);

(l) (**Subscription Deed**) as at 8.00 am on the Second Court Date, the Subscription Deed has been duly executed and delivered by all parties to it, remains in full force and effect, and all conditions precedent to the Subscription Deed have been satisfied (other than conditions precedent relating to this Scheme becoming effective and the Secured Creditor Scheme becoming effective pursuant to section 411(10) of the Corporations Act);

(m) (**Subsequent Term Loan Amendments**) as at 8.00 am on the Second Court Date, the Subsequent Term Loan Amendments have been duly executed and delivered by all parties to them, and all conditions precedent to the Subsequent Term Loan Amendments have been satisfied (other than conditions precedent relating to this Scheme becoming Effective and the Secured Creditor Scheme becoming effective pursuant to section 411(10) of the Corporations Act and being implemented);

(n) (**Regulatory Approvals**) as at 8.00 am on the Second Court Date, any approvals or consents, which are not otherwise described in this clause 3.1 but which are

required by law or by any Government Agency to have been obtained in order to implement this Scheme or the 7% Creditor Scheme, have been obtained on an unconditional basis and remain in full force and effect;

(o) (**Warranties**) as at 8.00 am on the Second Court Date, the Warranties are true and correct in all material respects;

(p) (**Court approval**) the Court makes the Second Court Orders, including with such alterations or conditions required by the Court under section 411(6) of the Corporations Act and the alterations or conditions (if any) do not change the substance of this Scheme, including the Steps, in any material respect or impose unduly onerous obligations on any of the parties, acting reasonably;

(q) (**other conditions**) any other conditions made or required by the Court under section 411(6) of the Corporations Act in relation to this Scheme (which conditions do not change the substance of this Scheme, including the Steps, in any material respect, or impose unduly onerous obligations on any of the parties, acting reasonably) have been satisfied;

(r) (**Effective**) this Scheme becomes Effective;

(s) (**Secured Creditor Scheme**) the court order pursuant to section 411(4)(b), and if applicable section 411(6), of the Corporations Act in respect of the Secured Creditor Scheme becomes effective pursuant to section 411(10) of the Corporations Act; and

(t) (**RSA**) the RSA has not been terminated in accordance with its terms.

3.2 **Certificate**

(a) On the Second Court Date, the Companies will provide a certificate to the Court (or such other evidence as the Court may request) confirming, in respect of matters within its knowledge, whether or not the conditions precedent set out in clauses 3.1(a) to 3.1(o) have been satisfied.

(b) The certificate (or other evidence) given by the Companies constitutes conclusive evidence, as between the parties, that the conditions precedent set out in clause 3.1(a) to 3.1(o) above have (or have not) been satisfied, as the case may be.

4. **THE TRUSTEE**

(a) On and from the Effective Date, notwithstanding any term of any relevant document, the 7% Scheme Creditors hereby:

(i) provide the Trustee with all instructions and consents that it requires from those 7% Scheme Creditors under the Indenture to amend or amend and restate (as applicable) the Indenture in accordance with this Scheme;

(ii) direct the Trustee to execute and do, and to instruct any other Transaction Party which it is entitled to instruct to execute and do, or otherwise procure to be executed and done, all such documents (including, without limitation, the applicable Deed Poll and the Fourth Supplemental Indenture), acts or things as may be necessary or desirable to be executed or done by it for the purposes of giving effect to the terms of this Scheme; and

(iii) provide the Trustee with all other instructions and consents that are necessary to enable the Trustee to do anything that this Scheme requires or otherwise provides for the Trustee to do.

(b) Each 7% Scheme Creditor and each Obligor will, if required, do such acts as may be required of it by the Scheme Administrator to give the instructions, consents and notifications referred to above and failing which the Scheme Administrator will do so on their behalf pursuant to clauses 5.1(a) and 5.1(b).

(c) Without limiting the provisions of clause 4(a) and Step 1 (Deeds and Amendment Documents), on the Effective Date, the 7% Scheme Creditors hereby irrevocably direct the Trustee to execute the Fourth Supplemental Indenture in accordance with clause 7.5(a)(i)(D) of this Scheme.

5. GRANT OF AUTHORITY IN FAVOUR OF THE SCHEME ADMINISTRATOR

5.1 General grant of authority

(a) The Trustee, each 7% Scheme Creditor and each Obligor irrevocably authorise each Scheme Administrator to take all steps and do all other things necessary or advisable to give effect to this Scheme.

(b) Without limitation to the generality of clause 5.1(a) and subject to clause 7.1(c), on and from the Effective Date, each 7% Scheme Creditor and each Obligor irrevocably appoints each Scheme Administrator as its agent and attorney to enter into, execute and deliver as a deed (or otherwise) any document and to take any step necessary, desirable or advisable to give effect to this Scheme (except for the Fourth Supplemental Indenture, which is to be executed by the Trustee as the party thereto in accordance with clause 7.5(a)(i)(D)).

(c) The appointments and authorities granted under this clause 5 and clauses 4 and 6 shall be treated for all purposes as being fully effective and having been granted by deed poll. The authorities granted in favour of each Scheme Administrator under this Scheme will terminate immediately on the retirement or resignation of each Scheme Administrator in accordance with clause 6 of this Scheme.

5.2 7% Scheme Creditor Deed Poll

Without limiting the generality of clause 5.1, on and from the Effective Date, each 7% Scheme Creditor irrevocably authorises the Scheme Administrator to execute and deliver, as its attorney and agent, a deed poll substantially in the form of Schedule 4, as amended to include the list of 7% Scheme Creditors.

6. SCHEME ADMINISTRATOR

6.1 Appointment of Scheme Administrators

Each Scheme Administrator will, on and from the Effective Date, be appointed jointly and severally as scheme administrator of this Scheme.

6.2 Qualification, appointment and cessation

(a) A person shall only be appointed as a scheme administrator of this Scheme, or replace a Scheme Administrator who ceases to be a scheme administrator of this Scheme (except by reason of resignation as the Scheme Administrator under clause 6.8) if the person:

(i) is not disqualified pursuant to section 411(7) of the Corporations Act;

(ii) consents to act as a scheme administrator; and

(iii) signs and delivers a deed poll substantially in the form of the Scheme Administrators Deed Poll.

(b) A person ceases to be a Scheme Administrator if he or she:

(i) is disqualified pursuant to section 411(7) of the Corporations Act;

(ii) resigns from the position of Scheme Administrator by not less than one month's notice in writing to the Companies;

(iii) is removed from the position of Scheme Administrator by an order of the Court;

(iv) becomes of unsound mind or a person whose person or estate is liable to be dealt with in any way under the law relating to mental health;

(v) becomes bankrupt; or

(vi) dies.

6.3 **Powers in relation to this Scheme**

Subject to clause 6.8, each Scheme Administrator:

(a) has the power to supervise, administer, implement and carry out its functions as set out in this Scheme;

(b) has the power to do anything else that is necessary or advisable for the purposes of administering this Scheme; and

(c) has the power to do anything that is incidental to the exercise of the powers conferred on him or her under clauses 6.3(a) and 6.3(b).

6.4 **Exercise of Powers**

(a) Each Scheme Administrator shall be entitled to:

(i) employ its partners and staff to assist it in the performance or exercise of its duties, obligations, responsibilities and powers under this Scheme;

(ii) appoint agents to attend to any matter that the Scheme Administrator might attend to under this Scheme and which the Scheme Administrator is unable to attend to or which it is unreasonable to expect the Scheme Administrator to attend to in person; and

(iii) appoint a solicitor, accountant, barrister or other professionally qualified person or persons to assist or advise the Scheme Administrator.

(b) Except as expressly provided in this Scheme, in exercising or performing any of its duties, obligations, responsibilities or powers under this Scheme, each Scheme Administrator is taken not to act as, nor to have any of the duties of, a trustee.

(c) Except where this Scheme expressly authorises a Scheme Administrator to act as agent and attorney for a person in the execution of documents, the Scheme Administrator does not act as agent or attorney for any party to, or person bound by, this Scheme and Claims or obligations of any kind whatsoever incurred in connection with its role as Scheme Administrator are incurred by it personally.

6.5 **Liability**

Subject to the Corporations Act, a Scheme Administrator is not, in the performance or exercise of its powers, obligations, functions and duties under this Scheme, personally liable for:

(a) any Claims or obligations of any kind whatsoever incurred by or on behalf of the Companies including, without limitation, any monies borrowed and interest thereon and any contracts adopted or otherwise agreed and any Stamp Duty payable on this Scheme and any tax liable to be remitted or otherwise paid (**Liabilities**);

(b) any loss or damage of any kind whatsoever caused by or resulting from any act, default or omission (**Losses**); or

(c) any actions, suits, proceedings, accounts, Claims or demands arising out of this Scheme which may be commenced, incurred by or made by any person and all Costs incurred in respect thereof (**Demands**),

whether before, during or after the Effective Date, unless attributable to fraud, wilful misconduct, reckless or gross negligence or breach of fiduciary duty.

6.6 **Indemnity**

(a) The Companies shall indemnify each Scheme Administrator for:

(i) all Liabilities, Losses and Demands (as defined in clause 6.5); and

(ii) all personal liability that the Scheme Administrator may incur in respect of his or her role as Scheme Administrator of the Companies,

unless attributable to fraud, wilful misconduct, reckless or gross negligence or breach of fiduciary duty.

(b) The indemnity under clause 6.6(a) takes effect on and from the Effective Date and is without limitation as to time notwithstanding the removal of the Scheme Administrator and the appointment of a replacement Scheme Administrator, the resignation of the Scheme Administrator or the termination of this Scheme for any reason whatsoever.

(c) The indemnity under clause 6.6(a) shall not:

(i) be affected, limited or prejudiced in any way by any irregularity, defect or invalidity in the appointment of the Scheme Administrator and shall extend to all actions, suits, proceedings, accounts, Liabilities, Claims and Demands arising in any way out of any defect in the appointment of the Scheme Administrator, the approval and implementation of this Scheme or otherwise; or

(ii) affect or prejudice all or any rights that the Scheme Administrator may have against any other person to be indemnified against the Costs, Losses and Liabilities incurred by the Scheme Administrator in, or incidental to the exercise or performance of any of the powers or authorities conferred on the Scheme Administrator by or in connection with this Scheme.

(d) This indemnity survives completion or termination of this Scheme.

6.7 **Remuneration**

Subject to the Corporations Act, each Scheme Administrator shall be entitled to remuneration for its services together with reimbursement for its Costs, from, and in accordance with the terms of their letter of engagement with, the Companies.

6.8 **Resignation of Scheme Administrator**

Immediately following the delivery of the register pursuant to clause 7.3(b) evidencing completion of the Steps, each Scheme Administrator resigns as (and is taken to have resigned as) Scheme Administrator.

6.9 **Directors of the Companies remain in control**

Subject to the terms of this Scheme:

(a) the directors of each of the Companies:

(i) remain in control of each of the Companies with respect to the conduct of their respective business; and

(ii) remain in control of all of the assets of the Companies; and

(b) the Scheme Administrators do not have, and cannot exercise, any power in connection with the matters reserved to the directors of the Companies referred to in clause 6.9(a) above.

7. **IMPLEMENTATION STEPS**

7.1 **Definitions, interpretation and undertaking not to make Claims**

(a) The parties acknowledge and agree that:

(i) subject to clause 7.1(c), all releases and discharges in this clause 7 are irrevocable at and from the time they are expressed to take effect;

(ii) a reference to an amount owing in this clause 7 is a reference to that amount whether actually or contingently owing;

(iii) notwithstanding anything in clause 7.5, anything (including an issue, allotment, release or discharge) occurring under a Step is binding and effective even if there is no consideration for it; and

(iv) solely for the purposes of determining:

(A) the time at which the Steps under this Scheme have been completed or have occurred (including as set out in clauses 7.2 and 7.4(c)); or

(B) whether or not Steps 3 (New Share issue) to 8 (Compromise of Subordinate Claims) can occur on the same day (including for the purposes of paragraph (b) of the definition of Implementation Date),

the Steps shall be deemed to have been completed or to have occurred immediately following the completion of the matters contemplated by paragraph (i) of Step 8 (Compromise of Subordinate Claims).

(b) Subject to clause 7.1(c), each party releasing a Claim or releasing any other party from an obligation owed to it by that party under this clause 7 absolutely and irrevocably undertakes to that party, at and from the time each such release is

expressed to take effect and subject to all conditions to that released Claim or released obligation (if any) having been satisfied in accordance with their terms, that it will not make any Claim in respect of the released Claim or obligation to the extent that the Claim or obligation has been released in accordance with this Scheme and this document may be pleaded as a bar to any such Claim in any jurisdiction whatsoever.

(c) Where, in the opinion of the Scheme Administrator, acting reasonably, as a result of a release, discharge, allotment, issue or other event referred to or contemplated by a Step failing to occur or to take effect, it is not possible to give effect to the intent and purpose of this Scheme in all material respects:

(i) no other release, discharge, allotment, issue or other event referred to or contemplated by the Steps has effect (including as a result of non-satisfaction of a condition to a released Claim or released obligation, if any), and each such release, discharge, allotment, issue or other event is deemed not to have effect; and

(ii) the Obligors, the Trustee, the Released Obligor Individuals and the 7% Scheme Creditors shall do all things reasonably necessary to put each other party in the position it would have been in if none of the Steps had occurred. This clause 7.1(c)(ii) survives and continues in effect notwithstanding the effect of clause 7.2.

7.2 **Sunset date**

If all of the Steps in clause 7.5 have not been completed by 11.59 pm on the Sunset Date, then with effect from that time, this Scheme will not be capable of implementation and this Scheme will lapse, terminate and be of no further force or effect (other than clause 7.1(c)(ii)).

7.3 **Scheme Administrator's register and certification**

(a) The Scheme Administrator must keep a register noting the time of completion of the Steps in the form of Schedule 2, and the Scheme Administrator must sign it where indicated on completion of each Step. Each of the register and a copy of the register certified by the Scheme Administrator will be conclusive evidence that the Step was completed at the time noted in the register.

(b) As soon as practicable after completion of the Steps, the Scheme Administrator will give a copy of the register, certified by the Scheme Administrator, to each of the Companies and the Trustee.

7.4 **Timing of Steps**

(a) As early as practicable on the Effective Date, the Scheme Administrator shall notify the Companies and the Trustee of the Effective Date and the Implementation Date. If the date notified by the Scheme Administrator as being the Implementation Date is a date other than the fifth Business Day after the Effective Date, the Scheme Administrator must give the Companies and the Trustee full details of the reasons for which Steps 3 (New Share issue) to 8 (Compromise of Subordinate Claims) inclusive are unable to occur on the fifth Business Day after the Effective Date.

(b) As soon as the Companies have received the notification referred to in clause 7.4(a), BLY must make a public announcement setting out the Effective Date and the anticipated Implementation Date.

(c) Steps 3 (New Share issue) to 8 (Compromise of Subordinate Claims) (inclusive) are to occur on the Implementation Date as set out in clause 7.5, subject to the prior

completion of Steps 1 (Deeds and Amendment Documents) and 2 (Calculations) (inclusive) in accordance with their terms.

(d) If there is a change to the date notified by the Scheme Administrator pursuant to clause 7.4(a) as being the Implementation Date:

(i) the Scheme Administrator must, as soon as practicable after the change, notify the Companies and the Trustee of the details of that change (including the reasons for it);

(ii) BLY must make a further public announcement setting out the change to the Implementation Date; and

(iii) any steps taken to comply with Step 2 (Calculations) must be repeated, taking into account the change to the Implementation Date.

7.5 **Steps**

(a) **Step 1 (Deeds and Amendment Documents)**:

(i) On the Effective Date, prior to any other Step commencing:

(A) first, the Scheme Administrator must execute and deliver the 7% Scheme Creditor Deed Poll;

(B) second:

(aa) each 7% Scheme Creditor and each Obligor gives the Trustee all instructions, consents and directions to execute and deliver the Trustee Deed Poll and to perform its obligations under the Trustee Deed Poll and this Scheme; and

(bb) the Scheme Administrator must provide to the Trustee written notice of the instructions and consents referred to in clause 7.5(a)(i)(B)(aa) on behalf of each 7% Scheme Creditor pursuant to the appointment in clause 5.1(b);

(C) third, in accordance with the instructions set out in clauses 4 and 7.5(a)(i)(B)(aa) of this Scheme, the Trustee will execute and deliver to the Scheme Administrator the Trustee Deed Poll;

(D) fourth, the Trustee (in each case, for itself and on behalf of the 7% Scheme Creditors in accordance with the powers granted by the 7% Scheme Creditors in clause 4 of this Scheme) and each Obligor shall execute and deliver the Fourth Supplemental Indenture to the Scheme Administrator to be held in escrow until immediately after completion of Step 3 (New Share issue) in accordance with Step 7 (Amendment); and

(E) fifth, the Trustee shall provide to the Scheme Administrator and the Companies a table which shows, according to the Trustee's records:

(aa) as at the Effective Date, the full name, postal address, email address and contact phone number of each 7% Scheme Creditor;

(bb) the Aggregate Amount in respect of each 7% Scheme Creditor; and

(cc) the Total Aggregate Amount.

(b) **Step 2 (Calculations)**:

On the Calculation Date, the Scheme Administrator shall:

(i) based on the information referred to in clause 7.5(a)(i)(E), and in accordance with the calculations set out in Step 3 (New Share issue) and Step 4 (New Warrant issue), calculate:

(A) the Debt Contribution Amount in respect of each 7% Scheme Creditor;

(B) the Total Debt Contribution Amount;

(C) the number of New Shares and New Warrants; and

(D) in respect of each 7% Scheme Creditor, the number of the New Shares and New Warrants to be issued to that 7% Scheme Creditor in accordance with Step 3 (New Share issue) and Step 4 (New Warrant issue) of this Scheme; and

(ii) provide the details of the calculations referred to in clauses 7.5(b)(i) and 7.5(a)(i)(E) above to the Companies and the Trustee and, subject to clause 7.4(d)(iii) and in the absence of manifest error, all of the calculations in clauses 7.5(b)(i) and 7.5(a)(i)(E) shall be final and binding on the parties.

(c) **Step 3 (New Share issue)**:

As early as practicable on the Implementation Date:

(i) BLY must allot and issue a number of the New Shares to each 7% Scheme Creditor (or their nominee, whose name and address is notified to BLY by any 7% Scheme Creditor, by no later than the Calculation Date) which is to be calculated as follows in respect of each 7% Scheme Creditor:

$$A = (B / C) \times D$$

Where:

A is the number of New Shares to be issued to that 7% Scheme Creditor

B is that 7% Scheme Creditor's Debt Contribution Amount

C is the Total Debt Contribution Amount

D is total number of New Shares

(d) **Step 4 (New Warrant issue):**

Immediately after the completion of the issue of Shares under the Subscription Deed, on the Implementation Date:

(i) BLY must issue a number of New Warrants to each 7% Scheme Creditor (or their nominee, whose name and address is notified to BLY by any 7% Scheme Creditor, by no later than the Calculation Date) of a number which is to be calculated as follows in respect of each 7% Scheme Creditor:

$E = (F / G) \times H$

Where:

E is the number of A Warrants to be issued to that 7% Scheme Creditor

F is that 7% Scheme Creditor's Debt Contribution Amount

G is the Total Debt Contribution Amount

H is total number of A Warrants

$I = (J / K) \times L$

Where:

I is the number of B Warrants to be issued to that 7% Scheme Creditor

J is that 7% Scheme Creditor's Debt Contribution Amount

K is the Total Debt Contribution Amount

L is total number of B Warrants

(ii) BLY shall procure that the name and address of each 7% Scheme Creditor (or its nominee, whose name and address is notified to BLY in accordance with clause 7.5(c)(i) or 7.5(d)(i)) to whom New Shares and New Warrants are issued under Step 3 (New Share issue) and Step 4 (New Warrant issue) is entered into BLY's register of members together with the number of New Shares and New Warrants issued to that 7% Scheme Creditor pursuant to clause 7.5(c) and this clause 7.5(d).

(iii) Where a 7% Scheme Creditor (or its nominee) would receive a fractional number of New Shares as a result of the operation of clause 7.5(c)(i), then the number of New Shares issued to that person under this Step 3 (New Share issue) will be rounded down to the nearest whole number.

(iv) Where a 7% Scheme Creditor (or its nominee) would receive a fractional number of A Warrants or B Warrants as a result of the operation of clause 7.5(d)(i), then the number of A Warrants or the number of B Warrants issued to that person under this Step 4 (New Warrant issue) will be rounded down to the nearest whole number.

(v) All Shares issued under Step 3 (New Share issue) and on the exercise of Warrants issued under Step 4 (New Warrant issue) rank pari passu amongst themselves and all other Shares then on issue and will be free from any encumbrances.

(vi) Each 7% Scheme Creditor to whom Shares are issued under Step 3 (New Share issue) and on the exercise of Warrants issued under Step 4 (New Warrant issue) is taken to have applied for such Shares and to have consented to become a member and agreed to the terms of the Constitution.

(e) **Step 5 (Release)**:

(i) Immediately after the completion of Step 4 (New Warrant issue), and simultaneously with Step 6 (Partial release of debt) and Step 7 (Amendment), subject to clause (ii) below:

(A) each 7% Scheme Creditor:

(aa) releases each Obligor from any Claim it has against that Obligor arising out of any Obligor's failure to comply with the Finance Documents between 28 March 2011 and the Implementation Date or the RSA prior to this Scheme becoming Effective;

(bb) releases each Released Obligor Individual from all Claims relating to any fact, matter, circumstance or event that arose or occurred in respect of, or in connection with, any Obligor between 28 March 2011 and the Implementation Date;

(cc) releases each other person that is a 7% Scheme Creditor from all Claims relating to any fact, matter, circumstances or event that arose or occurred as a result of any person's failure to comply with any Finance Document between 28 March 2011 and the Implementation Date or the RSA prior to this Scheme becoming Effective;

(B) each Obligor releases each 7% Scheme Creditor from any Claim it has against that 7% Scheme Creditor arising out of any 7% Scheme Creditor's failure to comply with the Finance Documents between 28 March 2011 and the Implementation Date or the RSA prior to this Scheme becoming Effective;

(C) each Released Obligor Individual releases each 7% Scheme Creditor and the Companies from all Claims relating to any fact, matter, circumstance or event that arose or occurred in respect of, or in connection with, any Obligor between 28 March 2011 and the Implementation Date;

except in the case of each of (A), (B) and (C), and in respect of each Claim:

(D) to the extent that such Claim relates to the released party's obligations under the RSA that require performance subsequent to this Scheme becoming Effective; or

(E) to the extent that the released party has engaged in fraud or wilful misconduct or been reckless, grossly negligent or dishonest in respect of the facts, matters, circumstances or events to which that Claim relates.

(ii) Notwithstanding paragraph (i) above, and subject to clause 7.5(g), each of the Finance Documents and the RSA remain in full force and effect.

(iii) Notwithstanding anything to the contrary in this Scheme, the releases, waivers and covenants given in this clause 7.5(e) shall not disentitle any 7% Scheme Creditor, the Obligors or the Released Obligor Individuals from enforcing their rights under this Scheme or in respect of any transaction to be implemented or consummated in connection therewith and each party

agrees that those releases, waivers and covenants will be limited to the extent necessary to permit each of them to enforce any such rights.

(f) **Step 6 (Partial release of debt)**:

Simultaneously with Step 5 (Release) and Step 7 (Amendment):

(i) each 7% Scheme Creditor releases each of the Obligors from its obligation to pay to the Trustee or the 7% Scheme Creditors pursuant to the Finance Documents an amount equal to the Total Debt Contribution Amount; and

(ii) each of the Trustee and the 7% Scheme Creditors consents to the release in clause 7.5(f)(i) and waives all rights that it may have to require that any person comply with any requirements relating to waiver or any other matter in any of the Finance Documents to the extent necessary to effect the release under clause 7.5(f)(i).

(g) **Step 7 (Amendment)**

Simultaneously with Step 5 (Release) and Step 6 (Partial release of debt), the Scheme Administrator shall release the Fourth Supplemental Indenture from escrow, at which point the Fourth Supplemental Indenture shall operate in accordance with its terms.

(h) **Step 8 (Compromise of Subordinate Claims)**:

(i) Immediately after the completion of Step 7 (Amendment):

(A) the right and entitlement of each Subordinate Claim Holder to enforce as against BLY any Subordinate Claim is limited to the amount (if any) actually recovered by BLY under any Applicable Insurance Policy, net of any expenses (including defence costs) incurred by BLY and/or any relevant insurer in connection with the claim (**Net Proceeds**); and

(B) BLY is released from any obligation to pay any amount in respect of any Subordinate Claim (including interest and costs) in excess of the Net Proceeds referrable to that claim.

(ii) Where BLY is entitled to claim under any Applicable Insurance Policy all or part of the amount claimed under a Subordinate Claim, BLY shall take all reasonable steps to make and pursue a claim for indemnity under the Applicable Insurance Policy in respect of that Subordinate Claim.

(iii) Immediately after the completion of Step 8 (Compromise of Subordinate Claims), each 7% Scheme Creditor releases each other person that is a 7% Scheme Creditor from all Claims and obligations under the Scheme and the Steps, except to the extent that such Claim relates to the released party's obligations under the RSA that require performance subsequent to this Scheme becoming Effective.

7.6 **No inconsistent acts**

The parties agree to treat themselves as bound by this Scheme for all purposes and not to act otherwise than in accordance with this Scheme.

8. STANDSTILL AND CONSENTS

8.1 Standstill

(a) During the period on and from the Effective Date up to the completion of Step 8 (Compromise of Subordinate Claims) (the **Standstill Period**), the Trustee and each 7% Scheme Creditor agrees that it will not, except for the purpose of enforcing the terms of this Scheme, or any Deed Poll or as otherwise expressly provided by this Scheme:

(i) exercise any right or remedy it may have under or in connection with the documents governing their respective Claims against the Obligors, including any right to seek interest payments under any such document, or under any applicable United States, Australian, Canadian or foreign law or otherwise with respect to any defaults, events of default or default events, howsoever described, which may arise under such documents;

(ii) commence or continue any legal action, Claim or other proceedings against any Obligor or the assets of any Obligor, including but not limited to in connection with any rights arising out of an event of default, default or default event, howsoever described, under any Finance Document;

(iii) exercise and, in the case of the 7% Scheme Creditors, not direct the Trustee to exercise, and shall instruct the Trustee to desist from exercising, any rights under any Finance Document;

(iv) take any step to enforce or make any demand under any guarantee, security or other right of recourse held by the 7% Scheme Creditors in respect of any Finance Document;

(v) take, or concur in the taking, of any step to wind up, appoint a liquidator, administrator, receiver, receiver and manager, or analogous office over, or commence any other insolvency related or attachment proceedings against, any Obligor or the assets of any Obligor;

(vi) take any steps to demand or enforce payment of all or part of any money owing, whether actually or contingently, by any Obligor pursuant to a right under any Finance Document;

(vii) declare any event of default, default or default event, howsoever described, under any Finance Document, including in respect of any circumstances subsisting as at or prior to the Effective Date;

(viii) ask or require any Obligor under any Finance Document to make any payment in respect of any indebtedness, liability or obligations (in each case, including at law) of such Obligor, including under or in connection with any Finance Document or any transaction under, or contemplated by, any Finance Document;

(ix) institute or prosecute any legal proceedings in relation to any Claim under any Finance Document against any Obligor or any other person to be released under this Scheme to the extent that such Claim or obligation is to be released under this Scheme; or

(x) exercise any rights against any Obligor which they may have on the occurrence of a breach, default, event of default, potential event of default or termination event (in each case, howsoever described or arising) under any Finance Document.

(b) During the Standstill Period, the Trustee and each 7% Scheme Creditor agrees not to dispose of or transfer any right under the Indenture and the 7% Scheme Creditors direct the Trustee not to register any such disposal or transfer.

8.2 **Consent, waiver and release**

The Trustee, each 7% Scheme Creditor, and each Obligor whose consent or agreement is necessary under the Indenture to give effect to this Scheme:

(a) irrevocably consents and agrees to each Obligor:

(i) entering into, or otherwise becoming bound by, each Relevant Document;

(ii) performing its respective obligations and transactions under, or as contemplated by those Relevant Documents (including, but not limited to, Court applications for the purposes of this Scheme); and

(iii) carrying out any step for the purposes of, or otherwise acting consistently with, those Relevant Documents;

(b) agrees that no breach, non-compliance, default, event of default or potential event of default or termination event (in each case, howsoever described) under any Finance Document:

(i) has occurred (and agrees that it is taken to have not occurred), as a result of;

(ii) has been caused by (and agrees that it is taken to have not been caused by);

(iii) is continuing (and agrees that it is taken not to be continuing), as a result of; or

(iv) will or can occur, as a result of or be caused by,

any Obligor entering into or performing any Relevant Document or the obligations or transactions under, or contemplated by, any Relevant Document (including, but not limited to, any court applications for the purposes of this Scheme) or carrying out any step for the purposes of, or otherwise acting consistently with the Relevant Documents, and if any such event is deemed to have occurred then it is expressly waived notwithstanding any requirements relating to waiver in the Finance Documents;

(c) without limiting any other clause in this Scheme, agrees that if any change of control, in each case howsoever described, (**Change of Control Event**) has occurred under any of the Finance Documents at any time, up to and including the Implementation Date, any rights arising out of or in connection with the Change of Control Event are waived notwithstanding any requirements relating to waiver in the Finance Documents;

(d) agrees and consents to any releases which are given, or disposals of rights or other property which are made or occur, by any Obligor under, or which are otherwise contemplated by, the Relevant Documents; and

(e) agrees that the Trustee has committed no breach, non-compliance or default under the Finance Documents by executing the Undertaking, and if any such event is deemed to have occurred then it is expressly waived notwithstanding any requirements relating to waiver in the Finance Documents.

9. NOTICES

9.1 How to give a notice

A notice, consent or other communication under this document is only effective if it is:

(a) in writing, signed by or on behalf of the person giving it;

(b) addressed to the person to whom it is to be given; and

(c) either:

(i) sent by pre-paid mail (by airmail, if the addressee is overseas) or delivered to that person's address;

(ii) sent by fax to that person's fax number and the machine from which it is sent produces a report that states that it was sent in full without error; or

(iii) sent in electronic form (such as email).

9.2 When a notice is given

A notice, consent or other communication that complies with this clause is regarded as given and received:

(a) if it is sent by fax or delivered, if received:

(i) by 5.00 pm (local time in the place of receipt) on a Business Day - on that day; or

(ii) after 5.00 pm (local time in the place of receipt) on a Business Day, or on a day that is not a Business Day - on the next Business Day;

(b) if it is sent by mail:

(i) within Australia - three Business Days after posting; or

(ii) to or from a place outside Australia - seven Business Days after posting; and

(c) if it is sent in electronic form - when the sender receives confirmation on its server that the message has been transmitted:

(i) if it is transmitted by 5.00 pm (Sydney time) on a Business Day – on that Business Day; or

(ii) if it is transmitted after 5.00 pm (Sydney time) on a Business Day, or on a day that is not a Business Day – on the next Business Day.

9.3 Address for notices

A person's mail and email address and fax number are those set out below, or as the person notifies the sender:

(a) **Scheme Administrator**

Attention: Scott Kershaw and Jenny Nettleton

Address: Korda Mentha
Level 5, 2 Chifley Square
Sydney

New South Wales 2000
Australia

Fax: +61 2 8257 3044

Email: jnettleton@kordamentha.com

(b) **Trustee**

Attention: Corporate Trust Services

Address: U.S. Bank National Association
170 South Main Street, Suite 200
Salt Lake City
Utah 84101
United States

Fax: (801) 534-6013

With a copy to (but which will not constitute notice):

Attention: Mark Williamson

Address: Piper Alderman
Level 23
Governor Macquarie Tower
1 Farrer Place
Sydney
New South Wales 2000
Australia

Fax: +61 2 9253 9900

Email: mwilliamson@piperalderman.com.au

And

Attention: Frank Ciaccio

Address: Dorsey & Whitney LLP
51 West 52nd Street
New York
NY 10019-6119
United States

Email: ciaccio.frank@dorsey.com

(c) **Obligors (including the Companies)**

Attention: Fabrizio Rasetti

Address: Boart Longyear
2570 West 1700 South
Salt Lake City
UT. 84104
United States

Email: frasetti@boartlongyear.com

With a copy to (but which will not constitute notice):

Attention: James Marshall

Address: Ashurst Australia
Level 11
5 Martin Place
Sydney NSW 2000
Australia

Fax: + 61 2 9258 6999

Email: james.marshall@ashurst.com

With a copy to (but which will not constitute notice):

Attention: Dennis F. Dunne and Evan R. Fleck

Address: Milbank Tweed Hadley & McCloy LLP
28 Liberty Street
New York
NY 10005
United States

Fax: +1 212 822 5567

Email: efleck@milbank.com / ddunne@milbank.com

(d) **7% Scheme Creditors**

Attention: Matt Sheahan

Address: Ares Management LLC
2000 Avenue of the Stars
12th Floor
Los Angeles, California 90067
United States

Fax: +1 (310) 861-1611

Email: msheahan@aresmgmt.com

And:

Attention: Lawrence First

Ascribe II Investments LLC
299 Park Avenue, 34th Floor
New York, New York 10171
United States

Fax: +1 (212) 697-5524

Email: lfirst@ascribecapital.com

With a copy to (but which will not constitute notice):

Attention: Michael Dodge and Genevieve Sexton

Address:	Arnold Bloch Leibler 333 Collins Street Level 21 Melbourne Victoria 3000 Australia
Fax:	+61 3 9916 9321 / +61 3 9916 9391
Email:	mdodge@abl.com.au / gsexton@abl.com.au

With a copy to (but which will not constitute notice):

Attention:	Michael H. Torkin and Daniel L. Biller
Address:	Sullivan & Cromwell LLP 125 Broad Street New York, New York 10004 United States
Fax:	+1 (212) 291-9376 / +1 (212) 291-9693
Email:	torkinm@sullcrom.com / billerd@sullcrom.com

10. GENERAL PROVISIONS

10.1 Further assurances

The Scheme Administrator, the Trustee, each 7% Scheme Creditor and each Obligor must do all things and execute all deeds, instruments, transfers or other documents as may be necessary or desirable (in the opinion of the Companies, acting in good faith) to give full effect to the terms of this Scheme and the transactions contemplated by it.

10.2 Binding effect of Scheme

This Scheme binds the Companies, each 7% Scheme Creditor (including each 7% Scheme Creditor who did not attend the Scheme Meeting, who did not vote at the Scheme Meeting or who voted against this Scheme) and each Subordinate Claim Holder (despite the fact that a meeting of those creditors has not been ordered by the Court under section 411(1) of the Corporations Act) and, to the extent of any inconsistency, overrides the terms of the Indenture. This Scheme also binds any party who agrees to be bound by this Scheme pursuant to a Deed Poll.

10.3 Costs and Stamp Duty

(a) The Companies are liable for, and must pay all Stamp Duty on or relating to the execution, delivery and performance of this Scheme, any instrument executed under or in connection with this Scheme or any transaction evidenced, effected or contemplated by this Scheme.

(b) If a person other than the Companies pays any Stamp Duty on or relating to the execution, delivery and performance of this Scheme, any instrument executed under or in connection with this Scheme or any transaction evidenced, effected or contemplated by this Scheme, then the Companies must pay that amount to the paying party on demand.

(c) This clause 10.3 survives completion of this Scheme.

10.4 **Amendment**

A provision of this Scheme may not be amended or varied except by an order of the Court pursuant to section 411(6) of the Corporations Act, being an order which imposes alterations or conditions which do not change the substance of this Scheme, including the Steps, in any material respect.

10.5 **Governing Law and jurisdiction**

(a) This Scheme is governed by the laws of the State of New South Wales.

(b) Each party submits to the non-exclusive jurisdiction of the courts of that State and courts of appeal from them, in respect of any proceedings arising out of or in connection with the subject matter of the Scheme.

10.6 **Holding statements, register of members and admission to official quotation**

(a) BLY must procure that, within 10 Business Days after completion of the Steps, each 7% Scheme Creditor to whom New Shares under Step 3 (New Share issue) are issued is sent a holding statement (or equivalent document) representing the number of Shares issued to that 7% Scheme Creditor pursuant to this Scheme; and

(b) On the Implementation Date, BLY must apply to ASX for, and will use its best endeavours to obtain quotation of the New Shares.

ANNEXURE B

KordaMentha Report

KordaMentha
restructuring

Boart Longyear Limited

Independent experts' report in relation to the proposed schemes of arrangement

1 May 2017

KordaMentha
restructuring

Chifley Tower
Level 5, 2 Chifley Square
Sydney NSW 2000

GPO Box 2523
Sydney NSW 2001

+61 2 8257 3000
info@kordamentha.com

kordamentha.com

Mr James Marshall
Partner
Ashurst Australia
Level 11
5 Martin Place
Sydney NSW 2000

1 May 2017

Dear Mr Marshall

Independent Experts' Report in relation to the proposed Schemes of Arrangement ('the Schemes') for Boart Longyear Limited ('BLY')

We refer to your letter of instruction dated 1 May 2017, in which you requested we prepare an Independent Experts' Report for the Schemes.

This report addresses the matters which we were instructed to address in the letter of instruction.

Our comments and findings assume that the factual information provided to us by the Group is materially accurate. We understand you have shown a draft of the report to senior personnel of BLY, and to advisors to BLY, and that they have confirmed to you that, to the best of their knowledge, the factual information in the report does not contain any omissions or errors and the report accurately sets out the recent results, state of affairs and prospects of the Group.

This report has been prepared solely for the recipients and purposes stated in the letter of instruction (included at Appendix A to the report) and should not be used for any other purpose.

Thank you for your instructions on this matter.

Yours sincerely

Scott Kershaw
Partner

Jenny Nettleton
Executive Director

Contents

1 Introduction

On 2 April 2017, Boart Longyear Limited ('ListCo') and Boart Longyear Management Pty Limited ('FinCo') entered into a Restructuring Support Agreement ('RSA') in relation to a proposed restructure of financing facilities provided to FinCo, which are guaranteed by other companies in the Group. It is proposed that ListCo, FinCo, Boart Longyear Australia Pty Limited and Votraint No. 1609 Pty Limited (together, the 'Scheme Companies') enter into two creditors' schemes of arrangement, plus other associated documents, to implement the proposed restructure.

This report considers the current valuation of ListCo and its subsidiaries (which includes the Scheme Companies) and the outcomes for Beneficiaries of the proposed creditors' schemes of arrangements ('the Schemes') if the Schemes are approved or, alternatively, if the Scheme Companies were wound up within six months of the hearing date for orders under section 411(1) and (1A) of the Corporations Act 2001 ('the Act').

All amounts in this report are expressed in United States dollars (USD) unless otherwise indicated.

1.1 Scope of work

Included at Appendix A is our Letter of Engagement dated 1 May 2017. We have been instructed to address the following matters in this report:

1. The solvency of the Group following the implementation of the proposed Schemes.
   a. solvency is to be determined following completion of the Schemes
   b. solvency is to be determined with reference to section 95A of the Act.
2. The value of the assets of the Group generally relative to the debts owing under the Finance Facilities.
3. The expected dividend that would be respectively available to the:
   a. Secured Scheme Creditors
   b. Unsecured Scheme Creditors
   c. holders of Subordinate Claims against the Scheme Companies

   if the Scheme Companies were to be wound up within six months of the hearing of the application for an order under section 411(1) and (1A) of the Act.
4. The expected dividend that would be respectively paid to the:
   a. Secured Scheme Creditors
   b. Unsecured Scheme Creditors
   c. holders of Subordinate Claims against the Scheme Companies

   if the Schemes were put into effect as proposed.

   We are instructed that the requirement to calculate the expected dividend that would be paid to scheme creditors if the schemes were to be put into effect as proposed is drawn from Section 8201(b) in Part 2 of Schedule 8 of the Corporations Regulations 2001 (Cth). We are instructed that if, in response to point 1 above, we conclude that the Scheme Companies will be solvent following the implementation of the Schemes, the Scheme Companies would not be wound up following the implementation of the Schemes and based on the terms of the Schemes, despite the calculation required by the Regulations, no dividend would actually be paid to the Secured Scheme Creditors and Unsecured Scheme Creditors. In these circumstances, we are instructed that point 4 above still requires us to calculate the dividend that would be paid to Secured Scheme Creditors and Unsecured Scheme Creditors if the Scheme were implemented, which dividend must be calculated as if a winding up follows the implementation of the Schemes even though it would not do so in our opinion. We are instructed that if we conclude in response to point 1 above that the Scheme Companies would be solvent following the implementation of the Schemes, in order to reduce the risk that a reader of our report might be confused by the use of the term "expected dividend" in circumstances where the Scheme Companies are not being wound up, we have been requested that where we are addressing the calculation described in point 4 above in our

report we refer to implied value of the interests of the Secured Scheme Creditors and the Unsecured Scheme Creditors (Implied Value) instead of "expected dividend".

5. The likely outcome for the Group should the Schemes not be implemented:
   a. having regard to the Scheme Companies' existing financial position, and projections, and
   b. for the purposes of considering this matter only, assuming that there is no standstill in place in respect of the interest payments due to the Secured Scheme Creditors and the Unsecured Scheme Creditors on 1 April 2017.

The outcome of our work is summarised in Table 1.

Table 1 – Scope of work, section guide and conclusions

Item	Scope	Section	Conclusion
1	The solvency of the Group following the implementation of the proposed Schemes	4	In our opinion, the Group will be solvent after implementation of the Schemes. However, if the payment of April 2017 interest is required to be made, our opinion would change.
2	The value of the assets of the Group generally relative to the debts owing under the Finance Facilities	3	We have determined the Enterprise value of the Group to be $266.6 million, which is less than the amount owing under its Finance Facilities of $779.6 million.
3	The expected dividend which would be paid to Beneficiaries if the Scheme Companies were to be wound up within six months of the hearing date	5	The expected dividend to Beneficiaries in a winding up of the Scheme companies is as follows[1]: **Secured Scheme Creditors** Secured Notes: 22.1 TLB: 35.4 TLA: 32.6 **Unsecured Scheme Creditors** Unsecured Notes: Nil **Subordinate Claims**: Nil
4	The Implied Value of the interests of the Beneficiaries if the Schemes were put into effect as proposed, after implementation of the Schemes	5	The Implied Value of the interests of the Beneficiaries if the Schemes were put into effect as proposed, after implementation of the Schemes is as follows[2]: **Secured Scheme Creditors** Secured Notes: 61.0 TLB: 64.3 TLA: 47.2 **Unsecured Scheme Creditors** Subordinated Notes: Nil **Subordinate Claims**: Nil
5	The likely outcome for the Group should the Schemes not be implemented	6	In our opinion, if the Schemes are not implemented, the Australian Group companies would likely be placed into external administration and other Group companies may seek protection from their creditors in their respective jurisdictions.

Our relevant experience is outlined in our curricula vitae which are attached at Appendix B.

A glossary of abbreviations used throughout this report is included at Appendix D.

[1] The above returns are calculated based on the secured claims as at 28 February 2017.
[2] The above Implied Values are calculated based on secured claims as at 28 February 2017, adjusted on a pro-forma basis to calculate interest at the amended rates pursuant to the terms of the Restructuring Support Agreement. We are instructed that accrued PIK interest on the TLA and TLB loans does not form part of the secured claims amount.

1.2 Limitations and restrictions

There are no specific limitations and restrictions within the scope of work we have been instructed to perform. In preparation of this independent expert report, we were provided with information from the Group as set out in Appendix C and footnotes to this report, and obtained additional information from public sources. The documents we have utilised to support our opinions in this report are identified throughout the report by way of footnote or by reference to the information included in Appendix C. In the preparation of this report, we have relied upon the accuracy and completion of information provided by the Group and its advisors.

Neither KordaMentha nor we warrant the accuracy of the information supplied to us and we are not responsible in any way whatsoever to any person in respect of errors in this report arising from incorrect information supplied to us.

The statements and opinions given in this report are wholly based on our own specialised knowledge, given in good faith and in the belief that such statements are not false or misleading. Except where otherwise stated, we reserve the right to alter any conclusions reached on the basis of any changed or additional information which may be provided to us between the date of this report and the date of the meetings called pursuant to section 411(1) of the Act. We have no responsibility to update this report for events or circumstances occurring after the date of this report, apart from any subsequent arrangement.

We note that our statements and opinions are based on a number of assumptions detailed throughout the report, along with the rationale for these assumptions. Unless otherwise noted, we have not been instructed to make these specific assumptions. In considering the outcomes to the Beneficiaries of the Schemes, we have necessarily relied on forecast financial statements provided by the Group.

The forecast information and the assumptions upon which the forecasts are based are solely the responsibility of management and, insofar as the assumptions relate to the future or may be affected by unforeseen events, we can express no opinion on how closely the forecasts will correspond to actual results. While we have reviewed the high level assumptions underlying the forecast information, we do not express an audit opinion or any other form of assurance on these forecasts or assumptions and our comments are based on our evaluation.

We have complied with the requirements of APES 215 – Forensic Accounting Services and APES 225 – Valuation Services, the professional code of practice of CPA Australia and the Chartered Accountants Australia and New Zealand. The valuation included in this report is a limited scope valuation engagement for the purposes of complying with APES 225 – Valuation Services. The reasons for the limitations are set out in Appendix E.

1.3 Pre-existing relationships

We have read ASIC Regulatory Guide 112 on independence and are of the opinion that there is no:

- actual, or perceived, conflict of interest
- actual, or perceived, threat to independence
- other reason for which the engagement could not be accepted.

In accordance with RG112.23 and RG112.28 to RG112.36, the below provides a summary of our prior engagement with the Group and its legal advisors:

2013 engagement

333 Group Pty Limited ('333'), an associated entity of KordaMentha, was engaged by the Group pursuant to a letter of engagement dated 11 November 2013 and undertook the following tasks:

- Reviewed the Group's financial forecasts.
- Assessed the impact of a proposed refinance on the Group and its compliance with existing covenants.
- Assisted the Group to consider recapitalisation options.

2014 engagement

333 was further engaged by the Group pursuant to a letter of engagement dated 10 March 2014 and undertook scenario and deleveraging analysis.

All work under the engagements was completed by September 2014, prior to the TLA and TLB financing structure being implemented. In our opinion, these engagements do not impair our independence, on the basis that:

- 333 did not provide any advice in relation to the financial structure as it now exists.
- The engagements were completed in excess of two years prior to receiving instruction to prepare this report.
- KordaMentha has not undertaken any engagements for any of the Secured Scheme Creditors or the Unsecured Scheme Creditors in relation to the Group.

KordaMentha has been instructed by Ashurst, legal advisors to the Group, to prepare this report. We have not undertaken any other engagements under instruction from Ashurst in relation to the Group. KordaMentha has instructed Ashurst on other matters in which KordaMentha partners and/or staff are involved, in their capacities as receivers, administrators, deed administrators or liquidators of certain companies. In our opinion, these other engagements involving Ashurst do not impair our independence.

In our opinion, there are no other previous relationships, nor other considerations that impair our independence.

1.4 Reliance

This report has been prepared, and may be relied on, solely for the purpose contemplated in the letter of engagement included at Appendix A. This report, or any part of it, may only be published or distributed:

- as an annexure to the explanatory statements to be provided to the Beneficiaries and any relevant authority (including ASIC and the ASX) in relation to the Schemes
- as an annexure to a notice of meeting to the shareholders of the Scheme Companies
- as an annexure to any prospectus issued in connection with the Scheme Companies
- in accordance with any law or by order of a court of competent jurisdiction.

The express written consent of us and KordaMentha must be obtained prior to relying upon, publishing or distributing this report, or part of it, for any purpose other than that detailed above. Neither KordaMentha nor we accept responsibility to anyone if this report is used for some other purpose.

1.5 Assistance by colleagues

In order to arrive at our opinions in this matter, we have selected colleagues to assist us. Our colleagues carried out the work that we decided they should perform. We have reviewed their work and original documents to the extent we considered necessary to form our opinions. The opinions expressed in this report are ours.

1.6 Statement regarding expert witness code

We have read, understood and complied with the Expert Witness Code of Conduct from the Uniform Civil Procedure Rules 2005 (NSW).

As expert witnesses, we have also complied with our general duties to the Court, which include:

- We have a paramount duty to the Court which overrides any duty to any party to the proceedings including our clients.
- We have an overriding duty to assist the Court on matters relevant to our area of expertise in an objective and unbiased manner.
- We have a duty not to be an advocate to any party to the proceedings including our clients.
- We have a duty to make it clear to the Court when a particular question or issue falls outside our area of expertise.

2 Proposed restructure

2.1 The Group

The Group is headquartered in Salt Lake City, in the state of Utah, USA with the ultimate parent company, ListCo, being an Australian company listed on the Australian Securities Exchange ('ASX').

The Group operates two global businesses, Products and Drilling Services:

- The Products division manufactures drill rigs and drill rig components for sale to third parties and its own Drilling Services division
- The Drilling Services division provides aboveground and underground drilling services predominately to mining and resource companies in key markets across North America, Latin America, Australasia and South East Asia as well as Africa and the Middle East

The Group's customers are predominately large mining houses and drilling services companies. The Group's Drilling Services division primarily services the mineral sector, and has a fleet biased towards exploration rather than extraction. The Group has minimal exposure to the oil and gas sectors.

2.2 Current capital structure

As at 28 February 2017, the Group had total finance debt of $779.6 million ('Total Debt'), pursuant to the following facilities ('the Finance Facilities').

Table 2 – Group debt structure as at 28 February 2017

Facility	Maturity	Interest rate (p.a.)	Total due $million[3]
10% Senior Secured Notes ('Secured Notes')	1 October 2018	10.0%	203.0
Term Loan A[4] ('TLA') and accreted Interest	3 January 2021	12.0%	112.3
Term Loan B[5] ('TLB') and accreted Interest	3 January 2021	12.0%	135.7
Secured revolving working capital facility ('ABL')[6]	29 May 2020[7]	Variable	16.5
Delay Draw Loan Facility ('DDL')	31 December 2020	12.0%/10.0%[8]	20.0
7% Unsecured Secured Notes ('Unsecured Notes')	1 April 2021	7.0%	292.1
Total[9]			**779.6**

FinCo is the Group's sole borrower under the Finance Facilities, except for the DDL for which BLY IP Inc is borrower. Several companies in the Group have provided guarantees and security to support the Finance Facilities.

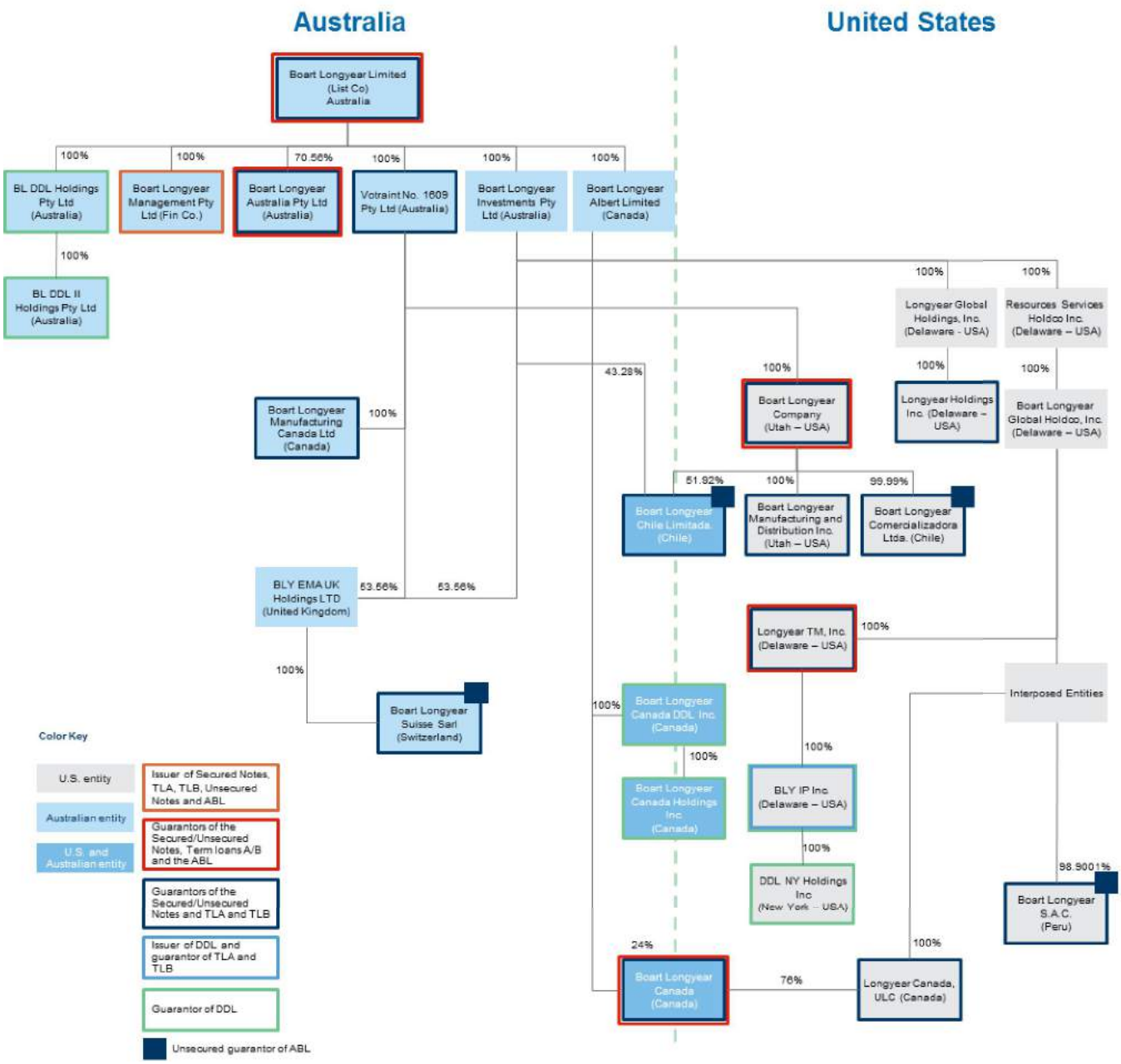
The limit of the ABL is $40.0 million, of which $5.0 million is subject to an availability block (the Group is not currently meeting certain criteria to enable this amount to be utilised). The drawn balance as at 28 February 2017 was $16.5 million, excluding letters of credit issued against facility limit of $11.9 million. In March 2017, a further $1.7 million was drawn on the ABL.

[3] Total due includes interest accrued for the two months ended 28 February 2017. Prepaid Australian withholding tax has been excluded from the debt due under the TLA and TLB.
[4] Debt Balance excludes Australian withholding tax
[5] Ibid
[6] Drawn balance as at 28 February 2017 excluding letters of credit of $11.9 million (i.e. total of $28.4 million).
[7] Maturity is the earlier of 29 May 2020, or 90 days prior to the expiration of the Secured Notes, TLA or TLB
[8] 12.0% p.a. applicable if interest elected to be paid in kind, or 10.0% p.a. if paid in cash
[9] Exclusive of debt issuance costs and finance lease liabilities

The Group also entered into an agreement on 2 April 2017 for an additional interim funding facility ('Interim Facility') from Centerbridge, Ares and Ascribe in the amount of $15.0 million. The initial funding under the Interim Facility was $7.5 million and the Interim Facility is forecast to be fully drawn prior to the implementation of the Schemes.

A summary of the Group corporate and financing structure is set out below.

Figure 1 – Simplified corporate and financing structure[10]



[10] Source: Group records

2.3 Overview of proposed restructure

On 2 April 2017, the Group signed a Restructuring Support Agreement with a number of its lenders.

It is proposed the Scheme Companies enter two creditors' schemes of arrangement as follows:

1. Secured Scheme – for the lenders under the TLA and TLB and holders of the Secured Notes (together the 'Secured Scheme Creditors')
2. Unsecured Scheme – for the holders of the Unsecured Notes (the 'Unsecured Scheme Creditors')

(together, 'the Schemes').

A suite of associated transactions is also proposed, which together with the Schemes, are referred to as the 'Recapitalisation Transactions'.

The purpose of the Recapitalisation Transactions is to reduce the level of indebtedness and amend the terms of the Finance Facilities, having regard to the Group's forecast and sector outlook.

The details of the proposed Schemes and the implementation steps are set out in the Scheme Documents, including:

- The Explanatory Statements
- The schemes of arrangement

(together, 'the Scheme Documents').

This report should be read in conjunction with the Scheme Documents.

If implemented, the Recapitalisation Transactions will alter the current capital structure through:

- Converting to equity a proportion of the Unsecured Notes
- Amending both the maturity and interest terms on Senior Notes, TLA and TLB. The maturity dates of the current debt obligations (excluding the ABL, DDL and Interim Facility) will be extended to 31 December 2022
- The issue of new shares to the TLA and TLB lenders
- The issue of new shares and warrants to holders of the Unsecured Notes.

As a result of the issues of new shares, existing shareholder holdings (excluding Centerbridge) will be diluted to 2.0%, before the option to participate in a share purchase plan for up to AUD $9.0 million and further dilution from warrants being exercised.

2.4 Amendment to debt capital structure

The amendments to each of the Finance Facilities is detailed below.

2.4.1 Amendment to Term Loan A and Term Loan B

The Secured Scheme proposes, in relation to TLA and TLB, that the maturity date of TLA and TLB will be extended to 31 December 2022.

Pursuant to Other Recapitalisation Transactions:

- The interest rate will be reduced from 12.0% to 10.0% through to 31 December 2018 and thereafter, 8.0%. Interest on both TLA and TLB will continue to be paid in kind ('PIK') through the issuance of additional notes at each coupon payment date.

- As consideration for the amendments and resulting interest saving, Centerbridge (as holder of the TLA and TLB) will receive 52.3% of the Company's ordinary equity post-implementation. This is in addition to ListCo's ordinary shares currently held by Centerbridge entities or shares issued on conversion of preference shares held by Centerbridge which together will total 3.7% of the ordinary shares on a diluted basis.

2.4.2 Amendment to Secured Notes

The Secured Scheme will extend the maturity date of the Secured Notes from 1 October 2018 to 31 December 2022. The Group will have the option to pay the first four coupon payments post-restructure in cash at the rate of 10.0% p.a. or in-kind at the rate of 12.0% p.a. Thereafter, the Group must pay interest in cash at the rate of 10.0% p.a. The Group's ability to transfer assets outside the Secured Note guarantor group will also be limited for the benefit of Secured Noteholders.

The coupon payment date will also be amended from April and October to June and December. BLY IP Inc. (the IP Obligor) will also provide a junior unsecured guarantee to holders of the Secured Notes.

2.4.3 Amendment to Unsecured Notes

The Unsecured Scheme proposes that the Unsecured Notes be amended such that the Unsecured Notes balance in excess of $88.2 million[11] will be converted into ordinary shares. The terms of the remaining $88.2 million in Unsecured Notes ('the Subordinated Notes')[12] will be amended as follows:

- expiry of 31 December 2022
- interest rate of 1.5% p.a. (with interest payable in kind).

New ordinary shares will be issued such that the Subordinated Note holders hold 42.0% of the shares on issue in ListCo immediately after implementation of the Schemes but before warrant dilution.

In addition:

- Equity warrants equivalent to 5.0% of the ordinary shares in ListCo will be issued to the holders of the Subordinated Notes, with a seven-year exercise period and a strike price equal to the share value implied by an Enterprise Value of $750.0 million.[13]
- Equity warrants equivalent to 2.5% of the ordinary shares in ListCo will be issued to the holders of the Subordinated Notes, with a seven-year exercise period and a strike price equal to the share value implied by an Enterprise Value of $850.0 million.[14]

The conversion to equity of some of the Unsecured Notes will reduce the Group's cash interest payments by approximately $19.9 million p.a. through to April 2021.

2.4.4 Repayment of DDL and Interim Facility and upsizing of ABL

In January 2017, Centerbridge provided the Group (through BLY IP Inc.) with a new facility of $20.0 million (the 'DDL'). Drilling equipment with a net book value of $50.0 million was transferred to new entities within the Group structure to allow the DDL Obligors to provide security for the DDL.

Centerbridge, Ares and Ascribe have also undertaken to make available the Interim Facility of $15.0 million, which is expected to be fully drawn by the time the Schemes are implemented.

[11] The amount of Unsecured Notes to remain is $88.2 million, comprised of $88.0 million plus accreted interest from 1 January 2017 to 28 February 2017 at 1.5% p.a.
[12] Payments on the Subordinated Notes will be subordinated to payments, to the extent unsecured, on the TLA and TLB
[13] Enterprise Value to be calculated with reference to the net debt balance that exists immediately after implementation of the Schemes.
[14] Ibid

Both the DDL and the Interim Facility are proposed to be repaid immediately after implementation of the Schemes from the Upsized ABL, which will increase from $40.0 million to $75.0 million. The Upsized ABL will be underwritten by Centerbridge and other major shareholders, and will have the same security as the existing ABL. The transfer of assets and provision of security in relation to the DDL noted above will be unwound following the repayment of the DDL as agreed by the Group in the RSA.

We have been advised that the $5.0 million availability block under the ABL will not be a term of the Upsized ABL such that the full $75.0 million will be available to the Group.

The debt of the Group is detailed in Table 3.

Table 3 – Group debt pre and post-restructure (balances as at 28 February 2017)

	Pre-restructure			Post-restructure	
Debt facility	**Maturity date**	**Balance ($'million)**	**Adjustment**	**Balance ($'million)**	**Maturity**
Secured Notes and Accreted Interest	1 October 2018	203.0	0.6	203.6	31 December 2022
TLA and Accreted Interest	3 January 2021	112.3	(0.4)	111.9	31 December 2022
TLB and Accreted Interest	3 January 2021	135.7	(0.4)	135.3	31 December 2022
ABL/Upsized ABL[15]	29 May 2020	16.5	20.0	36.5	29 May 2020
DDL Facility	31 December 2020	20.0	(20.0)	-	N/A
Unsecured Notes	1 April 2012	292.1	(292.1)	-	N/A
Subordinated Notes and Accreted Interest	N/A	-	88.2	88.2	31 December 2022
Total		**779.6**	(204.1)	**575.5**	

Adjustments

The adjustments noted above take into account both the resizing of the debts, as well as proposed amendments to the interest rates which will apply retrospectively to the debt balances as at 31 December 2016. The interest rate applicable to TLA and TLB will be reduced from 12.0% to 10.0% effective 1 January 2017 and the interest on the Secured Notes increases to 12.0% from 10.0%. The pro-forma balance of the new Subordinated Notes includes accrued interest on the $88.0 million face value calculated at the facility interest rate of 1.5% effective from 1 January 2017.

The Interim Facility of $15.0 million has not been included in the above table as it had not been drawn down at 28 February 2017 (but has subsequently been partially drawn). The Interim Facility balance as at Scheme implementation will increase the Upsized ABL by a corresponding amount.

[15] The Upsized ABL includes the refinance of the DDL and Interim Facility balances of $20.0 million and $15.0 million respectively, which are assumed to be fully drawn at Scheme implementation. The increased limit of $75.0 million under the Upsized ABL will be utilised to repay these facilities and the existing ABL. The DDL was fully drawn but the Interim Facility had a nil balance as at 28 February 2017

Shareholding changes

The composition of the shareholder register pre and post the Recapitalisation Transactions being implemented is show in Table 4 below.

Table 4 – Pro-forma shareholder register pre and post-restructure (pre-dilution)[16]

Shareholder class	Shares outstanding pre-restructure '000	% interest voting rights	Adjustment '000	Shares outstanding post-restructure '000	% interest voting rights
Convertible preference shares[17]	434,002	-	(434,002)	-	-
Ordinary shares – Centerbridge	464,502	48.9%	434,002	898,504	3.7%
Ordinary shares – other shareholders	485,270	51.1%	-	485,270	2.0%
Subordinated Noteholders[18]	-	-	10,190,660	10,190,660	42.0%
TLA and TLB	-	-	12,689,044	12,689,044	52.3%
Total preference and ordinary shares outstanding	**1,383,774**		**22,879,704**	**24,263,478**	**100.0%**

In addition to issuing new ordinary shares to the holders of the Subordinated Notes and the TLA and TLB lenders, ListCo will also issue equity warrants to the holders of the Subordinated Notes as detailed at paragraph 2.4.3.

The issuance of new shares will require the approval of current shareholders. If shareholders do not approve the issuance of new shares, the Recapitalisation Transactions will not be implemented.

[16] Pro-forma shareholdings calculated immediately after the Recapitalisation Transactions have been implemented and before any dilution from instruments not considered in Table 4.
[17] These shares are converted into ordinary shares as part of the implementation of the proposed restructuring (albeit not as part of the Schemes), such that the equity outcome set out in Table 4 is achieved.
[18] Does not include any shares already held by holders of the 7% Unsecured Notes.

3 Valuation of the Group

3.1 Summary

We have been asked to assess the value of the assets of the Group generally relative to the debts owing under the Finance Facilities.

We have undertaken a limited scope valuation engagement ('Valuation') of the Group, as that term is defined in APES 225 - Valuation Services. Our valuation is limited in scope because of the limitations outlined in Appendix E of this report. Any references to our Valuation of the enterprise of the Group is a reference to our assessed indicative valuation of the enterprise of the Group.

We have assessed the Enterprise Value of the Group (including surplus assets) to be in the range of $246.5 million to $286.6 million, as set out in Table 5 below.

Further details of the valuation methodology and approach that we have adopted are set out in the section below and in Appendices E to I.

Table 5 – Summary of estimated Enterprise Value of the Group

Valuation methodology	Section reference	Low ($'million)	High ($'million)
Primary methodology			
Earnings capitalisation valuation	3.3	246.5	286.6
Valuation cross-check			
DCF valuation	3.4	210.6	274.1
Net tangible business assets	3.4	250.1	250.1

As detailed in Table 3, as at 28 February 2017, Total Debt was $779.6 million, which exceeds the assessment of Enterprise Value by circa $500 million.

3.2 Methodology

In forming our view of the Enterprise Value of the Group, we have assessed relevant available information, including the Group's Budget Model, audited historic financial results, budget for the year ending 31 December 2017 and other available relevant information (including publicly available information).

We have considered the valuation methodologies outlined in ASIC RG 111 and it is our view that, given the nature of the assets, the capitalisation of future maintainable earnings approach is the most appropriate valuation methodology and we have adopted it as our primary valuation approach. We have cross checked the valuation outcomes under our primary approach:

- using a DCF valuation approach
- with reference to the net tangible business assets of the Group as at 28 February 2017.

A more detailed discussion of the valuation methodologies adopted is set out in Appendix E.

We have also considered a market-based valuation approach, however we deemed this not to be an appropriate reflection of value, for the reasons outlined in Appendix E.

Tax losses carried forward and Canadian tax dispute

Various entities within the Group had available carried forward income tax losses as at 31 December 2016. Forecasts show that the Group overall will continue to incur losses for several more years. We have attributed no value to these carried forward tax losses because:

- The recoverability of the tax losses to a potential purchaser of the Group is subject to certain tests under Australian taxation law (continuity of ownership test, same business test and debt forgiveness) and there is no certainty that those tests will be passed.
- Based on the current circumstances facing the Group and its future prospects, it is uncertain whether the Group will generate sufficient future assessable income to utilise the losses.
- We have not been provided with the necessary information to allow us to review the availability of the tax losses for offset against any future taxable income.

Our assessment of the tax losses is consistent with the accounting treatment of the tax losses adopted by the Group in its financial statements.[19]

The Group is currently in a dispute with the Canadian tax authorities in relation to the 2007 to 2012 tax years and anticipates that similar disputes will arise in relation to the 2013 to 2014 tax years. The Group believes it is too early to forecast an outcome of the disputes and to the extent it is relevant, we have not adjusted our valuation for these items.[20]

3.3 Earnings multiple valuation

Our earnings based valuation is based on the audited financial results for the year ended 31 December 2016 ('FY16 Accounts') and management's budget included in the Budget Model for the year ending 31 December 2017 ('FY17 Budget').

The FY16 accounts were audited by Deloitte and the FY17 Budget was prepared by Management and approved by the Board on 15 December 2016.

We have considered the historic and one year forward EV/EBITDA multiples of comparable listed companies and the earnings multiples implied by recent acquisitions of businesses similar to the Group in assessing the Enterprise Value of the Group. We have assessed an appropriate EBITDA multiple range for the Group to be 6.0x to 7.0x one year forward forecast EBITDA (as shown at Appendix G).

A description of each comparable listed company and the details of the earnings multiples implied by the current market capitalisation of each comparable listed company is set out in Appendices F and G.

3.3.1 FY17 budget review

A memorandum prepared for the Group's Executive Committee sets out the following key comments in relation to the FY17 budgeting process:[21]

- While key mining performance indicators are showing signs of improvement, volatility remains in the Group's underlying markets.
- Metal prices will remain depressed and cost pressures in the mining industry are expected to continue in 2017.
- Global exploration spend is estimated to be $9.0 billion in 2017 which is an increase on previous years (see Figure 2).
- Cash generation continues to be a priority to de-lever the business.

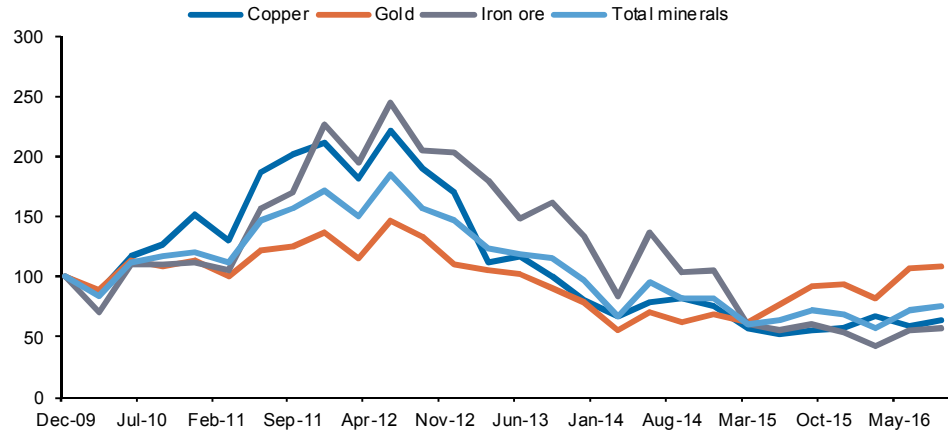
[19] The Group did not recognise a tax asset arising from the current year losses in its audited financial statements for the year ended 31 December 2016
[20] Boart Longyear Canadian tax update
[21] 2017 Budgeting Process Context Memo.V2

- Cash flow from operations will improve through process enhancements, continued reduction in inventory levels and other operational efficiencies and improvements.
- The Group developed three main business improvement initiatives in late 2015 which were implemented in 2016. The ongoing process efficiencies and cash cost savings arising from these initiatives will be realised in 2017.

Figure 2 shows the quarterly private resources and energy exploration expenditure index for Australia, which indicates a year-on-year recovery in in Australia; one of the Group's key markets. This, in part, supports the forecast revenue increase for FY17.

Figure 2 – Private mineral exploration expenditure (Australia)[22]

Quarter-on-quarter moving average growth rate (rebase to 100 at December 2010)



We have also reviewed a presentation detailing the FY17 budget process and underlying key assumptions. That presentation noted that the FY17 budget included the following key assumptions:[23]

- The cost savings initiatives which commenced in 2016 are expected to result in cash flow benefits of $57 million[24] being realised throughout 2017.
- Capital expenditure for the Group will not exceed $27.0 million in 2017[25].

[22] Quarterly private resources and energy exploration expenditure, Australia statistics published by the Office of the Chief Economist, Department of Industry, Innovation and Science dated February 2017
[23] Prelim. 2017 Op Plan.V11_ext
[24] Risk Hedge of $5 million is included in liquidity forecast, so adjusted cash benefit is $52 million
[25] The Group has forecast $35.2 million in capital expenditure including $6.0 million related to the consolidation of sites in Salt Lake City, and $1.9 million in relation to a proposed investment in a supplier.

Table 6 summarises the FY16 actual and FY17 budget, and the variances are discussed below.

Table 6 – Comparison of the FY16 actual and FY17 budget[26]

($'000)	FY16 actual	FY17 budget	Variance
Revenue	642,404	681,909	39,505
Cost of sales	(556,569)	(573,349)	(16,780)
Gross profit	85,835	108,560	22,725
Gross margin	*13.8%*	*15.9%*	*2.1%*
SG&A	(137,236)	(119,644)	17,592
Other expenses	(18,360)	(59,331)	(40,971)
Total other expenses	(155,596)	(178,975)	(23,379)
Other income*	8,939	-	(8,939)
EBIT	**(60,822)**	**(70,415)**	(9,593)
Depreciation and amortisation	62,470	61,924	(546)
EBITDA	**1,648**	**(8,491)**	(10,139)
Restructuring expense	30,400	48,573	18,173
Adjusted EBITDA	**32,048**	**40,082**	8,034

** The budget does not separately record other income and it may be recorded under revenue for budget purposes.*

Overall, EBITDA is budgeted to be ($8.5) million in FY17 which includes $48.6 million of restructuring expenses. Adjusted EBITDA (before restructuring expenses) is budgeted to improve from $32.0 million in FY16 to $40.1 million in FY17. This represents an increase of $8.0 million in underlying earnings for FY17.

The increase in FY17 adjusted EBITDA compared to FY16 is due to the following key assumptions: [27]

- improvements in volume, productivity and cost control
- fixed costs will remain flat in each geographic region
- the gross margin will improve due to higher productivity and continuation of business improvement initiatives.

The budgeted revenue of the Products division in FY17 assumes:[28]

- prices will remain constant
- an expected increase in sales volumes driven by an increase in drilling activity in the mining services industry.

The budgeted revenues of the Drilling Services division in FY17 assumes:[29]

- increased drilling rig activity due to expected increasing demand for drilling services
- minimal foreign exchange impact on revenues in foreign jurisdictions
- pricing pressures (primarily in the EMEA region) offsetting some of the above benefits.

[26] Project Phoenix 2017 Budget Model Reconciliation_External_v34 and Annual Financial Report 2016
[27] Prelim. 2017 Op Plan.V11_Ext
[28] Prelim. 2017 Op Plan.V11_Ext
[29] Ibid

The budget process for Drilling Services makes assumptions in relation to contract renewals and work to be won. Contracts and the resulting revenue are classified as either:[30]

- Under Contract: identified customers and works under contract
- Probable: identified customers where management has assessed there is more than an 80% chance that works will commence
- Blue Sky: unidentified customers where management has assessed a 50% to 80% chance that works will commence.

3.3.2 January and February 2017 performance against budget

We have been provided with the actual financial results of the Group for January and February 2017. The table below compares the actual and budgeted financial results for the period.

Table 7 – Comparison of actual and budgeted financial results for the two months ended February 2017[31]

Two months ended February 2017 ($'000)	Actual	Budget	Variance	Variance %
Revenue	101,660	94,322	7,338	7.8%
Cost of sales	(93,461)	(88,524)	(4,937)	(5.6%)
Gross profit	8,199	5,797	2,402	41.4%
SG&A	(16,958)	(19,630)	2,672	13.6%
Other expenses	(7,980)	(18,125)	10,145	56.0%
Total other expenses	(24,938)	(37,755)	12,817	33.9%
Other income*	1,408	-	1,408	0.0%
EBIT/operating loss	**(15,331)**	**(31,958)**	**16,627**	**52.0%**
Depreciation and amortisation	11,738	13,218	(1,480)	11.2%
EBITDA	**(3,593)**	**(18,740)**	**15,147**	**80.8%**
Restructuring expense	5,731	14,205	(8,474)	59.7%
Adjusted EBITDA	**2,138**	**(4,535)**	**6,673**	**147.1%**

**The budget does not separately record other income and it may be recorded under revenue for budget purposes.*

A comparison of the actual results to budget for January and February 2017 shows that the Adjusted EBITDA is higher than budgeted by $6.7 million. The improved result is a consequence of:

- significantly higher actual revenues ($101.6 million) than budget ($94.3 million)
- an overall reduction in actual SG&A and other expenses relative to budget
- considerably lower restructuring expenses than budgeted due to timing.

3.3.3 Measure of earnings

The choice between EBITDA, EBITA and EBIT as a measure of earnings to be capitalised is usually not critical in the valuation process and should provide similar valuation results. All are commonly used in the valuation of businesses with similar business activities and operating risks to the Group ('Peer Group'). Although it is difficult to include companies with businesses directly comparable to the business of ListCo, the Peer Group we have selected includes a number of listed companies which provide a range of different services to the mining sector in Australia and overseas.

[30] Ibid
[31] 2017 Financial Statements – Feb v1 BL and Annual financial report 2016 and Project Phoenix 2017 Budget Model Reconciliation_External_v34

In our opinion, EBITDA is preferred where depreciation or non-cash charges distort earnings or make comparisons with other companies difficult. Therefore, in determining the Enterprise Value of the Group, we have placed reliance on the EBITDA multiples implied by the current market capitalisation of the Peer Group and recent acquisitions of businesses similar in nature to the Group.

3.3.4 Earnings

We have assessed the current Enterprise Value of the Group on the basis of the FY17 EBITDA forecast in the Budget Model. The Budget Model forecasts a loss of $8.5 million at EBITDA level. The forecast loss of $8.5 million includes $48.6 million of restructuring expenses, which are considered to be once-off expenses that should be excluded from an assessment of the maintainable earnings of the Group.

Despite recent substantial losses, the Group has generated substantial earnings in prior years when the exploration and resource development activity was substantially higher. Before its decline in FY13, the Group generated EBITDA of $350 million in FY12. While we have considered whether the maintainable EBITDA should be based on an average EBITDA throughout the business cycle, given the historical volatility and recent trends, we have determined that the recent earnings are the most appropriate basis on which to value the Group.

We consider the Group's forecast FY17 adjusted EBITDA of $40.1 million as being representative of the future maintainable earnings of the enterprise for valuation purposes as it excludes items that are one-off in nature. We note that the budgeted FY17 EBITDA of $40.1 million is only $8.0 million higher than the adjusted actual FY16 EBITDA of $32.1 million.

3.3.5 Earnings multiple range

In assessing an appropriate earnings (EBITDA) multiple to apply in valuing the enterprise of the Group, we have analysed the earnings multiples implied by:

- The current market capitalisation of the Peer Group (including a 25% increase for an assumed control premium which is discussed further in Appendix E). We have analysed both the implied historic and forecast multiples (FY+1) of the Peer Group at Appendix G. Our analysis of the Peer Group at that Appendix implies forecast FY+1 EBITDA multiples in the range of approximately 5.0x to 12.4x with a median of 8.8x. We have used a Peer Group analysis of both Australian and international companies, including companies that operate in the US and Canada.
- Acquisitions of businesses similar in nature to the Group based on transactions occurring over the past 36 months. Many of those transactions did not involve businesses which were comparable either in size, industry or operations to the Group and therefore we have excluded them from our analysis.

Table 8 is a summary of the transactions that we analysed:

Table 8 – Transaction multiples[32]

Date	Description of transaction	Implied EBITDA Multiple
February 2014	Skilled Group agreed to acquire T & C Services Pty Ltd from Thomas & Coffey Limited.	4.7 x EBITDA (LTM)
December 2015	Kingfish Limited (NZSE:KFL) managed by Fisher Funds Management Limited completed the sale of its stake in Opus International Consultants Ltd. (NZSE:OIC) in the second quarter of 2015.	6.9 x EBITDA (FY+1)
January 2016	Dar Al-Handasah Consultants (Shair & Partners) (U.K.) Limited acquired WorleyParsons Limited (ASX:WOR)	5.1 x EBITDA (FY+1)
March 2016	CIMIC Group offer to acquire Macmahon Holdings Limited	5.9 x EBITDA (FY+1)
May 2016	Hitachi Construction Machinery Co., Ltd. (TSE:6305) acquired Bradken Limited (ASX:BKN)	6.3 x EBITDA (FY+1)
February 2017	Resource Capital Fund IV acquired Ausenco Limited	5.9 x EBITDA (FY+1)
February 2017	CIMIC Group acquired Sedgman Limited	10.4 x EBITDA (FY+1)

[32] S&P Capital IQ

The table above shows that the prices exchanged in almost all of the transactions analysed implied EBITDA multiples in the range of 5.1x to 10.4x (FY+1).

Summary - EBITDA multiple range

Based on our analysis of the Peer Group multiples and the earnings multiples implied in recent transactions of similar businesses, and taking into account the characteristics of the Group, we have assessed an appropriate EBITDA multiple range to be 6.0x to 7.0x EBITDA for the one year forward forecast period.

We have considered the companies in the Peer Group and the level of capital required in each business. The Group has a more capital intensive business than the majority of its peers and our determination of an EBITDA multiple range takes this into account.

We have selected EBITDA multiples that are towards the mid to low end of the Peer Group range, as several of the Peer Group companies have operations which are either larger and more diversified than the Group or less capital intensive. Our low multiple of 6.0x is slightly above the first quartile EV/EBITDA multiples of the Peer Group for the FY+1 period and our high multiple of 7.0x is in the middle of the first quartile and average EV/EBITDA multiples of the Peer Group for the FY+1 period.

3.3.6 Surplus assets

The FY16 financial statements of the Group identified 'Assets classified as held for sale' with a value of $5.9 million[33] as at 31 December 2016. These assets consist primarily of excess rigs and ancillary equipment which are not expected to generate any part of the budgeted FY17 earnings of the Group.

The Group has identified an opportunity to benefit from the disposal of these assets by eliminating the ongoing costs associated with maintaining these assets. We have therefore included the book value of these 'surplus' assets in our assessed Enterprise Value.

We have not adopted any additional value for cash. The Group has advised it requires a minimum cash holding of approximately $25.0 million, and this holding is assumed in the Enterprise Value. Once Scheme costs are paid, there is unlikely to be any surplus cash in the Group.

3.3.7 Enterprise valuation summary

The Enterprise Value range of the Group including surplus assets using the comparable company multiples approach is set out below:

Table 9 – Enterprise valuation range

Multiple	EBITDA ($' million)	EV (excluding surplus assets) ($'million)	Surplus assets ($'million)	EV (including surplus assets) ($'million)
6.0 x Multiple (Low)	40.1	240.6[34]	5.9	246.5
7.0 x Multiple (High)	40.1	280.7[35]	5.9	286.6
Mid-point	40.1	**260.7**		**266.6**

Based on the outcomes shown in the table above, we have assessed the current Enterprise Value of the Group to be in the range of $246.5 million to $286.6 million, with a preferred value of $266.6 million based on the mid-point of the valuation range.

[33] Annual financial report 2016
[34] Calculated as EBITDA of $40.1 million multiplied by a Multiple of 6.0
[35] Calculated as EBITDA of $40.1 million multiplied by a Multiple of 7.0

Our assessed valuation range implies a historic earnings multiple in the range of 8.4 to 9.7 actual FY16 adjusted EBITDA of the Group[36]. We note that the implied historical earnings multiple range is broadly consistent with the historic earnings multiples implied by the current market capitalisation of the Peer Group (adjusted for control[37]).

3.4 Cross-check based on discounted cash flow

3.4.1 Overview

As a cross-check to our primary valuation approach, we have undertaken a DCF valuation to determine the Enterprise Value of the Group.

We were provided with a Budget Model prepared in October 2016 and updated in March 2017 which included financial information for the following periods:

- monthly historic financial results for July 2015 to December 2016
- monthly FY17 forecast financial results which were in line with the FY17 budget
- monthly FY18 to FY21 forecast financial results based on various growth and margin assumptions.

The Budget Model makes assumptions in relation to contract renewals, new work to be won and future margins. As with all contracting businesses, forecasting for long periods of time with any certainty is challenging.

3.4.2 Budget Model review

We have reviewed the long-term forecasts in the Budget Model. The model assumes a significant increase in earnings over the five-year forecast period.

The annual revenue growth rates assumed in the Budget Model are set out in Table 10 below.

Table 10 – FY16A to FY21F Revenue growth[38]

	FY16	FY17	FY18	FY19	FY20	FY21
Revenue ($'million)	642.4	681.9	750.0	830.0	890.0	940.0
Revenue growth percentage		6.1%	10.0%	10.7%	7.2%	5.6%

Profitability

Gross profit contributions are forecast to increase both in line with forecast revenue and due to margin growth. Gross margins are forecast to increase from 15.9% in FY17 to 26.6% in FY21.

Table 11 – FY16A to FY21F gross margin[39]

	FY16	FY17	FY18	FY19	FY20	FY21
Gross margin ($'million)	88.8	108.6	136.8	178.2	213.8	250.2
Gross margin percentage		15.9%	18.2%	21.5%	24.0%	26.6%

[36] Annual Financial Report 2016 adjusted EBITDA of $32.0 million
[37] See further explanation in Appendix E
[38] Project Phoenix 2017 Budget Model Reconciliation_External_v34 and Annual Financial Report 2016
[39] Project Phoenix 2017 Budget Model Reconciliation_External_v34 and Annual Financial Report 2016

Adjusted EBITDA

Adjusted EBITDA is forecast to increase from $32.0 million in FY16 to $201.4 million in FY21[40]. Much of the forecast improvement is assumed to result from an increase in revenues and gross margins. Whilst the forecast increase in EBITDA appears reasonable in the short term (FY17F), we have been unable to verify the assumptions that underpin the forecast increase in revenues and margins after FY17.

3.4.3 Cash flows for DCF analysis

As stated above, we have not been able to verify the assumptions that underpin the revenue and gross margin growth in the Budget Model beyond FY17.

For the purposes of our DCF analysis, we have adopted the FY17 budget of the Group and modelled the results of the business for the FY18 period onwards based on the assumptions set out below:

Table 12 – Key DCF valuation assumptions

Assumption	Value	Comments
Revenue growth	1.0 – 3.0% per annum	IBISWorld has forecast that industry revenues will increase at 0.6% per annum in nominal terms over the next five years. Price competition will play a part in that subdued growth as competition increases. We have adopted revenue growth rate assumptions of 1% to 3% per annum based on IBISWorld's representation that the Group tends to outperform industry trends on an upswing cycle.[41]
Gross margin percentage	15.9 % to 17.9%	We have assumed that the FY17 budgeted margins improved at 0.5% per year over the balance of the forecast period.
Effective tax rate	31%	Estimated having regard to existing Australian (30%), Canadian (28%) and USA (38%) tax rates as well as regional average rates for NAM (35%), LAM (28%) APAC (30%) and EMEA (28%).
Working capital balance	32.4% of forecast revenues	FY17 forecasts shows an investment in working capital of 32.4% of revenues for the year as at 31 December 2017. We have forecast working capital on the same basis and calculated annual movements in working capital balances accordingly.
Terminal CAPEX assumption	$40 million	We have adopted the annual capital expenditure costs in the Budget Model over the period to FY21 and a higher capital expenditure cost in the terminal year on the basis consistent with the long-term growth rate in earnings.

The EBITDA forecast based on these assumptions are summarised in the table below[42].

Table 13 – EBITDA FY17F-FY21F

Scenario EBITDA $million	FY17F	FY18F	FY19F	FY20F	FY21F
Base case	(8.5)	68.0	68.8	74.9	82.2

[40] Project Phoenix 2017 Budget Model Reconciliation_External_v34
[41] IBISWorld Industry Report OD5427 – Oil and Mineral Exploration Drilling in Australia.
[42] The FY17 forecast is after restructuring costs

3.4.4 Key DCF valuation assumptions

A summary of the key valuation assumptions is set out in the table below.

Table 14 – Additional DCF valuation assumptions

Assumption	Value	Comments
WACC (nominal)	10% to 12.0% per annum	As the cash flows in our forecast model are expressed in nominal terms, the discount rate adopted is a nominal WACC. Refer to Appendix H for the assumptions and inputs adopted in calculating the WACC.
Valuation date	Date of this report	
Terminal growth rate	3.0% per annum (nominal)	We have adopted a nominal growth rate in perpetuity broadly consistent with long term drilling industry forecasts.

For further detail on the DCF valuation assumptions and outputs, refer to Appendix H.

3.4.5 DCF valuation range (including surplus assets)

A summary of the various DCF valuations is set out below.

Table 15 – DCF Enterprise Value range

$million	12.0% WACC (low)	10.0% WACC (high)
DCF Enterprise Value (excluding surplus assets)	204.7	274.1
Surplus assets – see Section 3.3.6	5.9	5.9
DCF Enterprise Value (including surplus assets)	210.6	280.0

3.4.6 DCF valuation summary

Our assessment of the Enterprise Value of the Group using the DCF valuation approach supports our primary valuation approach as the value outcome under the DCF approach in the range of $210.6 million to $280.0 million is broadly consistent with the values assessed under the capitalisation of maintainable earnings approach of $246.5 million to $286.6 million.

3.4.7 Net tangible business assets

We have undertaken a reconciliation of our assessed Enterprise Value (including the surplus assets of $5.9 million being held for sale) with the net tangible business assets of the Group as at 28 February 2017.

We have calculated the net tangible business assets of the Group to be $250.1 million at 28 February 2017 as set out in the following table:

Table 16 – Net tangible business assets at 28 February 2017

	$'000
Net liabilities at 28 February 2017	(359,853)
Add:	
Loans and borrowings (current)	120
Loans and borrowings (non-current)	753,584
Less:	
Goodwill	(100,535)
Other intangibles	(43,190)
Net tangible business assets	250,126

Source: 2017 Financial Statements - Feb v1 BL

For the purposes of calculating the net tangible business assets, we have adopted the book values of all business assets and liabilities of the Group (excluding debt and intangible asset balances). We have assumed that there was no material difference between the book values of assets and liabilities and their respective fair market values.

The net tangible business assets of the Group of $250.1 million is within the range of the values assessed under the capitalisation of maintainable earnings approach of $246.5 million to $286.6 million.

4 Solvency review

We have been asked to determine the solvency of the Group following the implementation of the Schemes.

4.1 Summary

In our opinion the Group will be solvent after the implementation of the Schemes.

4.1.1 Qualification of opinion

As at the date of this report, the Group has not paid accrued interest of approximately $19.7 million on the Secured Notes and Unsecured Notes, which was due on 1 April 2017. It is proposed under the terms of the Recapitalisation Transactions that this interest be deferred in the case of the Secured Notes and equitized in the case of the Unsecured Notes. The Group has obtained agreement to the non-payment from a majority of the holders of each of the Secured Notes and Unsecured Notes as a term of the RSA. The Scheme Companies obtained an order of the Supreme Court of NSW on 27 April 2017 pursuant to section 411(16) of the Act, restraining all further proceedings in any action or other civil proceeding against any or all of the Scheme Companies (whether or not such action or proceeding has already been commenced), except by leave of the Court and subject to such terms as the Court imposes.

If the payment of interest is required to be made in relation to some or all of the Secured Notes or Unsecured Notes, our opinion on the solvency of the Group is withdrawn.

4.2 Solvency approach

In determining solvency, the financial position of the Group as a whole has been examined to determine its ability to pay its debts as and when they fall due. The examination of the financial position has been undertaken having taken into account the definition of solvency under Section 95A of the Act and the common law principals described in Appendix J – Solvency definition and common law principals.

The conclusions have been reached after application of the following primary and secondary tests.

Cash flow test (primary test of solvency)

This involves the review of a company's cash flows to determine if the company is able to pay its debts as and when they fall due. This is the primary test of solvency. In line with case law, we have focused our analysis on the 12 months' post anticipated implementation of the Schemes, being the period 1 July 2017 to 30 June 2018.

Balance sheet review (indicative test)

This involves the review of a company's statement of financial position to determine if the company's assets exceed its liabilities.

Analysis of a company's statement of financial position does not ordinarily by itself determine whether the company would be able to meet its debts as and when they became due. However, such an analysis does indicate by how much (if any) assets of a company exceed its liabilities, as well as the various types of assets and liabilities of the company. The statement of financial position can also be viewed as providing a running balance 'score card' of an entity's trading results for both past and current trading periods.

Profitability (indicative test)

This involves reviewing the historic and forecast statement of comprehensive income to determine the Group's profitability.

Other considerations

In forming conclusions regarding solvency, we have considered the following additional matters:

1. Drawn debt facilities, key terms and covenants.
2. Access to additional debt facilities and/or equity and/or other liquidity support.
3. The ability of the Group to refinance the outstanding secured debt facilities upon maturity.
4. The adequacy of the books and records of the Group.

4.3 Source data

The cash flow, balance sheet and profitability analyses have been based on the Group's consolidated Budget Model, historical financial accounts and the Group's pro-forma balance sheet as at 28 February 2017.

The Group's Budget Model shows the Group's base case forecast, as well as a downside and upside case. We have relied on the following outputs from the Budget Model in our analysis:

- actual results up to 31 December 2016
- forecast profit and loss results for FY17 to FY18
- the forecast indirect cash flow statement for FY17 and FY18.

For the purposes of our analysis, we have considered the base case and downside case scenarios only as the upside case is, in our opinion, optimistic and is not a reasonable basis on which to assess the Group's solvency.

4.4 Key assumptions

We have adopted the following assumptions for our analysis:

- The Schemes are implemented on or before 1 July 2017 as proposed
- The Other Recapitalisation Transactions all occur
- Holders of the Secured Notes and the Unsecured Notes have their rights to be paid the cash coupon payments due on 1 April 2017 varied in accordance with the terms of the Recapitalisation Transactions (refer to Section 4.1.1 above).

4.5 Primary evidence of solvency: cash flow test

4.5.1 Overview

In considering the ability of the Group to meet its commitments as they fall due, we have analysed the consolidated cash flow forecast included in the Group's Budget Model. The Budget Model includes:

- the Group's FY17 budget (monthly) which was built using a bottom-up approach
- a high-level forecast of some balance sheet items including cash, working capital and debt finance
- management's forecast capital expenditure estimates.

The Budget Model also includes the Group's estimate of performance through to 31 December 2021 on a monthly basis. The forecasts for FY18 onwards are based on the FY17 budget and includes a number of growth and profitability improvement assumptions as discussed in Section 3.

In our opinion, the FY17 forecast included in the Budget Model has been prepared on a reasonable basis, having regard to historical trends in the business. The Group reported EBITDA of $1.6 million in its FY16 Financial Report ($32.0 million excluding non-recurring items)[43] and has forecast a EBITDA loss of $8.5 million for FY17 (including non-recurring expenses of $48.6 million) resulting in a forecast adjusted EBITDA of $40.1 million. On an adjusted basis, the Group is forecasting an improvement in EBITDA of $8.0 million.

While there is significant uncertainty on the outlook for the mining sector globally, the profit and loss forecast for FY17 does not appear unreasonable taking into consideration:

- Year to date 28 February 2017, the Group is ahead of budget, with Gross Profit 41.4% ahead of budget and adjusted EBITDA of $2.1 million comparing favourably to budget of a loss of $4.5 million.
- As detailed in Section 3.3.1 there are indications that the year-on-year decline in exploration expenditure is slowing in Australia; one of the Group's key markets.
- The Group has identified EBITDA improvement initiatives of c. $21.0 million which have been included in the forecast for FY17. While several of the initiatives are difficult to measure, optimisation of the organisation structure has already netted significant go-forward savings. Together with other measures, the cost and overhead savings achieved since the FY17 budget was approved in December 2016 largely bridge the gap between FY16 results and the FY17 forecast.

4.5.2 Significant cash flow items

In addition to the forecast EBITDA improvements, the Budget Model includes several material assumptions regarding the Group's cash flows:

- no cash interest payments are made in FY17 or FY18, as it is assumed that the Group will elect to pay the first four post-restructure coupon payments on the Secured Notes in kind. The first cash interest payment on the Secured Notes is forecast to be made in June 2019.
- the Group is forecasting significant cash inflows from the realisation of slow moving and obsolete inventory. The net cash receipt in FY17 from movement in inventory is forecast to be $25.0 million. We have been provided with the Group's internal reports which show that, as at February 2017, the Group is ahead of its FY17 stock reduction target. On the information provided, the cash benefit forecast from the sale of slow and obsolete inventory appears reasonable. However, it is likely that achieving the target will get progressively harder over FY17 as the more in-demand items are sold first.
- The Group has included $5.0 million from the sale of a property in Peru in January 2018. The timing of this sale is an estimate and subject to change.
- The Group has also included a $4.0 million receipt in February 2018, being funds held in a collateral account to secure an insurance policy. The collectability and timing of this receipt is unknown.

4.5.3 Findings

The forecast cash flow statement from the Group's Budget Model for both the Base Case and Downside Case are shown below.

The base case forecast included in the Budget Model shows the Group will have sufficient cash and headroom available under the ABL to meet its obligations as and when they fall due through to 31 December 2018.

The downside case assumes a further decline in revenue and margins, and shows the Group's liquidity position would be difficult to manage. Considering recent performance, the downside case appears conservative.

[43] The Adjusted EBITDA is determined by management and is not presented in accordance with accounting standards. Non-recurring items included recapitalisation costs, impairment, restructuring costs and employee and related costs.

Table 17 – Base case indirect cash flow forecast

$'000	Q1FY17	Q2FY17	Q3FY17	Q4FY17	FY17 Total	Q1FY18	Q2FY18	Q3FY18	Q4FY18	FY18 Total
EBITDA	**(19,038)**	**6,052**	**794**	**3,700**	**(8,491)**	**13,560**	**35,245**	**28,187**	**14,676**	**91,668**
Change in net working capital	(35,802)	4,229	9,076	39,785	17,289	(23,688)	(17,743)	1,181	50,654	10,403
Other non-cash items	(12,110)	1,152	3,871	5,271	(1,816)	(3,964)	(2,293)	3,707	3,707	1,158
Interest payments	(211)	(211)	(428)	(371)	(1,220)	(196)	(393)	(331)	(148)	(1,068)
Taxes paid	(1,679)	(1,682)	(11,179)	(11,179)	(25,719)	(3,081)	(4,283)	(5,110)	(13,245)	(25,719)
Cash from operations	**(68,841)**	**9,540**	**2,135**	**37,207**	**(19,958)**	**(17,368)**	**10,533**	**27,633**	**55,644**	**76,443**
Capital expenditure	**(4,295)**	**(4,918)**	**(10,155)**	**(10,155)**	**(29,523)**	**(8,174)**	**(8,174)**	**(8,174)**	**(8,174)**	**(32,695)**
Financing cash flows										
Draw-down of debt facilities	35,000	-	-	-	35,000	-	-	-	-	-
Repayment of debt facilities	-	(36,274)	-	-	(36,274)	-	-	-	-	-
Cash from financing	**35,000**	**(36,274)**	**-**	**-**	**(1,274)**	**-**	**-**	**-**	**-**	**-**
Opening cash	60,114				60,114					0
Opening ABL headroom	5,508				5,508					0
Opening available liquidity	**65,622**	**27,486**	**35,834**	**27,814**	**65,622**	**54,866**	**29,325**	**31,684**	**51,144**	**54,866**
Net cash flow	(38,136)	(31,652)	(8,020)	27,052	(50,756)	(25,542)	2,359	19,460	47,471	43,748
Increase in ABL limit	-	40,000	-	-	40,000	-	-	-	-	-
Closing available liquidity	**27,486**	**35,834**	**27,814**	**54,866**	**54,866**	**29,325**	**31,684**	**51,144**	**98,615**	**98,615**

Observations

- The Group's base case forecast shows that the Group will have positive liquidity (cash plus available headroom in the Upsized ABL) through to 31 December 2018, including the 12 month period immediately following implementation of the Schemes.
- However, total liquidity is forecast to fall below the Group's minimum liquidity balance in July 2017. Liquidity is also forecast to be very tight in Q2 FY18. The Group's cash flow cycles are largely driven by increasing receivables over the peak drilling periods.

Figure 3 – Base case monthly liquidity profile FY17–FY18

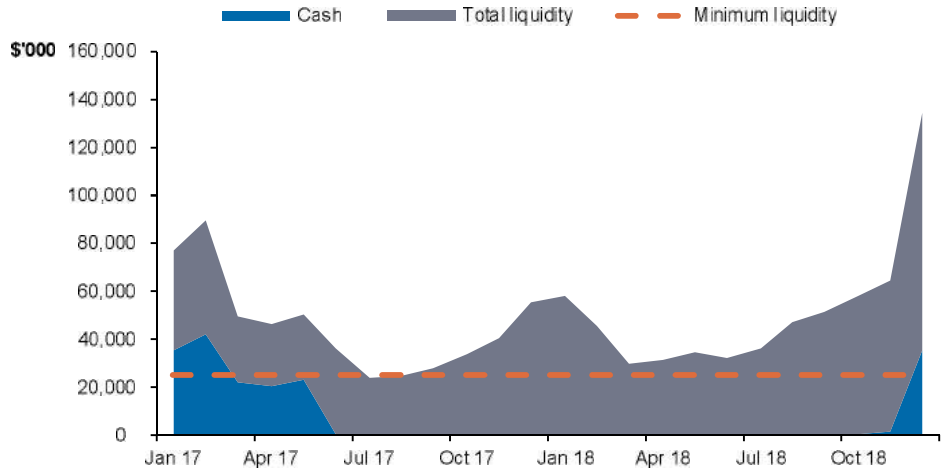


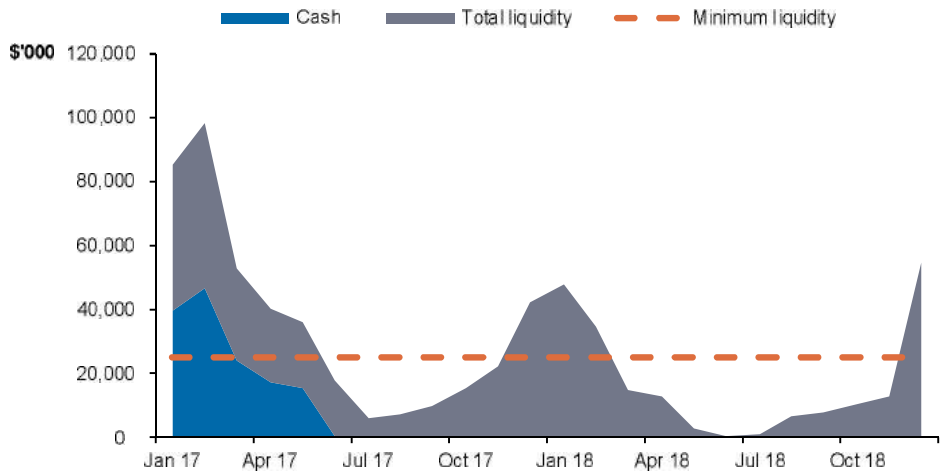
Table 18 – Downside case indirect cash flow forecast

$'000	Q1FY17	Q2FY17	Q3FY17	Q4FY17	FY17 Total	Q1FY18	Q2FY18	Q3FY18	Q4FY18	FY18 Total
EBITDA	**(20,194)**	**(6,624)**	**(4,076)**	**(3,385)**	**(34,280)**	**9,280**	**14,501**	**11,735**	**6,251**	**41,767**
Change in net working capital	(30,570)	(633)	10,393	48,868	28,058	(22,045)	(14,334)	5,074	57,682	26,377
Other non-cash items	(12,110)	1,152	3,871	5,271	(1,816)	(3,964)	(2,293)	3,707	3,707	1,158
Interest payments	(211)	(211)	(596)	(546)	(1,563)	(299)	(599)	(669)	(596)	(2,163)
Taxes paid	(1,679)	(1,682)	(11,179)	(11,179)	(25,719)	(3,081)	(4,283)	(5,110)	(13,245)	(25,719)
Cash from operations	**(64,765)**	**(7,999)**	**(1,587)**	**39,030**	**(35,321)**	**(20,108)**	**(7,009)**	**14,738**	**53,799**	**41,420**
Capital expenditure	**(6,675)**	**(7,050)**	**(6,675)**	**(6,675)**	**(27,075)**	**(7,196)**	**(7,196)**	**(7,196)**	**(7,196)**	**(28,784)**
Financing cash flows										
Draw-down of debt facilities	35,000	-	-	-	35,000	-	-	-	-	-
Repayment of debt facilities	-	(36,274)	-	-	(36,274)	-	-	-	-	-
Cash from financing	**35,000**	**(36,274)**	**-**	**-**	**(1,274)**	**-**	**-**	**-**	**-**	**-**
Opening cash	60,114				60,114					0
Opening ABL headroom	5,508				5,508					0
Opening available liquidity	**65,622**	**29,183**	**17,860**	**9,597**	**65,622**	**41,952**	**14,648**	**443**	**7,985**	**41,952**
Net cash flow	(36,439)	(51,323)	(8,262)	32,355	(63,670)	(27,304)	(14,205)	7,542	46,603	12,636
Increase in ABL limit	-	40,000	-	-	40,000	-	-	-	-	-
Closing available liquidity	**29,183**	**17,860**	**9,597**	**41,952**	**41,952**	**14,648**	**443**	**7,985**	**54,588**	**54,588**

Observations

- The downside case included in the Group's Budget Model assumes substantially lower earnings ($25.8 million in FY17 and $49.9 million in FY18) than the base case. This is driven by lower revenues and lower gross profit margins in both the Drilling Services business and Products business. The gross margin in the downside case is 12.5% in FY17 and 12.3% in FY18 compared to FY16 actual reported results of 13.4%.
- As shown in Figure 4, in the downside case, Group liquidity declines substantially from February in each year, reaching a low point in July and August, because of the build-up of working capital through the peak drilling periods.
- The downside case shows the Group would need substantial additional liquidity funding in the order of $25.0 million to fund operations.

Figure 4 – Downside case monthly liquidity profile FY17–FY18



4.5.4 Conclusion

The downside case shows that further liquidity support would be required to provide sufficient headroom to fund the Group. However, the downside case appears conservative given FY16 results and YTD performance against budget. Accordingly, we have adopted the Group's base case forecast which shows it will continue to maintain an available liquidity balance throughout FY17 and FY18, including the 12-month period immediately following the implementation of the Schemes.

The scope of our engagement has not allowed us time to undertake a detailed review and interrogation of the Group's cash flow forecast. Accordingly, while the Group's base case forecast shows it to have an available liquidity balance of not less than $23.0 million over the course of FY17 and FY18, we note that the ability of the Group to meet its debts as and when they fall due, and remain solvent, is very much tied to its ability to:

- Achieve the EBITDA forecast.
- Realise its surplus and obsolete stock in line with its forecast, which will likely prove more challenging as faster moving items are sold first.
- Realise the estimated net proceeds from the sale of the Peru land as well as obtain the $4.0 million of collateral currently securing the insurance policy (together totalling $9.0 million).
- Manage the collection of its debts across the global operation and not suffer any deterioration in terms (which has from time to time been unilaterally imposed on suppliers by major mining houses).
- Manage the payment of its trade suppliers month-to-month to match its liquidity position.
- Fund the capital expenditure required to sustain the existing drilling fleet in line with forecast.
- Manage unexpected material interruptions to its business owing to weather, adverse movements in underlying commodity prices or other unforeseen events.

Any material adverse outcome in relation to the Canadian tax dispute detailed in section 3.2 that would require payment to be made prior to 30 June 2018 or shortly thereafter, would impact upon the Group's solvency.

From discussions with the Group's management, we note that they are of the opinion that the base case forecast is conservative taking into account performance for the two months ended 28 February 2017 as well as the Group outperforming budget in Q4 of FY16.

The Group is also of the view that post-restructure, it will be in a better position to manage its working capital including obtaining more favourable trade terms from its suppliers.

4.6 Indicative test: balance sheet review

Another method by which to assess solvency is to consider the net asset or liability position of an entity. This test is only to be viewed as indicative of solvency as it represents the position of a company at a point in time, and doesn't take into account the future profitability or cash flows available to service debt obligations.

We have used the Group's balance sheet as at 28 February 2017 to consider if assets exceed liabilities immediately post-implementation of the Schemes. We have adjusted the balance sheet with pro-forma adjustment to reflect the outcome of the Schemes. The pro-forma adjustments are indicative only.

Table 19 – Pro forma post-restructure balance sheet as at 28 February 2017

	Pre-restructure[44] $'000	Adjustments $'000	Post-restructure $'000
Current assets			
Cash	47,846		47,846
Receivables	122,220		122,220
Inventory	170,339		170,339
Other current assets	18,370		18,370
Assets held for sale	5,923		5,923
Total current assets	**364,698**	**-**	**364,698**
Property, plant and equipment	123,922	-	123,922
Goodwill	100,535	-	100,535
Intellectual property	43,190	-	43,190
Other non-current assets	50,440	-	50,440
Total assets	**682,785**	**-**	**682,785**
Current liabilities[45]	222,970	-	222,970
Non-current liabilities			
Unsecured Notes	292,118	(292,118)	-
Subordinated Notes (including accrued interest)	-	88,209	88,209
10% Notes (including accrued interest)	202,963	617	203,580
TLA (including accrued interest)	112,252	(370)	111,882
TLB (including accrued interest)	135,714	(445)	135,268
DDL	20,000	(20,000)	-
ABL/Upsized ABL	16,500	20,000	36,500
Issuance costs	(5,506)	-	(5,506)
Finance lease liabilities	635	-	635
Other borrowings and costs	(120)	-	(120)
Total borrowings			
Deferred tax liabilities	19,646	-	19,646
Provisions	25,466	-	25,466
Total non-current liabilities	**798,696**	**(204,107)**	**594,589**
Total liabilities	**1,042,638**	**(204,107)**	**838,531**
Net assets/(liabilities)	**(359,853)**	**204,107**	**(155,746)**

Liquidity and net asset position

As at 28 February 2017, the Group had a current ratio of 1.5. Although not illiquid, given much of the current asset value was held as inventory ($170.3 million), the Group's short-term asset position is indicative of liquidity concerns.

Despite the Unsecured Note debt being cancelled as part of the restructure, the Group's post restructure pro-forma balance sheet shows a net liability position of $155.7 million.

[44] The pre-restructure debt balances shown have been taken from the Group's balance sheet and do not include accrued interest on the debts through to 28 February 2017. Accrued but unpaid interest (including PIK) is included in current liabilities.
[45] Current liabilities have been reduced for accrued but unpaid interest which has been included in the balances non-current Finance Facilities.

The Group will likely fully draw the Interim Facility of $15.0 million prior to implementation of the proposed restructure. It is proposed that the DDL and Interim Facility will be repaid from a refinance of the ABL (via the Upsized ABL), with funding increasing from $35.0 million to $75.0 million. However, only the fully drawn DDL has been included in the post-restructure of the ABL shown in the table, as the Interim Facility had not been drawn as at 28 February 2017.

If the Schemes are implemented, the Group will continue to carry a significant debt load with the pro-forma net debt at 28 February 2017 being greater than 10.0 times FY17 forecast adjusted EBITDA.

Notwithstanding the above, we are of the opinion that the Group will be solvent immediately after the Schemes are implemented due to the forecast liquidity position detailed in Section 4.5, and the extended maturity dates of the debt facilities providing the Group time to improve earnings or further restructure its balance sheet.

4.7 Indicative test: profit and loss

Profitability is only an indicative test of solvency as it does not take into account:

- The resulting cash flow arising from profitable trading.
- The impact of accounting policies, including depreciation.
- Ongoing investment required to maintain profitable operations.
- The liability position which needs to be serviced from profits.

4.7.1 Profit and loss forecast

The Group's Budget Model includes a profit and loss forecast for FY17 through to FY21 for earnings before interest and tax (EBIT).

Table 20 – Base case profit and loss FY17–FY21

$'000	FY17	FY18	FY19	FY20	FY21
Revenue					
Total revenue	681,909.0	750,000.0	830,000.0	890,000.0	940,000.0
Total cost of sales	(573,349.2)	(613,250.0)	(651,840.0)	(676,200.0)	(689,800.0)
Total gross profit	**108,559.8**	**136,750.0**	**178,160.0**	**213,800.0**	**250,200.0**
Gross margin	*16%*	*18%*	*21%*	*24%*	*27%*
Overhead expenses	(117,051.3)	(45,081.7)	(49,445.4)	(49,339.5)	(48,812.8)
EBITDA	**(8,491.5)**	**91,668.3**	**128,714.6**	**164,460.5**	**201,387.2**
Depreciation and amortisation	(61,923.6)	(66,829.6)	(66,037.5)	(49,058.0)	(49,058.0)
EBIT	**(70,415.1)**	**24,838.7**	**62,677.1**	**115,402.5**	**152,329.2**
Adjusted EBITDA					
Restructuring costs	48,573.0	(4,000.0)	-	-	-
Adjusted EBITDA	**40,081.5**	**87,668.3**	**128,714.6**	**164,460.5**	**201,387.2**
Adj. EBITDA margin	*5.9%*	*11.7%*	*15.5%*	*18.5%*	*21.4%*

Table 21 – Downside case profit and loss forecast FY17–FY21

$'000	FY17	FY18	FY19	FY20	FY21
Revenue					
Total revenue	650,000.0	685,000.0	715,000.0	750,000.0	750,000.0
Total cost of sales	(568,693.8)	(600,784.3)	(626,950.0)	(659,450.0)	(659,450.0)
Total gross profit	**81,306.2**	**84,215.7**	**88,050.0**	**90,550.0**	**90,550.0**
Gross margin	*13%*	*12%*	*12%*	*12%*	*12%*
Overhead expenses	(115,585.9)	(42,448.3)	(47,082.6)	(46,410.1)	(45,793.0)
EBITDA	**(34,279.7)**	**41,767.4**	**40,967.4**	**44,139.9**	**44,757.0**
Depreciation and amortisation	(61,923.6)	(66,829.6)	(66,037.5)	(49,058.0)	(49,058.0)
EBIT	**(96,203.3)**	**(25,062.2)**	**(25,070.1)**	**(4,918.1)**	**(4,301.0)**
Adjusted EBITDA					
Restructuring costs	48,573.0	(4,000.0)	-	-	-
Adjusted EBITDA	**14,293.3**	**37,767.4**	**40,967.4**	**44,139.9**	**44,757.0**
Adj. EBITDA margin	*2.2%*	*5.5%*	*5.7%*	*5.9%*	*6.0%*

The Group has forecast positive EBITDA in FY17 in both the base case and downside cases (after adjusting for restructuring costs). The outlook for FY17–FY21 shows:

- In the base case, the Group is forecasting a material increase in revenue and margin growth, with EBITDA (adjusted) increasing from $40.1 million in FY17 to $201.4 million in FY21.
- the downside case forecast assumes lower revenue growth rates and tighter gross margins over the forecast period compared to the base case, with EBITDA increasing from $14.3 million in FY17 to $44.8 million in FY21.

We have calculated notional NPAT for the Group using the base case forecast and have adopted forecast cash tax payments as a proxy for forecast tax expense.

Table 22 – Notional NPAT FY17–FY21

$'000	FY17	FY18	FY19	FY20	FY21
EBIT	**(70,415.1)**	**24,838.7**	**62,677.1**	**115,402.5**	**152,329.2**
Cash taxes	(25,719.0)	(25,719.4)	(20,000.0)	(20,000.0)	(20,000.0)
Cash interest	(1,220.5)	(1,067.5)	(25,460.1)	(25,078.4)	(25,070.8)
PIK interest	(52,462.7)	(55,286.5)	(26,968.3)	(29,210.6)	(31,474.3)
NPAT	**(149,817.3)**	**(57,234.7)**	**(9,751.3)**	**41,113.5**	**75,784.1**

Using the base case forecast, the Group is forecast to record a cumulative loss after tax of $99.9 million for FY17 through FY21 which will increase the net liability position of the Group (before any impairment write-backs or other adjustments).

Based on the Group's base case forecast, it is highly unlikely that it would be able to repay its debts from cash at the end of the forecast period (FY21) and refinancing will be entirely dependent upon a substantial increase in earnings. However, if the Group does perform in line with its base case forecast, then there may be justification to write-back some of the impaired value of assets (other than goodwill) which would improve the net asset position. Further, if the business performs in line with forecast, the enterprise value of the Group may likely exceed its debt balance at the end of the forecast period.

4.8 Other solvency considerations

4.8.1 Covenants

We have been provided with a summary document of the Group's covenants. The Group's covenants are not performance related and, as such, no forecast covenant testing has been included in the Budget Model. The covenants relate to maintaining certain asset values within the various obligor groups, debt limits and other non-performance related items.

4.8.2 Adequacy of books and records

Section 286(1) of the Act requires a company to keep books and records recording its financial position. This section provides:

A company, registered scheme or disclosing entity must keep written financial records that:

a. Correctly record and explain transaction and financial position and performance

b. Would enable true and fair financial statements to be prepared and audited.

The obligation to keep financial records of transactions extends to transactions undertaken as trustee.

Section 588E(4)(a) of the Act states that in the event of recovery proceedings, a failure by the company to comply with section 286(1) carries a presumption that the company was insolvent for the relevant period.

This report was produced from records made available by the Group. Furthermore, the Group is audited by Deloitte and the audit report does not note any deficiency in the Group's records. Therefore, there are no grounds for presumption of insolvency pursuant to section 588E(4)(a).

4.9 Conclusion on solvency

In our opinion, the Group will be solvent after implementation of the Schemes. However, the Group's ability to continue as a going concern is highly reliant on its ability to closely manage its working capital, the realisation of excess inventory in line with or better than forecast and there being no adverse external impacts on the business.

5 Comparison of outcomes for Beneficiaries under the Schemes versus a winding up

We have been asked to determine:

1. the Implied Value of the interests of the Beneficiaries in the Scheme Companies if the Schemes were to be put into effect as proposed
2. the expected dividend to the Beneficiaries from the Scheme Companies if the Scheme Companies were to be wound-up within six months of the hearing of the application for an order under section 411(1) and 411(1A) of the Act.

Given ListCo is a Scheme Company and also the ultimate holding company of the Group, our analysis of the Implied Value and expected dividend has been calculated based on the Enterprise Value of the Group as determined in Section 3.

5.1 Findings

The Implied Value of the interests of Beneficiaries under the Schemes (assuming all the Recapitalisation Transaction have been completed), and expected dividend on the basis the Scheme Companies were wound up, are detailed in below.

Table 23 – Summary of Beneficiary outcomes

		Schemes		Liquidation	
Beneficiary	**Scheme claim as at 28 February 2017 $'000**	**Implied Value $'000**	**Implied Value (cents in $)**	**Return to creditor $'000**	**Return (cents in $)**
Secured Scheme Creditors					
Secured Notes	203,580.0	124,195.6	61.0	44,889.5	22.1
TLB[46]	105,000.0	67,534.4	64.3	37,220.1	35.4
TLA[47]	85,000.0	40,154.0	47.2	27,734.3	32.6
Unsecured Scheme Creditors					
Subordinated Notes	88,209.0	Nil	Nil	N/A	N/A
Unsecured Notes	292,117.7	N/A	N/A	Nil	Nil

There is no Implied Value or expected dividend attributable to Subordinate Claims either under the Schemes or in a liquidation scenario, noting that we are not aware of any such claims having been made against ListCo.

We note it is possible to trade Secured Notes and Unsecured Notes in the secondary debt market. The current quoted prices, which we understand to be based on trade activity, broker dealer quotes, and valuation models, is 70 cents in the dollar for Secured Notes and 10 cents in the dollar for Unsecured Notes.

5.2 Implied Value if the Schemes are implemented

As detailed in Section 3, we have assessed the Enterprise Value of the Group to be in the range $246.5 million to $286.6 million. We have adopted a mid-point of $266.6 million for the purposes of determining the Implied Value of the interests of Beneficiaries ('the Transaction Value').

[46] We are instructed that the accrued PIK interest on TLA and TLB does not form part of the secured claim amount against the relevant obligors. As such, the accrued PIK interest has not been included in our workings.
[47] Ibid

Table 24 – Transaction Value

Item	Value $'million
Enterprise value high	286.6
Enterprise value low	246.5
Mid-point	**266.6**

As noted in Section 2.4.4, the DDL and Interim Facility are to be repaid on implementation of the Schemes. Accordingly, the analysis of the Implied Value on the basis the Schemes are implemented assumes the Upsized ABL has been affected, to a total value equivalent to the drawn balance of the existing ABL, DDL and Interim Facility.

The Transaction Value is less than the outstanding secured debts owing under the Upsized ABL, Secured Notes, TLA and TLB ('the Secured Lenders'), which is estimated to total $445.1 million[48] (excluding accreted PIK interest on TLA and TLB) at scheme implementation ('the Secured Debts'). The outstanding debt as at 28 February 2017 has been calculated using the interest which will apply upon implementation of the Schemes (as agreed in the Restructuring Support Agreement).

The security provided by the Group in relation to the Secured Debts is complex, and there is no individual Secured Lender who has first ranking security over all assets. There are a number of separate guarantee groups and underlying security packages, with each Secured Lender having guarantees from specific groups of companies, plus differing priorities in respect of different asset types (split generally between working capital assets and other assets). Accordingly, any sale of the Group's business and assets which did not result in repayment of all the Secured Debts would require allocating proceeds between Secured Lenders on a basis agreed between the Secured Lenders. It is likely the allocation would be contentious and subject to considerable analysis and expert review.

We have made a number of assumptions in order to allocate the Transaction Value between the Secured Lenders. These assumptions are set out in the following sections.

5.2.1 Allocation of transaction value

We have adopted the following approach to allocate the Transaction Value:

Step one

The net book value of balance sheet assets and liabilities was allocated between the obligor groups, being the ABL Obligors, Other Obligors, IP Obligor, and the Non-Obligors, with reference to the balance sheet of each of the companies which comprise each obligor group.

We have determined underlying net asset and liability values on the following basis:

- Net book values have been taken from the Group's consolidation workings for FY16, which includes trial balances for each entity as at 31 December 2016
- Consolidation adjustments have been allocated to each asset on a proportional value-weighted basis across all Group entities.

Step two

The book value was allocated between working capital assets and non-working capital assets, as is required to effect the priorities agreed between the Secured Lenders. In this regard, certain assets and liabilities were excluded from these calculations, as detailed in Appendix K.

[48] The Upsized ABL balance includes the current balances of the existing ABL balance as at 28 February 2017 of $16.5 million, the DDL balance as at 28 February 2017 of $20.0 million and the Interim Facility on a fully-drawn basis of $15.0 million.

Step three

The Transaction Value was allocated between the ABL Obligors, IP Obligor and Other Obligors as follows:

- Net working capital (excluding cash) was ascribed full net book value, from which accrued employee liabilities (current and non-current) were deducted. In relation to the assumption that employee entitlements would be offset against working capital, we note:
  - It is usually not possible to sell a business as a going concern without adjusting for accrued entitlements, and it is more likely these will be a deduction from working capital balances rather than fixed assets.
  - The Secured Lenders have a lien over the working capital assets only and do not have any direct ownership of the working capital assets.
- To the extent there was remaining Transaction Value, it was assumed to represent, on a pro rata basis, the value of property, plant and equipment and intellectual property.
- To the extent there was remaining Transaction Value, it was then assumed to represent consideration for goodwill.[49]

For the purposes of the analysis, no value was apportioned to the Non-obligors. In our view:

- The Non-obligors, being non-key trading entities, are unlikely to be valued on the same basis as the key trading entities, and therefore a proportional allocation of consideration would be misleading
- The sale of these entities at a Group level would be by way of a share sale, and hence the ultimate value of the shares would be attributable to obligor entities, either by way of repayment of intercompany loans or by equity distributions into obligor companies.

Step four

The priorities pursuant to the security agreements were applied to determine the return to each of the Secured Lenders. For the purposes of our analysis, we are instructed that the security priorities are as set out in Table 25.

Table 25 – Security and priority structure

Debt obligation	Working capital assets – ABL Obligors	Working capital assets – Other Obligors	IP assets IP Obligor	Other assets – ABL Obligors	Other assets – Other Obligors
Upsized ABL	First ranking	N/A	N/A	Third ranking	N/A
Secured Notes	Third ranking	Second ranking	(Second ranking)[50]	First ranking	First ranking
Term Loan B	Third ranking	Second ranking	(First ranking)[51]	First ranking	First ranking
Term Loan A	Second ranking	First ranking	(First ranking)[52]	Second ranking	Second ranking
Subordinated Notes	Unsecured				

[49] Goodwill is recorded on the balance sheets of the US and Canadian operating entities, both of which are ABL Obligors. Note 18 of the December 2016 Financial Statements notes the impairment test recoverable value of this goodwill exceeds the carrying value.
[50] BLY IP Inc will grant a junior unsecured guarantee to Secured Notes if the Schemes are approved. It will rank junior to the TLA/TLB guarantee.
[51] BLY IP Inc has provided an unsecured guarantee to TLA and TLB. BLY IP Inc has no other creditors and hence this security, albeit unsecured, is effectively first ranking.
[52] Ibid

5.2.2 Value of assets

From the records provided to us, we have determined the value of net working capital and other assets as between the obligor groups is as summarised below.

Table 26 – Net book value of assets adopted for apportionment of Transaction Value

Asset	ABL Obligors $'000	Other Obligors $'000	IP Obligor $'00	Non-Obligors $'000	Total $'000
Net working capital					
Cash	-	-	-	-	-
Trade receivables	50,313.6	14,794.7	-	27,834.4	**92,942.6**
Inventory	64,589.7	49,263.0	-	51,167.5	**165,020.2**
Less: Trade payables	(47,048.6)	(19,672.0)	-	(33,503.7)	**(100,224.3)**
Less: Employee provisions	(33,165.7)	(7,047.4)	-	(17,716.6)	**(57,929.7)**
Net working capital	**34,688.9**	**37,338.2**	-	**27,781.6**	**99,808.8**
Other assets					
Property, plant and equipment	61,492.2	27,614.0	-	38,557.5	**127,663.8**
Intellectual property	36,244.0	1,214.9	6,294.2	167.2	**43,920.3**
Goodwill	100,035.8	-	-	-	**100,035.8**
Total other assets	**197,772.1**	**28,829.0**	**6,294.2**	**38,724.7**	**271,619.9**
Total assets	**232,461.0**	**66,167.2**	**6,294.2**	**66,506.3**	**371,428.7**

The Group's management has advised that while the net book value of the IP assets held within the IP Obligor entity (BLY IP, Inc.) is $6.3 million, it has obtained an independent third party appraisal of the value of the IP which has valued the assets at $44.0 million.

We have adopted net book value for property, plant and equipment and intellectual property assets (which in some cases includes impairments) as the Group does not have (except as noted above) independent appraisals for these assets. To do otherwise would apply an inconsistent approach in allocating value between the various asset groups.

A reconciliation between this table and the Consolidated Statement of Financial Position is included at Appendix K together with reasons for the exclusion of some items from our calculations.

5.2.3 Apportionment of value

The allocation of the Transaction Value between the securities and obligor groups is shown in Table 27.

Table 27 – Apportionment of Transaction Value to obligor groups

$'000	ABL Obligors	Other Obligors	IP Obligor	Total
Enterprise Value				260,650.0
Add: assets held for sale				5,923.0
Transaction Value				**266,573.0**
Apportionment				
Net working capital	34,688.9	37,338.2	-	**72,027.2**
Other assets (PPE,IP)	97,736.3	28,829.0	6,294.2	**132,859.4**
Goodwill	61,686.5	-	-	**61,686.5**
Total allocated	194,111.7	66,167.2	6,294.2	**266,573.0**

5.2.4 Implied Value attributable to Secured Lenders

Based on the allocation of the Transaction Value to the various obligor groups, we have allocated value between the Secured Lenders per the priorities detailed in Table 25, as detailed in the table below.

Table 28 – Allocation of Transaction Value to Secured Lenders[53]

Debt ($'000)	Debt as at 28 Feb 17	WC ABL Obligors	WC Other Obligors	IP Obligor	Other assets ABL Obligors	Other assets Other Obligors	Total Implied Value	Implied Value (cents in $)
Upsized ABL	51,500.0	34,688.9	-	-	-	-	34,688.9	67.4
Secured Notes	203,580.0	-	-	-	105,176.2	19,019.4	124,195.6	61.0
TLB	105,000.0	-	-	3,478.3	54,246.5	9,809.6	67,534.4	64.3
TLA	85,000.0	-	37,338.2	2,815.8	-	-	40,154.0	47.2
Subordinated Notes	88,209.0	-	-	-	-	-	-	-
Total	**533,289.0**	**34,688.9**	**37,338.2**	**6,294.2**	**159,422.7**	**28,829.0**	**266,573.0**	

5.3 Estimated dividend to Beneficiaries if Scheme Companies wound up

In our collective experience, the returns from complex, multi-jurisdictional insolvency are highly uncertain owing to several factors, including:

- insolvency laws across jurisdictions vary greatly
- enforceability of security is often difficult in under-developed and developing countries
- priority structures differ greatly across jurisdictions as does the enforceability of debts and claims
- the value of assets is not readily determinable in smaller, less established markets
- insolvency processes are often expensive, litigious and time consuming processes, often involving court oversight.

In our opinion, if the Group was to be placed into an insolvency process, there are two primary ways in which the assets of the Group could be realised for Beneficiaries:

1. in an orderly and coordinated process, with the appointment of external controllers made only to a limited number of key entities in the Group, leaving much of the Group's operations outside of the formal insolvency process, or
2. in an uncontrolled manner, whereby most if not all Group entities fall into insolvency proceedings in their respective jurisdictions.

For the purposes of determining the expected dividend to the Beneficiaries from the Scheme Companies if the Scheme Companies were to be wound-up, we have assumed a controlled insolvency process could be achieved, by way of a limited insolvency.

In our view, an uncontrolled insolvency process would result in lower realisations and hence a lower expected dividend to Beneficiaries than in a controlled insolvency scenario.

[53] Debt due to the Upsized ABL is the drawn balance of the ABL as at 28 February 2017, being $16.5 million, plus the $20.0 million drawn on the DDL, plus the $15.0 million to be drawn on the Interim Facility. Debt balances include post-restructure adjustments.

The comments made in Section 5.2 regarding the complexity of securities continues to apply in a liquidation scenario. However, if the Schemes were not implemented:

- the Upsized ABL will not come into effect
- the ABL, DDL and Interim Facility will remain in place
- the ABL debt would increase relative to the ABL debt under a Scheme scenario, as guarantee documents drawn against the ABL of $11.9 million are more likely to be called upon by the beneficiaries when an insolvency event occurs
- the full value of the Unsecured Notes would remain, as the conversion to equity of some of the Unsecured Notes would not have occurred
- the claims by lenders would include interest accrued at pre-RSA interest rates
- the priority structures which were put in place for the DDL and Interim Facility will remain. The priorities as between lenders will be as set out in Table 29.

Table 29 – Security and priority structure in liquidation scenario

Debt obligation	Working capital assets – ABL Obligors	Working capital assets – Other Obligors	Certain drill rig assets – DLL Obligors	IP assets – IP Obligor	Other assets – ABL Obligors	Other assets – Other Obligors
ABL (existing)	First ranking	N/A	N/A	N/A	Fourth ranking	N/A
Interim facility	Second ranking	N/A	N/A	N/A	Third ranking	N/A
DDL	N/A	N/A	First Ranking	First ranking	N/A	N/A
Secured Notes	Fourth ranking	Second ranking	N/A	N/A	First ranking	First ranking
Term Loan B	Fourth ranking	Second ranking	(Second ranking)[54]	(Second ranking)[55]	First ranking	First ranking
Term Loan A	Third ranking	First ranking	(Second ranking)[56]	(Second ranking)[57]	Second ranking	Second ranking
Unsecured Notes	Unsecured					

5.3.1 Value of the Group in limited insolvency scenario

We have assumed that the Group would be valued at a lower multiple in a controlled insolvency. Accordingly, we have (based on our experience of liquidation scenarios) adopted an earnings multiple of 4 times FY17 EBITDA, being a lower multiple than that value adopted in Section 3. We have also excluded the value of assets classified as held for sale, as a buyer would be unlikely to attach any additional value to those assets in a distressed sale scenario.

We have assumed that the limited insolvency would extend to key operating and holding entities in each of Australia, the United States of America and Canada, all of which guarantee the ABL facility. In placing these entities into an insolvency or a court supervised restructuring process, we have assumed that a portion (50%) of trade and other liabilities would be avoided or compromised, resulting in increased value to the ABL security holders.

[54] The assets which secure the DDL are held in entities that have no other guarantor obligations. The DDL Obligors have provided an unsecured guarantee in respect to the TLA and TLB debts.
[55] Ibid
[56] Ibid
[57] Ibid

The Transaction Value (limited insolvency) is $153.9 million as detailed below:

Table 30 – Transaction Value (limited insolvency)

Item	Value $'000
Enterprise value	160,400.0
Assets classified as available for sale	-
Add: creditor claims not paid in limited insolvency	23,524.3
Less: realisation costs[58]	(30,000.0)
Transaction Value (limited insolvency)	**153,924.3**

5.3.2 Allocation of Transaction Value (limited insolvency)

In allocating the Transaction Value (limited insolvency) between asset types, we have followed the steps set out in Section 5.2.1, and used the asset values in Section 5.2.2, except that:

- we have assumed a purchaser would only pay 80% of the book value for accounts receivable, due to the risk that some customers may seek to withhold payment or make other claims such that the full book value could not be realised
- we have assumed a purchaser would only pay 70% of the book value for inventory, due to the risk that some inventory may not be realised at book value.

Realisation costs have been applied proportionately to realisations.

5.3.3 Apportionment of value

Based on the assumptions detailed above, Transaction Value (limited insolvency) is applied to the obligor groups as set out in Table 31.

Table 31 – Apportionment of Transaction Value (limited insolvency) to obligor groups

$'000	DDL Obligors	ABL Obligors	Other Obligors	IP Obligor	Total
Enterprise Value					160,400.0
Add: assets held for sale					-
Add: creditors claims not paid in insolvency					23,524.3
Less: realisation costs					(30,000.0)
Transaction Value					**153,924.3**
Apportionment to working capital assets					
Net working capital	-	5,249.3	19,600.4	-	**24,849.7**
Add: creditors claims not paid in insolvency	-	23,524.3	-	-	**23,524.3**
Less: realisation costs	-	(4,693.3)	(3,197.0)	-	**(7,890.3)**
Net realisations	**-**	**24,080.4**	**16,403.4**	**-**	**40,483.7**
Apportionment to non-working capital assets					
DDL security	48,038.1	-	-	-	**48,038.1**
Other assets (PPE,IP)	-	57,829.1	23,558.6	6,124.4	**87,512.1**
Goodwill	-	-	-	-	**-**
Subtotal	**48,038.1**	**57,829.1**	**23,558.6**	**6,124.4**	**135,550.3**
Less: realisation costs	(7,835.5)	(9,432.5)	(3,842.7)	(999.0)	**(22,109.7)**
Net realisations	**40,202.6**	**48,396.5**	**19,716.0**	**5,125.5**	**113,440.6**
Total net realisations	**40,202.6**	**72,476.9**	**36,119.3**	**5,125.5**	**153,924.3**

[58] Realisation costs include insolvency professionals, legal counsel, valuation firms, investment banks and other professional costs.

5.3.4 Estimated dividend attributable to financiers

Based on the allocation of the Transaction Value (limited insolvency) to the various obligor groups, we have allocated value between the financiers per the priorities detailed in Table 26, as detailed in the table below.

Table 32 – Estimated dividend to financiers in a limited insolvency

Debt ($'000)	Debt as at 28 Feb 17	DDL Obligors	WC ABL Obligors	WC Other Obligors	IP Obligor	Other assets ABL Obligors	Other assets Other Obligors	Total return	Return (cents in $)
ABL	28,371.6	-	24,080.4	-	-	-	-	24,080.4	84.9
Interim Facility	15,000.0	-	-	-	-	-	-	-	-
DDL	20,000.0	17,738.5	-	-	2,261.5	-	-	20,000.0	100.0
Secured Notes	202,962.5	-	-	-	-	31,895.7	12,993.8	44,889.5	22.1
TLB	105,000.0	12,414.4	-	-	1,582.7	16,500.8	6,722.2	37,220.1	35.4
TLA	85,000.0	10,049.7	-	16,403.4	1,281.3	-	-	27,734.3	32.6
Unsecured Notes	292,117.7	-	-	-	-	-	-	-	-
Total	**748,451.8**	**40,202.6**	**24,080.4**	**16,403.4**	**5,125.5**	**48,396.5**	**19,716.0**	**153,924.3**	

There would be nil return to Subordinate Claims.

6 Outcome if Schemes are not implemented

We have been instructed to assess the likely outcome for the Group should the Schemes not be implemented:

1. having regard to the Scheme Companies' existing financial position, and projections, and
2. for the purposes of considering this matter only, assuming that there is no standstill in place in respect of the interest payments due to the Secured Scheme Creditors and the Unsecured Scheme Creditors on 1 April 2017.

Our analysis considers:

1. The solvency of the Group assuming all current debt obligations remain unchanged
2. The longer-term outlook for the business, including its ability to refinance its debts as and when they fall due, including the Secured Notes which mature in October 2018.

6.1 Solvency of the Group

We have used the base case forecast contained within the Budget Model to assess the Group's solvency, adjusted as follows:

- Cash interest payments on the Secured Notes and Unsecured Notes have been reinstated from April 2017, resulting in a cash outlay of $19.7 million in April and October each year.
- The PIK interest rate for the TLA and TLB facilities has been re-instated at 12.0% p.a.
- The repayment date for the Secured Notes is assumed to be the existing date of October 2018.

Assuming the above, the base case scenario shows that:

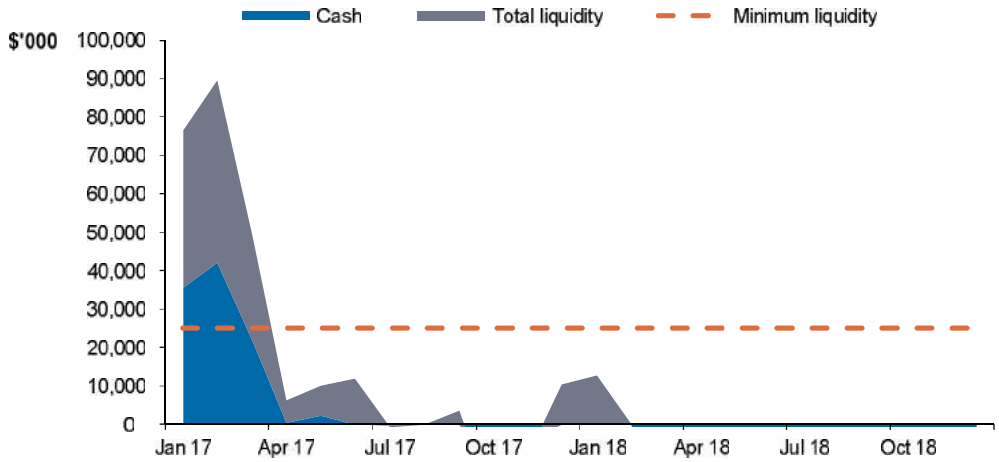
- Group liquidity will decrease considerable in Q2 FY17 to $5.9 million in April 2017, which is below the liquidity headroom of $25.0 million required by the Group, and all cash and liquidity headroom would be fully exhausted by July 2017.
- The available Finance Facilities (assuming the Interim Facility is drawn but no additional facilities are available to the Group) will be insufficient to meet the Group's cash flow requirements by the end of April 2017.

Table 33 – Status quo base case cash flow forecast

$'000	Q1FY17	Q2FY17	Q3FY17	Q4FY17	FY17 Total	Q1FY18	Q2FY18	Q3FY18	Q4FY18	FY18 Total
EBITDA	**(19,038)**	**6,052**	**794**	**3,700**	**(8,491)**	**13,560**	**35,245**	**28,187**	**14,676**	**91,668**
Change in net working capital	(35,802)	4,229	9,076	39,785	17,289	(23,688)	(17,743)	1,181	50,654	10,403
Other non-cash items	(12,110)	1,152	3,871	5,271	(1,816)	(3,964)	(2,293)	3,707	3,707	1,158
Interest payments	(378)	(20,401)	(726)	(20,442)	(41,947)	(690)	(20,453)	(763)	(20,453)	(42,359)
Taxes paid	(1,679)	(1,682)	(11,179)	(11,179)	(25,719)	(3,081)	(4,283)	(5,110)	(13,245)	(25,719)
Cash from operations	**(69,007)**	**(10,650)**	**1,837**	**17,136**	**(60,684)**	**(17,862)**	**(9,527)**	**27,202**	**35,339**	**35,151**
Capital expenditure	**(4,295)**	**(4,918)**	**(10,155)**	**(10,155)**	**(29,523)**	**(8,174)**	**(8,174)**	**(8,174)**	**(8,174)**	**(32,695)**
Financing cash flows										
Draw-down of debt facilities	35,000	-	-	-	35,000	-	-	-	-	-
Repayment of debt facilities	-	-	-	-	-	-	-	-	(195,000)	(195,000)
Cash from financing	**35,000**	**-**	**-**	**-**	**35,000**	**-**	**-**	**-**	**(195,000)**	**(195,000)**
Opening cash	60,114				60,114					
Opening ABL headroom	5,508				5,508					
Opening available liquidity	**65,622**	**27,320**	**11,752**	**3,434**	**65,622**	**10,415**	**(15,621)**	**(33,322)**	**(14,294)**	**10,415**
Net cash flow	(38,302)	(15,568)	(8,318)	6,981	(55,207)	(26,036)	(17,701)	19,028	(167,835)	(192,544)
Increase in ABL limit	-	-	-	-	-	-	-	-	-	-
Closing available liquidity	**27,320**	**11,752**	**3,434**	**10,415**	**10,415**	**(15,621)**	**(33,322)**	**(14,294)**	**(182,129)**	**(182,129)**

The liquidity position on a monthly basis for FY17 and FY18 is shown in the figure below:

Figure 5 – FY17-FY18 liquidity position assuming status quo



In our opinion, if the proposed restructure is not implemented and no alternate restructuring plan was reasonably certain of being advanced, the Group would likely be unable to pay its debts as and when they fall due from April 2017. In these circumstances, it is likely:

- The directors of ListCo would seek to appoint voluntary administrators (or an alternative form of insolvency appointment) to ListCo and other Australian companies.
- The ABL lenders or the Secured Scheme Creditors may seek to appoint receivers to the ABL Obligor and the Other Obligors.
- Without the support of the Group's lenders, either of the above scenarios would likely result in some form of insolvency appointment to subsidiaries in other jurisdictions.

Our opinion on the outcome to Scheme Beneficiaries should the companies be wound-up is set out in Section 5.3.

Appendix A – Letter of Engagement

Our ref: JKM\CCLE\02 3003 0619
Partner: James Marshall
Direct line: +61 2 9258 6508
Email: james.marshall@ashurst.com
Contact: Camilla Clemente, Senior Associate
Direct line: +61 2 9258 6574
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1 May 2017

By email

Scott Kershaw
Jenny Nettleton
KordaMentha
Level 5, Chifley Tower
Chifley Square
Sydney NSW 2000

Dear Scott

Engagement for Dividend and Solvency Analysis in relation to the Creditors' Schemes of Arrangement of Boart Longyear Limited (the **Schemes**)

We act for Boart Longyear Limited (**Listco**) and its subsidiaries (**Group**), which include Boart Longyear Management Pty Ltd (**FinCo**), Boart Longyear Australia Pty Limited (**BLY Australia**) and Votraint No. 1609 Pty Limited (**Votraint**).

1. INTRODUCTION

1.1 The Group's debt capital structure can be summarised as follows (all $ are USD):

(a) a secured revolving working capital facility (**Revolver**) provided to FinCo;

(b) a Term Loan A Securities Agreement dated 22 October 2014 issued by FinCo, as amended and restated from time to time (**TLA**);

(c) a Term Loan B Securities Agreement dated 22 October 2014 issued by FinCo, as amended and restated from time to time (**TLB**);

(d) 10% Senior Secured Notes paying a 10% coupon in the sum of $195m issued by FinCo, as amended and restated from time to time (**10% Notes**); and

(e) 7% Unsecured Senior Notes paying a 7% coupon in the sum of $284m, as amended and restated from time to time (**7% Notes**),

together, the **Finance Documents**.

1.2 Listco, Finco, BLY Australia and Votraint (together, the **Scheme Companies**) propose to enter into the following interdependent schemes of arrangement with certain of their creditors under the Finance Documents, being:

(a) the holders of the TLA, TLB and 10% Notes (together, the **Secured Scheme Creditors**); and

(b) the holders of the 7% Notes (the **Unsecured Scheme Creditors**).

1.3 We have been instructed by the Scheme Companies to engage KordaMentha to prepare an independent expert report on behalf of the Scheme Companies and the Group addressing financial matters relating to the proposals by the Scheme Companies and certain of their

creditors to apply for orders under section 411 of the *Corporations Act 2001* (Cth) (**Act**) convening respective meetings of the Secured Scheme Creditors and the Unsecured Scheme Creditors to consider inter-conditional schemes of arrangement. Your independent expert report is also to be prepared for use by the directors of the Scheme Companies in relation to the Schemes.

1.4 The Scheme Companies wish to appoint Scott Kershaw and Jenny Nettleton of your office as expert.

2. INSTRUCTIONS

2.1 For the purpose of this section, the term 'Subordinate Claim' means:

(a) a claim for a debt owed by Listco to a person in the person's capacity as a member of Listco (whether by way of dividends, profits or otherwise); or

(b) any other claim that arises from buying, holding, selling or otherwise dealing in shares of Listco.

2.2 You are instructed to prepare an independent expert report (**KordaMentha Report**) addressing the following matters:

(a) The solvency of the Group following the implementation of the proposed Schemes:

(i) solvency is to be determined following completion of the Schemes; and

(ii) you are to determine "solvency" with reference to section 95A of the Act.

(b) The value of the assets of the Group generally relative to the debts owing under the Finance Documents.

(c) The expected dividend that would be respectively available to the:

(i) Secured Scheme Creditors;

(ii) Unsecured Scheme Creditors; and

(iii) holders of Subordinate Claims against the Scheme Company,

if the Scheme Companies were to be wound up within 6 months of the hearing of the application for an order under section 411(1) and (1A) of the Act.

(d) The expected dividend that would be respectively paid to the:

(i) Secured Scheme Creditors;

(ii) Unsecured Scheme Creditors; and

(iii) holders of Subordinate Claims against the Scheme Companies,

if the Schemes were put into effect as proposed.

The requirement to calculate the expected dividend that would be paid to scheme creditors if the scheme were to be put into effect as proposed is drawn from S 8201(b) in Part 2 of Schedule 8 of the *Corporations Regulations 2001* (Cth). If, in response to (a) above, you conclude that the Scheme Companies will be solvent following the implementation of the Schemes, the Scheme Companies would not be wound up following the implementation of the Schemes and based on the terms of the Schemes, despite the calculation required by the Regulations, no dividend would actually be paid to the Secured Scheme Creditors and Unsecured Scheme

Creditors. In these circumstances, the instruction in (d) above still requires you to calculate the dividend that would be paid to Secured Scheme Creditors and Unsecured Scheme Creditors if the Scheme were implemented, which dividend must be calculated as if a winding up follows the implementation of the Schemes even though it would not do so in your opinion. If you conclude in response to (a) above that the Scheme Companies would be solvent following the implementation of the Schemes, in order to reduce the risk that a reader of your report might be confused by the use of the term "expected dividend" in circumstances where the Scheme Companies are not being wound up, we request that where you are addressing the calculation described in (d) above in your report you refer to implied value of the interests of the Secured Scheme Creditors and the Unsecured Scheme Creditors (**Implied Value**) instead of "expected dividend".

(e) The likely outcome for the Group should the Schemes not be implemented:

(i) having regard to the Scheme Companies' existing financial position, and projections; and

(ii) for the purposes of considering this matter only, assuming that there is no standstill in place in respect of the interest payments due to the Secured Scheme Creditors and the Unsecured Scheme Creditors on 1 April 2017.

2.3 The KordaMentha Report should include a schedule listing the data, reports and other information (to the extent this material is not set out in the body of the KordaMentha Report) which has been used to prepare the KordaMentha Report.

2.4 You are also instructed to read the following **enclosed** documents:

(a) Expert Witness Code of Conduct from the Uniform Civil Procedure Rules 2005 (NSW) and to acknowledge in the KordaMentha Report that you have done so and agree to comply with it; and

(b) Regulatory Guide 112 issued by ASIC on 30 March 2011 and to acknowledge in the KordaMentha Report that you have done so and consider that you are independent in accordance with the requirements of Regulatory Guide 112 and that you consider that you have complied with the terms of that document.

2.5 You are also instructed to disclose in the KordaMentha Report the existence of any engagements you have had with the Group.

3. COURT PROCEEDINGS AND THE USE OF THE KORDAMENTHA REPORT

3.1 You agree that the directors of the Scheme Companies may rely on the KordaMentha Report for, amongst other things, considering whether the Scheme Companies would be solvent (within the meaning of section 95A of the Act) following implementation of the Schemes.

3.2 You agree to the inclusion of the KordaMentha Report as:

(a) an annexure to the Explanatory Statements to be provided by the Scheme Companies to the Secured Scheme Creditors, Unsecured Scheme Creditors and others (including ASIC and the ASX) in relation to the Schemes;

(b) an annexure to a notice of meeting to the shareholders of the Scheme Companies; and

(c) an annexure to any prospectus issued in connection with the Scheme Companies.

3.3 Schemes of arrangement are subject to Court approval. Any applications by the Scheme Companies will require the following documents to be included in the applications to the Court:

(a) the KordaMentha Report; and

(b) an affidavit from Scott Kershaw / Jenny Nettleton introducing and annexing or exhibiting the KordaMentha Report and verifying the opinions contained therein.

3.4 You agree to the KordaMentha Report being used in the proceedings before the Court relating to the Schemes, and to the provision of affidavits by Scott Kershaw / Jenny Nettleton in relation to the KordaMentha Report in the Court proceedings.

4. CONFIDENTIALITY

4.1 Your services as independent expert may require you to receive confidential and/or proprietary information or property of the Scheme Companies. You agree to maintain all documents, information and things obtained in connection with this matter in strict confidence. You agree to maintain any reports, work papers, memoranda or summaries which may be prepared in connection with the engagement by you or personnel assisting you in strict confidence. You agree not to disclose these things to any person or use them for any purpose apart from assisting Ashurst and the Scheme Companies in relation to this matter, and you agree to ensure your personnel are obliged to do the same. You agree to retain all such material, subject to our instructions.

4.2 Apart from engaging with us, the Scheme Companies and its authorised personnel or consultants, and the giving of evidence in the Court proceedings:

(a) you must keep all communications between us confidential (including the contents of this letter). It is a condition of this engagement that you take all reasonable measures to protect the confidentiality of, and any privilege attaching to, these communications;

(b) you must not disclose to anyone the content of any confidential oral or written communication relating to this engagement;

(c) no other use, disclosure or dissemination of such materials or information gained in connection with this engagement is to be made without prior written consent, except as may be required by law; and

(d) you must not discuss any aspect of this matter with any other person, or inform them of your involvement in this matter, without our prior written consent.

4.3 There may be specific confidentiality orders applying to the Court proceedings described above. We will advise you if and when such orders apply to you. If you are ever in doubt about what may be discussed with others, please contact us to ensure there is no inadvertent breach of this agreement or any Court orders.

4.4 Please mark any written communications (including emails) and reports involving this matter ***"Privileged and Confidential"***. Please address all letters and faxes in connection with your services to:

Privileged and Confidential
Attention: James Marshall
Ashurst Australia
Level 11, 5 Martin Place
Sydney NSW 2000

4.5 All documents obtained in the course of this engagement must be returned to us upon request. The obligations in this letter expressly apply to both you and any personnel

providing assistance to you. The obligations in this letter survive expiration or termination of this engagement.

5. **YOUR FEES**

We confirm that the Scheme Companies will ultimately be responsible for your fees for the preparation of the independent expert report.

6. **CONFIRMATION**

Please confirm whether KordaMentha agrees to the terms of this engagement, including the confidentiality requirements, by return letter.

Please contact James Marshall or Camilla Clemente should you require any further information or confirmation, or if you have any questions or issues in relation to this letter or otherwise.

Yours faithfully

Ashurst Australia

ashurst

Uniform Civil Procedure Rules 2005

Current version for 7 April 2017 to date (accessed 1 May 2017 at 09:33)

Schedule 7

Schedule 7 Expert witness code of conduct

(Rule 31.23)

1 Application of code

This code of conduct applies to any expert witness engaged or appointed:

(a) to provide an expert's report for use as evidence in proceedings or proposed proceedings, or

(b) to give opinion evidence in proceedings or proposed proceedings.

2 General duties to the Court

An expert witness is not an advocate for a party and has a paramount duty, overriding any duty to the party to the proceedings or other person retaining the expert witness, to assist the court impartially on matters relevant to the area of expertise of the witness.

3 Content of report

Every report prepared by an expert witness for use in court must clearly state the opinion or opinions of the expert and must state, specify or provide:

(a) the name and address of the expert, and

(b) an acknowledgement that the expert has read this code and agrees to be bound by it, and

(c) the qualifications of the expert to prepare the report, and

(d) the assumptions and material facts on which each opinion expressed in the report is based (a letter of instructions may be annexed), and

(e) the reasons for and any literature or other materials utilised in support of each such opinion, and

(f) (if applicable) that a particular question, issue or matter falls outside the expert's field of expertise, and

(g) any examinations, tests or other investigations on which the expert has relied, identifying the person who carried them out and that person's qualifications, and

(h) the extent to which any opinion which the expert has expressed involves the acceptance of another person's opinion, the identification of that other person and the opinion expressed by that other person, and

(i) a declaration that the expert has made all the inquiries which the expert believes are desirable and appropriate (save for any matters identified explicitly in the report), and that no matters of significance which the expert regards as relevant have, to the knowledge of the expert, been withheld from the court, and

(j) any qualification of an opinion expressed in the report without which the report is or may be incomplete or inaccurate, and

(k) whether any opinion expressed in the report is not a concluded opinion because of insufficient research or insufficient data or for any other reason, and

(l) where the report is lengthy or complex, a brief summary of the report at the beginning of the report.

4 Supplementary report following change of opinion

(1) Where an expert witness has provided to a party (or that party's legal representative) a report for use in court, and the expert thereafter changes his or her opinion on a material matter, the expert must forthwith provide to the party (or that party's legal representative) a supplementary report which must state, specify or provide the information referred to in clause 3 (a), (d), (e), (g), (h), (i), (j), (k) and (l), and if applicable, clause 3 (f).

(2) In any subsequent report (whether prepared in accordance with subclause (1) or not), the expert may refer to material contained in the earlier report without repeating it.

5 Duty to comply with the court's directions

If directed to do so by the court, an expert witness must:

(a) confer with any other expert witness, and

(b) provide the court with a joint report specifying (as the case requires) matters agreed and matters not agreed and the reasons for the experts not agreeing, and

(c) abide in a timely way by any direction of the court.

6 Conferences of experts

Each expert witness must:

(a) exercise his or her independent judgment in relation to every conference in which the expert participates pursuant to a direction of the court and in relation to each report thereafter provided, and must not act on any instruction or request to withhold or avoid agreement, and

(b) endeavour to reach agreement with the other expert witness (or witnesses) on any issue in dispute between them, or failing agreement, endeavour to identify and clarify the basis of disagreement on the issues which are in dispute.

ASIC

Australian Securities & Investments Commission

REGULATORY GUIDE 112

Independence of experts

March 2011

About this guide

This is a guide for any person who commissions, issues or uses an expert report.

It explains how ASIC interprets the requirement that an expert is independent of the party that commissions the expert report (commissioning party) and other interested parties.

> Note: An interested party is a person with an interest in the outcome of the transaction different from the interest of the general body of security holders.

About ASIC regulatory documents

In administering legislation ASIC issues the following types of regulatory documents.

Consultation papers: seek feedback from stakeholders on matters ASIC is considering, such as proposed relief or proposed regulatory guidance.

Regulatory guides: give guidance to regulated entities by:

- explaining when and how ASIC will exercise specific powers under legislation (primarily the Corporations Act)
- explaining how ASIC interprets the law
- describing the principles underlying ASIC's approach
- giving practical guidance (e.g. describing the steps of a process such as applying for a licence or giving practical examples of how regulated entities may decide to meet their obligations).

Information sheets: provide concise guidance on a specific process or compliance issue or an overview of detailed guidance.

Reports: describe ASIC compliance or relief activity or the results of a research project.

Document history

This version was issued on 30 March 2011 and is based on legislation and regulations as at 30 March 2011. The reference to the relief instrument in RG 112.37 was updated in August 2015 because this instrument was reviewed as part of the sunsetting of legislative instruments under the *Legislative Instruments Act 2003*.

Previous versions:

- Superseded Regulatory Guide 112, issued 30 October 2007

Disclaimer

This guide does not constitute legal advice. We encourage you to seek your own professional advice to find out how the Corporations Act and other applicable laws apply to you, as it is your responsibility to determine your obligations.

Examples in this guide are purely for illustration; they are not exhaustive and are not intended to impose or imply particular rules or requirements.

Contents

A Overview

Key points

This guide gives ASIC's view on:

- the need for an expert to be independent (see Section B);
- how previous and existing relationships with commissioning and other interested parties may affect the independence of an expert (see Section C);
- how an expert should deal with the commissioning party and other interested parties to maintain its independence (see Section D); and
- when and how an expert should use a specialist when preparing an expert report (see Section E).

Reports covered by this guide

RG 112.1 This guide focuses on reports prepared for transactions under Chs 2E, 5, 6 and 6A of the *Corporations Act 2001* (Corporations Act), whether the reports are required in the Corporations Act or are commissioned voluntarily. The principles in this guide may also be relevant to independent expert reports commissioned for other purposes—for example, specialist reports like geologist reports or traffic forecast reports (see Section E) for inclusion in Ch 6D disclosure documents and Ch 7 Product Disclosure Statements (PDSs).

RG 112.2 We consider that security holders regard an expert report as being prepared by an independent expert irrespective of whether the report has been prepared voluntarily or because it is required under statute.

RG 112.3 This approach is consistent with the obligations on the holder of an Australian financial services licence (AFS licensee) to manage conflicts of interest. An AFS licensee's obligation to manage conflicts of interest applies to all of its activities as an AFS licensee and, as such, an expert who holds an AFS licence needs to manage conflicts of interest in respect of all expert reports it prepares.

RG 112.4 This guide does not apply to independent or investigating accountant reports.

Underlying principles

RG 112.5 An expert report that is biased frustrates rather than assists informed decision-making. Security holders will assume that an expert report is an independent opinion and will be misled if the opinion is not.

RG 112.6 Brooking J described the role of an expert in *Phosphate Co-operative v Shears (No 3)* (1988) 14 ACLR 323 (*Pivot*) at 339 in the following terms:

> Those who prepare experts' reports in company cases carry a heavy moral responsibility, whatever their legal duties may be. These reports are either required by the [Corporations Act] or provided by way of analogy with those requirements. In either case, they are supposed to be for the protection of individuals who are being invited to enter into some kind of transaction. Unless high [independence] standards are observed by those who prepare these reports, there is a danger that systems established for the protection of the investing public will, in fact, operate to their detriment through reliance on these reports and on the reputations of those who furnish them. In lending his name, the expert will often, as in this case, be lending a name to conjure with … The expert's integrity and freedom from baneful influences are essential.

RG 112.7 The Corporations Act indicates the need for an expert to be independent:

(a) an expert must not be associated with certain interested parties, and must disclose certain interests and relationships, when preparing reports required by the Corporations Act for:

  (i) a takeover bid under Ch 6 (s648A);

  (ii) a scheme of arrangement (reg 5.1.01 and Sch 8, cls 8303 and 8306 of the Corporations Regulations 2001 (Corporations Regulations)); and

  (iii) a compulsory acquisition or buy-out under Ch 6A (s667B); and

(b) as an AFS licensee, an expert needs to establish and maintain systems to comply with its obligations to manage conflicts of interest.

B Expert needs to be independent

Key points

An expert should be, and should appear to be, independent: see RG 112.8–RG 112.15.

An expert should give an opinion that is genuinely its own opinion: see RG 112.16–RG 112.20.

Independence

RG 112.8 The Corporations Act contains indicators that an expert must be, and must appear to be, independent in the provisions requiring an expert report for certain takeover bids, schemes of arrangement, for any compulsory acquisition and in the AFS licensee conflicts management provisions.

RG 112.9 The need for an expert to be, and to appear to be, independent is also indicated in case law establishing that the independence of an expert is critical for the protection of security holders. Mullighan J observed in *Duke Group v Pilmer* (1998) 27 ACSR 1 at 268:

> It may be seen that a true state of independence on the part of the expert is crucial to the efficacy of the [takeover] process and for the protection of the public generally and the company and its members in particular.

RG 112.10 We will consider regulatory action if we have concerns about the independence of an expert: see Regulatory Guide 111 *Content of expert reports* (RG 111) at RG 111.128–RG 111.130.

> Note: In addition to the term 'independence', language also used by the courts, our policies and commentators include: 'impartial judgment'; 'disinterested'; 'objective'; 'unbiased'; 'genuine expression of opinion'; 'integrity' and, negatively: 'conflict of interest'; 'compromised'; 'collusion' and 'acting in a partisan capacity'.

AFS licensee obligations to manage conflicts

RG 112.11 An expert report typically includes a statement of opinion or recommendation intended to influence investors in making a decision on a financial product: s766B(1). This means the expert report usually constitutes financial product advice, triggering the need for an AFS licence: s766A and 911A(1). Accordingly, in most cases, an expert who prepares an independent expert report that will be made available to retail investors will hold an AFS licence.

RG 112.12 Under s912A(1)(aa), an AFS licensee must:

> have in place adequate arrangements for the management of conflicts of interest that may arise wholly, or partially, in relation to activities

> undertaken … in the provision of financial services as part of the financial services business of the licensee or the representative …

RG 112.13 This conflicts management obligation applies irrespective of:

(a) whether the expert states that it is independent of the commissioning party;

(b) any requirement that the expert not be an associate of the commissioning party or any other interested party to a transaction (e.g. s648A); or

(c) whether the expert report has been prepared to meet a statutory obligation.

RG 112.14 Whether an expert's conflicts management arrangements (i.e. measures, processes and procedures) are adequate will depend on the nature, scale and complexity of the expert's business and the circumstances of the expert's engagement. The expert should document its conflicts management policies and procedures. The expert should keep records demonstrating how it has complied with those procedures. General guidance on these obligations is provided in Regulatory Guide 181 *Licensing: Managing conflicts of interest* (RG 181) at RG 181.10–RG 181.11.

RG 112.15 Expert reports are exempt from the licensing regime (reg 7.6.01(u)) when the advice is an opinion on matters other than financial products (e.g. a geologist report) and:

(a) it does not include advice on a financial product;

(b) the document includes a statement that the person is not operating under an AFS licence when giving the advice; and

(c) the expert discloses remuneration, interests and relationships.

Genuine opinion

RG 112.16 The courts have required the opinion of an expert to be genuine and a product of the expert's professional judgment. An expert's opinion that is tailored to support the views of the commissioning party or any other interested party is not a genuine opinion. It may also be misleading or deceptive.

RG 112.17 A court found that a commissioning party's active role in shaping an expert report meant that the expert report was not the product of 'an exercise of judgment' by the expert 'uninfluenced by pressure brought to bear by or on behalf of [the commissioning party]' and was not 'a genuine expression of opinion … but was the result of an exercise carried out for the purpose of arriving at a desired result': *Pivot* at 340 and 342 per Brooking J.

RG 112.18 An expert is subject to statutory obligations to avoid making misleading or deceptive statements and engaging in misleading or deceptive conduct.

Note: See, for example, s412(8), 670A(1)(h), 1041E, 1041F and 1041H and s12DA of the *Australian Securities and Investments Act 2001* (ASIC Act).

RG 112.19 An expert has been found to have engaged in misleading or deceptive conduct when the expert did not hold the opinions expressed in the expert report: *MGICA v Kenny & Good* (1996) 140 ALR 313 at 356–357 (a case involving a property valuation).

RG 112.20 Similarly in *Reiffel v ACN 075 839 226* (2003) 45 ACSR 67 at 92–93, the court held that the expert report was misleading and deceptive in circumstances when 'there was no reasonable basis for the [expert's] statement in the report' and the expert 'did not hold the opinion it expressed'. The court held that the expert should have disclosed that it disagreed with the methodology used by a promoter in its forecasts and disclosed the methodology that the expert in fact used.

C Relationship between the expert and the commissioning party

Key points

An expert should identify relationships and interests that may affect, or may be perceived to affect, the expert's ability to prepare an independent report: see RG 112.21–RG 112.24.

The expert should then consider whether, on the basis of that relationship or interest:

- it should decline the engagement (see RG 112.25–RG 112.27); or
- the relationship or interest can be adequately dealt with by way of disclosure in the expert report (see RG 112.28–RG 112.37).

The expert may also need to take other actions to manage a conflict of interest: see RG 112.38.

Before engaging an expert, a commissioning party should be satisfied that the expert is independent and has sufficient expertise and resources to provide a thorough report: see RG 112.39–RG 112.41.

Note: A reference to expert in this guide is to the person or entity that issues the report. In most cases, this will be a corporate entity holding an AFS licence, even though a senior director or employee may sign the report in the name of the corporate entity and be principally responsible for preparing the report.

Identifying relationships

RG 112.21 Previous and existing relationships may threaten, or appear to threaten, the independence of an expert. The objectivity of an expert may also be compromised, or called into question, if the expert has an interest in the outcome of the transaction that is the subject of its report.

RG 112.22 The closer the relationship between the expert and a commissioning party or any other interested party, the greater the onus on the expert to demonstrate the absence of bias.

RG 112.23 In identifying relationships and interests that may affect, or may be perceived to affect, the expert's ability to prepare an independent report, the expert should not only identify relationships with, and interests of, the expert but also of:

(a) the expert's associates;

(b) those directors and senior employees who are principally responsible for preparing and issuing the expert report; and

(c) the spouse, children and associates of the directors and senior employees who are principally responsible for preparing and issuing the expert report.

RG 112.24 The need to undertake this identification process also arises from the obligation to manage conflicts of interest if the expert is an AFS licensee.

Declining the engagement

RG 112.25 An expert should seriously consider declining an engagement when:

(a) a person to be involved in preparing the expert report is an officer of the commissioning party or an interested party;

(b) the expert, a director or a senior employee who is involved in preparing the expert report has a substantial interest in or is a substantial creditor of the commissioning party or has other material financial interests in the relevant transaction;

(c) the expert has participated in strategic planning work for the commissioning party as a lawyer, financial consultant, tax adviser or accountant, whether in connection with the relevant transaction or generally (e.g. advising on possible takeovers or takeover defences); or

(d) the expert has acted as a lawyer, financial consultant, tax adviser or accountant to the commissioning party (other than providing professional services strictly for compliance purposes rather than strategic or operational decisions or planning).

RG 112.26 The Corporations Act specifically states that an expert must decline an engagement for the preparation of an expert report in each of the following circumstances:

(a) when the report is to be cited or included in a target statement if the expert is an 'associate' (as defined in s12) of the bidder or the target and the bidder has 30% or more of the voting power in the target entity or there are common directors of the target and the bidder (s640 and 648A(2));

(b) when the report is to be cited or included in a bidder's statement if the expert is an 'associate' (as defined in s12) of the bidder or the target and the consideration for a pre-bid stake acquired in a target was unquoted securities (s636(1)(h)(iii), 636(2) and 648A(2));

(c) when the report is to be cited or included in the explanatory statement for a scheme of arrangement if the expert is an 'associate' (as defined in s12) of the parties to the scheme if the other party to a reconstruction in a scheme of arrangement has at least 30% of the voting shares of the scheme company or there are common directors (reg 5.1.01(b) and Sch 8, cls 8303 and 8306 of the Corporations Regulations); and

(d) if the expert is an 'associate' (as defined in s12) of the person issuing a compulsory acquisition or buy-out notice (s663B, 664C, 665B and 667B).

RG 112.27 An expert's AFS licensee obligations to manage conflicts of interest may oblige an expert to decline engagements in some circumstances. Licensee experts may be offered an engagement in which relationships and interests pose such a serious risk of conflict of interest that the threat to the expert's

independence cannot be adequately managed through disclosure or internal controls. The only way an expert can adequately manage these threats is to avoid them and the expert's conflicts management policies and procedures should give specific guidance on circumstances when it should decline engagements: see RG 181.42–RG 181.43 and RG 181.60.

Disclosing relationships and interests

Requirement

RG 112.28 As security holders rely on an expert report, they should be clearly informed about any relationships or interests (including financial or other interests) that could reasonably be regarded as relevant to the independence of the expert. This requirement arises from the Corporations Act and case law: see *ANZ Nominees v Wormald* (1988) 13 ACLR 698 at 707.

RG 112.29 Disclosure of relationships or interests is required under the Corporations Act for an expert report when the report is required to be included in:

(a) a target statement, when the bidder has 30% or more of the voting power in the target entity or there are common directors of the target and the bidder (s648A(3));

(b) a bidder's statement, when the consideration for a pre-bid stake acquired in a target is unquoted securities (s648A(3)); and

(c) a compulsory acquisition or buy-out notice (s667B(2)).

RG 112.30 Similarly, as an AFS licensee, an expert needs to make appropriate disclosure of conflicts of interest to commissioning parties and to those relying on the report as part of the conflicts management obligation: see RG 181.49–RG 181.63.

Content of disclosure

RG 112.31 An expert should prominently disclose in the report:

(a) the business or professional relationships with a commissioning party or any other interested party;

(b) any financial or other interest that could reasonably be regarded as capable of affecting the expert's ability to give an unbiased opinion on the matter being reported on; and

(c) any fee or benefit (whether direct or indirect) to be received in connection with the report (s648A(3) and 667B(2)).

RG 112.32 If an expert has, within the previous two years, valued assets representing more than a *de minimus* (i.e. trivial) proportion by value of the assets that it

has been engaged to value for the commissioning party, this should also be prominently disclosed in the report.

> Note: Disclosure is also required by RG 112.31 if the expert was previously engaged to value the relevant assets by the commissioning party or any other interested party.

RG 112.33 These disclosures should be made in all expert reports irrespective of whether the report is required to be prepared by the Corporations Act or is voluntarily commissioned and supplied to security holders.

RG 112.34 These disclosures should relate to relationships or interests existing at the time of preparation of the report or existing in the previous two years. This two-year period is a minimum period for disclosure and earlier relationships might be so significant that they warrant disclosure as well.

> Note: In *Duke Group v Pilmer,* Mullighan J referred to this benchmark with approval (at 268).

RG 112.35 Disclosures should be timely, prominent, specific and meaningful. An expert should not use 'boilerplate' disclosures (e.g. that the expert has been paid 'a normal professional rate'). An actual amount should be shown for fees paid to an expert for the report.

RG 112.36 When an expert report is cited or included in a bidder's statement in which any securities in the bidder (or a person who controls the bidder) are offered as consideration under the bid, these disclosures must also meet the specific disclosure obligations that apply to prospectuses under s711(2)–(4), including:

(a) any interests that the expert has in the bidder; and
(b) any fees or benefits given or agreed for the expert's services (s636(1)(g)).

RG 112.37 As an expert report will usually constitute financial services advice, an expert will need to give retail investors a Financial Services Guide (FSG). We have given relief to allow an expert to include a FSG as a separate and clearly identifiable part of an expert report: see ASIC Corporations (Financial Services Guides) Instrument 2015/541. In view of this relief, we consider that an expert should include all of its disclosure of interests and benefits, whether flowing from the FSG requirements, conflicts management, s648A or case law, in the FSG rather than duplicating that disclosure in another part of the expert report.

Other measures

RG 112.38 In addition to disclosing any conflict of interest, an expert will need to consider whether other measures to properly manage the conflict of interest are appropriate (e.g. implementing information barriers): see RG 181.35–RG 181.37.

Commissioning an expert

RG 112.39 In commissioning an expert, a commissioning party should consider whether the expert is independent and whether the expert has sufficient expertise and resources to give a thorough opinion on the proposed transaction. The quality of an expert report may be affected if this is not the case. If an expert considers that it is not independent or does not have sufficient expertise or resources to give a thorough opinion, it should decline the engagement.

RG 112.40 In selecting an appropriate expert, we consider that relevant factors are likely to include:

(a) whether the expert has adequate resources (which may include access to appropriate third party specialists) to perform the necessary work;

(b) the qualifications of the expert and whether the expert has the requisite level of technical expertise (including whether the expert meets the requirements of any relevant industry codes);

(c) the experience of the expert. For example, a commissioning party may ask what comparable transactions the expert has given an opinion on and whether that experience is relevant to the current transaction;

(d) whether the expert can meet the timeframe required for the report to be produced; and

(e) whether there are any independence issues.

RG 112.41 While a commissioning party should satisfy itself that an expert is competent, it should ensure that any pre-engagement discussions do not compromise the expert's independence. For example, these discussions should not deal with how the expert proposes to evaluate the transaction or the merits of the transaction: see RG 112.46–RG 112.48.

D Expert's conduct in preparing its report

Key points

An expert should:

- obtain written terms of engagement from the commissioning party before commencing work;
- take care to avoid any communication with the commissioning party or any other interested party that may undermine, or appear to undermine, independence; and
- consent to the use or incorporation of its report.

Commissioning parties should be careful not to release the conclusions of an expert report in advance of the final report.

Interactions with commissioning party

Terms of engagement

RG 112.42 Before commencing work, an expert should obtain written terms of engagement from the commissioning party that:

(a) set out the scope and purpose of the report;

(b) set out the facts of the proposal and relevant data;

(c) recognise the expert's right to refuse to give an opinion or report at all if it is not given the information and explanations it requires to prepare the report;

(d) give the expert the same access to the commissioning party's records as the auditor of the commissioning party; and

(e) set out the fee.

Approval of appointment

RG 112.43 It is possible that some directors of a commissioning party may have a conflict of interest in the proposed transaction, such as cross-directorships held in the target and the bidder. In these circumstances, the expert and commissioning party should ensure that the directors without a conflict select and engage the expert.

RG 112.44 The commissioning party should ensure that the method by which an expert is appointed, and the scope of its engagement, is consistent with the concepts of independence and perceived independence of the expert. For example, it may be appropriate to have a non-executive director oversee the appointment process if management is likely to be perceived to have a strong interest in the outcome of the expert report.

Expert's fee

RG 112.45 We will consider that an expert is not independent if the amount it is to receive for the expert report depends in any way on the outcome of the transaction to which the report relates. This is consistent with the requirement that a person who provides financial services must not hold itself out as 'independent', 'impartial' or 'unbiased' if it is paid success fees or has a conflict of interest arising from a relationship with an issuer of financial products that might reasonably be expected to influence the report: s923A.

Manner of communication

RG 112.46 Ensuring security holders receive an objective expression of opinion in an expert report involves more than identifying and dealing with previous or existing relationships or interests. An expert's objectivity, or the appearance of objectivity, may be undermined by the interactions between the expert and the commissioning and other interested parties.

RG 112.47 We are likely to view the following interactions as indicators of a lack of independence:

(a) the commissioning party having rejected another expert after the expert disclosed its likely approach to evaluating the proposal;

(b) an expert attending discussions on the development of the transaction, the merits of the transaction or on strategies to be adopted by the commissioning party;

(c) an expert taking instructions from, or holding discussions with, a commissioning party, its advisers or any interested party on the choice of methodologies for the report or evaluation of the transaction (including the underlying assumptions or reasoning), although the expert may interrogate those parties for the purpose of the expert's own analysis;

(d) an expert accepting from a commissioning party, its advisers or any interested party their analysis of the transaction, although the expert may interrogate those parties for the purpose of the expert's own analysis;

(e) the expert discussing preliminary views or findings with the commissioning party or any other interested party;

(f) the expert entering into a success fee arrangement with the commissioning party or any other interested party;

(g) the expert discussing future business relationships with the commissioning party or any other interested party before finalising the report. This includes refraining from cross-selling other services of the expert; and

(h) the expert changing its opinion at the suggestion of the commissioning party or any other interested party without adequate explanation: see RG 112.56–RG 112.57.

RG 112.48 We expect that an expert who is an AFS licensee will include in its internal policies and procedures guidelines to address:

(a) communications and interactions with the commissioning party and any other interested party during the commissioning of the expert and the preparation of the report;

(b) remuneration arrangements; and

(c) supervision of the preparation of the report.

Preparing the report

Access to information

RG 112.49 The expert, not the commissioning party, should determine what information will be required for the report. The commissioning party should give the expert all the information it is aware of about the subject of the expert report, in sufficient detail to enable the expert to determine its relevance.

RG 112.50 If the expert is not given access to the records it requires, or is given an unduly short time to complete the report (relative to any applicable statutory time constraints), it should consider refusing to prepare a report at all. An expert should not prepare an unsatisfactory report and attempt to deal with deficiencies in the report by disclaiming responsibility.

Communication

RG 112.51 An expert and its commissioning party may communicate and meet with each other during the preparation of the expert report for the expert to:

(a) discuss the progress of the report;

(b) gain access to information;

(c) ascertain matters of fact or to correct factual errors (*Re Matine* (1998) 28 ACSR 268 at 288); and

(d) interrogate the commissioning party or another interested party for the purposes of its own analysis.

RG 112.52 To help maintain independence and negate any inference of bias, we consider that an expert should direct and lead all meetings and discussions with the commissioning party, its advisers and any other interested party. The expert should keep appropriate file notes of discussions and retain copies of documents worked on in discussions with the commissioning party, its advisers and any other interested party.

RG 112.53 Brooking J in *Pivot* at 339 summarised this issue in the following terms:

> The guiding principle must be that care should be taken to avoid any communication which may undermine, or appear to undermine, the independence of the expert.

Drafts of reports

RG 112.54 An expert may give draft copies of parts of its report to a commissioning party or its advisers for factual checking before delivery of a full draft copy of the report. These early drafts should not contain the expert's analysis of the transaction, the merits of a transaction or the methodologies employed: *Pivot* at 339.

RG 112.55 The expert should only provide a full draft copy of the report to the commissioning party for factual checking when the expert is reasonably assured that the conclusions in the report are unlikely to change.

RG 112.56 If a commissioning party or an adviser disagrees with the expert's analysis in a draft of the expert report, the report should only be altered if the expert is persuaded that all or part of the expert's assessment is based on an error of fact. We would expect an expert, in this situation, to independently reassess the whole or relevant part of the report based on its view of the revised facts.

RG 112.57 After a full draft copy of an expert report has been provided to a commissioning party or its advisers, any alteration of the report made at the suggestion of the commissioning party or its advisers that affects an expert's analysis of the transaction or the expert's conclusions should be clearly and prominently disclosed in the report. This disclosure should include an explanation of the changes, the reasons why the expert considered the changes appropriate and the significance of the changes to the expert's opinion.

RG 112.58 Minor factual corrections made at the suggestion of the commissioning party or its advisers that are immaterial to an expert's analysis, conclusions or opinion need not be disclosed in the report.

Use and distribution

RG 112.59 If a party commissions two or more reports, a copy of each report should be sent to security holders. This should be done regardless of whether more than one report is prepared by the same expert or by different experts: *Pivot* at 339. It should also be done regardless of whether the commissioning party is obliged to do so under s648A(1).

RG 112.60 An expert should deliver its final, signed report to the commissioning party even if the commissioning party requests otherwise (unless the transaction is discontinued or varied substantially).

RG 112.61 The directors of a commissioning party should not adopt or recommend that security holders accept the findings of an expert report without critically analysing the report. The directors should satisfy themselves that the information relied on in the report is accurate and that the report has not omitted material information known to the directors but not given to the expert.

Release of conclusions of expert reports

RG 112.62 An expert report needs to contain sufficient information to assist security holders to make a decision, including providing details of the methodologies and material assumptions on which the report is based, together with any qualifications: see RG 111.64–RG 111.79. The directors of a commissioning party need to ensure that an expert report is not used or referred to in a way that may be misleading or deceptive.

RG 112.63 If a commissioning party releases the conclusions of an expert report in advance of the final report, this is likely to be misleading or deceptive, particularly if the final report contains any 'surprises' for a person who has only read the conclusions. Releasing conclusions without providing relevant supporting information may cause confusion or uncertainty since security holders and the market will not be able to determine whether those conclusions are reasonable.

> Note: In *Re Origin Energy Limited 02* [2008] ATP 23, the Takeovers Panel considered that it was potentially misleading to quote the conclusions of a technical expert's report in a target's statement without giving shareholders a copy of the report or the underlying assumptions and qualifications.

RG 112.64 Consequently, a commissioning party that releases the conclusions of an expert report in advance of the final report risks regulatory action for contravention of the misleading or deceptive conduct provisions or other regulatory action. For example, if a report is provided in relation to a bid, the commissioning party risks an application by us, or another party, to the Takeovers Panel for a declaration of unacceptable circumstances.

RG 112.65 There may be limited situations in which a commissioning party's continuous disclosure obligations will require disclosure of the conclusions of an expert report in advance of the final report (e.g. if confidentiality has been lost before the final report is ready for release to the market). Commissioning parties and experts should put in place processes that minimise the risk that preliminary disclosure will be required before the report has been finalised. If preliminary disclosure is required, commissioning parties should ensure that this is done in a way that is not misleading or confusing (e.g. by highlighting the limitations of the preliminary disclosure and providing all available material information about the report).

Consent of expert

RG 112.66 An expert report may only be incorporated or referred to in a bidder's statement or target statement if the expert has consented to the use of the report in the form and context in which it appears: s636(3) and 638(5). Before consenting, the expert should consider whether the report has been accurately reproduced and used for the purpose for which it was commissioned. The expert should also consider the appropriateness, or otherwise, of express or implied representations about its report, the conclusions or recommendations: see Regulatory Guide 55 *Prospectus and PDS: Consent to quote* (RG 55), which also applies to the consent obligations in s636(3) and 638(5).

E Use of specialists

Key points

If an expert does not have the necessary specialist expertise on a matter that must be determined for the purposes of the report, it should retain an appropriate specialist for that matter who is independent of the commissioning party: see RG 112.67–RG 112.70.

The specialist should report to the expert rather than the commissioning party: see RG 112.71–RG 112.72.

The expert should ensure that the specialist has consented to the use of its report: see RG 112.73–RG 112.77.

Engagement of specialists

RG 112.67 It is the expert's responsibility to:

(a) determine that a specialist's assistance is required on a matter that must be determined for the purposes of the report;

(b) select the specialist and ensure that the specialist is competent in the field;

(c) negotiate the scope and purpose of the specialist's work and ensure that this is clearly documented in an agreement (though the agreement may be with the commissioning party or the expert); and

(d) be satisfied that the specialist is independent of, and is perceived to be independent of, the commissioning party and any other interested party.

RG 112.68 We consider best practice would be for the expert to pay the specialist its fees and recover those fees from the commissioning party.

RG 112.69 We would expect a specialist report to be specifically commissioned and prepared for the transaction the subject of the expert report. We would also expect the expert to make it clear to the specialist that the report is being commissioned for inclusion in the expert report. If the specialist report is not prepared specifically for the current transaction, this should be clearly explained to security holders. The Takeovers Panel in *Re Great Mines Limited* [2004] ATP 01 expressed the disclosure requirement in the following terms (at [56]):

> Wherever a report is re-used in this way, however, shareholders should be advised of the purpose for which the report was prepared. It would be inappropriate to re-use a report in this way to satisfy a requirement for an independent experts report and in general, it would be misleading to describe a report re-used in this way as independent.

RG 112.70 While these comments were made in the context of an independent expert report, we consider they are equally applicable to the use of a specialist report.

Review of specialist report

RG 112.71 The expert should:

(a) critically review the specialist report, particularly to consider whether the specialist has used assumptions and methodologies which appear to be reasonable and has drawn on source data which appears to be appropriate in the circumstances;

(b) have reasonable grounds for believing the specialist report is not false or misleading;

(c) ensure the specialist signs its report and consents to its use in the form and context in which it will be published; and

(d) ensure that the specialist report is used in a way that will not be misleading or deceptive.

RG 112.72 A specialist report commissioned by the expert should be dated close enough to the date of the expert report to ensure that assumptions applied have not been overtaken by time or events.

Use of specialist report

RG 112.73 The expert should ensure that the specialist consents to the use of its report in the form and context in which it will be published. If a specialist does not take responsibility for, or authorise the use of, its report and the expert considers that the material the subject of the report needs to be included in the expert report, the expert must accept entire responsibility for the statements as the expert's own and, as such, must have reasonable grounds for believing the statements not to be misleading or deceptive. This is consistent with our approach to directors assuming responsibility for statements in a prospectus or PDS that are not attributed to another person: see RG 55.11–RG 55.12.

RG 112.74 The expert should exercise its judgment to determine whether to include the specialist report in full or include a concise or short form version or cite or extract the specialist report.

RG 112.75 We encourage an expert to consider whether it is appropriate to have the specialist prepare a concise or short form specialist report for inclusion in the expert report with a longer specialist report available on request free of charge or accessible online.

RG 112.76 An expert should only quote or cite the specialist's work in a way that is fair and representative. Otherwise the expert risks misleading security holders. If the full specialist report contains any 'surprises' for the security holder who only reads the short form or concise report, this would indicate the short form specialist report was misleading.

RG 112.77 In the situation when an expert has obtained more than one specialist report on the same matter, we consider that security holders will not be given all material information if the expert merely supplies abridged results of those reports, and states, without comment or analysis, the result is the sum of the values given in each of the specialist reports.

Key terms

Term	Meaning in this document
AFS licence	An Australian financial services licence under s913B of the Corporations Act that authorises a person who carries out a financial services business to provide financial services Note: This is a definition contained in s761A of the Corporations Act.
AFS licensee	A person who holds an Australian financial services licence under s913B of the Corporations Act Note: This is a definition contained in s761A of the Corporations Act.
ASIC	Australian Securities and Investments Commission
ASIC Act	*Australian Securities and Investments Commission Act 2001*
Corporations Act	*Corporations Act 2001,* including regulations made for the purposes of that Act
Corporations Regulations	Corporations Regulations 2001
expert	The meaning given to that term in s9 of the Corporations Act
Financial Services Guide (FSG)	A document that must be given to a retail client in relation to the provision of a financial service in accordance with Div 2 of Pt 7.7 of the Corporations Act Note: See s761A for the exact definition.
Product Disclosure Statement (PDS)	A document that must be given to a retail client in relation to the offer or issue of a financial product in accordance with Div 2 of Pt 7.9 of the Corporations Act Note: See s761A for the exact definition.
reg 5.1.01 (for example)	A regulation of the Corporations Regulations (in this example numbered 5.1.01)
RG 181 (for example)	An ASIC regulatory guide (in this example numbered 181)
s648A (for example)	A section of the Corporations Act (in this example, numbered 648A), unless otherwise specified
Sch 4 (for example)	A schedule of the Corporations Act (in this example numbered 4), unless otherwise specified

Related information

Headnotes

experts, expert reports, independence, genuine opinion, relationships or interests, declining the engagement, disclosing relationships or interests, conduct of experts, use of specialists

Regulatory guides

RG 55 *Disclosure documents and PDS: Consent to quote*

RG 111 *Content of expert reports*

RG 181 *Licensing: Managing conflicts of interest*

Legislative instruments

ASIC Corporations (Financial Services Guides) Instrument 2015/541

Legislation

Corporations Act, Chs 2E, 6 and 6A, s12, 412(8), 636, 638, 640, 648A, 663B, 664C, 665B, 667B, 670A(1)(h), 711, 766A, 766B(1), 911A(1), 912A(1)(aa), 1041E, 1041F and 1041H, Corporations Regulations, regs 5.1.01 and 7.6.01(u), Sch 8, cls 8303 and 8306

ASIC Act, s12DA

Cases

ANZ Nominees v Wormald (1988) 13 ACLR 698

Re AuIron Energy Limited [2003] ATP 31

Duke Group v Pilmer (1998) 27 ACSR 1

Re Great Mines Limited [2004] ATP 01

Re Matine (1998) 28 ACSR 268

MGICA v Kenny & Good (1996) 140 ALR 313

Re Origin Energy Limited 02 [2008] ATP 23

Phosphate Co-operative Co of Aust Ltd v Shears & Anor (No 3) (1988) 14 ACLR 323

Reiffel v ACN 075 839 226 (2003) 45 ACSR 67

Consultation papers and reports

CP 62 *Better experts' reports*

CP 143 *Expert reports and independence of experts: Updates to RG 111 and RG 112*

REP 234 *Response to submissions on CP 143 Expert reports and independence of experts*

Appendix B – Curriculum vitae

Scott Kershaw

Partner

Tel: +61 2 8257 3055

Email: skershaw@kordamentha.com

Experience

Scott has over 25 years' experience advising Boards and management teams in underperforming businesses which are facing the prospect of a financial restructure.

The breadth and depth of Scott's experience in distressed investing, recapitalisation and financial restructuring is unique in the Australian market. Scott has both lead teams investing in recapitalisations as well as advising companies on the recapitalisation options.

Scott joined KordaMentha in 2009. Prior to that Scott spent 20 years with KPMG in Australia, the UK and Continental Europe in their restructuring and corporate finance groups and 18 months with Helmsman, a special situation fund focusing on investment opportunities in companies facing restructuring.

Qualifications

Bachelor of Business, University of Technology Sydney
Registered Liquidator

Memberships

Chartered Accountants Australia and New Zealand
Australian Restructuring Insolvency and Turnaround Association

Significant appointments

- Working with the management team of ASX listed global mining services company.
- ASX listed global wholesaler/retailer of sporting goods/apparel
- Chairman of an equipment rental company going through a recapitalisation
- Advice to the Board of Directors of a highly leveraged mining services company.

Jenny Nettleton

Executive Director

Tel: +61 2 8257 3044

Email: jnettleton@kordamentha.com

Experience

Jenny has spent her career in the corporate recovery and insolvency industry, encompassing all facets of formal and consulting engagements, and a stint in the workout area of a major Australian bank. She has worked with clients of all sizes, from public companies to SMEs, and Australian and international financiers.

In formal engagements, Jenny has acted as receiver, voluntary administrator, administrator of DOCAs and liquidator, trading and selling businesses, and undertaking investigations.

Prior to joining KordaMentha in 2004, Jenny was a Principal with Ernst & Young's Corporate Restructuring practice and a Director with Arthur Andersen's Corporate Recovery Practice.

Qualifications

Bachelor of Commerce
Masters of Management
Registered Liquidator

Memberships

Chartered Accountants Australia and New Zealand
Australian Restructuring Insolvency and Turnaround Association

Significant appointments

- Chassis Brakes
- Aeropack Australia
- REAL Group
- Allco Finance Group
- CrossCity Motorways
- Pure Logistics Group
- Westpoint Constructions
- Amedeo Development Corporation (Brunei)
- Estate Mortgage Trusts

Appendix C – Information list

Table 34 – Information received from the Group and relied upon for this report

Document Name	Description
31-Dec-16 Consolidation v10 BL	Consolidated Income Statement, Balance sheet by entity and workings as at 31 December 2016
31-Jan-17 Consolidation v2 BL	Consolidated Income Statement, Balance sheet by entity and workings as at 31 January 2017
2015 Financial Statements	Monthly actuals of Profit and Loss, Balance Sheet, Statement of Cashflows for the period January 2015 to December 2015
2016 Financial Statements	Monthly actuals of Profit and Loss, Balance Sheet, Statement of Cashflows for the period January 2016 to December 2016
2017 Financial Statements	Monthly actuals of Profit and Loss, Balance Sheet, Statement of Cashflows for the period January 2017 to February 2017
2017 Budgeting Process Context Memo – V2	Internal Memorandum regarding 2017 budgeting process
Adjusted Group Structure Chart	Group Corporate Structure
Annual Financial Report 2014	Audited Financial Reports for FY14
Annual Financial Report 2015	Audited Financial Reports for FY15
Annual Financial Report 2016	Audited Financial Reports for FY16
Boart Longyear Canadian tax update	Tax information regarding the Canadian tax dispute
Corporate Model v Actuals	Statement of Cashflows – Forecast to Actual for Q3FY16 and Q4FY16 with comments.
Deloitte Report – 14 August 2015	Report from Deloitte to the board of ListCo for the half year ended 30 June 2015
Deloitte Report – 20 February 2016	Report from Deloitte to the board of ListCo for the half year ended 31 December 2015
Deloitte Report – 30 June 2016	Report from Deloitte to the board of ListCo for the half year ended 30 June 2016
Deloitte Report – 17 February 2017	Report from Deloitte to the board of ListCo for the year ended 31 December 2016
Group Structure Chart – 03 Jan 017	Updated Group Corporate Structure
IBISWorld Industry Report OD5427 – Oil and Mineral Exploration Drilling in Australia	A report including forecasts and trends for the Oil and Mineral Exploration Drilling in Australia industry
Prelim.2017 Op Plan.v11	Draft 2017 budget presentation
Project Phoenix 2017 Budget Model Reconciliation_External_v34	Group's budget model
PVA_Feb_v2 BL	Budget versus actual comparison workings for the two months ending 28 February 2017
S&P Capital IQ	Earnings multiples implied by the market capitalisation of comparable listed companies and asset betas and debt ratios of comparable listed companies
Various emails to and from the Group's management, its legal and financial advisors	

Appendix D – Glossary

Table 35 – Glossary of abbreviations used in report

Abbreviation	Full text
$	United States dollars unless otherwise specified
333	333 Group Pty Limited
ABL	Revolving credit facility provided pursuant to Revolving Credit and Security Agreement dated 29 May 2015
ABL Obligors	Includes Boart Longyear Limited, Boart Longyear Management Pty Ltd, Boart Longyear Australia Pty Ltd, Boart Longyear (USA), Boart Longyear (Canada), Longyear TM, In.
Act	Corporations Act 2001
Adjusted EBITDA	Earnings before interest, tax, depreciation, amortisation and restructuring expenses
APES	Australian Professional and Ethical Standards issued by the Australian Professional and Ethical Standards Board
Ares	Affiliates of Ares Management, L.P.
Ascribe	Ascribe II Investments, LLC.
Ashurst	Ashurst Australia
ASIC	Australian Securities and Investments Commission
ASIC RG 111	Australian Securities and Investments Commission Regulatory Guide 111
ASX	Australian Securities Exchange
Beneficiaries	Means the beneficiaries under the Schemes
Budget Model	Forecast model provided to us by the Group which includes the FY17 budget and forecast through to 31 December 2021 - Project Phoenix 2017 Budget Model Reconciliation_External_v34
Capex	Capital Expenditure
CAPM	Capital asset pricing model
Centerbridge	Centerbridge Partners, L.P., its affiliates and related funds
Court	Supreme Court of New South Wales
DDL	Delay Draw Loan Facility pursuant to Term Loan Securities Agreement dated 4 January 2017.
DDL Obligors	Includes BL DDL Holdings Pty Ltd, BL DDL II Holdings Pty Ltd, Boart Longyear Canada DDL Inc, Boart Longyear Canada Holdings Inc, BLY IP Inc, BL DDL NY Holdings Inc.
DCF	Discounted Cash Flow
EBIT	Earnings Before Interest and Tax
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
Enterprise Value or EV	A measure of the market value of the business undertakings of the Group
Explanatory Statements	Information booklet produced by the Scheme Companies, approved by the Court and including the Schemes and explanatory statement in accordance with the Corporations Act
FinCo	Boart Longyear Management Pty Limited
FY	Financial year ended 31 December
FY16	Actual financial results for the year ended 31 December 2016
FY17 – FY21	Forecast financial results for the years ended 31 December 2017 to 2021
FY+1	Current financial year plus one year forward
FY17 Budget	Management's budget included in the Budget Model for the year ending 31 December 2017
Interim Facility	Interim funding facility from Centerbridge in the amount of $15.0 million.
IP Obligor	BLY IP Inc.
KordaMentha	KordaMentha Pty Ltd
ListCo	Boart Longyear Limited

Abbreviation	Full text
LTM	Last twelve months
MRP	Market risk premium
Non-ABL obligors	All entities excluding the ABL Obligors, Other Obligors, DDL Obligors and the IP Obligor
Other Obligors	Includes Votraint No. 1609 Pty Ltd, Boart Longyear Manufacturing Canada Ltd, Boart Longyear Suisse Sarl, Boart Longyear Chile Limitada, Bart Longyear Comercializadora Ltda, Longyear Holdings Inc, Longyear Canada ULC, Boart Longyear S.A.C.
p.a.	Per annum
Peer Group	Businesses with similar business activities and operating risks to the Group
PIK	Payment in Kind
Q1, Q2, Q3, Q4	Financial quarter ending 31 March, 30 June, 30 September and 31 December
RG	Regulatory Guide issued by ASIC
Recapitalisation Transactions	The transactions to be entered into by the Group to implement the recapitalisation as set out in Section 5 of the Explanatory Statement for each of the Secured Scheme and the Unsecured Scheme, which includes the Secured Scheme and the Unsecured Scheme
Other Recapitalisation Transactions	The transactions to be entered into by the Group to implement the recapitalisation as set out in Section 5 of the Explanatory Statement for each of the Secured Scheme and the Unsecured Scheme, but excluding the Secured Scheme and the Unsecured Scheme
Restructuring Support Agreement	Restructuring Support Agreement between the certain Group entities and certain of its financiers dated 2 April 2017
Secured Scheme	Proposed scheme of arrangement for Secured Scheme Creditors
Unsecured Scheme	Proposed scheme of arrangement for Unsecured Scheme Creditors
Scheme Companies	Boart Longyear Limited, Boart Longyear Management Pty Limited, Boart Longyear Australia Pty Limited and Votraint No.1609 Pty Limited
Secured Scheme Creditors	Holders of the TLA, TLB and Secured Notes
Unsecured Scheme Creditors	Holders of the Unsecured Notes
Secured Notes	The 10% secured notes issued pursuant to indenture dated 27 September 2013 as amended from time to time.
Subordinate Claim	Subordinate Claim means: • a claim for a debt owed by BLY to a person in the person's capacity as a member of BLY (whether by way of dividends, profits or otherwise); or • any other claim that arises from buying, holding, selling or otherwise dealing in shares of BLY.
Subordinated Notes	The new subordinated notes to be issued to holders of the Unsecured Notes upon consummation of the proposed restructure
SG&A	Selling, general and administrative expenses
The Finance Facilities	Includes the Secured Notes, TLA, TLB, ABL, DDL, Interim Facility and Unsecured Notes.
The Group	Boart Longyear Limited and its subsidiaries
The Schemes	Proposed schemes of arrangements, comprising the Secured Scheme and the Unsecured Scheme
The Scheme Documents	Includes the explanatory statement and the schemes of arrangement.
TLA	Term loan A issued pursuant to Term Loan A Securities Agreement dated 22 October 2014 as amended from time to time.
TLB	Term loan B issued pursuant to Term Loan B Securities Agreement dated 22 October 2014 as amended from time to time.
Total Debt	The Group's total finance debt from time to time
Unsecured Notes	The 7% unsecured Notes issued pursuant to indenture dated 28 March 2011 as amended from time to time.
WACC	Weighted Average Cost of Capital
We or Us	Scott Kershaw and Jenny Nettleton
Valuation	Enterprise Valuation of the Boart Longyear Group
Valuation Date	The date of this report

Appendix E – Valuation approach

Valuation guidelines

The performance of a valuation service and preparation of valuation report, in accordance with APES 225, can take three engagement forms:

- **Calculation Engagement** is where the Member and the Client or Employer agree on the Valuation Approaches, Valuation Methods and Valuation Procedures the Member will employ. It does not usually include all of the Valuation Procedures required for a Valuation Engagement or a Limited Scope Valuation Engagement.
- **Limited Scope Valuation Engagement** is where the scope of work is limited or restricted. The scope of work is limited or restricted where the Member is not free, as the Member would be but for the limitation or restriction, to employ the Valuation Approaches, Valuation Methods and Valuation Procedures that a reasonable and informed third party would perform taking into consideration all the specific facts and circumstances of the Engagement or Assignment available to the Member at that time, and it is reasonable to expect that the effect of the limitation or restriction on the estimate of value is material.
- **Valuation Engagement** is where the Member is free to employ the Valuation Approaches, Valuation Methods, and Valuation Procedures that a reasonable and informed third party would perform taking into consideration all the specific facts and circumstances of the Engagement or Assignment available to the Member at that time.

We have performed a 'limited scope valuation engagement' as we were unable to perform the following procedures:

- Visit all the sites at which the Group's entities operate.
- Independently verify the historical accounts.
- Undertake a detailed review of all claims against each company for the purposes of assessing the claims of creditors and priority claims in each jurisdiction.
- Engage an independent industry expert to review commercial matters.
- Undertake discussions with local management for each entity.
- Engage property consultants to provide formal valuations of the land and buildings owned by the Group.
- Engage plant and equipment valuers to provide formal valuations of the plant and equipment owned by the Group.
- Engage valuers to provide formal valuations of the intellectual property owned by the Group
- Undertake an assessment of the veracity of management's forecasts.

In order to complete a Valuation Engagement, the above processes would be required for us to establish sufficient evidence to support an opinion. If a Valuation Engagement was undertaken the valuation outcomes may have been different to those assessed in this report.

It is also important to note that the price accepted for assets may vary materially from the fair market value because a buyer is particularly anxious (for example, strategic reasons for buying the asset) or a seller is particularly anxious (for example, under financial stress or subject to an insolvency proceeding/liquidation).

Valuation methodology

ASIC RG 111 outlines the appropriate methodologies which should be considered when valuing assets or securities for the purposes of, amongst other things, share buy-backs, selective capital reductions, schemes of arrangement, takeovers and prospectuses. These include:

- The application of earnings multiples appropriate to the businesses or industries in which the company or its profit centres are engaged, to the estimated future maintainable earnings or cash flows of the company, added to the estimated realisable value of any surplus assets.
- The discounted cash flow (DCF) methodology.
- The amount that would be available for distribution to shareholders in an orderly realisation of assets (asset based valuations).
- The quoted price of listed securities, when there is a liquid and active market and allowing for the fact that the quoted market price may not reflect their value on a 100% controlling interest basis.
- Any recent genuine offers received by the target for any business units or assets as a basis for valuation of those business units or assets.

These valuation techniques are not mutually exclusive and can be applied in conjunction with each other.

Valuation approach adopted

We have considered the valuation methodologies outlined in ASIC RG 111 and are of the opinion, given the nature of the assets, the following valuation methodologies are most appropriate:

- capitalisation of maintainable earnings as the primary valuation methodology
- cross-checking of our primary valuation methodology using a DCF valuation of the Group.

Further detail on these valuation methodologies is set out below.

Capitalisation of maintainable earnings or cash flows

Earnings based valuations require consideration of the following factors:

- Estimation of future maintainable earnings having regard to historical and forecast operating results, the core long term profit potential and future economic conditions.
- Determination of an appropriate earnings multiple that reflects:
  - risks inherent in the business and the industry in which the business operates
  - general characteristics of the business being valued
  - size of the business
  - growth prospects of the business
  - asset backing of the business
  - time value of money.

In this report we have undertaken a separate assessment of the value of surplus/unrelated assets and liabilities, being those assets and liabilities that impliedly are not actively engaged in producing the estimated future earnings. In particular, we have included the value of surplus items of plant and equipment and inventory as part our assessed enterprise value.

Future maintainable earnings are often assessed by reference to past results on the basis they represent a reasonably accurate guide to future results. There may be reasons why past results are not indicative of future results. In such cases, future maintainable earnings must be assessed by obtaining an understanding of the entity's earnings generation capability, past events and expected future events and through the application of professional judgement. The future maintainable profits assessed should be the level of profit which (on average) the business can expect to maintain, in real terms, notwithstanding the vagaries of the economic cycle.

The earnings multiple must be consistent with the earnings period. Historical multiples must be applied to historical earnings and forecast multiples to forecast earnings.

The capitalisation of earnings method is particularly applicable to businesses with relatively steady growth histories and forecasts, regular capital expenditure requirements and an expected life in perpetuity. The expected maintainable earnings of a business is a proxy for the future cash flow of a business.

Earnings-based methods are not appropriate where there is:

- a history of losses
- rapidly declining profits in an industry with poor prospects
- lack of historical data or inadequate prospective financial information such as with start-up businesses
- lumpy capital expenditure requirements
- current losses with an expectation of recovery
- an asset with a finite life.

Control premium

Transactions for 100% ownership typically attract a control premium. The premium for control represents the difference between the value of 100% of the company (for example as evidenced by the price paid in a successful takeover) and the share price (prior to the bid being announced) which represents the market value of a small parcel of shares. It also reflects the value to an acquirer for the ability to control the operations of the business.

Empirical studies show that historical take-over premiums have been in the range of 20% to 35% higher than the pre-bid share price. The percentage uplift depends of the industry in which the business operates and whether the pre-bid share price has already been affected by take-over speculation (and therefore already includes a take-over premium). Our assumed premium of 25% falls into the range identified in those studies, albeit with a slight bias toward the lower end of the range which reflects the current state of the capital markets in Australia.

Capitalisation of earnings valuation conclusion

In our opinion the capitalisation of maintainable earnings methodology is the most appropriate primary valuation methodology for the Group because:

- the Group is currently profitable at the EBITDA level, which we have assessed as the appropriate level of earnings to capitalise
- FY17 budgeted earnings (EBITDA) are broadly commensurate with the actual FY16 EBITDA
- the Group has a life in perpetuity (assuming it continues to secure customers for its services).

DCF valuation

The DCF valuation method is based on the generally accepted theory that the value of a business is the present value of its net future cash flows. This methodology involves:

- the forecasting of future cash flows over a sufficiently long period of time (including, if appropriate, a terminal value of the business being valued)
- the discounting of those cash flows at an appropriate risk adjusted discount rate representing an opportunity cost of capital which reflects the expected rate of return obtainable by investors from similar investments.

Future cash flows comprise two elements:

- the cash amounts expected to be generated each year after paying all cash costs and cash outgoings
- the net cash amount expected to be received upon the ultimate sale of the business.

The DCF method is generally accepted as the most theoretically robust valuation methodology. However, its use in practice is limited due to a number of factors including:

- lack of reliable financial information
- difficulties associated with forecasting future cash flows with the requisite level of certainty.

Due to these restrictions, DCF valuations are usually conducted in the following situations:

- projects or businesses with finite lives (such as resource assets)
- projects or businesses operating in an environment that is undergoing regulatory changes that are likely to significantly impact its earning profile
- projects or businesses expecting a growth phase
- projects or businesses with fluctuating cash flows such as abnormal or lumpy capital expenditure requirements
- businesses with no or limited trading history, such as start-ups.

Discount rate for DCF valuation

The discount rate increases as the level of assessed risk increases. Risk is generally measured as variability in return. The higher the discount rate, the lower the value. The discount rate generally has two components, a cost of equity and a cost of debt. The discount rate is determined by weighting these components using a calculation known as the weighted average cost of capital (WACC).

An underlying assumption of a DCF analysis is that an entity's gearing ratio remains constant over time. Changes in the gearing ratio will change the cost of equity and consequently the discount rate.

There are a number of acceptable methods of assessing an appropriate required return on equity. The methods we would consider in a DCF valuation are:

- using an economic model such as the capital asset pricing model (CAPM)
- building up a discount rate using the adjusted capital asset pricing build-up method
- estimating a rate having regard for similar businesses and professional judgment.

Each of these methods must have regard for the factors affecting the required return on equity. These include:

- operational risk of the industry and the financial asset being valued (company specific factors)
- financial risk (gearing)
- the risk free rate of return
- market risk
- country risk
- size
- liquidity or marketability.

In calculating value using the DCF methodology it is important to ensure that the discount rate determined is expressed in terms consistent with the expression of the cash flows being discounted. In particular:

- if cash flows are expressed on an after-tax basis the discount rate should also be expressed on an after-tax basis
- if cash flows are before debt servicing costs (un-geared) the discount rate should reflect the sources of finance (debt and equity) generating those cash flows
- if cash flows are expressed in real terms the discount rate should also be expressed in real terms.

The basic discounting formula is:

c/(1+i)n

where:

c = cash flow in each period

i = discount rate

n = number of periods the specific cash flow is being discounted

DCF valuation conclusion

In our opinion, the use of the DCF valuation methodology is not appropriate to use as the primary valuation methodology for the Enterprise Value of the Group because the forecast earnings and cash flows provided to us make assumptions about contract renewals, new work to be won and future contract margins which we are unable to verify and consequently there is significant uncertainty associated with the forecast profitability of the business beyond the next 12 to 24 months.

However, we have performed a DCF valuation of the Budget Model as a cross-check to our primary valuation methodology. This is set out in Section 3.4.

Asset-based valuations

Asset-based valuations involve the determination of the net realisable value of the assets used in the business on the basis of an assumed orderly realisation (notional liquidation). This value includes an allowance for reasonable costs of carrying out the sale of assets, the time value of money and the taxation consequences of asset sales. This is not a valuation on the basis of a forced sale where the assets might be sold at values materially below their fair market values.

The sum of a company's individual assets is not usually the most appropriate measure of its value. Asset-based valuations are normally used as a secondary method of valuation and as a cross check on the reasonableness of the level of goodwill implied in an earnings-based or DCF valuation. Asset-based valuations may be appropriate as primary valuation methods in other specific circumstances. They are particularly applicable in a liquidation scenario (i.e. the company is not a going concern) or where the company acts as an investor and does not carry on trading operations and the shares confer control of the company.

The orderly realisation of assets basis of valuation usually provides the lowest realistic valuation for a company or business. This method assumes that the shareholder or owner has the ability to liquidate the company, usually by virtue of being the controlling shareholder. The difference between the value of the company's net assets and the value obtained using a capitalisation of earnings or DCF methodology is attributable to the value of unrecorded intangible assets. By estimating asset values it is therefore possible to work out the implied intangible component of a valuation which can be assessed for reasonableness. The higher the level of implied intangible assets relative to the level of asset backing the higher the risk.

The notional realisation of assets basis of valuation is normally only applied to businesses which do not produce an annual cash flow, or where, because of the stage of establishment of the business or industry conditions, the outlook for a particular company's future earnings is either uncertain or the capitalised value of such earnings is less than the net realisable value of the assets employed.

The net realisable assets methodology is also used to value assets that are surplus to the core operating business.

In our opinion, the use of an asset-based valuation methodology is not appropriate to use as a primary or cross-check valuation methodology because the vast majority of value is in the future earnings of the Group with a sale of the assets likely to result in a materially lower valuation.

Market-based valuations

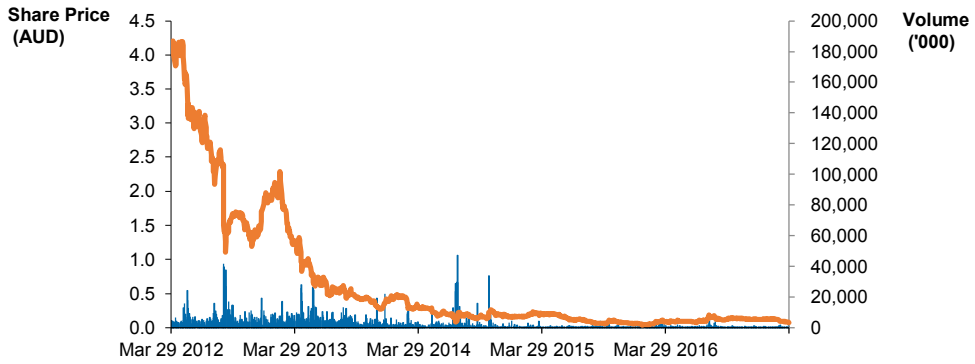
The market-based valuation approach proceeds from values at which shares are traded on the stock exchange, or where transactions are observed in the market place. The share market price may constitute the market value of shares where sufficient trading of the shares takes place. Share market prices usually reflect the prices paid for parcels of shares not offering control to the purchaser.

ListCo is currently listed on the Australian Stock Exchange (ASX) and has a current share price of $0.082[59] (AUD) with a market capitalisation of $77.88 million (AUD)[60].

Market-based valuations are often the most reliable, provided that relevant data is available. This is because they proceed from values at which actual transactions have occurred. All other methodologies seek to estimate values at which it is expected that hypothetical transactions would occur.

In the chart below we have summarised movement in the share price and trading volumes of ListCo for the last five years.[61]

Figure 6 – Share price and trade volume for Boart Longyear Limited (ASX:BLY)



The chart above shows that:

- The share price of ListCo significantly decreased from 2012 to 2014.
- Following the decline in share price, the trading volume of shares in ListCo has decreased significantly from late 2014 to present.

The current market capitalisation of ListCo implies an Enterprise Value significantly in excess of the Enterprise Value we have attributed to the Group.

[59] As at 31 March 2017
[60] S&P Capital IQ
[61] Ibid

However, we do not consider the share price of ListCo to be a relevant reference point in valuing the Group because:

- there is a relatively small free float in the shares of ListCo
- the shares of ListCo are thinly traded and the share price may not be a true reflection of the value of the Group
- the current ListCo share price may also be illustrative of the fact that the market is pricing in the value increment associated with the potential restructuring of the debt, the terms of which are not known to the market.

Recent genuine offers

Where a company has undertaken a detailed and extensive process to dispose of its assets, the final round binding bids are likely to be the market's perception of value.

The final round binding bids represent the amount a potential acquirer is willing to pay based at the immediate point in time and the information available to it.

We have not been provided with any documentary evidence of any recent offers to purchase.

Appendix F – Comparable companies

Table 36 – Description of comparable companies

Company	Description
Ausdrill Limited (ASX:ASL)	Ausdrill Limited operates as an integrated mining and energy services company worldwide. It operates through Drilling Services Australia, Contract Mining Services Africa, Equipment Services & Supplies, and All Other segments. The company is involved in the reverse circulation, diamond drilling, rotary air blast, and air core drilling; geochemical and precious metals analysis; production and monitoring of bores, as well as depressurization and dewatering, and surface hole drilling; and procurement and supply of exploration equipment, parts, and consumables. It also engages in the drill and blast, and grade control drilling; earthmoving equipment rental business; mine development and civil works; grade control; manufacture and supply of drilling consumables, spares, drill rods, and DTH drilling equipment; manufacture of bulk explosives; and provision of blasting services. In addition, the company is involved in the clearing, pre-strip, access, and haul road construction, excavation, loading, hauling, dumping, and equipment hire; underground mining; design, manufacture, and maintenance of blast hole, RC and diamond drill rigs, and support and ancillary equipment; manufacture and supply of RC hammers, bits, drill rods, and other equipment; and sale and rental of pressure, flow, and well control equipment for the oil and gas industry. Further, it engages in the exploration and production drilling of coal seam gas and shallow oil and gas wells; servicing of oil and gas wells; design, drilling, installation, testing, and commissioning of telecom and underground power networks; and motel business. Ausdrill Limited was founded in 1987 and is based in Canning Vale, Australia.
Bradken Limited (ASX:BKN)	Bradken Limited, together with its subsidiaries, manufactures and supplies consumable and capital products worldwide. It operates through Mining & Transport, Mineral Processing, Fixed Plant, Engineered Products, and Cast Metal Services (CMS) segments. The Mining & Transport segment is involved in the design, manufacture, supply, and service of consumable wear components for various types of earth moving equipment in the mining and quarry industries. It offers ground engaging tools and related wear parts; dragline rigging packages; and various buckets for dragline, front-end loader, face shovel, and hydraulic excavator equipment, as well as crawler system products for hydraulic mining excavators and electric rope shovels. This segment also provides industrial cast products for general industry and mining OEMs; and freight rolling stock products, including freight wagons, bogies, drawgear, spare, and renewed parts; and rolling stock maintenance and refurbishment services, as well as inventory management services. The Mineral Processing segment designs, manufactures, supplies, and services mill liner products in the mineral processing industry. It offers custom designed products for grinding mills, crushing, and conveying equipment primarily for the hard rock mining industry. The Fixed Plant segment provides customized wear solutions through the design and manufacture of a range of wear resistant products to protect fixed plant equipment in mining and port operations. Its customers primarily include mining and oil companies. The Engineered Products segment offers steel castings and differentiated consumable products to the mining, resource, transportation, structural, energy, and military industries. The CMS segment provides scrap processing and cast metal services. The company was incorporated in 1922 and is headquartered in Mayfield West, Australia.
Capital Drilling Limited (LSE:CAPD)	Capital Drilling Limited and its subsidiaries provide exploration, development, grade control, blast hole, and energy drilling services to the mineral exploration and mining companies. The company also offers drilling related logistic, equipment rental, and IT support services. Its services include surface diamond core drilling, high air capacity reverse circulation drilling, underground exploration diamond drilling, reverse circulation grade control drilling, Heli-portable diamond drilling, deep directional core orientation drilling, air core drilling using medium to light weight rigs, geotechnical drilling, hole planning and design, water bores and mine dewatering, coal and coal bed methane drilling, and blast hole drilling services. In addition, the company offers surveying, down-hole wireline logging, and support services for the mineral exploration industry; and data and voice solutions to the corporate and non-governmental organizations internationally. It operates a fleet of approximately 94 drilling rigs. The company has operations in Tanzania, Zambia, Egypt, the Democratic Republic of Congo, Pakistan, Armenia, Serbia, Papua New Guinea, Mozambique, Hungary, Eritrea, Chile, the Solomon Islands, Mauritania, and Ethiopia. Capital Drilling Limited was founded in 2004 and is headquartered in Ébène CyberCity, Mauritius.
Downer EDI Limited (ASX:DOW)	Downer EDI Limited provides various services to customers in the transportation, mining, energy and industrial engineering, utilities, communications, and facilities markets in Australia and internationally. The company's Transport Services segment offers transport infrastructure services, such as earthworks, civil construction, asset management, maintenance, surfacing and stabilization, supply of bituminous products and logistics, open space and facilities management, and rail track signaling and electrification works. Its Technology and Communications Services segment provides feasibility, design, civil and network construction, commissioning, testing, operation, and maintenance services for fibre, copper, and radio networks; data centre services; and automated ticketing and intelligent transport technology systems. The company's Utilities Services segment offers lifecycle services to customers in the power, gas, water, and renewable energy industries. Its Rail segment provides rail asset solutions, including passenger and freight build, operation and maintenance, component overhauls, and after-market parts. The company's EC&M segment designs, engineers, constructs, and maintains greenfield and brownfield projects, such as feasibility studies; engineering design; civil works; structural, mechanical, and piping; electrical and instrumentation; mineral process equipment design and manufacture; commissioning; operations maintenance; shutdowns, turnarounds, and outages; strategic asset management; and decommissioning. Its Mining segment provides asset management, blasting, crushing, exploration drilling, mine closure and site rehabilitation, mobile plant maintenance, open cut mining, tire

	management, and underground mining services; manufactures and supplies explosives; undertakes civil projects; and trains and develops ATSI employees. The company is headquartered in North Ryde, Australia.
Imdex Limited (ASX:IMD)	Imdex Limited engages in the minerals business in the Asia-Pacific, Africa, Europe, and the Americas. It is involved in the manufacture, sale, and rental of downhole instrumentation; manufacture and sale of drilling fluids and chemicals, as well as related equipment; and provision of cloud-based data management solutions to the mining and mineral exploration industry. The company also provides data solutions and geo-analytics services to exploration, development, and production companies in the minerals, and oil and gas sectors. It serves mining and mineral exploration, geothermal, water well, HDD, and civil engineering industries. The company was formerly known as Pilbara Gold NL and changed its name to Imdex Limited in July 1985. Imdex Limited was incorporated in 1980 and is headquartered in Balcatta, Australia.
K&S Corporation Limited (ASX:KSC)	K&S Corporation Limited provides transportation and logistics, contract management, warehousing and distribution, and fuel distribution services primarily in Australia and New Zealand. The company operates in three segments: Australian Transport, Fuels, and New Zealand Transport. It provides road, rail, and coastal sea forwarding for full and break bulk loads, including export packing, wharf lodgement, and the delivery of integrated supply chain and system solutions to timber, paper, dairy, agriculture, and general transportation industries; support services to offshore exploration and drilling projects; dry and liquid bulk transportation services to mining, sugar, cement, and fertilizer industries; and fuel distribution services to retail and service stations, primary producers, fishing industry, and transport operators. The company also manages distribution services, as well as provides equipment and personnel. In addition, it offers facility management services to various companies; distribution chain management services for various importers; general, full load, and part load freight services, as well as project services; and heavy haulage services. Further, the company transports bulk solids, liquids, and explosives by road, rail, and sea. K&S Corporation Limited was founded in 1945 and is headquartered in Truganina, Australia. K&S Corporation Limited is subsidiary of AA Scott Pty Ltd.
Layne Christensen Company (NasdaqGS:LAYN)	Layne Christensen Company operates as a water management, construction, and drilling company that provide solutions for the water, mineral, and energy markets worldwide. The company operates through four segments: Water Resources, Inliner, Heavy Civil, and Mineral Services. The Water Resources segment offers water-related products and services, including hydrologic design and construction; source of supply exploration; well and intake construction; and well and pump rehabilitation services. This segment also provides water treatment equipment engineering services and systems for the treatment of regulated and nuisance contaminants. In addition, it offers closed loop water management solutions to energy companies that are involved in hydraulic fracturing. The Inliner segment provides process, sanitary, and storm water rehabilitation solutions to municipalities and industrial customers dealing with aging infrastructure needs, as well as other rehabilitative methods, such as Janssen structural renewal for service lateral connections and mainlines, slip lining, traditional excavation and replacement, and manhole renewal with cementitious and epoxy products. The Heavy Civil segment offers water and wastewater treatment plants design and construction, and pipeline installation services; builds radial collector wells, surface water intakes, pumping stations, and hard rock tunnels, as well as offers marine construction services; and designs and constructs biogas facilities. The Mineral Services segment conducts above ground drilling activities comprising core drilling, reverse circulation, dual tube, hammer, and rotary air-blast methods; and provides exploratory and definition drilling services. The company was formerly known as Layne Inc. and changed its name to Layne Christensen Company in June 1996. Layne Christensen Company was founded in 1981 and is headquartered in The Woodlands, Texas.
Macmahon Holdings Limited (ASX:MAH)	Macmahon Holdings Limited provides contract mining services to clients in Australia, New Zealand, South East Asia, and Africa. It operates through three segments: Surface Mining, Underground Mining, and International Mining. The company offers surface mining services, including mine planning and management, drilling and blasting, bulk and selective mining, crushing and screening, fixed plant maintenance, camp and mine management, train loadout management, and operation and maintenance of client equipment. It also provides underground mining services, such as mine management, underground development and production, portal establishment, raise drilling, cable bolting, shot creting, remote shaft lining, production drilling, and shaft sinking services. In addition, the company offers plant, maintenance, and engineering services, which include commissioning, shutdown, and maintenance management; operation and maintenance of client-owned plant and infrastructure; water management and tailings dam maintenance services; modification to existing plant to suit clients' needs; design, construction, commission, and maintenance of crushing and screening plants; fabrication, installation, and maintenance of structural, mechanical, mining, and electrical plant and equipment for surface and underground clients; and specialized engineering services. Macmahon Holdings Limited was founded in 1963 and is headquartered in Perth, Australia.
Mastermyne Group Limited (ASX:MYE)	Mastermyne Group Limited provides contracting services to the underground long wall mining operations in Australia. It operates through two segments, Mastermyne and Mastertec. The Mastermyne segment offers project management, labour and equipment hiring, underground roadway development, underground ventilation device installation, bulk materials handling system installation and relocation, and underground mine support services, as well as underground conveyor installation, extension, and maintenance services. The Mastertec segment provides a range of above-ground contracting services to ports, resources, industrial, and infrastructure sectors. Its services include scaffolding and rigging, blast and paint, pipeline services, sustainable capital works, fabrication and machining, training and engineering, and technical services. Mastermyne Group Limited was founded in 1996 and is headquartered in Mackay, Australia.
Mineral Resources Limited (ASX:MIN)	Mineral Resources Limited operates as a mining services and processing company in Australia, China, Singapore, and internationally. The company offers contract crushing, screening, and processing services on build-own-operate or build-operate basis for mining companies; mine services, such as materials handling,

	plant and equipment hire and maintenance, tails recovery, and aggregate crushing; and design, engineering, and construction services in the resources sector. It also manages the processing, production, logistics, ship loading, marketing, and export of the resources on behalf of tenement owners. In addition, the company has a portfolio of iron ore assets in the Yilgarn and Pilbara regions of Western Australia; produces manganese from its Sunday Hill and Ant Hill tenements within the Pilbara region; and owns 43.1% interest in the Mt Marion lithium project located to the south west of Kalgoorlie, Western Australia. Further, it offers project management and delivery services for pipeline engineering and construction, mine dewatering systems and hydrocarbon management, HDPE lined steel, polyethylene pipe fittings and components, rock trenching and terrain levelling, underground cable installation, and plant and equipment hire. Mineral Resources Limited was founded in 1993 and is headquartered in Applecross, Australia.
Monadelphous Group Limited (ASX:MND)	Monadelphous Group Limited, an engineering group, provides construction, maintenance, and industrial services to the resources, energy, and infrastructure sectors in Australia. It operates through Engineering Construction; and Maintenance and Industrial Services divisions. The company offers large-scale multidisciplinary project management and construction services, including construction management and execution; civil and electrical construction packages; turnkey design and construction; structural steel, tankage, mechanical works, and process equipment and piping fabrication and installation; fabrication and procurement; modularization and off-site pre-assembly; plant commissioning; demolition and remediation works; and offshore construction services of plant and infrastructure. It also provides multidisciplinary maintenance and improvement solutions, such as structural, mechanical, piping, electrical and instrumentation, and civil maintenance services, as well as minor capital works, shutdowns, and operations and facilities management services. In addition, the company offers process and non-process maintenance; front-end scoping; water and waste water asset construction and maintenance; irrigation; transmission pipelines and facilities construction; power and water assets operation and maintenance; heavy lift and specialist transport; access solutions; and dewatering services. Monadelphous Group Limited was founded in 1972 and is headquartered in Victoria Park, Australia.
NRW Holdings Limited (ASX:NWH)	NRW Holdings Limited, through its subsidiaries, provides civil and mining contracting services to resource and infrastructure sectors in Australia. It operates through three business divisions: NRW Civil & Mining, Action Drill & Blast (ADB), and AES Equipment Solutions (AES). The NRW Civil & Mining division delivers private and public civil infrastructure projects, mine development and contract mining, waste stripping, and ore haulage. This division's civil construction projects include bulk earthworks, rail formation, concrete installation, and construction of roads; and mining projects comprise work in iron ore, coal, and gold. The ADB division provides contract drill and blast services to mining sector, including iron ore, gold, coal, and lithium mines; and civil projects throughout Australia. The AES division offers maintenance services to the mining and resources sectors comprising the fabrication of water and service trucks. The company also sells plants and tires. NRW Holdings Limited was founded in 1994 and is headquartered in Belmont, Australia.
Orica Limited (ASX:ORI)	Orica Limited engages in the manufacture and distribution of commercial blasting systems, and mining and tunnelling support systems to the mining and infrastructure markets in Australia, the United States, and internationally. The company offers bulk systems, electronic blasting systems, initiating systems, packaged explosives, and blasting services to the surface and underground mining, civil tunnelling, quarrying, construction, and oil and gas markets. It also offers mining chemicals comprising sodium cyanide and emulsifiers, as well as offers a range of service solutions consisting of mineral recovery, cyanide handling and use, and onsite technical support. In addition, the company provides ground support solutions, including rock fall and ground support, roof control, ventilation control, water stopping and gas sealing, slope stabilization, cavity filling, ground consolidation, convergences, and backfilling services for the underground mining, construction, tunnelling, and civil engineering industries. Further, it manufactures and supplies specialty bolts, accessories, and chemicals for stabilization and ventilation systems in underground mining and civil tunnelling works. Orica Limited was founded in 1874 and is headquartered in East Melbourne, Australia.
Primoris Services Corporation (NasdaqGS:PRIM)	Primoris Services Corporation, a specialty contractor and infrastructure company, provides a range of construction, fabrication, maintenance, replacement, water and wastewater, and engineering services in the United States and internationally. It operates through three segments: The West Construction Services, The East Construction Services, and The Energy. The company installs, replaces, repairs, and rehabilitates natural gas, refined product, and water and wastewater pipeline systems; diameter gas and liquid pipeline facilities; and heavy civil projects, earthwork, and site development, as well as constructs mechanical facilities and other structures, including power plants, petrochemical facilities, refineries, water and wastewater treatment facilities, and parking structures. It also engages in designing and installing liquid natural gas facilities, high-performance furnaces, and heaters for clients in the oil refining, petrochemical, and power generation industries, as well as offers process and product engineering services. The company serves public utilities, petrochemical companies, energy companies, municipalities, state departments of transportation, and other customers. Primoris Services Corporation is headquartered in Dallas, Texas.

Source: S&P Capital IQ

Appendix G - Comparable company multiples

Table 37 – Earnings multiple implied by the market capitalisation of comparable listed companies

Comparable company	Ticker	Market capitalisation*	Net debt	Enterprise Value	EBIT		EBITDA		EV/EBIT		EV/EBITDA	
					LTM	FY+1	LTM	FY+1	LTM	FY+1	LTM	FY+1
		$'million	$'million	$'million	$'million		$'million		$'million		$'million	
Ausdrill Limited (ASX:ASL)	ASX:ASL	434.4	138.3	572.7	44.6	47.0	92.2	106.7	12.8	12.2	6.2	5.4
Bradken Limited (ASX:BKN)	ASX:BKN	648.5	211.5	860.0	27.8	57.2	53.4	83.0	30.9	15.0	16.1	10.4
Capital Drilling Limited (LSE:CAPD)	LSE:CAPD	112.4	(1.9)	110.5	(1.5)	6.6	13.0	20.1	(76.2)	16.7	8.5	5.5
Downer EDI Limited (ASX:DOW)	ASX:DOW	2,292.0	16.1	2,308.1	206.5	205.2	376.9	380.3	11.2	11.2	6.1	6.1
Imdex Limited (ASX:IMD)	ASX:IMD	234.6	-	234.6	5.6	13.9	13.8	21.9	41.6	16.9	17.0	10.7
K&S Corporation Limited (ASX:KSC)	ASX:KSC	196.3	79.6	275.9	1.8	12.8	28.7	40.4	149.2	21.6	9.6	6.8
Layne Christensen Company (NasdaqGS:LAYN)	NasdaqGS:LAYN	217.1	88.8	305.9	(5.0)	(5.0)	23.0	25.1	(61.7)	(61.0)	13.3	12.2
Macmahon Holdings Limited (ASX:MAH)	ASX:MAH	169.5	-	169.5	(20.6)	-	4.9	-	(8.2)		34.7	
Mastermyne Group Limited (ASX:MYE)	ASX:MYE	26.0	7.6	33.6	(4.0)	(1.3)	1.0	3.8	(8.4)	(26.9)	34.3	8.8
Mineral Resources Limited (ASX:MIN)	ASX:MIN	1,867.7	-	1,867.7	205.7	228.4	312.9	374.2	9.1	8.2	6.0	5.0
Monadelphous Group Limited (ASX:MND)	ASX:MND	1,089.0	-	925.4	56.1	60.1	70.3	74.8	16.5	15.4	13.2	12.4
NRW Holdings Limited (ASX:NWH)	ASX:NWH	213.1	29.5	242.5	14.1	24.1	31.5	47.6	17.2	10.1	7.7	5.1
Orica Limited (ASX:ORI)	ASX:ORI	6,236.7	1,187.6	7,424.3	425.9	498.7	614.3	713.6	17.4	14.9	12.1	10.4
Primoris Services Corporation (NasdaqGS:PRIM)	NasdaqGS:PRIM	1,498.0	126.0	1,623.9	60.5	109.9	128.5	180.2	26.9	14.8	12.6	9.0
Minimum									9.1	8.2	6.0	5.0
First quartile									12.4	11.2	7.3	5.4
Average									33.3	14.3	14.1	8.3
Median									17.3	14.9	12.4	8.8
Third quartile									33.6	16.7	16.3	10.6
Maximum									149.2	21.6	34.7	12.4

*** Includes a control premium of** 25%

Date of data 27/03/2017
Currency USD

Source: S&P Capital IQ

1) The calculations above do not include the negative multiples relating to companies with historic or forecast losses.

Appendix H – DCF discount rate and terminal value

Valuation methodology

The determination of an appropriate discount rate or cost of capital for a business requires identification and consideration of the factors that affect the returns and risks of that business, together with the application of widely accepted methodologies for determining the returns demanded by the debt and equity providers of the capital employed in the business.

The discount rate applied to the projected cash flows from a business represents the financial return that will be demanded before an investor would be prepared to acquire (or invest in) the business.

Market rates of return for equity type investments and project evaluations are frequently assessed using the capital asset pricing model (CAPM). Combining the CAPM results with the cost of debt funding will determine a business' weighted average cost of capital (WACC).

Whilst the CAPM generates the required return on equity investment, the WACC represents the return required by all providers of finance to the business.

Cost of equity and CAPM

The CAPM stems from the theory that a prudent investor would price an investment so that the expected return is equal to the risk free rate of return plus an appropriate premium for risk. The CAPM assumes that there is a positive relationship between risk and return. That is, investors are risk averse and demand higher returns for accepting higher levels of risk.

The CAPM is based on the concept of non-diversifiable risk and calculates the cost of equity as follows:

Table 38 – CAPM

Component	
Re	= Rf+ β(Rm-Rf)
Where:	
Re	= Expected equity investment return or cost of equity
Rf	= Risk free rate of return
β	= Equity beta
Rm	= Expected market return
Rm – Rf	= Market risk premium

The individual components of the CAPM are discussed below.

Risk free rate of return

The risk free rate of return is normally approximated by reference to the yield on a long term government bond with a term to maturity broadly equivalent to the timeframe over which the returns from the assets are expected to be received.

As we are undertaking a US dollar valuation it is appropriate to use the current yield on 20 year US Treasury bonds as a risk free rate. The current yield is 2.74%[62] and is used in conjunction with a market risk premium of 6.5% (refer below). We note that this use of the risk free rate is consistent with current market practice in the US.

[62] As at 28 March 2017

Market risk premium

The market risk premium ('MRP') represents the additional return that investors expect in return for holding risk in the form of a well-diversified portfolio of risky assets (such as a market index). The MRP is the expected risk premium. Given that expectations are not observable, a historic risk premium is generally used to proxy for the expected risk premium.

We note that, strictly speaking, the MRP is the excess of expected returns of shares over government bonds. Since expected returns are generally not observable, a common method of estimating the MRP is based on average realised (ex-post) returns. However, realised rates of return, especially for shares, are highly volatile over short periods. Therefore, short-term average realised returns are unlikely to provide reliable estimates of expected returns and the MRP. For this reason, investors and values usually rely on estimates of MRP derived from historical long term averages of realised returns. Current market practice is to adopt a MRP of between 5.0% and 7.0% per annum in developed economies such as the USA, Canada, Europe and Australia.

For the purposes of this report we have adopted a market risk premium of 6.5% per annum. In our opinion, this is consistent with current valuation practice in the US and is within the range of long-term averages of historical market risk premiums.

Equity beta

Beta is a measure of systematic risk reflecting the sensitivity of a company's share price to the movements of the stock market as a whole. Whilst expected betas cannot be observed, conventional practice is to estimate an appropriate beta with reference to the historical betas for a company over a finite period. It is also appropriate to consider betas for comparable companies and sector averages as a proxy, particularly if the subject company is not listed.

Observed betas in the market place, known as equity betas, are affected by the gearing of the individual company. The beta for equity reflects the non–diversifiable or systematic risk of a company. Equity betas incorporate the operational risk of the underlying company assets and other financial risk associated with the financial structure of the company (i.e. the combination of debt and equity employed to finance the company assets), whereas asset betas reflect only the operational risk.

The beta of an investment represents relative risk, not a measure of the total risk of a particular investment. Under the CAPM framework, the greater a security's beta, the greater the required return. This is indicated by a beta greater than one, which implies that firms with higher volatility of returns (as measured by standard deviation) will have higher required returns due to greater risk, other things being equal.

As mentioned above, determination of a beta can be undertaken with reference to analysis of comparable companies. It is generally necessary to make adjustments to the observed equity betas in the market place to remove the impact of the different capital structures and levels of gearing in the companies examined. This process, known as de-levering, involves removing the gearing of the subject company to arrive at the asset beta and subsequently re-levering in line with the target level of gearing.

We adopt the Harris Pringle formula to de-lever and re-lever betas as follows:

Asset beta (un-geared) = Equity beta (geared)/[1 + (D/E)]

Equity beta (re-geared) = Asset beta (un-geared) x [1 + (D/E)]

where:

E = market value of equity

D = market value of debt

D/E = company's debt to equity ratio

The betas of comparable companies are calculated relative to both the local index of the securities exchange on which the company's shares are listed and the MSCI World Index. We adopt the betas measured against the securities exchange on which the company's shares are listed.

The equity betas of listed companies involved in similar activities or exposed to the same broad industry sectors as the Group are set out in Table 39 below. We have ignored the equity beta of ListCo as its shares are thinly traded, its beta is significantly distorted by its current high gearing levels and there is a weak correlation between movements in its share price and the ASX as a whole:

Table 39 – Asset betas and debt ratios of comparable listed companies

Company	Equity beta	R - squared	Market capitalisation ($'million)	Five year average debt/equity	Five year average debt/EV	Asset beta
Ausdrill Limited	1.42	0.06	347.53	93%	48%	0.74
Bradken Limited	1.26	0.04	518.78	65%	40%	0.76
Capital Drilling Limited	0.90	0.07	89.94	5%	5%	0.85
Downer EDI Limited	1.46	0.31	1,833.60	9%	9%	1.33
Imdex Limited	1.26	0.04	187.67	15%	13%	1.10
K&S Corporation Limited	0.79	0.09	157.06	46%	31%	0.54
Layne Christensen Company	0.72	0.02	173.69	38%	28%	0.52
Macmahon Holdings Limited	1.09	0.03	135.63	12%	11%	0.97
Mastermyne Group Limited	1.36	0.06	20.83	19%	16%	1.14
Mineral Resources Limited	1.27	0.12	1,494.13	2%	2%	1.25
Monadelphous Group Limited	1.83	0.35	871.19	0%	0%	2.11
NRW Holdings Limited	1.32	0.02	170.47	17%	15%	1.12
Orica Limited	0.99	0.24	4,989.35	29%	22%	0.77
Primoris Services Corporation	1.00	0.19	1,198.36	5%	5%	0.95

Date of data	27/03/2017
Currency	USD

Average asset beta	1.01
Median asset beta	0.96
Average (excl R-squared of less than 0.5)	0.96
Median (excl R-squared of less than 0.5)	0.81
Average 5-year average debt/equity	25%
Average 5-year average debt/EV	17%

Source: S&P Capital IQ

Table 40 – Summary of Peer Group asset beta

Minimum	0.52
First quartile	0.75
Average	1.01
Third quartile	1.17
Maximum	2.11

After considering the above beta estimates and the relative risks associated with the Group we have adopted an asset beta of 0.9 to 1.1 for the Group. This range is broadly consistent with the median asset beta and the average asset beta excluding companies with an R-squared of less than 0.5.

The application of our assessed optimal gearing structure of 43% (debt/equity) (30% debt/enterprise value) (also see discussion on following page) to our assessed asset beta range results in an equity beta in the range of 1.29 to 1.57. The equity betas calculated have been regressed against each company's local exchange.

Company specific premium

Taking into account the specific risks of the Group relative to the Peer Group we have included a specific risk premium in the range of 0.5% to 1.5% per annum in our assessed cost of equity.

Cost of equity

Having regard to the above we have assessed the cost of equity for the Group to be 11.6% to 13.0% per annum.

Cost of debt

A pre-tax cost of debt of 9.5% per annum has been used based on the Group's actual weighted average cost of debt as at 31 December 2016. Our analysis of the cost of debt funding of other Peer Group Companies indicates that the Group's cost of debt finance is broadly consistent with the Peer Group. We have assumed the corporate tax rate of 31% to calculate the post-tax cost of debt of 6.6%.

Gearing

The level of gearing can have a significant effect on the WACC calculated and it is an important consideration in any rate of return calculation. The gearing level adopted should represent the level of debt that the asset can reasonably sustain and is not necessarily equivalent to the gearing level of the organisation owning or offering the asset.

The factors that affect the optimum level of gearing will differ between assets. Generally, the major issues to address in determining this optimum level will include:

- The variability in earnings stream
- Working capital requirements
- The level of investment in tangible assets
- The nature and risk profile of the tangible assets.

In general, the lower the expected volatility of cash flows (i.e. risk), the higher the debt levels which can be supported.

When assessing the appropriate gearing level, it is also appropriate to consider the gearing levels of the Peer Group. Our adopted optimal gearing structure is based on our review of the long term average gearing levels of the Peer Group companies. We have adopted an optimal gearing structure (debt to enterprise value ratio) of 30% which is the approximate midpoint of the average long term gearing level of the peer group of and the long term gearing level of Ausdrill Limited, which we believe is the closest comparable company in the Peer Group.

Weighted average cost of capital

The WACC represents the market return required on the total assets of the undertaking by debt and equity providers. This contrasts with the cost of equity, which represents the return required by equity holders only.

As stated earlier, a valuer should use the WACC to assess the appropriate commercial rate of return on the capital invested in the business in recognition that a mix of debt and equity normally fund investments. Accordingly, the selected discount rate should reflect a reasonable level of debt and equity relative to the level of security and the risk attributable to the investment.

There are a number of formulae for the WACC. The differences between the formulae are in the definition of the cash flows (pre-tax or post-tax), the treatment of the tax benefit arising through the deductibility of interest expenses (included in either the cash flow or the discount rate), and the manner and extent to which they adjust for the effects of dividend imputation.

The generally accepted WACC formula is the post-tax WACC, without adjustment for imputation:

$$WACC = Re\left(\frac{E}{D+E}\right) + Rd(1-T)\left(\frac{D}{D+E}\right)$$

Where:

Re = Expected return or discount rate on equity

Rd = Interest rate on debt (pre-tax)

T = Corporate tax rate

E = Market value of equity

D = Market value of debt

Calculation of Nominal WACC

As the Group's Budget Model is expressed in 'nominal' terms, that is, the forecast cash flow has been calculated including the impact of inflation

Summary

The table below summarises our calculation of the Nominal WACC of the Group:

Table 41 – Nominal WACC of the Group

Boart Longyear Group – WACC calculation

Discount rate	Low	High
Risk free rate	2.7%	2.7%
Debt margin	6.8%	6.8%
Pre-tax cost of debt	9.5%	9.5%
Post-tax cost of debt	**6.6%**	**6.6%**
Market risk premium	6.5%	6.5%
Net debt/enterprise value	30.0%	30.0%
Asset Beta	0.90	1.10
Equity Beta	1.29	1.57
Company specific premium	0.5%	1.5%
Cost of equity	**11.6%**	**14.5%**
Post-tax WACC (nominal)	**10.1%**	**12.1%**
Say	**10.0%**	**12.0%**
Tax rate	**31.0%**	

Appendix I summarises our DCF analysis based on the assumptions above.

Appendix I – DCF summary

Table 42 – DCF summary (low case)

For the calendar year ending		Actual FY16A	Forecast FY17F	Forecast FY18F	Forecast FY19F	Forecast FY20F	Forecast FY21F	Terminal Year
Total net revenue		642.4	681.9	688.7	699.1	713.0	730.9	752.8
Revenue growth (1)			*6.1%*	*1.0%*	*1.5%*	*2.0%*	*2.5%*	*3.0%*
Total Cost of goods sold		556.6	573.3	575.6	580.8	588.8	599.9	617.9
Cost of goods sold as a percentage of revenue (2)			*84.1%*	*83.6%*	*83.1%*	*82.6%*	*82.1%*	*82.1%*
Gross profit		85.84	108.56	113.09	118.28	124.21	130.97	134.90
Gross profit margin		13.4%	15.9%	16.4%	16.9%	17.4%	17.9%	17.9%
Overhead and other expenses (offset against D&A)		(84.2)	(117.1)	(45.1)	(49.4)	(49.3)	(48.8)	(50.3)
EBITDA		**1.6**	**(8.5)**	**68.0**	**68.8**	**74.9**	**82.2**	**84.6**
Depreciation		(62.5)	(61.9)	(66.8)	(66.0)	(49.1)	(49.1)	(44.4)
EBIT		**(60.8)**	**(70.4)**	**1.2**	**2.8**	**25.8**	**33.1**	**40.2**
Less: Effective taxes (3)	31%	(6.2)	-	-	-	-	-	(12.5)
Debt-free net income (excl. Amort.)		**(67.0)**	**(70.4)**	**1.2**	**2.8**	**25.8**	**33.1**	**27.8**
Depreciation			61.9	66.8	66.0	49.1	49.1	44.4
Capital expenditure (4)		(22.3)	(35.2)	(32.7)	(45.9)	(55.2)	(64.5)	(46.7)
Movement in net working capital			17.3	(2.2)	(3.3)	(4.5)	(5.8)	-
Debt-free cash flow (5)			(26.4)	33.1	19.6	15.1	11.8	25.4
Low case - WACC of 12%								
Capitalised value (6)								282.6
Implied EBITDA exit multiple								3.3
Periods (Months) (7)			6	18	30	42	54	54
Present value factor (8)	**12.0%**		0.94	0.84	0.75	0.67	0.60	0.60
Present value of cashflows			**(25.0)**	**27.9**	**14.8**	**10.2**	**7.1**	**169.7**
Sum of present value of cashflows (USD million)			**204.7**					

Notes:

1. Based on FY17 forecast, IBISWorld report OD5427 Oil and Mineral Exploration Drilling in Australia annual growth rate of 0.6% for 2017 to 2022 and historical performance.
2. Based on FY17 forecast percentages and revenue growth
3. Based on a review of Australian (30%), Canadian (28%) and USA (38%) tax rates as well as regional average rates for NAM (35%), LAM (28%) APAC (30%) and EMEA (28%).
4. Terminal year level of CAPEX required to support growth and existing operations based on Depreciation being 95% of CAPEX.
5. Reflects cash available to service debt obligations and make distributions to equity investors.
6. Applies Gordon Growth formula. Assumes constant growth after explicit forecast.
7. Reflects mid period discounting convention from Valuation Date.
8. Equal to the Weighted Average Cost of Capital (WACC).

Table 43 – DCF summary (high case)

For the calendar year ending		Actual FY16A	Forecast FY17F	Forecast FY18F	Forecast FY19F	Forecast FY20F	Forecast FY21F	Terminal Year
Total net revenue		642.4	681.9	688.7	699.1	713.0	730.9	752.8
Revenue growth (1)			*6.1%*	*1.0%*	*1.5%*	*2.0%*	*2.5%*	*3.0%*
Total Cost of goods sold		556.6	573.3	575.6	580.8	588.8	599.9	617.9
Cost of goods sold as a percentage of revenue (2)			*84.1%*	*83.6%*	*83.1%*	*82.6%*	*82.1%*	*82.1%*
Gross profit		85.84	108.56	113.09	118.28	124.21	130.97	134.90
Gross profit margin		13.4%	15.9%	16.4%	16.9%	17.4%	17.9%	17.9%
Overhead and other expenses (offset against D&A)		(84.2)	(117.1)	(45.1)	(49.4)	(49.3)	(48.8)	(50.3)
EBITDA		**1.6**	**(8.5)**	**68.0**	**68.8**	**74.9**	**82.2**	**84.6**
Depreciation		(62.5)	(61.9)	(66.8)	(66.0)	(49.1)	(49.1)	(44.4)
EBIT		**(60.8)**	**(70.4)**	**1.2**	**2.8**	**25.8**	**33.1**	**40.2**
Less: Effective taxes (3)	31%	(6.2)	-	-	-	-	-	(12.5)
Debt-free net income (excl. Amort.)		**(67.0)**	**(70.4)**	**1.2**	**2.8**	**25.8**	**33.1**	**27.8**
Depreciation			61.9	66.8	66.0	49.1	49.1	44.4
Capital expenditure (4)		(22.3)	(35.2)	(32.7)	(45.9)	(55.2)	(64.5)	(46.7)
Movement in net working capital			17.3	(2.2)	(3.3)	(4.5)	(5.8)	-
Debt-free cash flow (5)			(26.4)	33.1	19.6	15.1	11.8	25.4
High case - WACC of 10%								
Capitalised value (6)								363.3
Implied EBITDA exit multiple								4.3
Periods (Months) (7)			6	18	30	42	54	54
Present value factor (8)	**10.0%**		0.95	0.87	0.79	0.72	0.65	0.65
Present value of cashflows			**(25.2)**	**28.7**	**15.4**	**10.8**	**7.7**	**236.6**
Sum of present value of cashflows (USD million)			**274.1**					

Notes:

1. Based on FY17 forecast, IBISWorld report OD5427 Oil and Mineral Exploration Drilling in Australia annual growth rate of 0.6% for 2017 to 2022 and historical performance.
2. Based on FY17 forecast percentages and revenue growth
3. Based on a review of Australian (30%), Canadian (28%) and USA (38%) tax rates as well as regional average rates for NAM (35%), LAM (28%) APAC (30%) and EMEA (28%).
4. Terminal year level of CAPEX required to support growth and existing operations based on Depreciation being 95% of CAPEX.
5. Reflects cash available to service debt obligations and make distributions to equity investors.
6. Applies Gordon Growth formula. Assumes constant growth after explicit forecast.
7. Reflects mid period discounting convention from Valuation Date.
8. Equal to the Weighted Average Cost of Capital (WACC).

Appendix J – Solvency definition and common law principals

Statutory definition

Section 95A(1) of the Corporations Act states that:

- a person is solvent if, and only if, the person is able to pay all the person's debts, as and when they become due and payable.

Section 95A(2) further defines that a person who is not solvent is insolvent.

This statutory definition was in existence in one form or another prior to the implementation of the Corporate Law Reform Act on 23 June 1993. In particular it was referred to in section 592(1)(b)(i) as follows:

- there were reasonable grounds to expect that the company will not be able to pay all its debts as and when they become due.

Common law principles

Although the above definition of solvency is simply stated, it has been the source of much litigation. This has resulted in the consideration of basic common law principles when determining solvency or lack thereof, some of which are summarised below:

- If a company has a deficiency of net assets but it is in a position to pay all its debts as and when they become due and payable, because of a very strong profit-making business, it is solvent (Quick v Stoland Pty Ltd, 1998).
- Insolvency, or a severe shortage of liquid assets to meet debts as and when they fall due, needs to be distinguished from a temporary lack of liquidity (Hall and Poolman Pty Limited, 2007);
- There is a difference between temporary illiquidity and an endemic shortage of working capital whereby liquidity can only be restored by a successful outcome of business ventures in which the existing working capital has been deployed (Hymix Concrete Pty Limited v Garritty,1977).
- One must consider if the debtor is able to sell, mortgage or pledge his assets within a relatively short time (taking into account the nature of the debts and the circumstances of the debtor's business), in order to meet his liabilities (Sandell v Porter, 1996).
- Assets which might otherwise be regarded as non-current (and hence not available to pay current liabilities) can, in appropriate circumstances, be taken into account to determine whether all such current and other liabilities can be met as and when they fall due (Re Newark; Taylor v Carroll, 1991).
- Although the test of solvency and insolvency within the meaning of section 95A is to be analysed using a cash flow approach rather than a statement of financial position approach, it is conceivable that solvency might be inferred from a preponderance of current assets over current liabilities (Switz Pty Limited v Glowbind Pty Limited, 2000).
- A company must produce cogent evidence to demonstrate solvency, and not merely a statement from its own accountant asserting that it has a surplus of assets over liabilities, or that the company can pay its debts as they fall due (Expile Pty Limited v Jabb's Excavations Pty Limited, 2003).
- It is well established that in considering a company's financial position as a whole, reference may be had, not merely to strict legal rights and obligations under agreement with creditors and debtors, but to commercial realities (Southern Cross Interiors Pty Limited (in liq) v Deputy Commissioner of Taxation, 2001).
- If the court is satisfied that as a matter of commercial reality the company has resources available to pay all its debts as they become payable, then it will not matter that the resource is an unsecured borrowing or a voluntary extension of credit by another party (Lewis v Doran, 2004). Furthermore, the ability of a company to raise funds from third parties should be considered in assessing solvency (Powell & Duncan v Fryer, Torkin & Perry, 2000).

The commercial reality that creditors will normally allow some latitude for payment of their debts does not, in itself; warrant conclusions that the debts are not payable at the time contractually stipulated and have become debts payable only upon demand (Standard Chartered Bank v Antico, 1995).

Appendix K – Balance sheet reconciliation

Table 44 – Reconciliation between balance sheet and net book values used in Transaction Value allocation

Item	Note	As at 28 February 2017 $'000	Value adopted $'000	Variance $'000
Cash and cash equivalents	1	59,343	-	59,343
Trade and other receivables	2	107,898	92,943	14,955
Inventories		165,020	165,020	-
Asset classified as held for sale	3	5,923	-	5,923
Other current assets	4	18,003	-	18,003
Total current assets		**356,187**	**257,963**	**98,224**
Non-current assets				
Property, plant and equipment		127,660	127,662	(2)
Goodwill		100,036	100,036	-
Other intangible assets		43,920	43,920	-
Deferred tax assets	5	19,465	-	19,465
Non-current tax receivable	5	19,035	-	19,035
Other assets	6	10,326	-	10,326
Total Non-current assets		**320,442**	**271,618**	**48,826**
Total assets		**676,629**	**529,581**	**147,050**
Current liabilities				
Trade and other payables	7	126,589	124,225	2,364
Provisions	8	13,014	9,934	3,080
Current tax payable	5	94,577	-	94,577
Loans and borrowings		140	-	140
Total current liabilities		**234,320**	**134,159**	**100,161**
Non-current liabilities				
Loans and borrowings		734,987	-	734,987
Other financial liabilities		-	-	
Deferred tax liabilities		18,884	-	18,884
Provisions	8	25,941	23,995	1,946
Total non-current liabilities		**779,812**	**23,995**	**755,817**
Total liabilities		**1,014,132**	**158,154**	**855,978**
Net Assets/(Liabilities)		**(337,503)**	**371,427**	**(780,930)**

Notes on variances

1. We have not adopted any additional value for cash. The Group has advised it requires a minimum cash holding of approximately $25.0 million, and this holding is assumed in the Enterprise Value. Once Scheme costs are paid, there is unlikely to be any surplus cash in the Group.
2. We have excluded GST and other unspecified receivables. The GST balances are held largely in developing economies and the value of these assets to a buyer would be questionable.
3. Assets held for sale are included in the Enterprise Value as surplus assets.

4. Other current assets include prepayments and current tax receivables. We have placed no value on tax assets as their underlying value is highly uncertain.
5. Tax assets excluded
6. The nature of the other assets is unknown.
7. Minor accruals and pre-payments excluded as of unknown value
8. Provision balances include employee liabilities which have been adopted in our workings. Other provisions including onerous leases, warranty and restructuring costs have been excluded.

Appendix L – Schedule of tables

Appendix M – Schedule of figures

ashurst

Legal adviser to the Companies

THIS DOCUMENT DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY SECURITIES OTHER THAN THE "SCHEME NOTES" (AS DEFINED HEREIN). NONE OF THE SECURITIES REFERRED TO IN THIS DOCUMENT MAY BE SOLD, ISSUED OR TRANSFERRED IN ANY JURISDICTION IN CONTRAVENTION OF APPLICABLE LAW.

THE SCHEME NOTES PROPOSED TO BE ISSUED PURSUANT TO THE SCHEME WILL NOT BE REGISTERED WITH THE U.S. SECURITIES AND EXCHANGE COMMISSION ("SEC") UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "U.S. SECURITIES ACT") OR THE SECURITIES LAW OF ANY STATE OR OTHER JURISDICTION UNLESS EXPRESSLY SPECIFIED HEREIN, AND ARE BEING OFFERED AND SOLD IN RELIANCE ON CERTAIN EXEMPTIONS FROM REGISTRATION UNDER THE U.S. SECURITIES ACT. CONSEQUENTLY, NEITHER THESE SECURITIES NOR ANY INTEREST OR PARTICIPATION THEREIN MAY BE OFFERED, SOLD ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE U.S. OR TO U.S. PERSONS (AS DEFINED IN THE U.S. SECURITIES ACT) UNLESS AN EXEMPTION FROM THE REGISTRATION REQUIREMENT OF THE U.S. SECURITIES ACT IS AVAILABLE. THE SCHEME NOTES WILL BE ISSUED IN RELIANCE UPON THE EXEMPTION FROM REGISTRATION PROVIDED BY SECTION 3(A)(10) OF THE U.S. SECURITIES ACT. THE APPROVAL OF THE SUPREME COURT OF NEW SOUTH WALES OR SUCH OTHER COURT OF COMPETENT JURISDICTION PROVIDES THE BASIS FOR THE SCHEME NOTES TO BE ISSUED WITHOUT REGISTRATION UNDER THE U.S. SECURITIES ACT, IN RELIANCE ON THE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT PROVIDED BY SECTION 3(A)(10).

Further important information is set out under the heading "IMPORTANT INFORMATION" in the enclosed Explanatory Statement.

If you have assigned, sold, or otherwise transferred, or assign, sell or otherwise transfer, your interests as a Secured Creditor or do so before the date of the Scheme Meeting you are requested to forward a copy of this document to the person or persons to whom you have assigned, sold or otherwise transferred, or assign, sell or otherwise transfer, your interests as a Secured Creditor. If you are in any doubt as to the action you should take, you should consult your professional adviser without delay.

NOTICE OF MEETING

(1) BOART LONGYEAR LIMITED ACN 123 052 728

(2) BOART LONGYEAR AUSTRALIA PTY LTD ACN 000 401 025

(3) BOART LONGYEAR MANAGEMENT PTY LIMITED ACN 123 283 545; and

(4) VOTRAINT NO. 1609 PTY LIMITED ACN 119 244 272

NOTICE OF MEETING OF CREDITORS TO CONSIDER AND, IF THOUGHT FIT, AGREE TO A SCHEME OF ARRANGEMENT

Capitalised terms in this Notice of Meeting that are not otherwise defined have the same meaning as is given to those terms in the enclosed Explanatory Statement.

To: the Secured Creditors in respect of Boart Longyear Management Pty Limited ACN 123 283 545, Boart Longyear Australia Pty Ltd ACN 000 401 025, Boart Longyear Limited ACN 123 052 728 and Votraint No. 1609 Pty Limited ACN 119 244 272.

Pursuant to section 411(1) of the *Corporations Act 2001* (Cth), the Supreme Court of New South Wales has ordered that a meeting of the Secured Creditors (as defined in the Scheme) be convened to consider and, if thought fit, agree to (with or without modification) the proposed Scheme between the Secured Creditors and the Companies.

1. **Notice**

NOTICE IS HEREBY GIVEN that a meeting of the Secured Creditors will be held at Ashurst, Level 11, 5 Martin Place, Sydney in New South Wales, Australia on **30 May 2017** at **10:30am** (the **"Scheme Meeting"**).

The purpose of the Scheme Meeting is for the Secured Creditors to consider and, if thought fit:

RESOLVE THAT pursuant to and in accordance with section 411 of the *Corporations Act 2001* (Cth), the scheme of arrangement proposed between the Companies and the Secured Creditors, as contained and described in the Explanatory Statement, is agreed to (with or without alterations or conditions as approved by the Court, provided that such alterations or conditions do not change the substance of the Scheme, including the Steps, in any material respect) (the **"Resolution"**).

For further information the Secured Creditors should refer to the Explanatory Statement accompanying this Notice of Meeting, which is required by section 412 of the *Corporations Act 2001* (Cth) in relation to the Scheme.

2. **Agenda**

The agenda for the Scheme Meeting will be as follows:

(a) the Chairperson will address those present at the Scheme Meeting, and provide an explanation of the background to and purpose of the Scheme Meeting;

(b) there will be a general presentation in relation to the proposed Scheme and attendees will be given a reasonable opportunity to ask questions in relation to the Scheme;

(c) the procedure for voting on the Scheme will be explained; and

(d) the Resolution to agree to the Scheme will be put to the Secured Creditors present in person or by proxy, attorney or corporate representative at the Scheme Meeting for discussion and vote.

3. **Attendance and voting at the Scheme Meeting**

To be eligible to vote at the Scheme Meeting, you must be a Secured Creditor as at 4 May 2017 and must have lodged:

(a) if you are a TLA Purchaser or TLB Purchaser, a completed Voting Proof of Debt Form with the Information Agent by on or before 4.00 pm on 25 May 2017 (New York City Time); or

(b) if you are a Noteholder, a completed Proxy Form with your Registered Participant in sufficient time for your Registered Participant to complete a Voting Proof of Debt Form on your behalf and lodge the Proxy Form and Voting Proof of Debt Form with the Information Agent by no later than 4.00 pm on 25 May 2017 (New York City Time).

The Chairperson will then adjudicate upon your Claim as set out in the Voting Proof of Debt Form based on the information contained in or provided with the Voting Proof of Debt Form, as well the information known to the Chairperson, for voting purposes only.

Secured Creditors may attend the meeting in person (or by corporate representative), appoint a proxy to attend in their place, or attend by attorney. Proxy Forms must be received by the Information Agent by 4.00 pm on 25 May 2017 (New York City Time). The Proxy Form and Voting Proof of Debt Form are set out at Annexures F and G (respectively) to the enclosed Explanatory Statement. If any Secured Creditors wish to vote by attorney or corporate representative, their attorney or corporate representative should bring to the meeting evidence of his or her appointment including evidence of the authority under which the appointment was made.

SECURED CREDITORS ARE ENCOURAGED TO READ AND CAREFULLY CONSIDER THE EXPLANATORY STATEMENT ACCOMPANYING THIS NOTICE IN ITS ENTIRETY, TAKE PROFESSIONAL ADVICE AND CONSULT WITH THEIR PROFESSIONAL ADVISERS WHEN MAKING ANY DECISION IN CONNECTION WITH THE SCHEME, INCLUDING DECIDING WHETHER OR NOT TO VOTE IN FAVOUR OF THE SCHEME.

Dated 10 May 2017

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CLAUSE **PAGE**

Annexure

1. IMPORTANT INFORMATION

SECURED CREDITORS SHOULD READ THIS EXPLANATORY STATEMENT IN ITS ENTIRETY BEFORE MAKING A DECISION WHETHER OR NOT TO VOTE IN FAVOUR OF THE SCHEME

1.1 Orders to convene the Scheme Meeting

On 10 May 2017, the Court made orders under section 411(1) of the Corporations Act directing that a meeting of the Secured Creditors be convened to vote upon the proposed Scheme. This Explanatory Statement has been provided to the Secured Creditors in connection with the Scheme Meeting for the purpose of considering and, if thought fit, agreeing to the proposed Scheme between the Companies and the Secured Creditors.

The Scheme Meeting will commence at:

10:30am on, 30 May 2017

at

Ashurst, Level 11, 5 Martin Place, Sydney NSW 2000, Australia

Further information on the Scheme Meeting and the procedure for voting is set out in **Section 11** of this Explanatory Statement.

IMPORTANT NOTICE ASSOCIATED WITH COURT ORDER UNDER SECTION 411(1) OF THE *CORPORATIONS ACT 2001* (CTH)

The fact that under section 411(1) of the *Corporations Act 2001* (Cth) the Court has ordered that a meeting be convened and has approved the Explanatory Statement required to accompany the notice of the meeting does not mean that the Court:

(a) has formed any view as to the merits of the proposed Scheme or as to how Secured Creditors should vote (on this matter Secured Creditors must reach their own decision); or

(b) has prepared, or is responsible for the content of, the Explanatory Statement.

The Court's order under section 411(1) is not an endorsement of, or any other expression of opinion on, the Scheme.

1.2 Prescribed information

Under section 412(1) of the Corporations Act and regulation 5.1.01 of the Corporations Regulations, this Explanatory Statement must contain certain information to assist the Secured Creditors in deciding whether or not to vote in favour of the proposed Scheme. The table below indicates where in this Explanatory Statement that information can be found.

Prescribed information	Section of this Explanatory Statement
An explanation of the effect of the proposed Scheme	**Section 6**

Prescribed information	Section of this Explanatory Statement
The criteria and the date for determining the participants in the Scheme, the persons entitled to vote at the Scheme Meeting, and the persons who will be bound by the Scheme.	**Sections 6.9 and 11**
The expected dividend that would be paid to the Secured Creditors if the Companies were wound up within 6 months of the Court's order on the date of the First Court Hearing	**Section 7**
The Implied Value of the interests of the Secured Scheme Creditors if the Scheme were put into effect as proposed	**Section 7**
The material interests of the Directors of the Companies (including the effect of the Scheme on those interests)	**Section 10.2**
Certified copies of all financial statements to be lodged by the Companies with ASIC	**Annexure C**
Reports on the affairs of the Companies	**Annexure D**
The scale of charges that the Scheme Administrators propose to charge to implement the Scheme	**Annexure E**
A list of the names of all known Secured Scheme Creditors and the debts owed to those Secured Scheme Creditors	**Annexure H**

1.3 **Responsibility statement**

The Companies have provided and are responsible for all information in this Explanatory Statement (other than the KordaMentha Information). The Companies and their Directors, officers, employees, and advisers expressly disclaim and do not assume any responsibility for the accuracy or completeness of the KordaMentha Information.

This Explanatory Statement has been prepared solely for use by the Secured Creditors for the purpose of evaluating whether or not to vote in favour of the Scheme. No other person apart from the Companies and KordaMentha (only in respect of the KordaMentha Information) has been authorised to make any representation or warranty, express or implied, as to its accuracy or completeness. Nothing contained in this Explanatory Statement is, or should be relied on as, a representation, assurance or guarantee as to the benefits of the Scheme over any alternative for the Secured Creditors.

KordaMentha has prepared the KordaMentha Report in relation to the Companies and the proposed Scheme based, in part, on information provided by the Companies. Except to

the extent that the Companies are responsible for the information they have provided to KordaMentha for the purpose of the KordaMentha Report (and the Companies take responsibility for that information) KordaMentha takes responsibility for the KordaMentha Information.

The KordaMentha Information consists of the information in **Section 7** of this Explanatory Statement, the KordaMentha Report in Annexure B and certain other information or statements in this Explanatory Statement that have been identified as being sourced from, or attributed to, KordaMentha.

No person has been authorised to give any information or to make any representation in connection with the Scheme other than the representations contained in this Explanatory Statement.

1.4 Not financial product or other advice

This Explanatory Statement is not financial product advice. It has been prepared without reference to your particular investment objectives, financial situation, tax situation, needs or specific circumstances. You should not construe any statements made in this Explanatory Statement as investment, tax or legal advice. Your decision whether to vote for or against the proposed Scheme will depend on an assessment of your own individual circumstances. As the financial, legal and taxation consequences of the Scheme may be different for each Secured Creditor, it is recommended that you seek your own professional financial, legal and taxation advice before making your decision.

1.5 Forward-looking statements

Certain statements in this Explanatory Statement relate to the future. The forward-looking statements in this Explanatory Statement are not based solely on historical facts, but rather reflect the current expectations of the Companies as at the date of this Explanatory Statement. These statements generally may be identified by the use of forward-looking words or phrases such as "believe", "aim", "expect", "anticipate", "intend", "foresee", "likely", "should", "plan", "may", "estimate", "potential", or other similar words and phrases. Similarly, statements that describe the Companies' objectives, plans, goals or expectations are or may be forward looking statements.

Forward-looking statements are based on numerous assumptions regarding present and future circumstances. As such, forward-looking statements involve known and unknown risks, uncertainties, assumptions and other important factors that could cause the actual result, performance or achievement to be materially different from the future result, performance or achievement expressed or implied by those statements.

Given this, Secured Creditors are cautioned not to place undue reliance on any forward-looking statements made by the Companies in this document or elsewhere.

Other than as required by law, none of the Companies, their Directors, or any other person gives any representation, assurance or guarantee that the occurrence of any event, outcome, performance or achievement expressed or implied in any forward-looking statement in this Explanatory Statement will actually occur. The Companies have no intention of updating or revising any forward-looking statements, regardless of whether new information, future events or any other factors affect the information contained in this Explanatory Statement, except as required by law.

1.6 ASIC

A copy of this Explanatory Statement has been given to ASIC pursuant to section 412(7) of the Corporations Act. Neither ASIC nor any of its officers takes any responsibility for the contents of this Explanatory Statement.

1.7 **Date of this Explanatory Statement**

The date of this Explanatory Statement is 10 May 2017.

1.8 **Defined terms and interpretation**

Capitalised words used in this Explanatory Statement have the meanings set out **Section 12.2**, unless the context otherwise requires or a term has been defined elsewhere in the text of the Explanatory Statement. Some of the attachments to this Explanatory Statement contain their own defined terms and should be read accordingly.

Section 12.1 contains general guidelines for interpreting this Explanatory Statement.

1.9 **Secured Creditors outside Australia**

This Explanatory Statement has been prepared to reflect the applicable disclosure requirements of Australia, which may be different from the requirements applicable in other jurisdictions. The financial information included in this document is based on financial statements that have been prepared in accordance with accounting principles and practices generally accepted in Australia, which may differ from generally accepted accounting principles and practices in other jurisdictions.

The implications of the Scheme for Secured Creditors who are resident in, have a registered address in or are citizens of and/or are taxable in jurisdictions other than Australia may be affected by the laws of the relevant jurisdiction. Such overseas Secured Creditors should inform themselves about and observe any applicable legal requirements. Any person outside Australia who is resident in, or who has a registered address in, or is a citizen of and/or is taxable in, an overseas jurisdiction and who is to receive or subscribe for any Scheme Notes should consult its professional advisers and satisfy itself as to the full observance of the laws of the relevant jurisdiction in connection with the Scheme, including obtaining any requisite governmental or other consents, observing any other requisite formalities and paying any issue, transfer or other taxes due in such jurisdiction.

1.10 **Foreign jurisdiction disclaimers**

THIS EXPLANATORY STATEMENT AND THE SCHEME DO NOT CONSTITUTE AN OFFER OF SECURITIES IN ANY JURISDICTION IN WHICH IT WOULD BE UNLAWFUL. THIS EXPLANATORY STATEMENT DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY SECURITIES OTHER THAN THE SCHEME NOTES. NONE OF THE SECURITIES REFERRED TO IN THIS EXPLANATORY STATEMENT MAY BE SOLD, ISSUED OR TRANSFERRED IN ANY JURISDICTION IN CONTRAVENTION OF APPLICABLE LAW.

This Explanatory Statement may not be distributed to any person in any country outside Australia except in respect of those jurisdictions described below and in the manner contemplated below.

(a) **United States**

The Scheme Notes proposed to be issued pursuant to the Scheme will not be registered with the U.S. Securities and Exchange Commission (the **SEC**) under the U.S. Securities Act of 1933, as amended (the **U.S. Securities Act**) or the securities laws of any state or other jurisdiction unless expressly specified herein, and are being issued in reliance on certain exemptions from registration under the U.S. Securities Act. Consequently, neither these securities nor any interest or participation therein may be offered, sold, assigned, transferred, pledged, encumbered or otherwise disposed of in the U.S. or to U.S. Persons (as defined in

the U.S. Securities Act) unless an exemption from the registration requirement of the U.S. Securities Act is available.

(i) **Scheme Notes**

The Scheme Notes will be issued and delivered in reliance upon exemptions from the registration requirements of the U.S. Securities Act, including that provided by section 3(a)(10) of the U.S. Securities Act (**Section 3(a)(10)**). In order to qualify for the exemption from the registration requirements of the U.S. Securities Act provided by Section 3(a)(10), there must be a hearing on the fairness of the Scheme's terms and conditions to the holders, which all the holders are entitled to attend in person or through representatives to oppose the sanctioning of the Scheme by the Court, and with respect to which notification will be given to all the holders. For the purpose of qualifying for the exemption from the registration requirements of the U.S. Securities Act provided by Section 3(a)(10), the Companies intend to rely on the Court's hearing to sanction the Scheme.

Any Scheme Creditor who is an Affiliate of the Companies at the time of or within 90 days prior to any resale of the Scheme Notes will be subject to certain U.S. transfer restrictions relating to such securities. Such Scheme Notes may not be sold without registration under the U.S. Securities Act, except pursuant to any available exemptions from the registration requirements of the U.S. Securities Act or in a transaction not subject to such requirements (including a transaction that satisfies the applicable requirements for resale outside of the United States pursuant to Regulation S under the U.S. Securities Act). Persons who may be deemed to be Affiliates of the Companies include individuals who, or entities that, control directly or indirectly, or are controlled by or are under common control with the Companies and may include certain officers and directors of the Companies and the principal shareholders of the Companies. Holders will be required to make their own determination of their Affiliate status and should consult their own legal advisers prior to any sale of the Scheme Notes.

(b) **Canada**

No prospectus has been filed with any securities commission or similar authority in Canada in connection with the issuance of the Scheme Notes. In addition, no securities commission or similar authority in Canada has reviewed or in any way passed upon this document or the merits of the securities described herein, and any representation to the contrary is an offence under applicable Canadian securities laws.

The issuance of Scheme Notes pursuant to the Scheme will be exempt from the prospectus requirements under applicable Canadian securities legislation. As a consequence of this exemption, certain protections, rights and remedies provided by Canadian securities legislation, including statutory rights of rescission or damages, will not be available in respect of such Scheme Notes to be issued in connection with the Scheme.

The Scheme Notes will be subject to restrictions on resale in Canada. BLY is not presently a "reporting issuer" as such term is defined under applicable Canadian securities legislation in any province or territory of Canada. Subject to the outcome of re-domiciliation discussions which are ongoing, Canadian investors are advised that the Scheme Notes are not and will not be listed on any stock exchange in Canada and that no public market presently exists or is expected to exist for the

Scheme Notes in Canada following implementation of the Scheme. Canadian investors are further advised that BLY is not required to file, and currently does not intend to file, a prospectus or similar document with any securities regulatory authority in Canada qualifying the resale of the Scheme Notes to the public in any province or territory of Canada. Accordingly, the Scheme Notes may be subject to an indefinite hold period under applicable Canadian securities laws unless resales are made in accordance with applicable prospectus requirements or pursuant to an available exemption from such prospectus requirements. Canadian investors are advised to seek legal advice prior to any contemplated resale of any of the Scheme Notes.

It may be difficult for Scheme Creditors in Canada to enforce their rights and claims arising out of Canadian provincial or territorial securities laws against officers and directors of BLY who are residents of countries other than Canada, and it may not be possible to sue BLY in a non-Canadian court for violations of Canadian securities laws.

(c) **Cayman Islands**

No offer or invitation to subscribe for Scheme Notes may be made to the public in the Cayman Islands.

(d) **Italy**

The offering of Scheme Notes in the Republic of Italy has not been authorised by the Italian Securities and Exchange Commission (Commissione Nazionale per le Società e la Borsa (**CONSOB**)) pursuant to the Italian securities legislation and, accordingly, no offering material relating to the securities may be distributed in Italy and the securities may not be offered or sold in Italy in a public offer within the meaning of Article 1.1(t) of Legislative Decree No. 58 of 24 February 1998, as amended (**Decree No. 58**), other than:

(i) to qualified investors (**Qualified Investors**), as defined in Article 100 of Decree No. 58 by reference to Article 34-ter of CONSOB Regulation no. 11971 of 14 May 1999, as amended (**Regulation No. 1197l**); and

(ii) in other circumstances that are exempt from the rules on public offer pursuant to Article 100 of Decree No. 58 and Article 34-ter of Regulation No. 11971.

Any offer, sale or delivery of the securities or distribution of any offer document relating to the Scheme Notes in Italy under the paragraphs above must be:

(iii) made by investment firms, banks or financial intermediaries permitted to conduct such activities in Italy in accordance with Legislative Decree No. 385 of 1 September 1993 (as amended), Decree No. 58, CONSOB Regulation No. 16190 of 29 October 2007 (as amended) and any other applicable laws; and

(iv) in compliance with all relevant Italian securities, tax and exchange controls and any other applicable laws.

Any subsequent distribution of the Scheme Notes in Italy must be made in compliance with the public offer and prospectus requirement rules provided under Decree No. 58 and the Regulation No. 11971, unless an exception from those rules applies. Failure to comply with such rules may result in the sale of such securities being declared null and void and in the liability of the entity transferring the securities for any damages suffered by the investors.

(e) **Netherlands**

The information in this document has been prepared on the basis that any offer of Scheme Notes will be made pursuant to an exemption under the Directive 2003/71/EC (**Prospectus Directive**), as amended and implemented in the Netherlands, from the requirement to publish a prospectus for offers of securities.

An offer to the public of Scheme Notes has not been made, and may not be made, in the Netherlands except pursuant to one of the following exemptions under the Prospectus Directive as implemented in the Netherlands:

(i) to any legal entity that is authorized or regulated to operate in the financial markets or whose main business is to invest in financial instruments;

(ii) to any legal entity that satisfies two of the following three criteria: (i) balance²sheet²total²of²at²least²€20,000,000;²(ii)²annual²net²turnover²of²at²least²€40,000,000²and²(iii)²own²funds²of²at²least²€2,000,000²(as²shown²on²its last annual unconsolidated or consolidated financial statements);

(iii) to any person or entity who has requested to be treated as a professional client in accordance with the EU Markets in Financial Instruments Directive (Directive 2004/39/EC, "MiFID"); or

(iv) to any person or entity who is recognised as an eligible counterparty in accordance with Article 24 of the MiFID.

(f) **Switzerland**

The Scheme Notes may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange (**SIX**) or on any other stock exchange or regulated trading facility in Switzerland. This document has been prepared without regard to the disclosure standards for issuance prospectuses under art. 652a or art. 1156 of the Swiss Code of Obligations or the disclosure standards for listing prospectuses under the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland. Neither this document nor any other offering material relating to the securities may be publicly distributed or otherwise made publicly available in Switzerland. The Scheme Notes may only be offered to regulated financial intermediaries such as banks, securities dealers, insurance institutions and fund management companies as well as institutional investors with professional treasury operations.

Neither this document nor any other offering or marketing material relating to the Scheme Notes has been or will be filed with or approved by any Swiss regulatory authority. In particular, this document will not be filed with, and the issuance of Scheme Notes will not be supervised by, the Swiss Financial Market Supervisory Authority (**FINMA**).

This document is personal to the recipient only and not for general circulation in Switzerland.

1.11 **Privacy**

The Chairperson, the Information Agent, the Scheme Administrators and Companies may collect, use and disclose personal information in the process of implementing the Scheme. This information may include the names, contact details, bank account details or other details of Secured Creditors and the names of persons appointed by Secured Creditors to act as proxy, corporate representative or attorney at the Scheme Meeting. The primary purpose of collecting this information is to assist the Chairperson, the Information Agent, the Scheme Administrators and the Companies in the conduct of the Scheme Meeting and to enable the Scheme to be implemented by the Scheme Administrators.

If this personal information is not collected, the Chairperson, the Information Agent, the Scheme Administrators and the Companies may be hindered in, or prevented from, conducting the Scheme Meeting and implementing the Scheme.

Personal information may be disclosed to the Court, the Chairperson, the Information Agent, the Scheme Administrators, the Companies, third party service providers, professional advisers, ASIC, FIRB, ASX and other regulatory authorities and, in addition, where disclosure is required by law or where you have consented to the disclosure. Noteholders have the right to access personal information that has been collected about them. Secured Creditors should contact the Companies in the first instance about exercising that right.

If you have questions regarding privacy, contact the Companies at the address below:

Boart Longyear Limited
26 Butler Boulevard
Burbridge Business Park
Adelaide Airport,
South Australia 5950
AUSTRALIA

It is the responsibility of Secured Creditors who appoint a named person to act as their proxy or attorney at the relevant Scheme Meeting to inform their proxy or attorney of the matters outlined above.

1.12 **Documents available for inspection**

Documents referred to in this Explanatory Statement that are not reproduced in the Annexures to this Explanatory Statement or have not otherwise been provided to Secured Creditors will be made available for inspection by Secured Creditors upon request.

To request access, contact the Companies' at the address below:

Boart Longyear Limited
26 Butler Boulevard
Burbridge Business Park
Adelaide Airport,
Adelaide South Australia 5950
AUSTRALIA

To the extent that documents referred to in this Explanatory Statement are confidential to the Companies, other members of the Group or third parties, or if the Companies cannot legally disclose such documents, the Companies reserve the right:

(a) not to make such documents available for inspection; or

(b) to make only masked copies of, or extracts from, such documents available for inspection.

1.13 **Questions**

If you have any questions in relation to the Scheme, the lodgement of Proxy Forms or Voting Proof of Debt Forms, you are encouraged to contact the Scheme Administrators at:

Attention: Boart Longyear Ballot Processing
c/o Prime Clerk LLC
830 Third Avenue
3rd Floor
New York
NY 10022
United States

Email: boartballotprocessing@primeclerk.com

2. KEY DATES AND STEPS

Event	Date
Voting Entitlement Record Date	4 May 2017
Deadline for receipt of Voting Proof of Debt Forms and Proxy Forms	4.00 pm 25 May 2017 (New York City Time)
Scheme Meeting of all Secured Creditors	30 May 2017
Second Court Date	4 July 2017
Lodgement of Second Court Orders with ASIC (Effective Date)	No later than 10:00am on the Business Day after the day on which the Court makes the Second Court Orders
Implementation Date (including implementation of Steps 4 to 6 under the Scheme)	Five Business Days after the Effective Date, unless otherwise advised by the Scheme Administrators

NOTE

All dates and times referred to in this Explanatory Statement and the documents attached to it are to times in Sydney, Australia except where otherwise stated. The dates set out in the above table are indicative only and may be subject to change. The Companies reserve the right to vary the times and dates set out above, subject to the Corporations Act and the approval of any variations by the Court or ASIC where required.

Secured Creditors are encouraged to take the following steps in advance of the Scheme Meeting:

(a) **Read this Explanatory Statement in full**

The Companies encourage you to take professional advice, and to consult with your professional advisers, when making any decisions in connection with the Scheme.

(b) **Consider attending and voting at the Scheme Meeting**

See **Section 11** for detailed information in relation to the Scheme Meeting.

3. OVERVIEW OF EXPLANATORY STATEMENT AND SCHEME

3.1 Why you are receiving this Explanatory Statement

This Explanatory Statement contains information about the proposed Scheme and is required by section 412(1) of the Corporations Act to be issued together with each Notice of Meeting issued to a Secured Creditor.

You have been sent this Explanatory Statement because, according to the records of the Companies as at the First Court Date, you are a Secured Creditor.

Receipt of this Explanatory Statement does not amount to confirmation that you have a valid claim against or are owed any amount by the Companies.

If you are a Secured Creditor as at the Voting Entitlement Record Date (irrespective of whether or not you were a Secured Creditor as at the date of this Explanatory Statement), you will be eligible to vote at the Scheme Meeting provided that:

(a) if you are a TLA Purchaser or TLB Purchaser:

(i) the Information Agent receives a completed Voting Proof of Debt Form from you by no later than 4.00 pm, 25 May 2017 (New York City Time); and

(ii) if you wish to vote by proxy, the Information Agent receives a Proxy Form from you by 4.00 pm, 25 May 2017(New York City Time);

(b) if you are a Noteholder the Information Agent receives a completed Voting Proof of Debt Form and the Proxy Form from your Registered Participant by no later than 4.00 pm, 25 May 2017 (New York City Time).

Any Noteholder who wishes to attend and vote at the Scheme Meeting in person will still need to properly complete, sign and return the Voting Proof of Debt Form and Proxy Form to their Registered Participant (with itself nominated as proxy) in sufficient time to enable the Registered Participant to complete and certify the Voting Proof of Debt Form and the Proxy Form and forward the same to the Information Agent by no later than 4.00 pm on 25 May 2017 (New York City Time).

Additionally, if any Secured Creditor wishes to vote by attorney or corporate representative, such attorney or corporate representative should bring to the Scheme Meeting evidence of his or her appointment including authority under which the appointment was made.

The Voting Proof of Debt Form is set out in Annexure G and the Proxy Form is set out in Annexure F of this Explanatory Statement.

Further details of the Scheme Meeting, including the procedure for voting, can be found in **Section 11** of this Explanatory Statement.

3.2 Summary of the Scheme procedure

The proposed scheme is a creditors' scheme of arrangement. A creditors' scheme of arrangement is a compromise or arrangement between a company or companies and its creditors (or any class of them) effected in accordance with Part 5.1 of the Corporations Act.

The resolution to agree to the Scheme at the Scheme Meeting must be passed by a majority in number (more than 50%) of the Secured Creditors who are present and voting at the Scheme Meeting (either in person or by proxy, corporate representative or

attorney) being a majority whose Admitted Claims together amount to at least 75% of the Debt owing to the Secured Creditors present and voting at the Scheme Meeting (either in person or by proxy, corporate representative or attorney) (**Requisite Majority**).

If the Scheme is agreed to by the Requisite Majority, in order to become effective, the Scheme must then be approved by the Court on the Second Court Date. The Court may grant its approval subject to such alterations or conditions as it thinks fit. However, the Scheme will not take any effect if any alterations the Court makes or the conditions the Court imposes change the substance of the Scheme in any material respect.

If the Scheme is approved by the Court, and the Second Court Orders are lodged with ASIC, then the Scheme will become effective. Once all the conditions precedent (detailed in **Section 6.2** below) set out in the Scheme are satisfied, the Steps to effect the Scheme will be undertaken.

Once the Scheme becomes effective, it will be binding upon the Companies and all Secured Scheme Creditors, including those Secured Scheme Creditors that did not vote in favour of the Scheme, or those that did not attend, or vote at, the Scheme Meeting.

It will also be binding upon the Agent, the Trustee, the Released Obligor Individuals, the Obligors and the Scheme Administrators as a result of them each having signed a Deed Poll.

If, in the opinion of the Scheme Administrators, it is not possible to give effect to the Scheme, each of the Companies, the Obligors, Released Obligor Individuals, the Agent, the Trustee and the Secured Scheme Creditors are required to do all things reasonably necessary to put each other party in the position it would have been in if none of the Steps under the Scheme had occurred.

3.3 Why is the Scheme being proposed?

In August 2016, in conjunction with the release of its half-year financial results for the year ended 30 June 2016, BLY announced that it had engaged Houlihan Lokey to evaluate its capital structure options in order to ensure long term sustainability and BLY's ability to participate in the recovery of the mining market.

The Group's capital structure exposes it to a variety of market, operational and liquidity risks. To address these risks, the Group sought to identify options available to it to make its capital structure more sustainable, including by addressing the debt maturities due to occur in October 2018, the Group's high levels of debt relative to current market conditions and the Group's underlying financial performance.

3.4 Objects and purpose of the Scheme

The Scheme forms part of a comprehensive recapitalisation of the Group, comprising the Recapitalisation Transactions. The Recapitalisation Transactions will primarily be implemented by this Scheme and the 7% Creditor Scheme, which are interdependent. The purpose of the Recapitalisation Transactions is to provide the Group with a more sustainable capital structure.

The Recapitalisation Transactions will achieve this by:

(a) reducing the Group's debt and its interest costs;

(b) providing additional liquidity to the Group;

(c) extending the maturity of the Group's debt;

(d) adjusting the rate of interest payable on certain of the Group's debt obligations (described in more detail in **Section 5**), the manner in which interest is paid and the timing of those payments.

Each of the Recapitalisation Transactions, with the exception of the Share Purchase Plan, are inter-conditional such that if either or both of the BLY Schemes or any one or more Shareholder Resolutions is not approved by the requisite majority of creditors or Shareholders (as applicable) or any other relevant condition is not satisfied, the other Recapitalisation Transactions will not proceed.

In summary, the Recapitalisation Transactions comprise:

(a) **This Scheme**

The principal objects and purposes of the Scheme are to reduce the amount of interest payable by the Companies under the Term Loan A and Term Loan B, change the timing and manner in which interest is paid under the Secured Indenture and extend the maturity dates for each of the Term Loan A, Term Loan B and the Secured Indenture to a common future date. The Scheme, if implemented, will effect the following:

(i) amendments to the terms upon which the remaining Debt shall be owed to the Secured Scheme Creditors by the Companies, including amendments to:

(A) interest rates and manner in which interest is paid, pursuant to the Secured Indenture;

(B) financial covenants; and

(C) maturity dates;

(as set out in **Section 6.5**);

(ii) mutual releases in respect of certain Claims by:

(A) the Secured Scheme Creditors and the Obligors of one another;

(B) the Secured Scheme Creditors and the past and present directors and officers of the Obligors, who sign a deed poll; and

(C) the Secured Scheme Creditors of one another,

(as set out in **Section 6.6**).

The Scheme will have no effect on unsecured trade creditors of the Companies or on the secured or unsecured creditors of the Companies other than the Secured Scheme Creditors. Except to the extent set out above (and in more detail below) in relation to the directors and officers of the Companies, it will also have no effect on employees of the Companies who, subject to ordinary course changes in employment arrangements, will continue their employment.

(b) **The 7% Creditor Scheme**

The 7% Creditor Scheme is proposed to effect the following key Recapitalisation Transactions:

(i) the 7% Unsecured Note Amendment (**Section 5.3**);

(ii) a release of the Companies and guarantors from their obligations to pay principal and accrued but unpaid interest (**Section 5.3**);

(iii) the issue of Shares and 7% Creditor Scheme Warrants to the 7% Scheme Creditors (**Section 5.3**);

(iv) the release of Subordinate Claims;

(v) mutual releases in respect of certain Claims by:

(A) the 7% Scheme Creditors and the Obligors of one another;

(B) the 7% Scheme Creditors and the directors / officers of the Companies who execute Deeds Poll of one another;

(C) 7% Scheme Creditors of one another).

(c) **Other Recapitalisation Transactions**

The other Recapitalisation Transactions involve:

(i) the unwinding of the DDTL (**Section 5.4(a)**);

(ii) the New ABL Revolver (**Section 5.4(a)**);

(iii) the CPS Conversion (**Section 5.4(b)**);

(iv) the Subscription Deed and the Subsequent Term Loan Amendments (**Section 5.4(c)**);

(v) the Warrants Issue (**Section 5.4(d)**); and

(vi) the Share Purchase Plan (**Section 5.4(e)**).

Section 6 of this Explanatory Statement contains detailed information on the terms of the Scheme. The Scheme itself is set out at Annexure A.

3.5 **Support for the Scheme**

Secured Creditors with over 75% of the Debt have signed the Restructuring Support Agreement and agreed to support the Scheme.

Further details regarding the Restructuring Support Agreement are set out in **Section 4.3** of this Explanatory Statement and a summary of its terms appears in Annexure I.

3.6 **Debt**

As at 1 April 2017 the Companies owe the following to Secured Creditors under the Finance Documents:

(a) (**Term Loan A**) Principal in the amount of US$85,000,000 and accreted/accrued interest in the amount of US$28,495,174[1] to the TLA Purchasers under the existing terms of the Term Loan A, being a total amount of US$113,495,174.

If the Subsequent Term Loan Amendments become effective, the Term Loan A will be amended such that the amount of accreted/accrued interest owing to the TLB

[1] Net of amounts paid by the Companies 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.

Purchasers as at 1 April 2017, will be calculated by applying an interest rate of 10.00% to the 31 December 2016 balance of US$110,352,150[2]. This would result in accreted/accruing interest of US$27,886,527, and a total amount of US$112,886,527 being owed by the Companies to the TLA Purchasers.

(b) (**Term Loan B**) Principal in the amount of US$105,000,000 and accreted/accrued interest in the amount of US$32,209,356[3] to the TLB Purchasers under the existing terms of the Term Loan B, being a total amount of US$137,209,356.

If the Subsequent Term Loan Amendments become effective, the Term Loan B will be amended such that the amount of accreted/accrued interest owing to the TLB Purchasers as at 1 April 2017, will be calculated by applying an interest rate of 10.00% to the 31 December 2016 balance of US$133,426,874[4]. This would result in accreted/accruing interest of US$31,476,878, and a total amount of US$136,476,878 being owed by the Companies to the TLB Purchasers.

(c) (**Secured Indenture**) A total amount of US$204,750,000, consisting of a principal amount of US$195,000,000 and accrued interest in the amount of US$9,750,000 under the existing terms of the Secured Indenture.

If the Scheme is implemented, the Secured Indenture will be amended such that the amount of accrued interest owing to the Secured Noteholders as at 1 April 2017 will be calculated by applying an interest rate of 12.00% to the 31 December 2016 balance of US$199,875,000. This would result in total accrued interest of US$10,871,250, and a total amount of US$205,871,250 being owed by the Companies to the Noteholders.

3.7 Transaction Costs

The Costs associated with the Scheme, including legal and adviser Costs of the Companies and certain of the Secured Creditors, fees payable under the Finance Documents, fees payable in respect of the proposed amendments to the Term Loan A, Term Loan B and Secured Indenture contemplated by the Scheme and the Scheme Administrators' Costs are estimated to be between US$30,000,000 and US$35,000,000 (inclusive of GST). Some of these Costs have already been paid by the Companies.

3.8 Secured Creditors and amounts owed to them

A list which provides the names of all known Secured Creditors as at **March/April 2017** and the debts owed to those Secured Creditors is set out in Annexure H to this Explanatory Statement.

3.9 Secured Creditors should obtain advice

The Companies are not in a position to make an assessment of the prospects of success of any individual Secured Creditor's Claims or the quantum of recovery which may be available to individual Secured Creditors if the Scheme does not proceed. These are matters for each Secured Creditor to consider.

[2] Net of amounts paid by the Companies on behalf of Australian withholding tax.

[3] Net of amounts paid by the Companies 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.

[4] Net of amounts paid by the Companies on behalf of Australian withholding tax.

As the legal, financial and taxation consequences of the Scheme may be different for each Secured Creditor. Noteholders should seek professional legal, financial and taxation advice in relation to the Scheme.

3.10 **Overview of creditor rights pre and post Recapitalisation Transactions**

	Rights pre Recapitalisation Transactions			Rights post Recapitalisation Transactions		
	Term Loan A	**Term Loan B**	**Secured Indenture**	**Term Loan A**	**Term Loan B**	**Secured Indenture**
Part 1 – Secured Creditor Scheme						
Maturity date[5]	4 January 2021	4 January 2021[6]	1 October 2018	31 December 2022	31 December 2022	31 December 2022
Change of control trigger	Yes	Yes	Yes	Waived for Recapitalisation Transactions but otherwise retained, and definition made less restrictive to conform to definition in 10% Notes	Waived for Recapitalisation Transactions but otherwise retained, and definition made less restrictive to conform to definition in 10% Notes	Waived for Recapitalisation Transactions but otherwise retained
Call schedule	Call date January 2021 and early repayment make whole compensation	Call date January 2021 and early repayment make whole compensation	Call date October 2018 and early repayment make whole compensation	Can be repaid early from 1 January 2019 without any make whole payment	Can be repaid early from 1 January 2019 without any make whole payment	No change

[5] Under the Recapitalisation Transactions, the 4 January 2017 DDTL amendments are reversed such that the maturity dates for TLA and TLB are extended from 22 October 2020 and 1 October 2018, respectively.

[6] Prior to the 4 January 2017 DDTL amendment, the maturity date for the TLB was 1 October 2018, coinciding with the maturity date for the 10% Notes.

	Rights pre Recapitalisation Transactions			Rights post Recapitalisation Transactions		
	Term Loan A	**Term Loan B**	**Secured Indenture**	**Term Loan A**	**Term Loan B**	**Secured Indenture**
Secured / unsecured claim	Principal is secured but accruing interest is secured to the extent permitted under the debt cap.	Principal is secured but accruing interest is secured to the extent permitted under the debt cap.	Principal and interest are secured	Accrued and accruing unsecured interest is given priority over unsecured note holders	Accrued and accruing unsecured interest is given priority over unsecured note holders	No change
Interest rate and manner of payment	12% payment in kind (**PIK**) or 10% cash pay at BLY Issuer's option	12% PIK or 10% cash pay at BLY Issuer's option	10% cash pay	10% PIK until December 2018, then 8% PIK	10% PIK until December 2018, then 8% PIK	12% PIK at BLY Issuer's option until December 2018, then 10% cash pay
Interest payment dates	March, June, September and December	March, June, September and December	April and October each year	No change	No change	June and December each year
Security	Second priority in respect of working capital assets and non-working capital assets[7]	Third priority in respect of working capital assets and first priority in respect of non-working capital assets[8]	Third priority in respect of working capital assets and first priority in respect of non-working capital assets	No change	No change	No change
IP Subsidiary Guarantee	Guarantee by BLY IP Inc.	Guarantee by BLY IP Inc.		No change	No change	Subordinated unsecured guarantee by BLY IP Inc.

[7] PIK and make whole are unsecured to the extent exceeding the debt cap.

[8] PIK and make whole are unsecured to the extent exceeding the debt cap.

	Rights pre Recapitalisation Transactions			Rights post Recapitalisation Transactions		
	Term Loan A	**Term Loan B**	**Secured Indenture**	**Term Loan A**	**Term Loan B**	**Secured Indenture**
Part 2 – Subscription Deed						
Issue of shares to CBP and its affiliates	Affiliates of CBP currently hold approximately 48.9% of all ordinary shares and 100% of preference shares in BLY			In exchange for reduction of the interest rate from 12% to 10% to 8%[9] under TLA and TLB, CBP will be issued with further ordinary shares, such that it and its affiliates hold 56% of ordinary shares in BLY. Its preference shares will be converted to ordinary shares		
Part 3 – Director Nomination Agreements						
Directors	4 CBP nominees on the board		No nomination rights	Once only right to nominate 5 CBP nominees to the board		Once only right to nominate 1 Ares, 1 Ascribe and 1 Joint nominee to the board

[9] As per interest rate and manner of payment in Part 1 of this table

4. BACKGROUND TO THE SCHEME

4.1 Financial arrangements with the Secured Scheme Creditors

The Companies' financial arrangements with the Secured Scheme Creditors proposed to be affected by the Scheme, include:

(a) Term Loan A;

(b) Term Loan B; and

(c) the Secured Indenture.

In August 2016, in conjunction with the release of its half-year financial results for the year ended 30 June 2016, BLY announced that it had engaged Houlihan Lokey to evaluate capital structure options (the **Capital Structure Review**) in order to ensure long term sustainability and BLY's ability to participate in the recovery of the mining market.

On 5 January 2017, BLY announced that it had entered into a US$20,000,000 credit facility with CBP (a TLA Purchaser, TLB Purchaser and Secured Creditor under the Secured Indenture). This facility was established to provide additional financial resources to support ongoing restructuring discussions with the Companies' lenders as well as to provide additional working capital in the first quarter of 2017, when the Group's working capital needs are typically at their seasonal peak due to the start-up of drilling projects globally.

The material terms of the DDTL facility are, as follows:

(a) (**commitment**) a commitment of US$20,000,000 in aggregate principal amount;

(b) (**collateral**) the DDTL is secured by US$50,000,000 of collateral in the form of certain of BLY's drilling rigs in the United States, Canada and Australia and the intellectual property held by BLY IP Inc.;

(c) (**maturity date**) if not revoked earlier by BLY, the facility maturity date is 31 December 2020;

(d) (**interest rate**) the rate of interest payable in kind is 12% per annum or 10% payable in cash at BLY's option, in each case payable quarterly in arrears; and

(e) (**other terms and conditions**) the DDTL includes other customary terms and conditions, including customary covenants and events of default that are substantially the same as those in Term Loan A and Term Loan B.

In conjunction with the execution of the DDTL, the Companies and CBP also modified certain terms of the Term Loan A and Term Loan B as follows. If the Recapitalisation Transactions are implemented, the amendments to the Term Loan A and the Term Loan B described below will be reversed.

(a) (**maturity dates**) were amended from 1 October 2020 and 1 October 2018, respectively, to 4 January 2021;

(b) (**interest rates**) were amended from 12% per annum payable in kind to either 12% payable in kind or 10% payable in cash at BLY's option;

(c) (**make-whole obligations**) the period for the make-whole obligations under Term Loan A and Term Loan B was extended to 4 January 2021; and

(d) (**tangible assets**) BLY agreed to at all times maintain at least 90% of all its US, Canada and Australia tangible assets, including the collateral for the DDTL, as collateral supporting Term Loan A and Term Loan B.

On 6 April 2017, following announcement of the Recapitalisation Transactions, S&P Global (**S&P**) undertook a further review of BLY'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% Notes and notes issued under the Unsecured Indenture lowered to "CCC-" and "C", respectively; and

(d) the recovery ratings on 10% Notes and notes issued under the Unsecured Indenture remain unchanged at "2" and "5", respectively.

Given the proximity to the Companies' most recent capital raising in 2015, current equity capital market fluctuations and prevailing market conditions, the Directors do not consider that a further capital raising exercise at this stage will raise enough funds to address the Companies' current requirements.

4.2 **Alternatives considered**

The Companies consider that the Recapitalisation Transactions, which include the Scheme, will achieve the primary objectives of the Capital Structure Review, namely creating a more sustainable capital structure and increasing financial flexibility to allow the Companies to better manage through a difficult operating environment.

The Companies are not considering, nor are they aware of any superior alternate proposals for either obtaining the necessary financing or reducing the existing debt and/or cash interest requirements of the Companies. During the course of preliminary negotiations, the Companies explored a range of potential options. The Companies' existing debt quantum and terms, as well as the respective rights of their existing creditors with respect to the Companies' assets, ultimately precluded additional loan options other than those already disclosed. The Companies consider that the only currently executable alternative to the Scheme is insolvency filings, which would provide a significantly inferior outcome for the Secured Creditors, Shareholders of BLY and the Companies' other creditors and stakeholders.

4.3 **Restructuring Support Agreement**

On 2 April 2017, the Companies, the Obligors and certain of the Secured Creditors (who hold, in aggregate, more than 75% of the Debt) entered into the Restructuring Support Agreement, which requires each of those parties to support, facilitate, implement and consummate the restructuring contemplated by the Restructuring Support Agreement.

The terms of the Restructuring Support Agreement are summarised in the table extracted from an ASX announcement released by BLY on 3 April 2017 entitled "*Boart Longyear Reaches Recapitalisation Agreement with Key Stakeholders to Reduce Debt, Extend Maturities and Improve Liquidity*", at Annexure I.

4.4 **Exclusivity and break fee provisions**

BLY is required to comply with certain exclusivity obligations under the Restructuring Support Agreement, for the duration of an exclusivity period (commencing at the time of the execution of the RSA by all parties to it, and ending on the earlier of the completion of

the Recapitalisation Transactions, the termination of the RSA, or 31 December 2017), including:

(a) **No shop restriction** – BLY 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;

(b) **No talk restriction** – Subject to a fiduciary carve-out (summarised below), BLY must not:

(i) 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;

(ii) provide any non-public information regarding BLY's businesses or operations to a person for the purposes of enabling or assisting that person to make a Competing Proposal; or

(iii) 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.

(c) **Notification** – BLY must notify the creditors who are parties to the RSA (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 BLY Board to consider certain Competing Proposals received after entering into the Restructuring Support Agreement and before Shareholders approve the Recapitalisation Transactions at the Shareholder Meeting, if:

(i) 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;

(ii) the BLY Board, acting in good faith, determines that the Competing Proposal is a Superior Proposal or that such action which the BLY Board proposes to take may reasonably be expected to lead to a Competing Proposal that is a Superior Proposal; and

(iii) the BLY Board, acting in good faith, determines after receiving written legal advice from BLY's external legal advisors (and, if appropriate, BLY'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 BLY Board's fiduciary or statutory duties under applicable law.

(d) **Matching right**

The Restructuring Support Agreement requires that, if BLY determines that a Competing Proposal is a Superior Proposal, BLY 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 BLY 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 BLY Board must review the Counterproposal in good faith to determine whether it is more favourable to BLY than the Superior Proposal.

If the BLY Board determines that the Counterproposal is more favourable to BLY, Shareholders and unsecured creditors of BLY 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, BLY 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) BLY will effect a change of recommendation of the BLY 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 BLY 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 BLY 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 BLY 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 BLY to Supporting Creditors if:

(i) 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 BLY's shares within 6 months of such an announcement;

(ii) prior to the date the Recapitalisation Transactions are completed, any director of BLY (other than Conor Tochilin or Jeffrey Long, who will recuse themselves with respect to any vote regarding the Recapitalisation Transactions):

(A) withdraws or adversely modifies his/her recommendation in favour of the transaction or recommends a Superior Proposal;

(B) does not recommend that the Shareholders approve the Shareholder Resolutions in the Notice of Meeting; or

(C) makes a public statement with the effect that the Shareholder Resolutions are no longer recommended,

other than as a result of KPMG Financial Advisory Services (Australia) Pty Ltd (being the independent expert engaged to prepare an independent expert's report indicating whether, in its view the Recapitalisation Transactions are fair and reasonable to Shareholders other than the Supporting Creditors) determining that the Recapitalisation Resolutions are "not fair" and "not reasonable" for Shareholders who are not the Supporting Creditors; or

(iii) the Supporting Creditors terminate the Restructuring Support Agreement if (amongst other reasons) BLY materially breaches the Restructuring Support Agreement.

In addition, BLY 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).

5. THE RECAPITALISATION TRANSACTIONS

5.1 Second-Out ABL

At the same time as they announced that they had entered into the Restructuring Support Agreement, the Companies announced on 3 April 2017 that they had entered into an additional US$15,000,000 facility with lenders affiliated with CBP, Ares and Ascribe (**Second-Out ABL Facility**). The Second-Out ABL Facility has been established to provide short-term financial support to the Companies until the Recapitalisation Transactions can be completed. It was fully drawn-down by the Companies on 20 April 2017.

If the Recapitalisation Transactions are implemented, the Second-Out ABL, together with the DDTL, will be repaid in full through the New ABL Revolver (described in **Section 5.4(a)** below) and the rig transfers and amendments to the Term Loan A and Term Loan B associated with the DDTL will be reversed.

5.2 The Scheme

(a) Initial Term Loan Amendments

Term Loan A and Term Loan B were entered into by the Companies as part of the CBP led recapitalisation in 2015 and most recently amended on 4 January 2017 and 2 April 2017 in conjunction with the Companies entering into the DDTL (as described in **Section 4**) and the Second-Out ABL. If the Recapitalisation Transactions are implemented, these amendments to the Term Loan A and Term Loan B will be unwound and replaced by the Term Loan Amendments.

The amendment to the call schedule allows the Companies to repay the Term Loan A and Term Loan B after December 2018 without having to repay the make whole amount. The amended covenants will allow the Companies to obtain the New ABL Revolver, re-domicile BLY and the BLY Issuer and consummate other transactions contemplated by the Scheme.

The Initial Term Loan Amendments involve:

(ii) (**maturity**) an extension of the maturity date to 31 December 2022;

(iii) (**Change of control**) waiver of rights arising from any Change of Control Event arising as a result of the implementation of the Scheme and the consummation of the transactions contemplated thereby;

(iv) (**call schedule**) non-call protection prior to December 2018, callable at par thereafter without penalty;

(v) (**covenants**) amendments to the covenants to be generally consistent with the Secured Indenture and will enable the New ABL Revolver to share the collateral package for Term Loan A;

(vi) (**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 debt owing under the Secured Indenture, (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

(vii) (**IP subsidiary**) BLY IP Inc., an intellectual property subsidiary which guarantees the Term Loan A and Term Loan B, providing a subordinated

unsecured guarantee in respect of the debt issued under the Secured Indenture.

(b) **Amendments to the Secured Indenture**

The amendments to the Secured Indenture involve:

(i) (**interest rate**) the current interest rate of 10% per annum, payable in cash, being payable at BLY's option either at an increased rate of 12% payable in kind or at a rate of 10% in cash up to and including the December 2018 interest payment date, then payable in cash at 10% thereafter - if the Scheme is implemented, the interest rate of 12.00% will apply retroactively to the balance outstanding in respect of the Secured Indenture at 31 December 2016;

(ii) (**maturity**) an extension of the maturity date to 31 December 2022;

(iii) (**Change of Control**) waiver of rights arising from any Change of Control Event arising as a result of the implementation of the Scheme and the consummation of the transactions contemplated thereby;

(iv) (**covenants**) covenants improved such that no significant restricted payment baskets or permitted investment baskets exist which would allow any collateral to exit the system;

(v) (**secured debt cap**) a 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 Secured Indenture, (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;

(vi) (**new guarantee**) BLY IP Inc., an intellectual property subsidiary which guarantees the Term Loan A and Term Loan B, providing a subordinated unsecured guarantee; and

(vii) (**interest payment dates**) amended to 30 June and 31 December annually from 1 April and 1 October.

5.3 **7% Creditor Scheme**

The 7% Creditor Scheme involves:

(a) the release of an amount of approximately US$205,940,000 comprised of principal plus accrued/accreted interest (as at 1 April 2017) owed to the 7% Noteholders pursuant to the Unsecured Indenture;

(b) the issue of 42% of the ordinary equity of BLY post the implementation of the Recapitalisation Transactions before the issue of the Scheme Warrants and the Warrants Issue; and

(c) the remaining US$88,000,000 of principal debt owed to the 7% Noteholders pursuant to the Unsecured Indenture (plus accrued / accreted interest to the date on which the 7% Creditor Scheme is implemented, calculated by applying an interest rate of 1.5% to the US$88,000,000 principal amount from 1 January 2017 to the date on which the 7% Creditor Scheme is implemented) being reinstated with an interest rate of 1.5% payable in kind (the **Subordinated Notes**).

The other terms of the Subordinated Notes are summarised below:

Maturity	31 December 2022
Ranking	Subordinated to unsecured interest accrued on the Term Loan A and Term Loan B
Secured debt cap	A 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 Secured Indenture, (b) the incurrence of an additional $40 million of the New ABL Revolver capacity and (c) a potential additional US$40 million of additional secured debt capacity
Covenants	Consistent terms with existing Unsecured Indenture

In addition to receiving ordinary equity of BLY, 7% Noteholders will also receive the 7% Creditor Scheme Warrants (being 1,303,200,947 A Warrants and 668,308,178 B Scheme Warrants, equivalent to approximately 74% of the Companies' Warrants on issue immediately following the Implementation Date under both BLY Schemes) and certain of the Noteholders will also be entitled to certain director nomination rights (as set out in **Section 5.6**), if the Recapitalisation Transactions are implemented.

The terms and conditions of the 7% Creditor Scheme Warrants, including the relevant Exercise Prices, are set out in the explanatory statement to the 7% Creditor Scheme.

Ares has notified the Companies that 25% of the A Warrants (or up to 139,879,578 A Warrants) which it is entitled to be issued under the 7% Creditor Scheme are to be issued to Ascribe.

5.4 **Other Recapitalisation Transactions**

The other Recapitalisation Transactions will only be implemented if and when the BLY Schemes become effective.

(a) **New ABL Revolver**

The BLY Group will secure a new revolving ABL facility from a third party lender in the aggregate principal amount of US$75,000,000, subject to this amount being reduced dollar for dollar by the amount raised by BLY pursuant to the Share Purchase Plan (defined in **Section 5.4(e)** below) (**New ABL Revolver**). CBP, Ares and Ascribe have agreed to backstop the New ABL Revolver based on their relative percentage shareholding in BLY post implementation of the Recapitalisation Transactions (excluding any existing Shares held by Ascribe and excluding the Warrants) only if third party financing is not available on acceptable terms.

The New ABL Revolver will be used to replace the Existing ABL Revolver and repay the Second-Out ABL and DDTL if and when the BLY Schemes become effective. In accordance with the RSA, asset transfers associated with the DDTL will be reversed and the amendments to the Term Loan A and Term Loan B in connection with the DDTL will also be unwound. The New ABL Revolver will be backstopped by CBP, Ares and Ascribe based on their relative percentage shareholding in BLY post implementation of the Recapitalisation Transactions (excluding any existing Shares held by Ascribe and excluding the Warrants) only if third party financing is not available on acceptable terms.

The collateral under the New ABL Revolver will be the collateral package securing the Existing ABL Revolver plus any collateral or guarantees that secure or guarantee the Term Loan A that do not currently secure or guarantee the Existing ABL Revolver.

(b) **CPS Conversion**

Under the Recapitalisation Transactions it is proposed that all the Convertible Preference Shares held by CBP be converted into Shares (the **CPS Conversion**). The CPS Conversion will be implemented after the issuance of Shares under the 7% Creditor Scheme as summarised below:

Step 1	Pursuant to the terms of the 7% Creditor Scheme, Shares will be issued to the 7% Noteholders.
Step 2	The CPS Conversion will occur.
Step 3	Pursuant to the terms of the Subscription Deed, Shares will be issued to CBP as consideration for the Subsequent Term Loan Amendments.

(c) **Subscription Deed and Subsequent Term Loan Amendments**

The TLA Purchasers and TLB Purchasers have entered or will enter into the Subscription Deed with BLY and the Subsequent Term Loan Amendments with the Companies and the Obligors. These agreements involve:

(i) (**Subsequent Term Loan Amendments**) the Term Loan A and the Term Loan B will be further amended such that the current interest rate of 12% per annum is reduced to 10% payable in kind until December 2018, then to 8% payable in kind thereafter – if the Subsequent Term Loan Amendments become effective, the interest rate of 10.00% will apply retroactively to the balance outstanding in respect of the Term Loan A and the Term Loan B at 31 December 2016 – the Subsequent Term Loan Amendments will only become effective if the Subscription Deed is executed, the BLY Schemes become effective and the Secured Creditor Scheme is implemented;

(ii) (**Subscription Deed**) in exchange for the reduction of the interest rates pursuant to the Subsequent Term Loan Amendments, BLY will issue to the TLA Purchasers and the TLB Purchasers 52.4% of the ordinary equity in BLY post implementation of the Recapitalisation Transactions such that CBP will hold a total of 56% of Shares immediately following completion of the Subscription Deed – the Subscription Deed will only become effective if the BLY Schemes become effective and Shares will only be issued pursuant to it following the issue of Shares pursuant to the 7% Creditor Scheme and the occurrence of CPS Conversion.

(d) **Warrants Issue**

Under the terms of the Restructuring Support Agreement, BLY will, subject to Shareholder approval, issue Existing Shareholder Warrants to existing Shareholders (other than the CBP Registered Holders) as at as at the Record Date (the **Warrants Issue**).

The Warrants Issue will be made by BLY pursuant to a prospectus which BLY proposes to lodge with ASIC (the **Prospectus**).

The terms of the Existing Shareholder Warrants will be set out in further detail in the Prospectus and are summarised below:

Entitlement	Each Existing Shareholder Warrant confers on its holder the right to subscribe for one Share, subject to any adjustment (set out below). An Existing Shareholder Warrant will not confer any rights to dividends or to participate in any new issues of Shares without exercising the Existing Shareholder Warrant. Shares allotted and issued on the exercise of an Existing Shareholder Warrant upon allotment will rank pari passu 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.
Exercise Price	The "Exercise Price" for the Existing Shareholder Warrants is the Australian dollar equivalent of the US dollar amount 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 $1 billion **ND** is net debt of the Group on the Implementation Date **N** is the number of Shares on the Implementation Date after the issue of Scheme Shares under this Scheme and the Subscription Deed The Exercise Price is expected to be in the range of A$0.021 – A$0.024 per Existing Shareholder Warrant[10], subject to final debt and cash figures on the Implementation Date. The Exercise Price of the Existing Shareholder Warrants will be calculated in Australian dollars based on the prevailing exchange rate on the Implementation Date. The Exercise Price is payable in cash.
Method of Exercise	Each Existing Shareholder 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 (**Exercise Period**). Each Existing Shareholder Warrant may be exercised during the Exercise Period by delivering a duly completed exercise notice to BLY.
Adjustments	The terms of the Existing Shareholder Warrants will be adjusted in certain circumstances, including the following: • (**pro-rata issues**) the Exercise Price will be reduced in accordance with Listing Rule 6.22.2 in respect of pro rata

[10] Based on an exchange rate of 1.333 as of 19 April 2017 and assumes cash at the Implementation Date of between $25-$50 million.

	issues (other than bonus issues); • (**bonus issues**) the number of Shares over which Existing Shareholder Warrants will be exercisable will be increased by the number of Shares the holder would have received if the Existing Shareholder Warrant had been exercised before the record date of the bonus issue; • (**reorganisation of capital**) the rights of the holder of the Existing Shareholder Warrant (and the Exercise Price) will be changed to the extent necessary to comply with the Listing Rules applying to a reorganisation of capital; • (**dividend**) if during the Exercise Period BLY 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 Existing Shareholder Warrants will be exercisable will be increased and the Exercise Price will be decreased for the payment of a dividend or other distribution; • (**change in capital**) on a change in capital, the rights of the holder of the Existing Shareholder Warrant will be changed to reflect what the holder would have received if the Existing Shareholder Warrant had been exercised prior to the record date for that change in capital.
Change of control	On a change of control transaction (which includes a sale of all or substantially all of the assets of BLY but excludes a public stock merger), BLY will cancel the Existing Shareholder Warrants and pay the holder the warrant value (determined in accordance with a Black-Scholes model) in cash. Where the change of control transaction is a public stock merger, BLY shall procure that the acquirer or successor entity shall assume the obligations of BLY and the warrant will become exercisable into the public stock except where the market capitalisation is less than $500 million where the Existing Shareholder Warrant will be cancelled and the holder will be paid the warrant value in cash unless it elects for the Existing Shareholder Warrant to remain on foot and become exercisable over the public stock.
Transfer	BLY will seek quotation of the Existing Shareholder Warrants on ASX. For so long as the Existing Shareholder Warrants are quoted on ASX, they will be freely tradeable on ASX.

A total of up to 685,444,285 Existing Shareholder Warrants will be issued pursuant to the Warrants Issue.

(e) **Share Purchase Plan**

In addition, BLY proposes to offer Shareholders the opportunity to participate in a share purchase plan (the **Share Purchase Plan or SPP**).

Under the SPP, eligible Shareholders holding Shares as at the Record Date or the trading day prior to announcement of the Recapitalisation Transactions, will be entitled to apply for up to A$5,000 worth of Shares at a price of A$0.02 per Share, to raise up to a maximum amount of A$9 million. The amount raised by BLY under

the SPP will reduce the amount by which CBP, Ares and Ascribe backstop the New ABL Revolver (as set out in **Section 5.4(a)**).

5.5 **Capital Structure following Recapitalisation Transactions**

Shares held following Recapitalisation Transactions

Immediately following the Recapitalisation Transactions, the Shares will be held as follows:

Entity	Equity post-Recapitalisation Transactions (approximate %)*	Equity post-Recapitalisation Transactions (figures in millions of shares)(approximate number)
CBP	56.0%	13,866
Other existing Shareholders****	2.0%	485
Ascribe**	19.2%	4,746
Ares	18.0%	4,465
Other 7% Noteholders***	4.8%	1,199
Total	**100%**	**24,761**

* *Reflects shareholding percentages prior to dilution from warrants*

** *Includes Shares associated with Ascribe's pre-restructuring Share ownership*

*** *Assumes that no other 7% Noteholders are existing Shareholders*

**** *Excludes Ascribe's pre-restructuring Shares*

Warrants held following Recapitalisation Transactions

Immediately following the Recapitalisation Transactions, the Warrants on issue in BLY will be the 7% Creditor Scheme Warrants issued to the persons nominated to BLY by the 7% Scheme Creditors as at the time of issue, as well as the Existing Shareholder Warrants issued under the Warrants Issue to existing Shareholders (other than the CBP Registered Holders).

Entity	7% Creditor Scheme Warrants (figures in millions of shares)(approximate number)	Existing Shareholder Warrants (figures in millions of shares)(approximate number)
CBP	-	-
Other existing Shareholders	-	671

Ascribe*	898	15
Ares	846	-
Other 7% Noteholders	227	-
Total	**1,972**	**685**

Ares has notified the Companies that 25% of the A Warrants (or up to 139,879,578 A Warrants) which it is entitled to be issued under the 7% Creditor Scheme are to be issued to Ascribe.

** Includes warrants associated with Ascribe's pre-restructuring Share ownership*

5.6 **Governance Matters**

In light of the significant equity interests being acquired by CBP, Ares and Ascribe under the Recapitalisation Transactions, the Companies have agreed to grant each certain once-only director appointment rights pursuant to the Director Nomination Agreements.

Under the Director Nomination Agreements:

(a) Ares will be entitled to nominate one person to stand for election to the board of BLY (**BLY Board**);

(b) Ascribe will be entitled to nominate one person to stand for election to the BLY Board;

(c) Ares and Ascribe will be entitled to jointly nominate one person to stand for election to the BLY Board; and

(d) CBP are entitled to nominate five persons to stand for election to the BLY Board, one of whom will serve as Chairman (and this would supersede and replace CBP's existing director appointment rights under the implementation agreement dated on or around 23 October 2014 entered into by the Companies among others, in relation to the CBP led recapitalisation in 2015).

5.7 **Re-domiciliation**

BLY 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 CBP, Ares and Ascribe agree) as soon as possible after implementation of the Recapitalisation Transactions and in any case on or before 15 April 2018 (the **Re-domiciliation**), unless the Companies, CBP, Ares and Ascribe jointly determine in their reasonable discretion that the Re-domiciliation would not be in the best interests of BLY.

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

(a) that a vote by holders of 50% in amount of the then issued and outstanding common stock or shares of the Successor will be required to amend the organisational 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 organisational documents if such

amendment would adversely and disproportionally affect the rights, obligations or liabilities of any particular shareholder under such organisational documents relative to all shareholders generally;

(b) 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 US $750,000,000; provided that in the event such vote is sought and not obtained, then the Secured Debt Cap will be increased by up to US$40,000,000, solely for the purpose of, and solely to the extent of, the incurrence of additional secured debt by the Group to provide additional liquidity and the initial signatories to the RSA shall be entitled to participate as lenders of any such additional secured debt in the same proportions as in the New ABL Revolver;

(c) 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;

(d) not to change the number of such Successor's directors so long as the Director Nomination Agreements are in effect;

(e) not to permit a redemption or repurchase of the common stock or shares of such Successor on a non-pro rata basis; and

(f) not to enter into a transaction with an affiliate of such Successor or CBP, 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 authorising 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.

6. THE SCHEME EXPLAINED

6.1 Overview of the outcome of the Scheme

As outlined above, the principal objects and purposes of the Scheme are to change the timing and manner in which interest is paid under the Secured Indenture, extend the maturity dates for each of the Term Loan A, Term Loan B and the Secured Indenture, amend the covenants under the Term Loan A and Term Loan B to make them consistent with those under the Secured Indenture and provide an additional guarantee in respect of the BLY Issuer's obligations under the Secured Indenture.

6.2 Steps prior to the Scheme becoming effective

The implementation of the Scheme is subject to the prior satisfaction of various conditions precedent. The conditions precedent include those listed in clause 3 of the Scheme (see Annexure A).

A summary of the conditions precedent to the Scheme being implemented is set out below:

(a) **Foreign Investment Approval**

In the case of each 7% Scheme Creditor and each Secured Creditor who notified the Treasurer of the Commonwealth of Australia in accordance with FATA (**Prescribed Creditor**) that it proposes to acquire Shares and 7% Creditor Scheme Warrants under the 7% Creditor Scheme or Shares under the Subscription Deed (the **Action**) and paid any applicable fee, one of the following occurs at or before 8.00 am on the Second Court Date,:

(i) the day that is 10 days after the end of the decision period mentioned in section 77 of FATA passes without an order prohibiting the Action having been made under section 67 or 68;

(ii) if an interim order is made under section 68 of FATA, the end of the period specified in the order passes without an order prohibiting the Action under section 67 having been made; or

(i) the Prescribed Creditor receives a no objection notice (within the meaning of FATA) in respect of the Action that notice being unconditional other than the Standard Tax Conditions or such other conditions which are acceptable to the Prescribed Creditor acting reasonably.

(b) **Shareholder approval**

The due passing of the Shareholder Resolutions at the Shareholder Meeting.

(c) **ASX approval**

ASX provides written approval of the terms of the 7% Creditor Scheme Warrants to be issued pursuant to the 7% Creditor Scheme or otherwise waives the requirement.

(d) **ASX waiver**

ASX provides a waiver of ASX Listing Rule 10.1 in respect of the amendments to the Term Loan A and Term Loan B to be implemented by this Scheme.

(e) **Secured Creditor approval**

The Scheme is agreed to by the Requisite Majority of Secured Creditors.

(f) **Director Nomination Agreements**

Each of the Director Nomination Agreements have been executed by the parties to them.

(g) **Deeds Poll and Undertakings**

As at 8.00 am on the Second Court Date, the Scheme Administrator Deed Poll, the Obligors Deed Poll and the Undertakings continue in full force and effect and each of those Deeds Poll and the Undertaking still benefits the beneficiaries named in it.

(h) **Independent expert**

As at 8.00am on the Second Court Date, the independent expert appointed by BLY, has not concluded that the Transaction Resolutions are "not fair" and "not reasonable".

(i) **New ABL Revolver**

As at 8.00 am on the Second Court Date, the New ABL Revolver has been duly executed and delivered by all parties to it and all conditions precedent to the New ABL Revolver have been satisfied (other than conditions precedent relating to the Scheme and the 7% Creditor Scheme becoming effective pursuant to section 411(10) of the Corporations Act, the Subsequent Term Loan Amendments becoming effective and the Final Chapter 15 Order being entered).

(j) **Amendments**

As at 8.00 am on the Second Court Date, all conditions precedent to the Amendment Documents have been satisfied (other than the execution of those documents and the conditions precedent relating to the Scheme and the 7% Creditor Scheme becoming effective pursuant to section 411(10) of the Corporations Act).

(k) **Subscription Deed**

As at 8.00 am on the Second Court Date, the Subscription Deed has been duly executed and delivered by all parties to it, remains in full force and effect, and all conditions precedent to the Subscription Deed have been satisfied (other than conditions precedent relating to this Scheme becoming effective and the 7% Creditor Scheme becoming effective pursuant to section 411(10) of the Corporations Act).

(l) **Subsequent Term Loan Amendments**

As at 8.00 am on the Second Court Date, the Subsequent Term Loan Amendments have been duly executed and delivered by all parties to them, and all conditions precedent to the Subsequent Term Loan Amendments have been satisfied (other than the conditions precedent relating to the Scheme becoming effective pursuant to section 411(10) of the Corporations Act, this Scheme being implemented and the 7% Creditor Scheme becoming effective pursuant to section 411(10) of the Corporations Act).

(m) **Regulatory Approvals**

As at 8.00 am on the Second Court Date, any approvals or consents, which are not otherwise described in clause 3.1 in the BLY Schemes but which are required by law or by any Government Agency to have been obtained in order to implement this Scheme or the Secured Creditor Scheme, have been obtained on an unconditional basis and remain in full force and effect.

(n) **Warranties**

As at 8.00 am on the Second Court Date, the Warranties are true and correct in all material respects.

(o) **Restructuring Support Agreement**

The Restructuring Support Agreement has not been terminated in accordance with its terms.

(p) **Court approval**

The Court approves the Scheme in accordance with section 411(4)(b) of the Corporations Act, including with any alterations made or required by the Court under section 411(6) of the Corporations Act (which alterations do not change the substance of the Scheme, including the Steps, in any material respect, or impose unduly onerous obligations on the parties, acting reasonably).

(q) **Other conditions**

Any other conditions made or required by the Court under section 411(6) of the Corporations Act in relation to the Scheme (which conditions do not change the substance of the Scheme, including the Steps, in any material respect, or impose unduly onerous obligations on the parties, acting reasonably) have been satisfied.

Section 411(6) of the Corporations Act allows the Court to approve the Scheme with various alterations and variations.

(r) **7% Creditor Scheme**

The 7% Creditor Scheme becomes effective pursuant to section 411(10) of the Corporations Act

(s) **Effective**

The Second Court Orders coming into effect.

Section 411(10) provides that the Court order approving the Scheme does not have any effect until an official copy of the order is lodged with ASIC, and upon being so lodged, the order takes effect, or is taken to have taken effect, on and from the date of lodgement or such earlier date as the Court determines and specifies in order to approve the Scheme.

6.3 **Standstill**

During the period on and from the Effective Date up to the completion of Step 3 (Amendment Documents) under the Scheme (the **Standstill Period**), no Secured Scheme Creditor, the Trustee or the Agent may, except for the purpose of enforcing the terms of the Scheme, or any Deed Poll or as otherwise expressly provided by the Scheme, dispose of, transfer or exercise certain of its rights under the Finance Documents. The

terms of the standstill are in clause 8.1 of the Scheme. Its purpose is to ensure that the Scheme can be implemented in an orderly manner, in accordance with its terms.

If the Scheme is not implemented by the Sunset Date, being 31 December 2017, the Scheme will automatically terminate and the standstill shall cease to apply in relation to any Secured Scheme Creditor.

6.4 Steps to implement the Scheme

The Scheme provides for the restructuring of the Debt owed by the Companies to the Secured Creditors to take place in the sequence set out below. These Steps are set out in full in clause 7.5 of the Scheme. This document only summarises key parts of the Steps and does not include every part of each Step. Secured Creditors should review the complete Steps in the Scheme carefully.

If in the opinion of the Scheme Administrators, as a result of an event failing to occur, or take effect, it is not possible to put the Scheme into effect, the Secured Scheme Creditors, the Obligors, those directors and officers who have executed deeds poll, the Agent and the Trustee are to place each other in the positions they would have been in had any Steps already taken not been so taken.

Date	Source document	Step
Effective Date (the date all of the conditions precedent in **Section 6.2** are satisfied)	Scheme	Scheme Administrators execute the Secured Scheme Creditor Deed Poll as attorney for the Secured Scheme Creditors.
		Secured Scheme Creditors give the Trustee and Agent: • all instructions and consents it requires in relation to the execution of the Amendment Documents; • directions to do all things required to be done by it to give effect to the Scheme. Scheme Administrators notify the Trustee and Agent of the giving of these instructions.
		Trustee and Agent execute the Trustee Deed Poll and Agent Deed Poll and consent to the Scheme and undertake to perform actions attributed to them under the Scheme.
		Trustee and Agent (on behalf of themselves and the Secured Scheme Creditors) and the Obligors execute the Amendment Documents and deliver them to the Scheme Administrator to be held in escrow.
		Scheme Administrators notify the Companies of: • the Effective Date; and • the Implementation Date.

Date	Source document	Step
		Agent and Trustee provide to Scheme Administrator details for each Secured Scheme Creditor.
Implementation Date (5 Business Days after the Effective Date or as extended by the Scheme Administrator)	7% Creditor Scheme	BLY issues Shares to the 7% Scheme Creditors (approximately 42% of the ordinary equity of BLY post implementation of the Recapitalisation Transactions, before the issue of the 7% Creditor Scheme Warrants).
	Restructuring Support Agreement	The Convertible Preference Shares are converted.
	Subscription Deed	Shares are issued to the TLA Purchasers and TLB Purchasers
	7% Creditor Scheme	BLY issues the 7% Creditor Scheme Warrants to the 7% Scheme Creditors (or their nominees).
	Scheme	• Companies and Secured Scheme Creditors release one another from any claims arising out of failure to comply with Finance Documents in accordance with Scheme. • Secured Scheme Creditors, on one hand, and directors / officers who have signed Released Obligor Individual Deeds Poll, on the other, release one another from Claims in accordance with Scheme.
		Scheme Administrator releases the Amendment Documents from escrow.
	Subsequent Term Loan Amendments	The Subsequent Term Loan Amendments become effective.
	7% Creditor Scheme	BLY is released from obligations to pay an amount in respect of a Subordinate Claim in excess of the proceeds of applicable insurance actually recovered, net of any expenses incurred by BLY.

6.5 **Proposed terms of the Amendment Documents**

Amended Term Loan A

A copy of the Amended Term Loan A to be implemented by the Scheme is at Schedule 4 to the Scheme.

In summary, if the Scheme is implemented, the Amended Term Loan A will have the following effect:

(a) (**maturity**) the maturity date of the Term Loan A will be extended to 31 December 2022;

(b) (**interest claims**) future and existing interest claims will be senior to the Unsecured Indenture;

(c) (**call schedule**) TLA Purchasers will have non-call protection prior to December 2018 (subject to a make-whole provision determined in a manner consistent with the current terms of the Term Loan A). Securities issued under the Term Loan A will be callable at par thereafter;

(d) (**secured debt cap**) the existing permitted secured debt cap will be increased to an amount equal to US$420 million plus further amounts to permit accrued interest and principal amounts in respect of the 10% Senior Secured Notes, the incurrence of an additional $40 million of New ABL Revolver capacity and a potential additional US$40,000,000 of additional secured debt capacity;

(e) (**covenants**) the existing Term Loan A covenant package will be amended so as to make it generally consistent with the Secured Indenture covenant package.

Amended Term Loan B

A copy of the Amended Term Loan B to be implemented by the Scheme is at Schedule 5 to the Scheme.

In summary, if the Scheme is implemented, the Amended Term Loan B will have the following effect:

(a) (**maturity**) the maturity date will be extended to 31 December 2022;

(b) (**interest claims**) future and existing unsecured interest claims will be senior to the Unsecured Indenture;

(c) (**call schedule**) TLB Purchasers will have non-call protection prior to December 2018 (subject to a make-whole provision determined in a manner consistent with the current terms of the Term Loan B). Securities issued under the Term Loan B will be callable at par thereafter;

(d) (**secured debt cap**) the existing permitted secured debt cap will be increased to an amount equal to US$420 million plus further amounts to permit accrued interest and principal amounts in respect of the 10% Senior Secured Notes, the incurrence of an additional $40 million of New ABL Revolver capacity and a potential additional US$40 million of additional secured debt ABL capacity;

(e) (**covenants**) the existing Term Loan B covenant package will be amended so as to make it generally consistent with the Secured Indenture covenant package.

First Supplemental Indenture

A copy of the First Supplemental Indenture to be implemented by the Scheme is at Schedule 3 to the Scheme.

In summary, if the Scheme is implemented, the First Supplemental Indenture will have the following effect:

(a) (**maturity**) the maturity date of the Secured Indenture will be extended to 31 December 2022;

(b) (**interest payment dates**) interest will be payable semi-annually on 30 June and 31 December each year;

(c) (**interest rate**) coupon payments falling due at any time up to and including 31 December 2018 will be, at the option of BLY, either:

(i) be capitalised and accrete at a rate of 12% per annum; or

(ii) be paid in cash at a rate of 10% per annum; and

all coupon payments after 31 December 2018 will be payable in cash at a rate of 10% per annum;

(d) (**covenants**) covenants will be improved in order to ensure that no significant restricted payment baskets or permitted investment baskets exist which would allow any collateral exit and amended such that the domicile of BLY and the BLY Issuer is not limited to Australia or the United States;

(e) (**secured debt cap**) the existing permitted secured debt cap will be increased to an amount equal to US$420 million plus further amounts to permit accrued interest and principal amounts in respect of the 10% Senior Secured Notes, the incurrence of an additional $40 million of New ABL Revolver capacity and a potential additional US$40 million of additional secured debt capacity;

(f) (**new guarantee**) BLY IP Inc. will provide a subordinated unsecured guarantee in favour of the Secured Creditors in respect of the BLY Issuer's obligations under the Secured Indenture.

6.6 **Other terms of the Scheme**

If the Scheme is implemented, in addition to the amendments described above:

(a) the Secured Scheme Creditors and the Obligors will release one another from any Claims which arose out of a failure to comply with the terms of the Finance Documents prior to the Implementation Date;

(b) the Secured Scheme Creditors and the past and present directors / officers of BLY who have executed a deed poll will release one another from all Claims relating to any fact, matter, circumstance or event that arose or occurred in respect of, or in connection with, any Obligor between 27 September 2013 and the Implementation Date (although the Companies are not aware of any potential Claims that may be available against any of those people);

(c) the Secured Scheme Creditors release each other person that is a Secured Scheme Creditor from all Claims relating to any fact, matter, circumstance or event that arose or occurred as a result of any person's failure to comply with any Finance Document between 27 September 2013 and the Implementation Date; and

(d) the Secured Scheme Creditors will waive any rights which arose out of or in connection with a Change of Control Event.

6.7 **Outcome for the Companies**

(a) If the BLY Schemes are implemented, the outcomes for the Companies are:

(i) under this Scheme the terms on which the remaining debt is owed to the Secured Scheme Creditors under the Finance Documents will be amended (as set out in **Section 6.5**); and

(ii) under the 7% Creditor Scheme:

(A) the principal debt plus accrued interest owed by the Companies to the 7% Scheme Creditors will be reduced from US$293,940,000 as at 1 April 2017 to US$88,000,000, plus accrued but unpaid interest to be calculated by applying an interest rate of 1.50% to the principal amount of US$88,000,000 for the period from 1 January 2017 to the Implementation Date;

(B) the terms on which the remaining debt is owed to the 7% Scheme Creditors under the Unsecured Indenture will be amended (as set out in **Section 5.3**);

(C) BLY will issue Shares and 7% Creditor Scheme Warrants to the 7% Scheme Creditors on implementation of Step 3 (New Share issue) and Step 4 (New Warrant issue) of the 7% Creditor Scheme; and

(D) the rights of Subordinate Claim Holders to bring Subordinate Claims against BLY will be limited to any amount actually recovered by BLY under any Applicable Insurance Policy applicable to that Subordinate Claim, less expenses incurred in connection with that Subordinate Claim.

(b) In accordance with the terms of the Restructuring Support Agreement the Companies will perform the following steps:

(i) the BLY Issuer will enter into the New ABL Revolver;

(ii) the BLY Issuer will use the funds made available pursuant to the New ABL Revolver to repay:

(A) the DDTL;

(B) the Existing ABL Revolver; and

(C) the Second Out ABL;

(iii) the collateral arrangements and the amendments to the Term Loan A and the Term Loan B associated with the DDTL will be unwound;

(iv) existing Shareholders will be diluted and will hold (excluding CBP Registered Holders) in aggregate 2% of the reorganised equity (subject to warrant dilution);

(v) the Convertible Preference Shares held by CBP will be converted into Shares, after the Shares are issued pursuant to the 7% Creditor Scheme

and before the Shares are issued to the TLA Purchasers and the TLB Purchasers pursuant to the Subscription Deed;

(vi) BLY will issue Existing Shareholder Warrants to existing Shareholders (excluding CBP);

(iii) pursuant to the Subscription Deed BLY will issue shares to the TLA Purchasers and the TLB Purchasers, such that they hold 56% of all Shares on issue post completion of the Recapitalisation Transactions;

(vii) the Subsequent Term Loan Amendments will take effect, such that the interest rate payable to the TLA Purchasers pursuant to the Term Loan A and the interest rate payable to the TLB Purchasers pursuant to the Term Loan B is reduced to 10% payable in kind up until December 2018 and then to 8% payable in kind after that time;

(viii) each of CBP, Ares and Ascribe will enter into separate director nomination agreements with BLY, pursuant to which:

(A) Ares will be entitled to nominate the Ares Nominee Director to stand for election to the BLY Board;

(B) Ascribe will be entitled to nominate the Ascribe Nominee Director to stand for election to the BLY Board;

(C) Ares and Ascribe will be entitled to jointly nominate the Ares / Ascribe Joint Nominee Director to stand for election to the BLY Board; and

(D) CBP will be entitled to nominate the CBP Nominee Directors to stand for election to the BLY Board;

(ix) BLY will procure that the appointments of the candidates nominated by Ares, Ascribe and CBP to stand for election to the BLY Board are voted on by Shareholders at the Shareholder Meeting;

(x) BLY will apply for confirmation from ASX that BLY continues to have a structure and operations suitable for listing post implementation of the Scheme; and

(xi) the Companies will apply to the U.S. Bankruptcy Court for an order recognising² the² Court's² approval² of² the² Scheme² and² the² 7%² Creditor² Scheme.

6.8 **Outcome for the Obligors**

Following implementation of the Scheme, the obligations of the Obligors under the Finance Documents will continue and, except to the extent amended, varied or released under the Scheme, will retain all of their rights, powers and obligations under the Finance Documents.

6.9 **Who will be bound by the Scheme?**

If the Scheme becomes effective, it will bind each Secured Scheme Creditor and the Companies. By operation of the Deeds Poll, provided that they are executed, it will bind the Scheme Administrators, the Obligors, the Agent, the Trustee and any person who is or was a director or officer of any Obligor between 27 September 2013 and the Implementation Date and who has signed a Released Obligor Individual Deed Poll.

If you are a Secured Creditor and you do not vote at the Scheme Meeting, or you vote against the Scheme, you will be bound by the Scheme, provided that the Scheme is agreed to by the Requisite Majority and is approved by the Court, and you remain a Secured Creditor as at the Effective Date.

6.10 **Execution risks**

The execution risks that could prevent the Scheme being implemented include:

(a) the Shareholder Resolutions are not passed by the Shareholders at the Shareholder Meeting;

(b) the Requisite Majority do not agree to the Scheme;

(c) the Requisite Majority do not agree to the 7% Creditor Scheme;

(d) the Court does not approve the Scheme or it approves the Scheme with alterations or conditions that change the substance of the Scheme, including the Steps, in a material way;

(e) a person objecting to the Scheme appeals against the Court's orders approving the Scheme (and potentially seeks a stay of those orders pending resolution of that appeal) or applies for injunctive relief and the Court orders the stay or grants an injunction without requiring the person to give the usual undertaking as to damages;

(f) the conditions precedent to the Scheme are not satisfied including, but not limited to, the 7% Creditor Scheme not becoming effective pursuant to section 411(10) of the Corporations Act; or

(g) the Restructuring Support Agreement is terminated in accordance with its terms.

It is also fundamental to the operation of the Scheme that:

(a) the Agent performs its obligations in connection with the Scheme. The Agent has undertaken to sign and provide a deed poll on the Effective Date under which it agrees to be bound by the Scheme;

(b) the Trustee performs its obligations in connection with the Scheme. The Trustee has undertaken to sign and provide a deed poll on the Effective Date under which it agrees to be bound by the Scheme;

(c) the Scheme Administrators perform their obligations in connection with the Scheme; and

(d) the Secured Scheme Creditors perform their obligations in connection with the Scheme. Under the Scheme, each Secured Scheme Creditor will irrevocably direct the Scheme Administrators to execute and deliver, as its attorney and agent, a Secured Scheme Creditor Deed Poll under which it agrees to complete certain actions.

6.11 **Modification of the Scheme**

(a) **Modifications by the Secured Creditors**

It is possible that a Secured Creditor may propose a modification to the terms of the Scheme at the Scheme Meeting (prior to passing of the Resolution to agree the Scheme) or apply to the Court for a modification of the terms of the Scheme.

Although it is permissible for a Secured Creditor to propose a modification and for a Scheme Meeting to consider a resolution to approve the modification proposed, Secured Creditors should be aware that the consequences of modifying the terms of the Scheme include:

(i) if the modification is materially adverse to the Companies or any particular Secured Scheme Creditor or class of them, it may give rise to a basis, which may not otherwise exist, for the Court to refuse to approve the modified Scheme. In such circumstances, the Scheme will not become effective (in either the modified or original form);

(ii) the Companies may not consent to the modified Scheme and therefore the Companies may not be prepared to seek the Court's approval of the modified Scheme; and

(iii) depending on the nature and extent of the modifications and their impact upon the overall Scheme, the modifications could effectively invalidate any previously obtained consents and, if so, then the consequences may be that further consents would need to be obtained.

(b) **Modifications by the Court**

Under section 411(6) of the Corporations Act, the Court may approve the proposed Scheme at the Second Court Hearing subject to alterations or conditions as it thinks just.

The conditions precedent to the Scheme (outlined in **Section 6.2** above) include that the Scheme will only come into effect if, among other things, the Court's alterations or conditions (if any) to the Scheme do not change the substance of the Scheme, including the Steps, in any material way.

6.12 **The Scheme Administrators**

If the Scheme is agreed to by the Secured Creditors and approved by the Court, the Scheme Administrators will be appointed in accordance with the terms of the Scheme Administrators Deed Poll. Scott Kershaw and Jenny Nettleton of KordaMentha have agreed to act as Scheme Administrators.

Under the terms of the Scheme Administrators Deed Poll, each Scheme Administrator:

(a) consents to the Scheme;

(b) agrees to be bound by the Scheme as if they were a party to the Scheme; and

(c) undertakes:

(i) to accept all appointments, authorisations and directions, to perform all obligations and undertake all actions attributed to him or her under the Scheme;

(ii) to do all things necessary and execute all further documents necessary to give full effect to the Scheme and all transactions contemplated by it; and

(iii) not to act inconsistently with any provision of the Scheme.

The Scheme Administrators' liability in the performance or exercise of their powers, obligations and duties under the Scheme is limited in accordance with the Scheme.

The remuneration of the Scheme Administrators, their partners and staff will be calculated on a time basis at the hourly rates set out in Annexure E to this Explanatory Statement. The Scheme Administrators' Costs of administering the Scheme are estimated to be up to AU$200,000.

6.13 Challenging the Scheme Administrators generally

A Secured Scheme Creditor who is aggrieved by any act, omission or decision of the Scheme Administrators may appeal to the Court under section 1321 of the Corporations Act. The Court may confirm, reverse or modify the act or decision, or remedy the omission, as the case may be, and make such orders and directions as the Court thinks fit.

7. THE KORDAMENTHA REPORT

7.1 Scope of the KordaMentha Report

Ashurst, on behalf of the Companies, has engaged KordaMentha to prepare a report addressing the following matters:

(a) the solvency of the Group following the implementation of the BLY Schemes. Ashurst requested that solvency be determined:

(i) following completion of the Scheme; and

(ii) with reference to section 95A of the Corporations Act;

(b) the value of the assets of the Group generally relative to the debts owing under the Finance Documents;

(c) the expected dividend that would be respectively available to the Secured Scheme Creditors, 7% Scheme Creditors, and Subordinate Claim Holders if the BLY Schemes are not implemented and the Companies were to be wound up within 6 months of the hearing of the application for an order under section 411(1) and (1A) of the Act;

(d) the expected dividend that would be respectively paid to the Secured Scheme Creditors, 7% Scheme Creditors, and Subordinate Claim Holders if the BLY Schemes are put into effect as proposed;

In relation to (d) Ashurst instructed KordaMentha that:

(i) the requirement to calculate the expected dividend that would be paid to 7% Scheme Creditors and Secured Scheme Creditors if the Scheme were to be put into effect as proposed is drawn from S 8201(b) in Part 2 of Schedule 8 of the Corporations Regulations;

(ii) if, in response to paragraph 7.1(a) above, KordaMentha concluded that the Companies would be solvent following the implementation of the BLY Schemes, the Companies would not be wound up following the implementation of the BLY Schemes and based on the terms of the BLY Schemes, despite the calculation required by the Corporations Regulations, no dividend would actually be paid to the Secured Scheme Creditors and 7% Scheme Creditors. In these circumstances, the instruction in paragraph 7.1(d) above still requires KordaMentha to calculate the dividend that would be paid to Secured Scheme Creditors and 7% Scheme Creditors if the BLY Schemes were implemented, which dividend must be calculated as if a winding up follows the implementation of the BLY Schemes even though it would not do so in KordaMentha's opinion; and

(iii) if KordaMentha concludes in response to paragraph 7.1(a) above that the Companies would be solvent following the implementation of the BLY Schemes, in order to reduce the risk that a reader of their report might be confused by the use of the term "expected dividend" in circumstances where the Companies are not being wound up, Ashurst requested that where KordaMentha addresses the calculation described in paragraph 7.1(d) above in their report they refer to implied value of the interests of the Secured Scheme Creditors and the 7% Scheme Creditors (**Implied Value**) instead of "expected dividend".

(e) the likely outcome for the Group if the BLY Schemes are not implemented:

(i) having regard to the Companies' existing financial position, and projections; and

(ii) for the purposes of considering this matter only, assuming that there is no standstill in place in respect of the interest payments due to the 7% Scheme Creditors and the Secured Scheme Creditors on 1 April 2017.

Secured Scheme Creditors should consider the entire KordaMentha Report, which is at Annexure B, before deciding how to vote.

7.2 **Expected dividends / Implied Value to creditors**

Subject to the assumptions made in the KordaMentha Report, KordaMentha is of the opinion that:

(a) If the BLY Schemes are not implemented and the Companies are wound up within six months of the First Court Date, then the expected dividends which would be paid to the Secured Scheme Creditors, 7% Scheme Creditors and holders of Subordinate Claims would be as follows.

Scheme Creditors	Return (cents in $)
TLA Purchasers	32.6
TLB Purchasers	35.4
Noteholders	22.1
Holders under the Unsecured Indenture	Nil
Subordinate Claims	Nil

KordaMentha notes that if the Group was to be placed into an insolvency process, there are two primary ways in which the assets of the Group could be realised for the Secured Scheme Creditors and 7% Scheme Creditors:

(i) in an orderly and coordinated way, with the appointment of external controllers made only to a limited number of key entities in the Group, leaving much of the Group's operations outside of the formal insolvency process; or

(ii) in an uncontrolled manner, whereby most if not all Group entities fall into insolvency proceedings in their respective jurisdictions.

For the purposes of determining the expected dividend to Secured Scheme Creditors and 7% Scheme Creditors if the Companies are wound up, KordaMentha has assumed a controlled insolvency process could be achieved, by way of a limited insolvency.

KordaMentha notes that an uncontrolled insolvency process would result in lower realisations and hence a lower expected dividend to Secured Scheme Creditors than in a controlled insolvency scenario.

(b) If the BLY Schemes are put into effect as proposed, the Implied Value of the interests of the Secured Scheme Creditors, 7% Scheme Creditors and holders of Subordinate Claims after implementation of the BLY Schemes would be as follows.

Scheme Creditors	Implied Value (cents in $)
TLA Purchasers	47.2
TLB Purchasers	64.3
Noteholders	61.0
Holders under the Unsecured Indenture	Nil
Subordinate Claims	Nil

7.3 **KordaMentha's conclusions on asset value and solvency**

(a) Subject to the assumptions made in the KordaMentha Report, KordaMentha is of the opinion that the Group will be solvent after implementation of the BLY Schemes.

(b) In respect to its opinion set out in (a) above, KordaMentha notes that:

(i) as at the date of the KordaMentha Report, the Group has not paid accrued interest of approximately $19,700,000 owing pursuant to the Secured Indenture and the Unsecured Indenture, which was due on 1 April 2017 (the **Coupon Payment**);

(ii) it is proposed under the terms of the BLY Schemes that the Coupon Payment be deferred in the case of the Secured Indenture portion and equitized in the case of the Unsecured Indenture portion;

(iii) the Group has obtained agreement to their non-payment of the Coupon Payment from a majority of the Noteholders in relation to the Secured Indenture and a majority of the 7% Noteholders in relation to the Unsecured Indenture as a term of the Restructuring Support Agreement;

(iv) the Group has advised that it is entitled to withhold payment of the Coupon Payment pending the determination of the BLY Schemes; and

(v) if the payment of interest is required in relation to some of the secured notes under the Secured Indenture or some of the unsecured notes under the Unsecured Indenture, KordaMentha's solvency opinion expressed above at (a) is withdrawn.

(c) Subject to the assumptions made in the KordaMentha Report, KordaMentha is of the opinion that the enterprise value of the Group is $266,600,000, which is less than the Group's secured indebtedness.

7.4 **Conclusions as to most likely outcome if Scheme not implemented**

Subject to the assumptions made in the KordaMentha Report, KordaMentha is of the opinion that, if the BLY Schemes are not implemented, the Group would likely be placed into external administration.

7.5 **KPMG Report and valuation methodology**

BLY has engaged KPMG Financial Advisory Services (Australia) Pty Ltd (of which KPMG Corporate Finance is a division) to prepare an independent expert's report indicating

whether, in KPMG Corporate Finance's view the Recapitalisation transaction is fair and reasonable to non-associated shareholders of BLY (the **KPMG Report**).

The KPMG Report includes an enterprise value of the Group which differs from the enterprise value of the Group included in the KordaMentha Report.

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 applied to derive an enterprise value for the Group utilising through-the-cycle multiples observed for comparable companies.

KordaMentha's enterprise valuation of $246.5 to $286.6 million is based on the Group'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 Group.

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.

If creditors would like to view the KPMG report, it is expected to be disclosed to ASX in due course and will be available at http://www.boartlongyear.com/company/investors/announcements/.

8. REASONS SECURED CREDITORS MAY CONSIDER VOTING FOR THE SCHEME

The reasons why the Secured Creditors may consider voting in favour of the Scheme include:

(a) Avoidance of uncertainties associated with insolvency

The Scheme will provide a means by which the debt owed to the Secured Creditors under the Finance Documents will be restructured without the appointment of a voluntary administrator, liquidator or receiver and manager to the Companies or the Obligors.

The Scheme will minimise disruption to the business and the diminution of value that could occur as a consequence of such appointments. Any appointment of an administrator, liquidator or receiver and manager may result in certain counterparties being entitled to terminate contracts with the Companies. This would be detrimental to the ongoing businesses of the Companies, particularly with respect to the Companies' relationships with its key customers, and would affect the value that could be realised out of a sale of the assets of the Companies and the Group.

Given the global nature of the Companies, an insolvency proceeding in Australia could lead to a number of similar protections being sought in a number of other countries worldwide.

(b) Avoidance of insolvency expenses

The legal, administrative and funding costs associated with the administration, liquidation or receivership and management of the Companies would be avoided if the Scheme is approved and implemented. KordaMentha have estimated that the costs of an insolvency process involving the Companies and other Obligors would be approximately AU$30 million (consisting of realisation costs in relation to insolvency professionals, legal counsel, valuation firms, investment banks and other professional costs).

(c) Transaction certainty

Effecting a restructuring by way of the Scheme will provide greater transaction certainty for the Secured Creditors and the Companies (which will continue to operate the business) than could be achieved without the Scheme in circumstances in which the Secured Creditors do not unanimously consent to the proposed restructuring.

In the event that the Court makes orders approving the Scheme and those orders are lodged with ASIC (and subject to satisfaction of the conditions precedent), the steps that give effect to the restructure will have the force of law.

(d) Ability for Companies to continue to trade and raise additional funds

If the Scheme is implemented, subject to market conditions, the potential for the Companies to continue to trade and operate their businesses will be improved by a lower debt burden and enhanced liquidity through (i) a reduced cash interest burden and (ii) the New ABL Revolver.

The decrease in overall debt (and corresponding effect on the Companies' balance sheets) may enable the Companies to explore further fund raising opportunities in the future for the purpose of business growth and expansion (subject to the terms of the Finance Documents).

Further, Secured Creditors may consider that a formal insolvency process is likely to be destructive to the realisable value of the Companies' business and assets, which may further diminish the recoverable value of the Debt owed to them.

(e) **Limit on Subordinate Claims**

This Scheme and the 7% Creditor Scheme are interdependent. If the 7% Creditor Scheme is implemented, the rights of Subordinate Claim Holders to bring Subordinate Claims against BLY will be limited, reducing its potential exposure to the risks associated with such claims.

These potential advantages must be considered in light of the potential disadvantages of the Scheme, which are discussed in **Section 9** below.

Secured Creditors are encouraged to obtain independent legal, financial and taxation advice in relation to their own individual circumstances. Secured Creditors are not obliged to follow the recommendation of the directors of the Companies and may decide to vote against the Scheme.

9. REASONS SECURED CREDITORS MAY CONSIDER VOTING AGAINST THE SCHEME

The reasons why the Secured Scheme Creditors may consider voting against the Scheme include:

(a) Insolvency return

Secured Creditors may consider voting against the Scheme if they consider there is potential for a better return to them under a formal solvency process.

If the Scheme is not implemented, it is likely that an insolvency event will occur in relation to the Companies. In that circumstance, some Secured Creditors may consider that there would be a better return to them than the return available under the Scheme.

Secured Creditors should have regard to the opinions in the KordaMentha Report in this regard (summarised in **Section 7**).

(b) Release of directors and officers of the Companies and Obligors

The Scheme provides for the Secured Scheme Creditors to release the Obligors and any person who is or was a director or officer of any of the Obligors between 27 September 2013 and the Implementation Date and who signs a Released Obligor Individual Deed Poll from all Claims relating to any fact, matter, circumstance or event that arose or occurred in respect of, or in connection with, any Obligor between 27 September 2013 and the Implementation Date.

Secured Creditors may consider that they have a potential Claim against one or more of these individuals or Obligors, which would result in a recovery in favour of the Secured Scheme Creditors and may, accordingly, wish to vote against the Scheme and pursue that Claim, whether by placing the Companies or the Obligors or any of them into external administration or otherwise (although the Companies are not aware of any potential Claims that may be available against any of those people).

(c) Benefits obtained by Centerbridge under the Recapitalisation Transactions

Secured Creditors may consider voting against the Scheme if they form the view that the benefits conferred on Centerbridge by the Recapitalisation Transactions are disproportionate to those conferred on other Secured Creditors by those same transactions.

If the Recapitalisation Transactions are implemented, Centerbridge will obtain the following benefits which Secured Creditors may consider significant:

(i) The percentage of ordinary shares in BLY held by Centerbridge will increase to 56% as a result of a new issue of shares being made in consideration of Centerbridge agreeing to reduce its contractually agreed rate of PIK interest on the TLA from 12% to 10% (until December 2018) and then 8% thereafter. The increase to 56% described above will occur as follows:

(A) Centerbridge's existing shareholding of 48.9% will be diluted by the issue of shares to 7% Scheme Creditors when the 7% Creditor Scheme is implemented;

(B) Centerbridge will then convert the Convertible Preference Shares it currently holds to ordinary shares, which will result in Centerbridge holding 3.7% of the shares in BLY; and

(C) further Shares will be issued to Centerbridge under the Subscription Deed such that Centerbridge holds 56% of the ordinary shares in BLY.

(ii) Centerbridge will be entitled to nominate 5 directors for appointment to the board of BLY. Currently, Centerbridge is entitled to nominate 4 directors for election to the board of BLY pursuant to an appointment agreement concluded as part of a restructuring transaction that took place in 2015.

With the exception of Ares and Ascribe, who will be entitled to nominate one director to be elected to the board of BLY each, along with an additional joint nominee, no other Secured Creditors will receive these benefits.

The comparative effect of the Recapitalisation Transactions on the holders of the TLA, TLB and Secured Indenture is set out in **Section 3.10**. When considering that table, Secured Creditors should bear in mind that Centerbridge holds 100% of the TLA, the TLB and a portion of the 10% Notes.

Whilst Centerbridge, as the holder of the Term Loan A and the Term Loan B, is required to waive any rights which arise in its favour as a result of a change of control which occurs as a consequence of the implementation of the Recapitalisation Transactions, Secured Creditors may form the view that the concession being made by Centerbridge in this regard is less significant than that made by other Secured Creditors because Centerbridge will be the beneficiary of that change of control as it is the recipient of Shares, as described above.

Secured Creditors may also consider that the concession made by Centerbridge in relation to the extension of maturity dates applicable to the Term Loan A, Term Loan B and Secured Indenture under the Scheme is less significant than that made by other Secured Creditors on the basis that the maturity dates under the Term Loan A and the Term Loan B are currently 4 January 2021, whilst the maturity date under the Secured Indenture is currently 1 October 2018.

These potential disadvantages must be considered in light of the potential advantages of the Scheme, which are discussed in **Section 8** above.

Secured Creditors are encouraged to obtain independent legal, financial and taxation advice in relation to their own individual circumstances. Secured Scheme Creditors are not obliged to follow the recommendation of the Companies and may decide to vote against the Scheme.

10. ADDITIONAL INFORMATION

10.1 Ongoing analysis of business operations

Secured Creditors should be aware that BLY, with the assistance of outside consultants, is currently conducting a detailed jurisdiction-by-jurisdiction analysis of the 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 BLY to prioritise fixing. As part of this process, BLY 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, BLY makes no representation that the Group will continue to operate in the same number of locations as it does presently.

Secured Creditors should consider consulting their professional advisers before deciding whether to vote in favour of the Scheme.

10.2 Material interests of Directors

The current directors of the Companies are:

(a) In respect of BLY:

(i) Bret Clayton

(ii) William Peter Day

(iii) Jeffrey Long

(iv) Gretchen McClain

(v) Rex John McLennan

(vi) Jeffrey Robert Olsen

(vii) Deborah O'Toole

(viii) Marcus Randolph

(ix) Conor Tochilin

(b) In respect of BLY Australia:

(i) Fabrizio Rasetti

(ii) Matthew Robert Broomfield

(iii) Jeffrey Robert Olsen

(iv) Shannon Emrick

(c) In respect of the BLY Issuer:

(i) Matthew Robert Broomfield

(ii) Jeffrey Robert Olsen

(iii) Fabrizio Rasetti

(d) In respect of Votraint:

(i) Fabrizio Rasetti

(ii) Matthew Robert Broomfield

(iii) Jeffrey Robert Olsen

(iv) Shannon Emrick

(together, the **Directors**).

Except as disclosed below or elsewhere in this Explanatory Statement, as at the date of this Explanatory Statement, no Director of either of the Companies has any interest, whether as a Director, member or creditor of the Companies or otherwise, that is material in relation to the Scheme, and the Scheme has no effect on the interests of any Director of the Companies that is different to the effect on the like interests of other persons.

The current ownership of Shares by each Director is disclosed and regularly updated on BLY's² ASX website. The Directors (other than Jeffrey Olsen (who is the Managing Director) and Conor Tochilin) have received approximately half of their Director fees in Shares for approximately the past two years. All the Directors currently hold Shares in BLY, with the exception of Conor Tochilin (who, as a CBP employee, does not receive Director fees and holds no Shares). The Directors' Shares will be subject to the same dilution and treated as any other individual Shareholder in the proposed restructuring.

The BLY Board has approved special, one-time fees ranging from US$30,000 to US$45,000 for the Directors (excluding Jeffrey Olsen and Conor Tochilin) for the additional work and efforts provided by the Directors to support the restructuring being pursued by the Companies. The special payment will be paid in May 2017. The special fee is not contingent on an outcome for the restructuring, but is based on the effort and exertions of the Directors to this point. Otherwise, the Directors are not entitled to receive any bonus, grant or other specific compensation as a consequence of the conclusion of the Recapitalisation Transactions or any related milestone in the process.

On implementation of the Scheme, and in accordance with the terms of the Director Nomination Agreements, the number of Directors will be nine including the Managing Director. Ares and Ascribe will each be entitled to nominate one director each and one director jointly, and CBP will nominate five CBP Nominee Directors.

If the Scheme is implemented, each Secured Scheme Creditor will release certain people who were Directors or officers of any Obligor (being those Directors or officers who sign a Released Obligor Individual Deed Poll in the form of Schedule 10 to the Scheme) from all Claims relating to events that arose or occurred in respect of, or in connection with, any Obligor between 27 September 2013 and the Implementation Date.

10.3 **Material interests of Scheme Administrators**

The Scheme Administrators will be entitled to remuneration for their services as explained in **Section 6.12**. The hourly rates which will apply for the Scheme Administrators' services are set out at Annexure E.

10.4 **Certified copy of Financial Statements**

Certified copies of the financial statements in respect of the Companies to be lodged with ASIC as required by paragraph 8203(b) of Schedule 8 of the Corporations Regulations are set out at Annexure C to this Explanatory Statement.

10.5 **Report as to affairs of Companies – ASIC Form 507**

The report and information in respect of the Companies required by ASIC Form 507 and paragraph 8203(a) of Schedule 8 of the Corporations Regulations is set out at Annexure D to this Explanatory Statement.

10.6 **The Secured Creditors**

The relevant details of all known Secured Creditors as required by paragraphs 8201(c), (d), and (e) of Schedule 8 of the Corporations Regulations is set out at Annexure H to this Explanatory Statement.

11. THE SCHEME MEETING AND VOTING PROCEDURES

11.1 Time and place

The Scheme Meeting will be held to consider and, if thought fit, approve the Scheme at:

10.30 am on Tuesday, 30 May 2017

at

Ashurst, Level 11, 5 Martin Place, Sydney NSW 2000, Australia

11.2 Chairperson

It is intended that the Scheme Meeting will be chaired by Marcus Derwin, of FTI Consulting, or such other person as the Court may specify when making its orders under section 411(1) of the Corporations Act.

11.3 Agenda for the Scheme Meeting

The proposed agenda for the Scheme Meeting is as follows:

(a) the Chairperson will address those present at the Scheme Meeting, providing an explanation of the background to and purpose of the meeting;

(b) there will be a general presentation in relation to the proposed Scheme and attendees will be given a reasonable opportunity to ask questions in relation to the Scheme;

(c) the procedure for voting on the Scheme will be explained;

(d) the resolution to approve the Scheme will be put to the Secured Creditors present in person or by proxy, attorney or corporate representative at the Scheme Meeting for a vote.

11.4 Classes of Secured Scheme Creditors

In making its orders under section 411(1) of the Corporations Act to convene the Scheme Meeting, the Court did not order that the Secured Scheme Creditors be divided into separate classes. As such all Secured Scheme Creditors will vote as one class.

11.5 Eligibility and entitlement to vote

Only Secured Creditors as at the Voting Entitlement Record Date are eligible to vote at the Scheme Meeting.

DTC (and its nominee) is included as a Secured Scheme Creditor to obtain the benefit of certain provisions of this Scheme and for technical reasons. DTC (through its nominee, Cede & Co) is the registered holder of the 10% Notes. Accordingly, if the Scheme becomes Effective, DTC will be a Secured Scheme Creditor solely in that capacity, as it receives principal and interest on the 10% Notes.

To avoid double counting of interests in the 10% Notes at the Scheme Meeting, the voting procedure will be based on Cede & Co., in its capacity as nominee of DTC, in accordance with its usual procedures, appointing the Registered Participants as its proxies under the Omnibus Proxy in respect of the principal amount of the 10% Notes shown on its records maintained in book-entry form as being held by them as at the Voting Entitlement Record Date.

Voting is not compulsory. However, Secured Creditors who do not vote at the Scheme Meeting will be bound by the Scheme, provided that the Scheme is agreed to by the Requisite Majority and approved by the Court.

Voting at the Scheme Meeting will be conducted by poll.

11.6 How to vote at the Scheme Meeting – TLA Purchasers and TLB Purchasers

In each case set out below, TLA Purchasers and TLB Purchasers must complete a Voting Proof of Debt Form (set out in **Annexure G** to this Explanatory Statement) in accordance with the instructions set out in the Voting Proof of Debt Form and ensure that it is received by the Information Agent by no later than 4.00 pm on 25 May 2017 (New York City Time) in order to establish the amount of the relevant TLA Purchasers or TLB Purchasers' Claim against the Companies under the Finance Documents for voting purposes.

TLA Purchasers and TLB Purchasers should also consider **Section 11.8** below in relation to the adjudication of Voting Proof of Debt Forms by the Chairperson.

(a) **Voting in person**

A TLA Purchaser or TLB Purchaser who wishes to vote in person on the Scheme should attend the Scheme Meeting.

Where the TLA Purchaser or TLB Purchaser is a corporation, it may appoint a proxy, attorney or corporate representative to attend the meeting on its behalf. Any attorney or corporate representative should bring to the Scheme Meeting evidence of his or her appointment including authority under which the appointment was made.

(b) **Voting by proxy, attorney or corporate representative**

If a TLA Purchaser or TLB Purchaser cannot attend the Scheme Meeting and wishes to vote, they may vote by proxy, attorney or, in the case of a corporate TLA Purchaser or TLB Purchaser, by corporate representative.

If a TLA Purchaser or TLB Purchaser appoints a proxy, they will need to complete and lodge a Proxy Form as set out in **Annexure F**, in accordance with the instructions on the form, so that it is received by the Information Agent by 4.00 pm on 25 May 2017 (New York City Time).

Any attorney or corporate representative should bring to the Scheme Meeting evidence of his or her appointment including authority under which the appointment was made.

11.7 How to vote at the Scheme Meeting - Noteholders

A Noteholder who wishes to vote at the Scheme Meeting must ensure that they lodge a completed Proxy Form (set out in Annexure F to this Explanatory Statement) with their Registered Participant in sufficient time to allow their Registered Participant to (a) complete a Voting Proof of Debt Form (set out in Annexure G to this Explanatory Statement) on behalf of the Noteholder and (b) lodge the Proxy Form and Voting Proof of Debt Form (together, the **Voting Forms**) with the Information Agent by no later than 4.00 pm on 25 May 2017 (New York City Time) in order to establish the amount of the relevant Noteholder's Claim against the Companies under the Indenture for voting purposes.

Noteholders should also consider **Section 11.8** below in relation to the adjudication of Voting Proof of Debt Forms by the Chairperson.

(a) **Voting by proxy**

If a Noteholder does not wish to attend the Scheme Meeting in person, they can either appoint the Chairperson of the Scheme Meeting or another person as proxy to attend and vote at the Scheme Meeting on behalf of the Noteholder as directed by the Noteholder.

(b) **Voting in person**

Any Noteholder who wishes to attend and vote at the Scheme Meeting in person will still need to properly complete, sign and return a Proxy Form (with itself nominated as proxy) to their Registered Participant in sufficient time to enable the Registered Participant to complete and certify the Voting Forms and forward the same to the Information Agent by no later than 4.00 pm on 25 May 2017 (New York City Time).

Where the Noteholder is a corporation, it may appoint a proxy, attorney or corporate representative to attend the Scheme Meeting on its behalf. Any attorney or corporate representative should bring to the Scheme Meeting evidence of his or her appointment including authority under which the appointment was made.

11.8 **Adjudication of Voting Proof of Debt Forms**

The Chairperson of the Scheme Meeting has power to admit (wholly or in part) or reject a proof of debt or Claim, for the purposes of voting at the Scheme Meeting.

The Chairperson will adjudicate upon the Secured Creditor's Claim as set out in a Voting Proof of Debt Form based on the information contained in or provided with the Voting Proof of Debt Form, as well the information known to the Chairperson and Information Agent. This may result in the Secured Creditor's Claim being rejected, in whole or in part, or admitted for a higher or lower amount.

Any Secured Creditor who is aggrieved by the Chairperson's decision to admit or reject (in whole or in part) a Voting Proof of Debt Form or Claim for voting purposes may appeal the decision in Court by application to the Court filed within 48 hours of the decision, which application is to be heard at the time and place scheduled for the Second Court Hearing.

The admission of a Secured Creditor's Claim is for voting purposes only and does not constitute an admission of the existence or amount of the Secured Creditor's Claim against the Companies or any other person, and will not bind the Companies or the Secured Creditors concerned for any other purpose.

In the event of voluntary administration or liquidation of the Companies, the voluntary administrator or liquidator may adjudicate upon the Secured Creditor's Claim, if any, on a different basis than that which is used to adjudicate on the Secured Creditor's Claim for the purpose of voting at the Scheme Meeting, and therefore may admit Claims for a higher or lower amount. Secured Creditors are encouraged to obtain their own advice regarding the possible treatment of their Claims in a voluntary administration or liquidation scenario.

11.9 **Modification of Scheme at Scheme Meeting**

Secured Creditors may propose modifications to the Scheme at the Scheme Meeting. However, Secured Creditors should be aware that there are risks associated with

modifying the terms of the Scheme at the Scheme Meeting. For more detail on these risks, refer to **Section 6.11** of this Explanatory Statement.

11.10 **Lodgement of documents and further queries**

Complete Voting Proof of Debt Forms and Proxy Forms should be lodged in accordance with the instructions on those forms.

If you have any questions in relation to the Scheme Meetings, including completing and lodging Voting Proof of Debt Forms or Proxy Forms, please contact:

Attention: Boart Longyear Ballot Processing
c/o Prime Clerk LLC
830 Third Avenue
3rd Floor
New York
NY 10022
United States

Email: boartballotprocessing@primeclerk.com

12. INTERPRETATION AND GLOSSARY

12.1 Interpretation

The following general interpretation guidelines are included to assist Secured Creditors in understanding this document.

(a) Unless otherwise stated, all data contained in charts, graphs and tables is based on information available as at the date of this Explanatory Statement. All numbers are rounded unless otherwise indicated.

(b) A reference to:

(i) AU$, AUD or cents, is to Australian currency, unless otherwise stated; and

(ii) USD or US$ is to the currency of the United States of America, unless otherwise stated.

(c) All references to time are references to the time in Sydney, Australia.

(d) A reference to:

(i) a "section" or "paragraph" is to a section or paragraph of this Explanatory Statement;

(ii) 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;

(iii) a document (including this document) or agreement, or a provision of a document (including this document) or agreement, is to that document, agreement or provision as amended, supplemented, replaced or novated;

(iv) a party to an agreement includes a successor in title, permitted substitute or a permitted assign of that party;

(v) 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; and

(vi) anything (including a right, obligation or concept) includes each part of it.

(e) A singular word includes the plural, and vice versa.

(f) If a word or phrase is defined, any other grammatical form of that word or phrase has a corresponding meaning.

(g) A word which suggests one gender includes the other genders.

(h) If an example is given of anything (including a right, obligation or concept), such as by saying that it includes something else, the example does not limit the scope of that thing.

(i) A reference to a matter being **"to the knowledge"** of the Companies means that the matter is to the best of the knowledge and belief of the Directors as at the date

of this Explanatory Statement, after making reasonable enquiries in the circumstances.

(j) A reference to **"information"** is to information of any kind in any form or medium, whether formal or informal, written or unwritten.

(k) The word **"agreement"** includes an undertaking or other binding arrangement or understanding, whether or not in writing.

(l) The expressions **"subsidiary"**, **"holding company"** and **"related body corporate"** have the same meanings as is given to those expressions in the Corporations Act.

12.2 **Glossary of terms**

Capitalised terms used in this Explanatory Statement have the meanings set out below.

Secured Creditors should be aware that some of the documents in the Annexures to this Explanatory Statement have their own defined terms, which are sometimes different from those in this Glossary.

7% Creditor Scheme means the compromise or arrangement under Part 5.1 of the Corporations Act between the Companies, the noteholders pursuant to the Unsecured Indenture and the Subordinate Claim Holders proposed by the Companies and approved by the Court.

7% Noteholders means each "Holder" or "Securityholder" as those terms are defined in the Unsecured Indenture.

7% Creditor Scheme Warrants means the A Warrants and B Warrants, to be issued by BLY in accordance with Step 4 (New Warrant issue) of the 7% Creditor Scheme.

7% Scheme Creditors means the 7% Noteholders as at the date on which each of the conditions precedent in the 7% Creditor Scheme have been satisfied.

7% Unsecured Note Amendments means the proposed amendments to the Unsecured Indenture, described in Section 5.3(a) and Section 5.3(c) of this Explanatory Statement.

10% Note means the 10% secured notes issued under the Secured Indenture.

A Warrants means the Warrants, with Applicable TEVs of $750 million, to be issued by BLY to the 7% Noteholders pursuant to the 7% Creditor Scheme.

Administrative Agent means:

(a) Wilmington Trust, National Association in its capacity as administrative agent under the Term Loan A;

(b) Wilmington Trust, National Association in its capacity as administrative agent under the Term Loan B; and

(c) any successor administrative agent under the Term Loan A or Term Loan B.

Administrative Requirements means the conditions precedent to each of:

(a) the First Supplemental Indenture;

(b) the Amended Term Loan A; and

(c) the Amended Term Loan B.

Admitted Claim means, in respect of a Secured Creditor, the amount for which the Secured Creditor's Claims against the Companies are admitted by the Chairperson for the purpose of voting at the relevant Scheme Meeting.

Affiliate has the meaning given to "affiliate" within the meaning of Rule 405 of the U.S. Securities Act.

Agent means the Administrative Agent or the Collateral Agent or both of them, as the context requires.

Agent Deed Poll means the deed poll substantially in the form set out in Schedule 8 of the Scheme and to be executed by the Agents pursuant to the Scheme.

Amended Term Loan A means the amendment to the Term Loan A substantially in the form set out in Schedule 4 of the Scheme which amendment and restatement will take effect pursuant to the Scheme.

Amended Term Loan B means the amendment to the Term Loan B substantially in the form set out in Schedule 5 of the Scheme which amendment and restatement will take effect pursuant to the Scheme.

Amendment Documents means:

(i) the First Supplemental Indenture;

(ii) the Amended Term Loan A; and

(iii) the Amended Term Loan B.

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 Nominee Director means the person nominated by Ares to be considered by Shareholders for election at the Shareholders Meeting as a director of BLY pursuant to the Director Nomination Agreement whose notice of candidature is received by BLY by the date required by the Constitution.

Ares / Ascribe Joint Nominee Director means the person jointly nominated by Ares and Ascribe II Investments LLC to be considered by Shareholders for election at the Shareholders Meeting as a director of BLY pursuant to the Director Nomination Agreements whose notice of candidature is received by BLY by the date required by the Constitution.

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 Nominee Director means the person nominated by Ascribe to be considered by Shareholders for election at the Shareholders Meeting as a director of BLY pursuant to the Director Nomination Agreement whose notice of candidature is received by BLY by the date required by the Constitution.

ASIC means the Australian Securities and Investments Commission.

ASX means ASX Limited or the financial market operated by ASX Limited, as the context requires.

ASX Listing Rules means the listing rules of ASX, as waived or modified by ASX in respect of BLY, the Scheme or otherwise.

B Warrants means the Warrants, with Applicable TEVs of $850 million, to be issued by BLY to the 7% Noteholders pursuant to the 7% Creditor Scheme.

BLY means Boart Longyear Limited ACN 123 052 728.

BLY Australia means Boart Longyear Australia Pty Ltd ACN 000 401 025.

BLY Issuer means Boart Longyear Management Pty Limited ACN 123 283 545.

BLY Schemes means this Scheme and the 7% Creditor Scheme.

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

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

CBP Nominee Directors means those persons (not exceeding five) nominated by Centerbridge Partners, L.P. on behalf of CBP, and its and their affiliates and managed funds to be considered by Shareholders for election at the Shareholders Meeting as a director of BLY pursuant to the Director Nomination Agreement whose notice of candidature is received by BLY by the date required by the Constitution.

CBP Registered Holders means CCP II Dutch Acquisition – E2, B.V. and CCP Credit SC II Dutch Acquisition – E, B.V.

Chairperson means Marcus Derwin of FTI Consulting (or, if he is unavailable, Michael McCreadie of the FTI Consulting).

Centerbridge means Centerbridge Partners L.P. and those entities affiliated with it.

Change of Control Event means any change of control event, in each case howsoever described, which occurs under any of the Finance Documents at any time, up to and including the Implementation Date.

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.

Collateral Agent means:

(a) Wilmington Trust, National Association in its capacity as collateral agent under the Term Loan A;

(b) Wilmington Trust, National Association in its capacity as collateral agent under the Term Loan B; and

(c) any successor collateral agent under the Term Loan A or Term Loan B.

Companies means the BLY Issuer, BLY, BLY Australia and Votraint.

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 BLY, other than the proposed recapitalisation of BLY to be implemented through the Recapitalisation Transactions, including, but not limited to, any proposal, agreement, arrangement or transaction, received in writing within the period from the date on which the RSA has been duly executed by all parties expressed to be parties to it, to the date the Recapitalisation Transactions are completed, which the BLY Board determines, in good faith and in consultation with BLY's counsel, if completed, would mean a person who is not a party to the RSA (either alone or with any associate of that third party) may:

(a) directly or indirectly acquire a Relevant Interest (as defined in the Corporations Act) in 20% or more of the Shares or 50% or more of the share capital of any material subsidiary of BLY;

(b) acquire Control (as defined in the Corporations Act) of BLY;

(c) directly or indirectly acquire a legal, beneficial or economic interest in, or Control of, all or a material part of BLY's business or assets or the business or assets of BLY taken as a whole; or

(d) otherwise directly or indirectly acquire or merge with BLY or acquire a material subsidiary of BLY.

Constitution means the constitution of BLY, as amended from time to time.

Conversion means the issue of Shares on conversion of the Convertible Preference Shares.

Convertible Preference Shares means the convertible preference shares in the capital of BLY.

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

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

Costs means costs, charges, fees and expenses.

Court means the Supreme Court of New South Wales.

DDTL means the term loan security agreement, dated 4 January 2017, by and among BLY IP Inc., the guarantors party thereto, and Wilmington Trust, National Association, as administrative agent, providing for the issuance of term loan securities due 2020.

Debt means, at any time, the total amount owing by the Companies to the Secured Creditors under the Finance Documents.

Deed Poll means the Scheme Administrators Deed Poll, the Agents Deed Poll, the Trustee Deed Poll, the Secured Scheme Creditors Deeds Poll, the Obligors Deed Poll or the

Released Obligor Individual Deeds Poll, as the context requires, and Deeds Poll means all of them or any combination of them, as the context requires..

Director Nomination Agreement means:

(a) the agreement between CBP and BLY in relation to the nomination of the CBP Nominee Directors to stand for election to the board of BLY;

(b) the agreement between Ares and BLY in relation to the nomination of the Ares Nominee Director and the Ares/Ascribe Joint Nominee Director to stand for election to the board of BLY; or

(c) the agreement between Ascribe and BLY in relation to the nomination of the Ascribe Nominee Director and the Ares/Ascribe Joint Nominee Director to stand for election to the board of BLY,

as the context requires, and Director Nomination Agreements means all of the above or any combination of them, as the context requires.

Directors means the directors appointed to the Companies as at the date of this Explanatory Statement.

EBITDA means earnings before interest, taxes, depreciation and amortization.

Effective Date means the date on which each of the conditions precedent in the Scheme have been satisfied.

Existing ABL Revolver means the revolving credit and security agreement, dated May 29, 2015, among PNC Bank as lender and as agent, the BLY Issuer as borrower, and the guarantors party thereto.

Existing Shareholder Warrants means the tranche of Warrants to be issued by BLY to existing Shareholders (other than the CBP Registered Holders) pursuant to the Warrants Issue.

Explanatory Statement means this document.

FATA means the *Foreign Acquisitions and Takeovers Act 1975* (Cth).

Final Chapter 15 Order means an order of the United States Bankruptcy Court Southern District of New York granting recognition to this Scheme and the 7% Creditor Scheme and giving full force and effect thereto.

Finance Document means each of the documents listed in Schedule 1 of the Scheme.

FIRB means Foreign Investment Review Board.

First Court Date means the date of the hearing of an application for the First Court Orders or, if the hearing of that application is adjourned, the date to which the hearing is adjourned.

First Court Orders means the orders of the Court convening the Scheme Meeting under section 411(1) of the Corporations Act.

First Court Hearing means the hearing of an application for the First Court Orders, including any adjourned hearing.

First Supplemental Indenture means the first supplemental indenture substantially in the form set out in Schedule 3 of the Scheme which first supplemental indenture will take effect pursuant to Step 3 (Amendment Documents) of the Scheme.

Group means BLY and each of its Subsidiaries.

Implementation Date means the later of:

(a) five Business Days after the Effective Date; and

(b) if the Scheme Administrator forms the opinion that Steps 2 (Release) and 3 (Amendment Documents) of the Scheme cannot occur simultaneously on the date in (a) above, such later date on which, in the opinion of the Scheme Administrator, Steps 2 (Release) and 3 (Amendment Documents) of the Scheme can occur simultaneously, being a date that is not later than the Sunset Date.

Implied Value has the meaning given to that term in section **7.1(d)(iii)** of this Explanatory Statement.

Information Agent means Prime Clerk LLC.

Initial Term Loan Amendments means the proposed amendments to the Term Loan A and the Term Loan B, described in **Section 5.2(a)** of this Explanatory Statement.

KordaMentha means KordaMentha of Level 5 Chifley Tower, 2 Chifley Square, Sydney, New South Wales 2000.

KordaMentha Report means the independent expert report dated 1 May 2017 prepared by KordaMentha, a copy of which is set out at **Annexure B**.

KordaMentha Information means the information in **Section 7** of this Explanatory Statement, the KordaMentha Report and certain other information in this Explanatory Statement that is identified as having been provided by or attributed to KordaMentha.

New ABL Revolver means a new revolving credit and security agreement, providing a facility in an aggregate principal amount up to US$75,000,000.

Nominee Directors means the CBP Nominee Directors, Ares Nominee Director and the Ascribe Nominee Director.

Noteholders means each "Holder" or "Securityholder" as those terms are defined in the Secured Indenture.

Notice of Meeting means the notice of Scheme Meeting that is to be sent to Secured Creditors with this Explanatory Statement.

Obligors means each of:

(a) BLY;

(b) the BLY Issuer;

(c) BLY Australia;

(d) Boart Longyear Canada;

(e) Boart Longyear Chile Limitada;

(f) Boart Longyear Comercializadora Limitada;

(g) Boart Longyear Company;

(h) Boart Longyear Manufacturing and Distribution Inc.;

(i) Boart Longyear Manufacturing Canada Ltd.;

(j) Boart Longyear S.A.C.;

(k) Boart Longyear Suisse Sarl;

(l) Longyear Canada, ULC;

(m) Longyear Holdings Inc.;

(n) Longyear TM Inc.;

(o) Votraint; and

(p) BLY IP Inc.

Obligors Deed Poll means the deed poll executed by the Obligors dated on or around 12 May 2017.

Omnibus Proxy means an omnibus proxy pursuant to which Cede & Co. (as nominee of DTC) is expected to appoint those Registered Participants shown in the records of Cede & Co. and/or DTC as holding an interest in the 10% Notes held by DTC as its proxies in respect of the principal amount of the relevant 10% Notes shown on its records as being held by such Registered Participants on the Voting Entitlement Record Date.

Proxy Form means the form used by Secured Creditors to appoint a proxy to vote on their behalf at the Scheme Meeting, substantially in the form set out at **Annexure F.**

Recapitalisation Transactions means the transactions described in **Section 5**, including this Scheme and the 7% Creditor Scheme.

Record Date means the date that BLY issues the Existing Shareholder Warrants to existing Shareholders (other than the CBP Registered Holders), in accordance with **Section 5.4(d)** of this Explanatory Statement.

Registered Participant means a person recorded directly in the records of Cede & Co. and DTC as holding an interest in any 10% Note in an account held with DTC.

Released Obligor Individual means each person who was, at any time between 27 September 2013 and the Implementation Date inclusive, a director or officer of any Obligor who has executed, or at any time executes (including by way of joinder), a Released Obligor Individual Deed Poll.

Released Obligor Individual Deed Poll means the deed poll substantially in the form set out in Schedule 10 of the Scheme.

Relevant Interest has the meaning given in sections 608 and 609 of the Corporations Act.

Resolution means the resolution contained in the Notice of Meeting which will be put to Secured Creditors at the Scheme Meeting.

RSA or Restructuring Support Agreement means the Restructuring Support Agreement entered into between, among others, BLY and BLY Issuer, dated 2 April 2017 as may be amended, modified or supplemented from time to time.

Scheme means the compromise or arrangement under Part 5.1 of the Corporations Act between the BLY Issuer, BLY, BLY Australia, Votraint and the Secured Scheme Creditors, a copy of which is set out at Annexure A to this document, subject to any alterations or conditions made or required by the Court.

Scheme Administrator means Scott Kershaw and Jenny Nettleton of KordaMentha, or any other person who accepts the appointment to the role of scheme administrator of this Scheme, subject to section 411(7) of the Corporations Act provided, in each case, they have each executed a deed poll in substantially the same form as the Scheme Administrators Deed Poll.

Scheme Administrators Deed Poll means the deed poll substantially in the form set out in Schedule 9 of the Scheme and executed by the Scheme Administrators.

Scheme Meeting means the meeting of Secured Creditors ordered by the Court to be convened under section 411(1) of the Corporations Act in relation to the Scheme, and includes any adjournment of that meeting.

Scheme Notes means notes pursuant to the Secured Indenture as amended by the First Supplemental Indenture.

Second Court Date means the first day of the hearing of an application made to the Court for the Second Court Orders or, if the hearing of such application is adjourned for any reason, means the first day to which the hearing is adjourned.

Second Court Hearing means the hearing of an application made to the Court for the Second Court Orders, including any adjourned hearing.

Second Court Orders means the orders of the Court approving this Scheme under section 411(4)(b) (and, if applicable, section 411(6)) of the Corporations Act.

Second-Out ABL means the term loan securities agreement entered into as of 2 April 2017 among the BLY Issuer, as issuer, BLY 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.

Secured Creditors means the TLA Purchasers, the TLB Purchasers and the Noteholders.

Secured Indenture means the indenture dated 27 September 2013, between the BLY Issuer, as issuer, BLY, as guarantor, and U.S. Bank National Association, as trustee and collateral agent, amongst others, in respect of 10.00% secured notes, as amended, varied, or amended and restated from time to time.

Secured Indenture Amendments means the proposed amendments to the Secured Indenture, described in **Section 5.2(b)** of this Explanatory Statement.

Secured Scheme Creditors means the TLA Purchasers, the TLB Purchasers and the Noteholders, as at the Effective Date.

Secured Scheme Creditor Deed Poll means the deed poll executed by a Scheme Administrator as attorney and agent for the Secured Scheme Creditors pursuant to the Scheme in substantially the form set out in Schedule 6 of the Scheme.

Shareholder means each person entered in the register of members of BLY as the holder of at least 1 (one) fully paid ordinary share in BLY as at the date for determining entitlements to vote at the Shareholder Meeting.

Shareholder Meeting means the general meeting of the Shareholders of BLY to be held on or around 13 June 2017 to consider and vote on the Shareholder Resolutions, amongst other matters.

Shareholder Resolutions means resolutions at the Shareholder Meeting:

(a) for the purposes of ASX Listing Rule 7.1 and for all other purposes, to approve to issuing:

(i) Shares and Warrants pursuant to the 7% Creditor Scheme to the 7% Scheme Creditors; and

(iii) Warrants to Shareholders, other than affiliates of CBP;

(b) for the purposes of item 7 of section 611 of the Corporations Act, ASX Listing Rule 10.11 and Chapter 2E of the Corporations Act and all other purposes, to approve BLY issuing Shares pursuant to the Subscription Deed;

(c) for the purposes of item 7 of section 611 of the Corporations Act and for all other purposes to approve:

(ii) Ares; and

(iii) Ascribe,

acquiring Shares pursuant to the 7% Creditor Scheme which would otherwise be prohibited by the takeover provisions in section 606 of the Corporations Act; and

(d) appointing the Nominee Directors as directors of BLY.

Share Purchase Plan means the share purchase plan to be made available by BLY

Shares means fully paid ordinary shares in the capital of BLY.

Standstill Period has the meaning given in **section 6.3** of this Explanatory Statement.

Step means any of Steps 1 (Deeds and Amendment Documents) to 3 (Amendment Documents) set out in clause 7.5 of the Scheme and Steps means all of them.

Subordinate Claim means a "subordinate claim" within the meaning of subsection 563A(2) of the Corporations Act against BLY in respect of any fact, matter, circumstance or event which has arisen or occurred at any time prior to the compromise of such claims pursuant to the 7% Creditor Scheme.

Subordinate Claim Holder means any person who, as at immediately prior to the compromise of such claims pursuant to the 7% Creditor Scheme, has or, but for the 7% Creditor Scheme, would be entitled to make, a Subordinate Claim.

Subscription Deed means the agreement between BLY and CBP pursuant to which Shares will be issued to CBP (or their nominee).

Subsequent Term Loan Amendments means the agreement between the TLA Purchasers and the Obligors to amend the interest rate applicable to the Term Loan A and the agreement between the TLB Purchasers and the Obligors to amend the interest rate

applicable to the Term Loan B, described in **Section 5.4(c)** of this Explanatory Statement.

Subsidiaries has the meaning given in the Corporations Act and, as applied to BLY, Subsidiary shall include the BLY Issuer, BLY Australia, Votraint, Boart Longyear Company, Boart Longyear Manufacturing Canada Ltd., Boart Longyear Suisse Sarl, Boart Longyear Chile Limitada, Boart Longyear Canada, Longyear Holdings, Inc., Boart Longyear Manufacturing and Distribution Inc., Boart Longyear Comercializadora Ltda., Longyear TM, Inc., BLY IP Inc., Longyear Canada, ULC, BL DDL NY Holdings Inc., BL DDL Holdings Pty, Ltd., BL DDL Holdings II Pty, Ltd., BL Canada DDL Inc., BL Canada Holdings Inc., and Boart Longyear S.A.C.

Sunset Date means 31 December 2017.

Superior Proposal means a bona fide written competing proposal of the kind referred to in (b) or (c) of the definition of Competing Proposal that the BLY Board, acting in good faith, and after receiving written legal advice from the BLY's counsel and advice from its financial advisor, determines:

(a) 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;

(b) would, if completed substantially in accordance with its terms, be more favourable to Shareholders (as a whole) and the creditors of BLY than the Recapitalisation Transactions (having regard to the fact that trade creditors will be paid in full under the Recapitalisation Transactions) taking into account all terms and conditions of the competing proposal; and

(c) 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 has the meaning given in clause 4.4.

Term Loan A means the Term Loan A Securities Agreement dated 22 October 2014 between the BLY Issuer, as issuer, BLY, BLY Australia and Votraint, as guarantors, amongst others, and Wilmington Trust, National Association, as administrative agent, amongst others, pursuant to which term loan securities were issued, as amended, varied, or amended and restated from time to time.

Term Loan Amendments means the Initial Term Loan Amendments and the Subsequent Term Loan Amendments.

Term Loan B means the Term Loan B Securities Agreement dated 22 October 2014 between the BLY Issuer, as issuer, BLY, BLY Australia and Votraint, as guarantors, amongst others, and Wilmington Trust, National Association, as administrative agent, amongst others, pursuant to which term loan securities were issued, as amended, varied, or amended and restated from time to time.

TEV means total enterprise value of the Group.

TLA Purchasers means the "Purchasers" as that term is defined in the Term Loan A.

TLB Purchasers means the "Purchasers" as that term is defined in the Term Loan B.

Trustee means U.S. Bank National Association in its capacity as trustee and collateral agent under the Secured Indenture and any successor trustee or collateral agent under that document.

Trustee Deed Poll means the deed poll substantially in the form set out in Schedule 7 of this Scheme and to be executed by the Trustee pursuant to the Scheme.

Undertakings means:

(a) the undertaking given by the Trustee to execute the Trustee Deed Poll in accordance with the Scheme; and

(d) the undertaking given by the Agent to execute the Agent Deed Poll in accordance with the Scheme.

Unsecured Indenture means the indenture dated 28 March 2011 between the BLY Issuer, as issuer, BLY, as guarantor, and U.S. Bank National Association, as trustee, amongst others, as amended by the first supplemental indenture dated 14 June 2013, the second supplemental indenture dated 27 September 2013 and the third supplemental indenture dated 2 April 2017, and as otherwise amended, varied, or amended and restated from time to time.

U.S. Exchange Act means the U.S. Securities Exchange Act of 1934, as amended.

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

U.S. Bankruptcy Court means the United States Bankruptcy Court of the Southern District of New York.

Voting Entitlement Record Date means the First Court Date.

Voting Proof of Debt Form means a proof of debt form substantially in the form set out at Annexure G, which may be lodged with the Information Agent by a Secured Creditor for the purpose of voting at the relevant Scheme Meeting.

Votraint means Votraint No. 1609 Pty Limited ACN 119 244 272.

Warranties means any warranties given by the Companies in favour of the Secured Creditors (as that term is defined under this Explanatory Statement) under the RSA and any warranties given by the Secured Creditors (as that term is defined under this Explanatory Statement) in favour of each other or the Companies under the RSA in contemplation of the transactions to be effected by, or in connection with, this Scheme and the 7% Creditor Scheme.

Warrants means warrants issued by BLY.

Warrants Issue means the issue of Existing Shareholder Warrants by BLY to existing Shareholders in accordance with **Section 5.4(d)** of the Explanatory Statement.

ANNEXURE A

Scheme of Arrangement

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Scheme of Arrangement

Boart Longyear Limited
ACN 123 052 728

and

Boart Longyear Management Pty Limited
ACN 123 283 545

and

Boart Longyear Australia Pty Limited
ACN 000 401 025

and

Votraint No. 1609 Pty Limited
ACN 119 244 272

and

The Secured Scheme Creditors

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CONTENTS

CLAUSE **PAGE**

THIS SCHEME OF ARRANGEMENT is made on 2017

BETWEEN:

(1) **Boart Longyear Management Pty Limited** ACN 123 283 545 of 26 Butler Boulevard, Burbridge Business Park, Adelaide Airport in the State of South Australia (**BLY Issuer**);

(2) **Boart Longyear Limited** ACN 123 052 728 of 26 Butler Boulevard, Burbridge Business Park, Adelaide Airport in the State of South Australia (**BLY**);

(3) **Boart Longyear Australia Pty Ltd** ACN 000 401 025 of 26 Butler Boulevard, Burbridge Business Park, Adelaide Airport in the State of South Australia (**BLA**);

(4) **Votraint No. 1609 Pty Limited** ACN 119 244 272 of 26 Butler Boulevard, Burbridge Business Park, Adelaide Airport in the State of South Australia (**Votraint**); and

(5) the **Secured Scheme Creditors**.

RECITALS:

(A) This Scheme is proposed in connection with: (a) Claims against the BLY Issuer by the Secured Scheme Creditors under the Finance Documents; (b) Claims against BLY by the Secured Scheme Creditors under the Finance Documents; (c) Claims against BLA by the Secured Scheme Creditors under the Finance Documents; and (d) Claims against Votraint by the Secured Scheme Creditors under the Finance Documents.

(B) Each Obligor, pursuant to the Obligors Deed Poll, has consented to this Scheme, agreed to be bound by this Scheme as if it were a party to this Scheme and undertaken to perform all obligations and actions attributed to it under this Scheme.

(C) The Scheme Administrators, pursuant to the Scheme Administrators Deed Poll, have consented to act as Scheme Administrators, consented to this Scheme, agreed to be bound by this Scheme as if they were parties to this Scheme and undertaken to perform all obligations and actions attributed to the Scheme Administrators under this Scheme.

(D) Each of the Agent and the Trustee have undertaken that, immediately after they have received the instructions referred to in, or contemplated by, Step 1 (Deeds and Amendment Documents), each of the Agent and the Trustee will, pursuant to the Agent Deed Poll and the Trustee Deed Poll, respectively, perform all actions attributed to them under this Scheme.

THE PARTIES AGREE AS FOLLOWS:

1. INTERPRETATION

1.1 Definitions

The following definitions apply in this document.

7% Creditor Scheme means the compromise or arrangement under Part 5.1 of the Corporations Act between the Companies, the 7% Noteholders pursuant to the Unsecured Indenture and the Subordinate Claim Holders, being the compromise or arrangement proposed by the Companies and approved by the Court.

7% Noteholders means each "Holder" or "Securityholder" as those terms are defined in the Unsecured Indenture.

Administrative Agent means:

(a) Wilmington Trust, National Association in its capacity as administrative agent under the Term Loan A;

(b) Wilmington Trust, National Association in its capacity as administrative agent under the Term Loan B; and

(c) any successor administrative agent under the Term Loan A or Term Loan B.

Administrative Requirements means the conditions precedent to each of:

(a) the First Supplemental Indenture;

(b) the Amended Term Loan A; and

(c) the Amended Term Loan B,

other than the conditions precedent relating to this Scheme or the 7% Creditor Scheme becoming Effective.

Agent means the Administrative Agent or the Collateral Agent or both of them, as the context requires.

Agent Deed Poll means the deed poll substantially in the form set out in Schedule 8 of this Scheme and to be executed by the Agents as contemplated by clause 7.5(a)(i)(C)(bb) of this Scheme.

Amended Term Loan A means the amendment to the Term Loan A substantially in the form set out in Schedule 4 of this Scheme which amendment will take effect pursuant to clause 7.5(c) of this Scheme.

Amended Term Loan B means the amendment to the Term Loan B substantially in the form set out in Schedule 5 of this Scheme which amendment will take effect pursuant to clause 7.5(c) of this Scheme.

Amendment Documents means:

(a) the First Supplemental Indenture;

(b) the Amended Term Loan A; and

(c) the Amended Term Loan B.

Ares Nominee Director means the person nominated by Ares Management LLC, on behalf of its affiliated funds and accounts, to be considered by Shareholders for election at the Shareholders Meeting as a director of BLY pursuant to the Director Nomination Agreement whose notice of candidature is received by BLY by the date required by the Constitution.

Ares / Ascribe Joint Nominee Director means the person jointly nominated by Ares Management LLC, on behalf of its affiliated funds and accounts, and Ascribe II Investments LLC to be considered by Shareholders for election at the Shareholders Meeting as a director of BLY pursuant to the Director Nomination Agreements whose notice of candidature is received by BLY by the date required by the Constitution.

Ascribe Nominee Director means the person nominated by Ascribe II Investments LLC to be considered by Shareholders for election at the Shareholders Meeting as a director of

BLY pursuant to the Director Nomination Agreement whose notice of candidature is received by BLY by the date required by the Constitution.

ASIC means the Australian Securities and Investments Commission.

ASX means ASX Limited or the financial market operated by ASX Limited, as the context requires.

ASX Listing Rules means the listing rules of ASX, as waived or modified by ASX in respect of BLY, the Scheme or otherwise.

BLY Schemes means this Scheme and the 7% Creditor Scheme.

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

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

CBP Nominee Directors means those persons (not exceeding five) nominated by Centerbridge Partners, L.P. on behalf of CBP, and its and their affiliates and managed funds to be considered by Shareholders for election at the Shareholders Meeting as a director of BLY pursuant to the Director Nomination Agreement whose notice of candidature is received by BLY by the date required by the Constitution.

CBP Registered Holders means CCP II Dutch Acquisition – E2, B.V. and CCP Credit SC II Dutch Acquisition – E, B.V.

Change of Control Event has the meaning given in clause 8.2(c).

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.

Collateral Agent means:

(a) Wilmington Trust, National Association in its capacity as collateral agent under the Term Loan A;

(b) Wilmington Trust, National Association in its capacity as collateral agent under the Term Loan B; and

(c) any successor collateral agent under the Term Loan A or Term Loan B.

Companies means the BLY Issuer, BLY, BLA and Votraint.

Constitution means the constitution of BLY, as amended from time to time.

Conversion means the issue of Shares on conversion of the Convertible Preference Shares.

Convertible Preference Shares means the 434,001,986 convertible preference shares in the capital of BLY held by CCP II Dutch Acquisition - E2, B.V.

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

Costs means costs, charges, fees and expenses.

Court means the Supreme Court of New South Wales.

Deed Poll means the Scheme Administrators Deed Poll, the Agents Deed Poll, the Trustee Deed Poll, the Secured Scheme Creditors Deeds Poll, the Obligors Deed Poll or the Released Obligor Individual Deeds Poll, as the context requires, and Deeds Poll means all of them or any combination of them, as the context requires.

Demands has the meaning given in clause 6.5(c).

Director Nomination Agreement means:

(a) the agreement between Centerbridge Partners, L.P. on behalf of CBP, and its and their affiliates and managed funds, and BLY in relation to the nomination of the CBP Nominee Directors to stand for election to the board of BLY;

(b) the agreement between Ares Management LLC, on behalf of its affiliated funds and accounts, and BLY in relation to the nomination of the Ares Nominee Director and the Ares/Ascribe Joint Nominee Director to stand for election to the board of BLY; or

(c) the agreement between Ascribe II Investments LLC and BLY in relation to the nomination of the Ascribe Nominee Director and the Ares/Ascribe Joint Nominee Director to stand for election to the board of BLY,

as the context requires, and Director Nomination Agreements means all of the above or any combination of them, as the context requires.

Effective means, when used in relation to this Scheme, the coming into effect of the Second Court Orders pursuant to section 411(10) of the Corporations Act.

Effective Date means the date on which each of the conditions precedent in clause 3.1 has been satisfied.

FATA means the *Foreign Acquisitions and Takeovers Act 1975* (Cth).

Final Chapter 15 Order means an order of the United States Bankruptcy Court Southern District of New York granting recognition to this Scheme and the 7% Creditor Scheme and giving full force and effect thereto.

Finance Document means each of the documents listed in Schedule 1.

First Court Date means the date of the hearing of an application for the First Court Orders or, if the hearing of that application is adjourned, the date to which the hearing is adjourned.

First Court Orders means the orders of the Court convening the Scheme Meeting under section 411(1) of the Corporations Act.

First Supplemental Indenture means the first supplemental indenture substantially in the form set out in Schedule 3 of this Scheme which first supplemental indenture will take effect pursuant to clause 7.5(c) of this Scheme.

Governmental Agency means any government or representative of a government or any governmental, semi-governmental, administrative, fiscal, regulatory or judicial body, department, commission, authority, tribunal, agency, competition authority or entity and includes any minister (including the Treasurer of the Commonwealth of Australia), ASIC, the Australian Competition and Consumer Commission, the Australian Taxation Office, ASX and any regulatory organisation established under statute or any stock exchange.

Holders means the TLA Purchasers, the TLB Purchasers and the Noteholders.

Implementation Date means the later of:

(a) five Business Days after the Effective Date; and

(b) if the Scheme Administrator forms the opinion that Steps 2 (Release) and 3 (Amendment Documents) cannot occur simultaneously on the date in (a) above, such later date on which, in the opinion of the Scheme Administrator, Steps 2 (Release) and 3 (Amendment Documents) can occur simultaneously, being a date that is not later than the Sunset Date.

Liabilities has the meaning given in clause 6.5(a).

Losses has the meaning given in clause 6.5(b).

New Money ABL means a new revolving ABL facility in an aggregate principal amount equal to US$75,000,000 to be entered into by the Companies.

Nominee Directors means any CBP Nominee Director, the Ares Nominee Director and the Ascribe Nominee Director.

Noteholders means each "Holder" or "Securityholder" as those terms are defined in the Secured Indenture.

Obligors means each of:

(a) BLY;

(b) the BLY Issuer;

(c) BLA;

(d) Boart Longyear Canada;

(e) Boart Longyear Chile Limitada;

(f) Boart Longyear Comercializadora Limitada;

(g) Boart Longyear Company;

(h) Boart Longyear Manufacturing and Distribution Inc.;

(i) Boart Longyear Manufacturing Canada Ltd.;

(j) Boart Longyear S.A.C.;

(k) Boart Longyear Suisse Sarl;

(l) Longyear Canada, ULC;

(m) Longyear Holdings Inc.;

(n) Longyear TM Inc.;

(o) Votraint; and

(p) BLY IP Inc.

Obligors Deed Poll means the deed poll executed by the Obligors dated on or around 12 May 2017.

Released Obligor Individual means each person who was, at any time between 27 September 2013 and the Implementation Date inclusive, a director or officer of any Obligor who has executed, or at any time executes (including by way of joinder), a Released Obligor Individual Deed Poll.

Released Obligor Individual Deed Poll means the deed poll substantially in the form set out in Schedule 10 of this Scheme.

Relevant Documents means this Scheme, the Obligors Deed Poll and the Amendment Documents.

RSA means the Restructuring Support Agreement entered into between, among others, BLY and BLY Issuer, dated 2 April 2017 as may be amended, modified or supplemented from time to time.

Scheme means the compromise or arrangement under Part 5.1 of the Corporations Act between the BLY Issuer, BLY, BLA and Votraint and the Secured Scheme Creditors as set out in this document, subject to any alterations or conditions made or required by the Court.

Scheme Administrator means Scott Kershaw and Jenny Nettleton of Korda Mentha, or any other person who accepts the appointment to the role of scheme administrator of this Scheme, subject to section 411(7) of the Corporations Act provided, in each case, they have each executed a deed poll in substantially the same form as the Scheme Administrators Deed Poll.

Scheme Administrators Deed Poll means the deed poll substantially in the form set out in Schedule 9 of this Scheme and executed by the Scheme Administrators.

Scheme Meeting means the meeting of Secured Scheme Creditors ordered by the Court to be convened under section 411(1) of the Corporations Act in relation to this Scheme, and includes any adjournment of that meeting.

Second Court Date means the first day of the hearing of an application made to the Court for the Second Court Orders or, if the hearing of such application is adjourned for any reason, means the first day to which the hearing is adjourned.

Second Court Orders means the orders of the Court approving this Scheme under section 411(4)(b) (and, if applicable, section 411(6)) of the Corporations Act.

Secured Scheme Creditors means the TLA Purchasers, the TLB Purchasers and the Noteholders, as at the Effective Date.

Secured Indenture means the indenture dated 27 September 2013, between the BLY Issuer, as issuer, BLY, BLA and Votraint as guarantors, amongst others, and U.S. Bank National Association, as trustee and collateral agent, amongst others, in respect of 10.00% secured notes, as amended, varied, or amended and restated from time to time.

Secured Scheme Creditor Deed Poll means the deed poll executed by a Scheme Administrator as attorney and agent for the Secured Scheme Creditors as contemplated by clause 5.2 and 7.5(a)(i)(A) of this Scheme in substantially the form set out in Schedule 6.

Shareholder means each person entered in the register of members of BLY as the holder of at least 1 (one) Share as at the date for determining entitlements to vote at the Shareholder Meeting.

Shareholder Meeting means the general meeting of the Shareholders of BLY to be held to consider and vote on the Shareholder Resolutions, amongst other matters.

Shareholder Resolutions means resolutions at the Shareholder Meeting:

(a) for the purposes of ASX Listing Rule 7.1 and for all other purposes, to approve to issuing:

(i) Shares and Warrants pursuant to the 7% Creditor Scheme to the 7% Noteholders; and

(iii) Warrants to Shareholders, other than affiliates of CBP;

(b) for the purposes of item 7 of section 611 of the Corporations Act, ASX Listing Rule 10.11 and Chapter 2E of the Corporations Act and all other purposes, to approve BLY issuing Shares pursuant to the Subscription Deed;

(c) for the purposes of item 7 of section 611 of the Corporations Act and for all other purposes to approve:

(ii) Ares; and

(iii) Ascribe,

acquiring Shares pursuant to the 7% Creditor Scheme which would otherwise be prohibited by the takeover provisions in section 606 of the Corporations Act; and

(d) appointing the Nominee Directors as directors of BLY.

Shares means fully paid ordinary shares in the capital of BLY.

Stamp Duty means any stamp, transaction or registration duty or similar charge imposed by any Governmental Agency and includes any interest, fine, penalty, charge or other amount in respect of the above.

Standard Tax Conditions means the conditions set out in Part A of the document entitled "Taxation Conditions of Certain No Objection Decisions" released by the Foreign Investment Review Board dated 3 May 2016.

Standstill Period has the meaning given in clause 8.1.

Step means any of Steps 1 (Deeds and Amendment Documents) to 3 (Amendment Documents) set out in clause 7.5 and Steps means all of them.

Subordinate Claim means a "subordinate claim" within the meaning of subsection 563A(2) of the Corporations Act against BLY in respect of any fact, matter, circumstance or event which has arisen or occurred at any time prior to the compromise of such claims pursuant to the 7% Creditor Scheme.

Subordinate Claim Holder means any person who, as at immediately prior to the compromise of such claims pursuant to the 7% Creditor Scheme, has or, but for the 7% Creditor Scheme, would be entitled to make, a Subordinate Claim.

Subscription Deed means the agreement between BLY and CBP pursuant to which Shares will be issued to CBP (or its nominee).

Subsequent Term Loan Amendments means the agreement between the TLA Purchasers and the Obligors to amend the interest rate applicable to the Term Loan A and

the agreement between the TLB Purchasers and the Obligors to amend the interest rate applicable to the Term Loan B.

Sunset Date means 31 December 2017.

Term Loan A means the Term Loan A Securities Agreement dated 22 October 2014 between, amongst others, the BLY Issuer, as issuer, BLY, BLA and Votraint, as guarantors, amongst others, and Wilmington Trust, National Association, as administrative agent and collateral agent, pursuant to which term loan securities were issued, as amended, varied, or amended and restated from time to time.

Term Loan B means the Term Loan B Securities Agreement dated 22 October 2014 between, amongst others, the BLY Issuer, as issuer, BLY, BLA and Votraint, as guarantors, amongst others, and Wilmington Trust, National Association, as administrative agent and collateral agent, pursuant to which term loan securities were issued, as amended, varied, or amended and restated from time to time.

TLA Purchasers means the "Purchasers" as that term is defined in the Term Loan A.

TLB Purchasers means the "Purchasers" as that term is defined in the Term Loan B.

Transaction Party means the parties to the Secured Indenture, the Term Loan A and the Term Loan B, as applicable.

Trustee means U.S. Bank National Association in its capacity as trustee and collateral agent under the Secured Indenture and any successor trustee or collateral agent under that document.

Trustee Deed Poll means the deed poll substantially in the form set out in Schedule 7 of this Scheme and to be executed by the Trustee as contemplated by 7.5(a)(i)(C)(aa) of this Scheme.

Undertakings means:

(a) the undertaking given by the Trustee to execute the Trustee Deed Poll in accordance with this Scheme; and

(b) the undertaking given by the Agent to execute the Agent Deed Poll in accordance with this Scheme.

Unsecured Indenture means the indenture dated 28 March 2011 between, amongst others, the BLY Issuer, as issuer, BLY, BLA and Votraint, as guarantors, amongst others, and U.S. Bank National Association, as trustee and collateral agent, as amended by the first supplemental indenture dated 14 June 2013, the second supplemental indenture dated 27 September 2013 and the third Supplemental Indenture dated 2 April 2017, and as otherwise amended, varied, or amended and restated from time to time.

Warranties means any warranties given by the Companies in favour of the Holders (as that term is defined under this Scheme and the 7% Creditor Scheme) under the RSA and any warranties given by the Holders (as that term is defined under this Scheme and the 7% Creditor Scheme) in favour of each other or the Companies under the RSA in contemplation of the transactions to be effected by, or in connection with, this Scheme and the 7% Creditor Scheme.

Warrants means warrants issued by BLY on the terms set out in Schedule 8 of the 7% Creditor Scheme.

1.2 **Rules for interpreting this document**

Headings are for convenience only, and do not affect interpretation. The following rules also apply in interpreting this document, 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 document) or agreement, or a provision of a document (including this document) or agreement, is to that document, agreement or provision as amended, supplemented, replaced or novated;

(iii) a party is a reference to a person who is bound by this Scheme, and any person who agrees to be bound whether by deed poll or otherwise;

(iv) a person includes a natural person, partnership, joint venture, Government Agency, association, corporation or other body corporate;

(v) a clause, term, schedule or attachment is a reference to a clause or term of, or, schedule or attachment to this Scheme;

(vi) this Scheme includes all schedules and attachments to it;

(vii) a law includes:

(A) any constitutional provision, treaty, decree, statute, regulation, by-law, ordinance or instrument;

(B) any order, direction, determination, approval requirement, licence or licence condition made, granted or imposed under any of them;

(C) any judgment; and

(D) any rule or principle of common law or equity,

and is a reference to that law as amended, supplemented, consolidated, replaced, overruled or applied to new or different facts;

(viii) an agreement other than this Scheme includes an undertaking, or legally enforceable arrangement or understanding, whether or not in writing;

(ix) **"dollars"** or **"US$"** or **"$"** is to an amount in the currency of the United States of America unless otherwise indicated;

(x) **"AU$"** is to an amount in the currency of the Commonwealth of Australia;

(xi) a thing (including, but not limited to, a chose in action or other right) includes a part of that thing; and

(xii) anything (including a right, obligation or concept) includes each part of it.

(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.

(f) Unless expressly provided otherwise, an agreement on the part of two or more persons binds them severally.

(g) Unless expressly provided otherwise, a reference to a date or time is to that date or time in Sydney, New South Wales.

1.3 **Non Business Days**

If the day on or by which a person must do something under this document is not a Business Day the person must do it on or by the next Business Day.

1.4 **The rule about "contra proferentem"**

This document is not to be interpreted against the interests of a party merely because that party proposed this document or some provision of it or because that party relies on a provision of this document to protect itself.

2. **THIRD PARTIES**

2.1 **Capacity of Agent and Trustee**

Any action taken (including the giving of any release) in connection with this Scheme by:

(a) the Trustee, or on its behalf, is done in its capacity as trustee or collateral agent under the Secured Indenture and not in the Trustee's personal capacity; and

(b) the Agent, or on its behalf, is done in its capacity as administrative agent or collateral agent, or both, under the Term Loan A or Term Loan B, as the context requires, and not in the Agent's personal capacity.

2.2 **Deeds Poll**

(a) This Scheme attributes actions to persons other than the Companies and the Secured Scheme Creditors, being the Trustee, the Agent, each Obligor (other than the Companies), each Released Obligor Individual and the Scheme Administrator.

(b) The Trustee has agreed or will agree, by executing the Trustee Deed Poll, to perform the actions attributed to it under this Scheme subject to the instructions set out in clause 4 and clause 7.5(a)(i)(B)(aa) of this Scheme.

(c) The Agent has agreed or will agree, by executing the Agent Deed Poll, to perform the actions attributed to it under this Scheme subject to the instructions set out in clause 4 and clause 7.5(a)(i)(B)(bb) of this Scheme.

(d) Each Obligor (other than the Companies), each Scheme Administrator and each Released Obligor Individual has agreed or will agree, by executing the relevant Deed Poll, to perform the actions attributed to it under this Scheme, and is taken to be a party to this Scheme on and subject to the provisions of the relevant Deed Poll.

(e) This Scheme also contemplates:

(i) the Secured Scheme Creditors entering into a deed poll as set out in clause 5.2; and

(ii) that any person who is entitled to become a Released Obligor Individual may enter into a Released Obligor Individual Deed Poll either on, before or after the Effective Date.

3. CONDITIONS PRECEDENT

3.1 Conditions

This Scheme is conditional upon, and will have no force or effect until, the satisfaction of each of the following conditions precedent:

(a) (**FATA**) in the case of each 7% Noteholder and each Holder who notified the Treasurer of the Commonwealth of Australia in accordance with FATA (**Prescribed Creditor**) that it proposes to acquire Shares or Warrants or both under the 7% Creditor Scheme or the Subscription Deed (the **Action**) and paid any applicable fee, one of the following occurs at or before 8.00 am on the Second Court Date:

(i) the day that is 10 days after the end of the decision period mentioned in section 77 of FATA passes without an order prohibiting the Action having been made under section 67 or 68;

(ii) if an interim order is made under section 68 of FATA, the end of the period specified in the order passes without an order prohibiting the Action under section 67 having been made; or

(iii) the Prescribed Creditor receives a no objection notice (within the meaning of FATA) in respect of the Action that notice being unconditional other than the Standard Tax Conditions or such other conditions which are acceptable to the Prescribed Creditor acting reasonably;

(b) (**Shareholder approval**) at or before 8.00 am on the Second Court Date the Shareholder Resolutions are passed by the requisite majority of Shareholders;

(c) (**ASX approval**) ASX provides written confirmation that the terms of the New Warrants are appropriate and equitable for the purposes of ASX Listing Rule 6.1 or otherwise waives the requirement for the warrants to comply with ASX Listing Rule 6.1;

(d) (**ASX waiver**) ASX provides a waiver of ASX Listing Rule 10.1 in respect of the Amended Term Loan A and the Amended Term Loan B;

(e) (**Holder approval**) the Scheme is agreed to by a majority of the Holders present and voting in person or by proxy at the Scheme Meeting, holding at least 75% of the debt owed by the Companies to those Holders, in accordance with section 411(4)(a)(i) of the Corporations Act;

(f) (**Director Nomination Agreement**) each Director Nomination Agreement has been executed by the parties to that Director Nomination Agreement;

(g) (**deeds poll**) as at 8.00 am on the Second Court Date:

(i) the Scheme Administrators Deed Poll and the Obligors Deed Poll have been executed by the Scheme Administrators and the Obligors and continue to

benefit the beneficiaries named in those deeds poll in accordance with their terms; and

(ii) no such Deed Poll has been terminated;

(h) (**undertaking**) as at 8.00 am on the Second Court Date:

(i) the Undertakings have been executed by the Trustee and the Agent and continue to benefit the beneficiaries named in those Undertakings in accordance with their terms; and

(ii) no such Undertaking has been terminated;

(i) (**independent expert**) as at 8.00 am on the Second Court Date, KPMG Financial Advisory Services (Australia) Pty Ltd, the independent expert appointed by BLY, has not concluded that the Shareholder Resolutions are "not fair" and "not reasonable";

(j) (**New Money ABL**) as at 8.00 am on the Second Court Date, the New Money ABL has been duly executed and delivered by all parties to it and all conditions precedent to the New Money ABL have been satisfied (other than conditions precedent relating to this Scheme becoming Effective, the 7% Creditor Scheme becoming effective pursuant to section 411(10) of the Corporations Act, the Subsequent Term Loan Amendments becoming effective and the Final Chapter 15 Order being entered);

(k) (**Amendment Documents**) as at 8.00 am on the Second Court Date, each of the Administrative Requirements have been satisfied (other than the execution of the Amendment Documents, the conditions precedent relating to this Scheme becoming Effective and the 7% Creditor Scheme becoming effective pursuant to section 411(10) of the Corporations Act);

(l) (**Subscription Deed**) as at 8.00 am on the Second Court Date, the Subscription Deed has been duly executed and delivered by all parties to it, remains in full force and effect, and all conditions precedent to the Subscription Deed have been satisfied (other than conditions precedent relating to this Scheme becoming effective and the 7% Creditor Scheme becoming effective pursuant to section 411(10) of the Corporations Act);

(m) (**Subsequent Term Loan Amendments**) as at 8.00 am on the Second Court Date, the Subsequent Term Loan Amendments have been duly executed and delivered by all parties to them, and all conditions precedent to the Subsequent Term Loan Amendments have been satisfied (other than conditions precedent relating to this Scheme becoming Effective, this Scheme being implemented and the 7% Creditor Scheme becoming effective pursuant to section 411(10) of the Corporations Act);

(n) (**Regulatory Approvals**) as at 8.00 am on the Second Court Date, any approvals or consents, which are not otherwise described in this clause 3.1 but which are required by law or by any Government Agency to have been obtained in order to implement this Scheme or the 7% Creditor Scheme, have been obtained on an unconditional basis and remain in full force and effect;

(o) (**Warranties**) as at 8.00 am on the Second Court Date, the Warranties are true and correct in all material respects;

(p) (**Court approval**) the Court makes the Second Court Orders, including with such alterations or conditions required by the Court under section 411(6) of the Corporations Act and the alterations or conditions (if any) do not change the

substance of this Scheme, including the Steps, in any material respect or impose unduly onerous obligations on any of the parties, acting reasonably;

(q) (**other conditions**) any other conditions made or required by the Court under section 411(6) of the Corporations Act in relation to this Scheme (which conditions do not change the substance of this Scheme, including the Steps, in any material respect, or impose unduly onerous obligations on any of the parties, acting reasonably) have been satisfied;

(r) (**Effective**) this Scheme becomes Effective;

(s) (**7% Creditor Scheme**) the court order pursuant to section 411(4)(b), and if applicable section 411(6), of the Corporations Act in respect of the 7% Creditor Scheme becomes effective pursuant to section 411(10) of the Corporations Act; and

(t) (**RSA**) the RSA has not been terminated in accordance with its terms.

3.2 **Certificate**

(a) On the Second Court Date, the Companies will provide a certificate to the Court (or such other evidence as the Court may request) confirming, in respect of matters within its knowledge, whether or not the conditions precedent set out in clauses 3.1(a) to 3.1(o) have been satisfied.

(b) The certificate (or other evidence) given by the Companies constitutes conclusive evidence, as between the parties, that the conditions precedent set out in clause 3.1(a) to 3.1(o) above have (or have not) been satisfied, as the case may be.

4. **THE AGENT AND THE TRUSTEE**

(a) On and from the Effective Date, notwithstanding any term of any relevant document, the Noteholders hereby:

(i) provide the Trustee with all instructions and consents that it requires from them under the Secured Indenture to amend or amend and restate (as applicable) the Secured Indenture in accordance with this Scheme;

(ii) direct the Trustee to execute and do, and to instruct any other Transaction Party which it is entitled to instruct to execute and do, or otherwise procure to be executed and done, all such documents (including, without limitation, the applicable Deed Poll and the First Supplemental Indenture), acts or things as may be necessary or desirable to be executed or done by it for the purposes of giving effect to the terms of this Scheme; and

(iii) provide the Trustee with all other instructions and consents that are necessary to enable the Trustee to do anything that this Scheme requires or otherwise provides for the Trustee to do.

(b) On and from the Effective Date, notwithstanding any term of any relevant document, the TLA Purchasers hereby:

(i) provide the Agent with all instructions and consents that it requires from them under the Term Loan A to amend or amend and restate (as applicable) the Term Loan A in accordance with this Scheme;

(ii) direct the Agent to execute and do, and to instruct any other Transaction Party which it is entitled to instruct to execute and do, or otherwise procure

to be executed and done, all such documents (including, without limitation, the applicable Deed Poll and the Amended Term Loan A), acts or things as may be necessary or desirable to be executed or done by it for the purposes of giving effect to the terms of this Scheme; and

(iii) provide the Agent with all other instructions and consents that are necessary to enable the Agent to do anything that this Scheme requires or otherwise provides for the Agent to do.

(c) On and from the Effective Date, notwithstanding any term of any relevant document, the TLB Purchasers hereby:

(i) provide the Agent with all instructions and consents that it requires from them under the Term Loan B to amend or amend and restate (as applicable) the Term Loan B in accordance with this Scheme;

(ii) direct the Agent to execute and do, and to instruct any other Transaction Party which it is entitled to instruct to execute and do, or otherwise procure to be executed and done, all such documents (including, without limitation, the applicable Deed Poll and the Amended Term Loan B), acts or things as may be necessary or desirable to be executed or done by it for the purposes of giving effect to the terms of this Scheme; and

(iii) provide the Agent with all other instructions and consents that are necessary to enable the Agent to do anything that this Scheme requires or otherwise provides for the Agent to do.

(d) Each Secured Scheme Creditor and each Obligor will, if required, do such acts as may be required of it by the Scheme Administrator to give the instructions, consents and notifications referred to above and failing which the Scheme Administrator will do so on their behalf pursuant to clauses 5.1(a) and 5.1(b).

(e) Without limiting the provisions of clauses 4(a), 4(b) and 4(c) and Step 1 (Deeds and Amendment Documents), on the Effective Date:

(i) the Noteholders hereby irrevocably direct the Trustee to execute the First Supplemental Indenture in accordance with clause 7.5(a)(i)(D) of this Scheme;

(ii) the TLA Purchasers hereby irrevocably direct the Agent to execute the Amended Term Loan A in accordance with clause 7.5(a)(i)(D) of this Scheme; and

(iii) the TLB Purchasers hereby irrevocably direct the Agent to execute the Amended Term Loan B in accordance with clause 7.5(a)(i)(D) of this Scheme.

5. GRANT OF AUTHORITY IN FAVOUR OF THE SCHEME ADMINISTRATOR

5.1 General grant of authority

(a) The Trustee, the Agent, each Secured Scheme Creditor and each Obligor irrevocably authorise each Scheme Administrator to take all steps and do all other things necessary or advisable to give effect to this Scheme.

(b) Without limitation to the generality of clause 5.1(a), and subject to clause 7.1(c), on and from the Effective Date, each Secured Scheme Creditor and each Obligor irrevocably appoints each Scheme Administrator as its agent and attorney to enter into, execute and deliver as a deed (or otherwise) any document and to take any

step necessary, desirable or advisable to give effect to this Scheme (except for the First Supplemental Indenture, which is to be executed by the Trustee party thereto in accordance with clause 7.5(a)(i)(D), and the Amended Term Loan A and the Amended Term Loan B which are to be executed by the Agent as the party thereto in accordance with clause 7.5(a)(i)(D)).

(c) The appointments and authorities granted under this clause 5 and clauses 4 and 6 shall be treated for all purposes as being fully effective and having been granted by deed poll. The authorities granted in favour of each Scheme Administrator under this Scheme will terminate immediately on the retirement or resignation of each Scheme Administrator in accordance with clause 6 of this Scheme.

5.2 Secured Scheme Creditor Deed Poll

Without limiting the generality of clause 5.1, on and from the Effective Date, each Secured Scheme Creditor irrevocably authorises each Scheme Administrator to execute and deliver, as its attorney and agent, a deed poll substantially in the form of Schedule 6, as amended to include the list of Secured Scheme Creditors.

6. SCHEME ADMINISTRATOR

6.1 Appointment of Scheme Administrators

Each Scheme Administrator will, on and from the Effective Date, be appointed jointly and severally as scheme administrator of this Scheme.

6.2 Qualification, appointment and cessation

(a) A person shall only be appointed as a scheme administrator of this Scheme, or replace a Scheme Administrator who ceases to be a scheme administrator of this Scheme (except by reason of resignation as the Scheme Administrator under clause 6.8) if the person:

(i) is not disqualified pursuant to section 411(7) of the Corporations Act;

(ii) consents to act as a scheme administrator; and

(iii) signs and delivers a deed poll substantially in the form of the Scheme Administrators Deed Poll.

(b) A person ceases to be a Scheme Administrator if he or she:

(i) is disqualified pursuant to section 411(7) of the Corporations Act;

(ii) resigns from the position of Scheme Administrator by not less than one month's notice in writing to the Companies;

(iii) is removed from the position of Scheme Administrator by an order of the Court;

(iv) becomes of unsound mind or a person whose person or estate is liable to be dealt with in any way under the law relating to mental health;

(v) becomes bankrupt; or

(vi) dies.

6.3 **Powers in relation to this Scheme**

Subject to clause 6.8, each Scheme Administrator:

(a) has the power to supervise, administer, implement and carry out its functions as set out in this Scheme;

(b) has the power to do anything else that is necessary or advisable for the purposes of administering this Scheme; and

(c) has the power to do anything that is incidental to the exercise of the powers conferred on him or her under clauses 6.3(a) and 6.3(b).

6.4 **Exercise of Powers**

(a) Each Scheme Administrator shall be entitled to:

(i) employ its partners and staff to assist it in the performance or exercise of its duties, obligations, responsibilities and powers under this Scheme;

(ii) appoint agents to attend to any matter that the Scheme Administrator might attend to under this Scheme and which the Scheme Administrator is unable to attend to or which it is unreasonable to expect the Scheme Administrator to attend to in person; and

(iii) appoint a solicitor, accountant, barrister or other professionally qualified person or persons to assist or advise the Scheme Administrator.

(b) Except as expressly provided in this Scheme, in exercising or performing any of its duties, obligations, responsibilities or powers under this Scheme, each Scheme Administrator is taken not to act as, nor to have any of the duties of, a trustee.

(c) Except where this Scheme expressly authorises a Scheme Administrator to act as agent and attorney for a person in the execution of documents, the Scheme Administrator does not act as agent or attorney for any party to, or person bound by, this Scheme and Claims or obligations of any kind whatsoever incurred in connection with its role as Scheme Administrator are incurred by it personally.

6.5 **Liability**

Subject to the Corporations Act, a Scheme Administrator is not, in the performance or exercise of its powers, obligations, functions and duties under this Scheme, personally liable for:

(a) any Claims or obligations of any kind whatsoever incurred by or on behalf of the Companies including, without limitation, any monies borrowed and interest thereon and any contracts adopted or otherwise agreed and any Stamp Duty payable on this Scheme and any tax liable to be remitted or otherwise paid (**Liabilities**);

(b) any loss or damage of any kind whatsoever caused by or resulting from any act, default or omission (**Losses**); or

(c) any actions, suits, proceedings, accounts, Claims or demands arising out of this Scheme which may be commenced, incurred by or made by any person and all Costs incurred in respect thereof (**Demands**),

whether before, during or after the Effective Date, unless attributable to fraud, wilful misconduct, reckless or gross negligence or breach of fiduciary duty.

6.6 **Indemnity**

(a) The Companies shall indemnify each Scheme Administrator for:

(i) all Liabilities, Losses and Demands (as defined in clause 6.5); and

(ii) all personal liability that the Scheme Administrator may incur in respect of his or her role as Scheme Administrator of the Companies,

unless attributable to fraud, wilful misconduct, reckless or gross negligence or breach of fiduciary duty.

(b) The indemnity under clause 6.6(a) takes effect on and from the Effective Date and is without limitation as to time notwithstanding the removal of the Scheme Administrator and the appointment of a replacement Scheme Administrator, the resignation of the Scheme Administrator or the termination of this Scheme for any reason whatsoever.

(c) The indemnity under clause 6.6(a) shall not:

(i) be affected, limited or prejudiced in any way by any irregularity, defect or invalidity in the appointment of the Scheme Administrator and shall extend to all actions, suits, proceedings, accounts, Liabilities, Claims and Demands arising in any way out of any defect in the appointment of the Scheme Administrator, the approval and implementation of this Scheme or otherwise; or

(ii) affect or prejudice all or any rights that the Scheme Administrator may have against any other person to be indemnified against the Costs, Losses and Liabilities incurred by the Scheme Administrator in, or incidental to, the exercise or performance of any of the powers or authorities conferred on the Scheme Administrator by or in connection with this Scheme.

(d) This indemnity survives completion or termination of this Scheme.

6.7 **Remuneration**

Subject to the Corporations Act, each Scheme Administrator shall be entitled to remuneration for its services together with reimbursement for its Costs, from, and in accordance with the terms of their letter of engagement with, the Companies.

6.8 **Resignation of Scheme Administrator**

Immediately following the delivery of the register pursuant to clause 7.3(b) evidencing completion of the Steps, each Scheme Administrator resigns as (and is taken to have resigned as) Scheme Administrator.

6.9 **Directors of the Companies remain in control**

Subject to the terms of this Scheme:

(a) the directors of each of the Companies:

(i) remain in control of each of the Companies with respect to the conduct of their respective business; and

(ii) remain in control of all of the assets of the Companies; and

(b) the Scheme Administrators do not have, and cannot exercise, any power in connection with the matters reserved to the directors of the Companies referred to in clause 6.9(a) above.

7. IMPLEMENTATION STEPS

7.1 Definitions, interpretation and undertaking not to make Claims

(a) The parties acknowledge and agree that:

(i) subject to clause 7.1(c), all releases and discharges in this clause 7 are irrevocable at and from the time they are expressed to take effect;

(ii) a reference to an amount owing in this clause 7 is a reference to that amount whether actually or contingently owing; and

(iii) notwithstanding anything in clause 7.5, anything (including an issue, allotment, release or discharge) occurring under a Step is binding and effective even if there is no consideration for it.

(b) Subject to clause 7.1(c), each party releasing a Claim or releasing any other party from an obligation owed to it by that party under this clause 7 absolutely and irrevocably undertakes to that party, at and from the time each such release is expressed to take effect and subject to all conditions to that released Claim or released obligation (if any) having been satisfied in accordance with their terms, that it will not make any Claim in respect of the released Claim or obligation to the extent that the Claim or obligation has been released in accordance with this Scheme and this document may be pleaded as a bar to any such Claim in any jurisdiction whatsoever.

(c) Where, in the opinion of the Scheme Administrator, acting reasonably, as a result of a release, discharge, allotment, issue or other event referred to or contemplated by a Step failing to occur or to take effect, it is not possible to give effect to the intent and purpose of this Scheme in all material respects:

(i) no other release, discharge, allotment, issue or other event referred to or contemplated by the Steps has effect (including as a result of non-satisfaction of a condition to a released Claim or released obligation, if any), and each such release, discharge, allotment, issue or other event is deemed not to have effect; and

(ii) the Obligors, the Trustee, the Agent, the Released Obligor Individuals and the Secured Scheme Creditors shall do all things reasonably necessary to put each other party in the position it would have been in if none of the Steps had occurred. This clause 7.1(c)(ii) survives and continues in effect notwithstanding the effect of clause 7.2.

7.2 Sunset date

If all of the Steps in clause 7.5 have not been completed by 11.59 pm on the Sunset Date, then with effect from that time, this Scheme will not be capable of implementation and this Scheme will lapse, terminate and be of no further force or effect (other than clause 7.1(c)(ii).

7.3 Scheme Administrator's register and certification

(a) The Scheme Administrator must keep a register noting the time of completion of the Steps in the form of Schedule 2, and the Scheme Administrator must sign it where indicated on completion of each Step. Each of the register and a copy of the

register certified by a Scheme Administrator will be conclusive evidence that the Step was completed at the time noted in the register.

(b) As soon as practicable after completion of the Steps, the Scheme Administrator will give a copy of the register, certified by a Scheme Administrator, to each of the Companies, the Agent and the Trustee.

7.4 **Timing of Steps**

(a) As early as practicable on the Effective Date, the Scheme Administrator shall notify the Companies, the Agent and the Trustee of the Effective Date and the Implementation Date. If the date notified by the Scheme Administrator as being the Implementation Date is a date other than the fifth Business Day after the Effective Date, the Scheme Administrator must give the Companies, the Agent and the Trustee full details of the reasons for which Step 2 (Release) and Step 3 (Amendment Documents) inclusive are unable to occur simultaneously on the fifth Business Day after the Effective Date.

(b) As soon as the Companies have received the notification referred to in clause 7.4(a), BLY must make a public announcement setting out the Effective Date and the anticipated Implementation Date.

(c) Step 2 (Release) and 3 (Amendment Documents) (inclusive) are to occur simultaneously on the Implementation Date as set out in clause 7.5, subject to the prior completion of Step 1 (Deeds and Amendment Documents) in accordance with its terms.

(d) If there is a change to the date notified by the Scheme Administrator in accordance with clause 7.4(a) as being the Implementation Date:

(i) the Scheme Administrator must, as soon as practicable after the change, notify the Companies, the Agent and the Trustee of the details of that change (including the reasons for it); and

(ii) BLY must make a further public announcement setting out the change to the Implementation Date.

7.5 **Steps**

(a) **Step 1 (Deeds and Amendment Documents)**:

(i) On the Effective Date, prior to any other Step commencing:

(A) first, the Scheme Administrator must execute and deliver the Secured Scheme Creditor Deed Poll;

(B) second:

(aa) each Noteholder and each Obligor, except BLY IP Inc, gives the Trustee all instructions, consents and directions to execute and deliver the Trustee Deed Poll and to perform its obligations under the Trustee Deed Poll and this Scheme;

(bb) each TLA Purchaser, each TLB Purchaser and each Obligor gives the Agent all instructions, consents and directions to execute and deliver the Agent Deed Poll and to perform its obligations under the Agent Deed Poll and this Scheme;

(cc) the Scheme Administrator must provide to the Trustee and the Agent written notice of the respective instructions and consents referred to in clause 7.5(a)(i)(B)(aa) and clause 7.5(a)(i)(B)(bb) on behalf of each Secured Scheme Creditor pursuant to the appointment in clause 5.1(b);

(C) third, in accordance with the instructions set out in clauses 4, 7.5(a)(i)(B)(aa) and 7.5(a)(i)(B)(bb) of this Scheme:

(aa) the Trustee will execute and deliver to the Scheme Administrator the Trustee Deed Poll; and

(bb) the Agent will execute and deliver to the Scheme Administrator the Agent Deed Poll;

(D) fourth:

(aa) the Trustee (in each case, for itself and on behalf of the Noteholders in accordance with the powers granted by the Noteholders in clause 4 of this Scheme) and each Obligor shall execute and deliver the First Supplemental Indenture to the Scheme Administrator to be held in escrow until immediately prior to Step 2 (Release) in accordance with Step 3 (Amendment Documents);

(bb) the Agent (in each case, for itself and on behalf of the TLA Purchaser in accordance with the powers granted by the TLA Purchasers in clause 4 of this Scheme) and each Obligor shall execute and deliver the Amended Term Loan A to the Scheme Administrator to be held in escrow until immediately prior to Step 2 (Release) in accordance with Step 3 (Amendment Documents); and

(cc) the Agent (in each case, for itself and on behalf of the TLB Purchaser in accordance with the powers granted by the TLB Purchasers in clause 4 of this Scheme) and each Obligor shall execute and deliver the Amended Term Loan B to the Scheme Administrator to be held in escrow until immediately prior to Step 2 (Release) in accordance with Step 3 (Amendment Documents);

(b) **Step 2 (Release)**:

(i) On the Implementation Date, immediately after the completion of the Conversion and the issue of Shares and Warrants under the 7% Creditor Scheme, and simultaneously with Step 3 (Amendment Documents), subject to paragraph (ii) below:

(A) each Secured Scheme Creditor:

(aa) releases each Obligor from any Claim it has against that Obligor arising out of any Obligor's failure to comply with the Finance Documents between 27 September 2013 and the Implementation Date or the RSA prior to this Scheme becoming Effective;

(bb) releases each Released Obligor Individual from all Claims relating to any fact, matter, circumstance or event that arose

or occurred in respect of, or in connection with, any Obligor between 27 September 2013 and the Implementation Date;

(cc) releases each other person that is a Secured Scheme Creditor from all Claims relating to any fact, matter, circumstance or event that arose or occurred as a result of any person's failure to comply with any Finance Document between 27 September 2013 and the Implementation Date or the RSA prior to this Scheme becoming Effective;

(B) each Obligor releases each Secured Scheme Creditor from any Claim it has against that Secured Scheme Creditor arising out of any Secured Scheme Creditor's failure to comply with the Finance Documents between 27 September 2013 and the Implementation Date or the RSA prior to this Scheme becoming Effective;

(C) each Released Obligor Individual releases each Secured Scheme Creditor from all Claims relating to any fact, matter, circumstance or event that arose or occurred in respect of, or in connection with, any Obligor between 27 September 2013 and the Implementation Date.

except in the case of each of (A), (B) and (C), and in respect of each Claim:

(D) to the extent that such Claim relates to the released party's obligations under the RSA that require performance subsequent to this Scheme becoming Effective; or

(E) to the extent that the released party has engaged in fraud or wilful misconduct or been reckless, grossly negligent or dishonest in respect of the facts, matters, circumstances or events to which that Claim relates.

(ii) Notwithstanding paragraph (i) above, and subject to clause 7.5(c), each of the Finance Documents and the RSA remain in full force and effect.

(iii) Notwithstanding anything to the contrary in this Scheme, the releases, waivers and covenants given in this clause 7.5(b) shall not disentitle any Secured Scheme Creditor, the Obligors or the Released Obligor Individuals from enforcing their rights under this Scheme or in respect of any transaction to be implemented or consummated in connection therewith and each party agrees that those releases, waivers and covenants will be limited to the extent necessary to permit each of them to enforce any such rights.

(c) **Step 3 (Amendment Documents)**

Simultaneously with Step 2 (Release), the Scheme Administrator shall release the Amendment Documents from escrow, at which point the Amendment Documents shall operate in accordance with their terms.

Immediately after the completion of Step 3 (Amendment Documents), each Secured Scheme Creditor releases each other person that is a Secured Scheme Creditor from all Claims and obligations under the Scheme and the Steps, except to the extent that such Claim relates to the released party's obligations under the RSA that require performance subsequent to this Scheme becoming Effective.

7.6 **No inconsistent acts**

The parties agree to treat themselves as bound by this Scheme for all purposes and not to act otherwise than in accordance with this Scheme.

8. STANDSTILL AND CONSENTS

8.1 Standstill

(a) During the period on and from the Effective Date up to the completion of Step 3 (Amendment Documents) (the **Standstill Period**), the Trustee, the Agent and each Secured Scheme Creditor agrees that it will not, except for the purpose of enforcing the terms of this Scheme, or any Deed Poll, or as otherwise expressly provided by this Scheme:

(i) exercise any right or remedy it may have under or in connection with the documents governing their respective Claims against the Obligors, including any right to seek interest payments under any such document, or under any applicable United States, Australian, Canadian or foreign law or otherwise with respect to any defaults, events of default or default events, howsoever described, which may arise under such documents;

(ii) commence or continue any legal action, Claim or other proceedings against any Obligor or the assets of any Obligor, including but not limited to in connection with any rights arising out of an event of default, default or default event, howsoever described, under any Finance Document;

(iii) exercise and, in the case of the Secured Scheme Creditors, not direct the Agent or the Trustee to exercise, and shall instruct each of the Agent and the Trustee to desist from exercising, any rights under any Finance Document;

(iv) take any step to enforce or make any demand under any guarantee, security or other right of recourse held by the Secured Scheme Creditors in respect of any Finance Document;

(v) take, or concur in the taking, of any step to wind up, appoint a liquidator, administrator, receiver, receiver and manager, or analogous office over, or commence any other insolvency related or attachment proceedings against, any Obligor or the assets of any Obligor;

(vi) take any steps to demand or enforce payment of all or part of any money owing, whether actually or contingently, by any Obligor pursuant to a right under any Finance Document;

(vii) declare any event of default, default or default event, howsoever described, under any Finance Document, including in respect of any circumstances subsisting as at or prior to the Effective Date;

(viii) ask or require any Obligor under any Finance Document to make any payment in respect of any indebtedness, liability or obligations (in each case, including at law) of such Obligor, including under or in connection with any Finance Document or any transaction under, or contemplated by, any Finance Document;

(ix) institute or prosecute any legal proceedings in relation to any Claim under any Finance Document against any Obligor or any other person to be released under this Scheme to the extent that such Claim or obligation is to be released under this Scheme; or

(x) exercise any rights against any Obligor which they may have on the occurrence of a breach, default, event of default, potential event of default or termination event (in each case, howsoever described or arising) under any Finance Document.

(b) During the Standstill Period:

(i) the Trustee and each Noteholder agrees not to dispose of or transfer any right under the Secured Indenture and the Noteholders direct the Trustee not to register any such disposal or transfer;

(ii) the Agent and each TLA Purchaser agrees not to dispose of or transfer any right under the Term Loan A and each TLA Purchaser directs the Agent not to register any such disposal or transfer; and

(iii) the Agent and each TLB Purchaser agrees not to dispose of or transfer any right under the Term Loan B and each TLB Purchaser directs the Agent not to register any such disposal or transfer.

8.2 **Consent, waiver and release**

The Trustee, the Agent, each Secured Scheme Creditor, and each Obligor whose consent or agreement is necessary under any Finance Document to give effect to this Scheme:

(a) irrevocably consents and agrees to each Obligor:

(i) entering into, or otherwise becoming bound by, each Relevant Document;

(ii) performing its respective obligations and transactions under, or as contemplated by, those Relevant Documents (including, but not limited to, Court applications for the purposes of this Scheme); and

(iii) carrying out any step for the purposes of, or otherwise acting consistently with, those Relevant Documents;

(b) agrees that no breach, non-compliance, default, event of default or potential event of default or termination event (in each case, howsoever described) under any Finance Document:

(i) has occurred (and agrees that it is taken to have not occurred), as a result of;

(ii) has been caused by (and agrees that it is taken to have not been caused by);

(iii) is continuing (and agrees that it is taken not to be continuing), as a result of; or

(iv) will or can occur, as a result of or be caused by,

any Obligor entering into or performing any Relevant Document or the obligations or transactions under, or contemplated by, any Relevant Document (including, but not limited to, any court applications for the purposes of this Scheme) or carrying out any step for the purposes of, or otherwise acting consistently with the Relevant Documents, and if any such event is deemed to have occurred then it is expressly waived notwithstanding any requirements relating to waiver in the Finance Documents;

(c) without limiting any other clause in this Scheme, agrees that if any change of control, in each case howsoever described, (**Change of Control Event**) has occurred under any of the Finance Documents at any time, up to and including the Implementation Date, any rights arising out of or in connection with the Change of Control Event are waived notwithstanding any requirements relating to waiver in the Finance Documents;

(d) agrees and consents to any releases which are given, or disposals of rights or other property which are made or occur, by any Obligor under, or which are otherwise contemplated by, the Relevant Documents; and

(e) agrees that the Trustee and the Agent have committed no breach, non-compliance or default under the relevant Finance Documents by executing the Undertakings, and if any such event is deemed to have occurred then it is expressly waived notwithstanding any requirements relating to waiver in the Finance Documents.

9. NOTICES

9.1 How to give a notice

A notice, consent or other communication under this document is only effective if it is:

(a) in writing, signed by or on behalf of the person giving it;

(b) addressed to the person to whom it is to be given; and

(c) either:

(i) sent by pre-paid mail (by airmail, if the addressee is overseas) or delivered to that person's address;

(ii) sent by fax to that person's fax number and the machine from which it is sent produces a report that states that it was sent in full without error; or

(iii) sent in electronic form (such as email).

9.2 When a notice is given

A notice, consent or other communication that complies with this clause is regarded as given and received:

(a) if it is sent by fax or delivered, if received:

(i) by 5.00 pm (local time in the place of receipt) on a Business Day - on that day; or

(ii) after 5.00 pm (local time in the place of receipt) on a Business Day, or on a day that is not a Business Day - on the next Business Day;

(b) if it is sent by mail:

(i) within Australia - three Business Days after posting; or

(ii) to or from a place outside Australia - seven Business Days after posting; and

(c) if it is sent in electronic form - when the sender receives confirmation on its server that the message has been transmitted:

(i) if it is transmitted by 5.00 pm (Sydney time) on a Business Day – on that Business Day; or

(ii) if it is transmitted after 5.00 pm (Sydney time) on a Business Day, or on a day that is not a Business Day – on the next Business Day.

9.3 **Address for notices**

A person's mail and email address and fax number are those set out below, or as the person notifies the sender:

(a) **Scheme Administrator**

Attention: Scott Kershaw and Jenny Nettleton

Address: Korda Mentha
Level 5, 2 Chifley Square
Sydney
New South Wales 2000
Australia

Fax: +61 2 8257 3044

Email: jnettleton@kordamentha.com

(b) **Trustee**

Attention: Corporate Trust Services

Address: U.S. Bank National Association
170 South Main Street, Suite 200
Salt Lake City
Utah 84101
United States

Fax: (801) 534-6013

With a copy to (but which will not constitute notice):Attention: Mark Williamson

Address: Piper Alderman
Level 23
Governor Macquarie Tower
1 Farrer Place
Sydney
New South Wales 2000
Australia

Fax: +61 2 9253 9900

Email: mwilliamson@piperalderman.com.au

And

Attention: Frank Ciaccio

Address: Dorsey & Whitney LLP
51 West 52nd Street
New York
NY 10019-6119
United States

Email: ciaccio.frank@dorsey.com

(c) **Agent**

Attention: Renee Kuhl

Address: Wilmington Trust, National Association
50 South Sixth Street, Suite 1290
Minneapolis, MN 55402
United States

Fax: +1 612 217 5635

Email: rkuhl@wilmingtontrust.com

With a copy to (but which will not constitute notice):

Attention: Chaz Beasley

Address: Alston & Bird LLP
Bank of America Plaza
101 South Tyron Street
Suite 4000
Charlotte
NC 28280-4000
United States

Fax: +1 704-444-1111

Email: chaz.beasley@alston.com

(d) **Obligors (including the Companies)**

Attention: Fabrizio Rasetti

Address: Boart Longyear
2570 West 1700 South
Salt Lake City
UT. 84104
United States

Email: frasetti@boartlongyear.com

With a copy to (but which will not constitute notice):

Attention: James Marshall

Address: Ashurst Australia
Level 11
5 Martin Place
Sydney
NSW 2000

Fax: + 61 2 9258 6999

Email: james.marshall@ashurst.com

With a copy to (but which will not constitute notice):

Attention: Dennis F. Dunne and Evan R. Fleck

Address: Milbank Tweed Hadley & McCloy LLP
28 Liberty Street
New York
NY 10005
United States

Fax: +1 212 822 5567

Email: efleck@milbank.com / ddunne@milbank.com

(e) **Secured Scheme Creditors**

Attention: Matt Sheahan

Address: Ares Management LLC
2000 Avenue of the Stars
12th Floor
Los Angeles, California 90067
United States

Fax: +1 (310) 861-1611

Email: msheahan@aresmgmt.com

And:

Attention: Lawrence First

Address: Ascribe II Investments LLC
299 Park Avenue, 34th Floor
New York, New York 10171
United States

Fax: +1 (212) 697-5524

Email: lfirst@ascribecapital.com

With a copy to (but which will not constitute notice):

Attention: Michael Dodge and Genevieve Sexton

Address: Arnold Bloch Leibler
333 Collins Street
Level 21
Melbourne Victoria 3000
Australia

Fax: +61 3 9916 9321 / +61 3 9916 9391

Email: mdodge@abl.com.au / gsexton@abl.com.au

With a copy to (but which will not constitute notice):

Attention: Michael H. Torkin and Daniel L. Biller

Address:	Sullivan & Cromwell LLP 125 Broad Street New York, New York 10004 United States
Fax:	+1 (212) 291-9376 / +1 (212) 291-9693
Email:	torkinm@sullcrom.com / billerd@sullcrom.com

10. GENERAL PROVISIONS

10.1 Further assurances

The Scheme Administrator, the Trustee, the Agent, each Secured Scheme Creditor and each Obligor must do all things and execute all deeds, instruments, transfers or other documents as may be necessary or desirable (in the opinion of the Companies, acting in good faith) to give full effect to the terms of this Scheme and the transactions contemplated by it.

10.2 Binding effect of Scheme

This Scheme binds the Companies, each Secured Scheme Creditor (including each Secured Scheme Creditor who did not attend the Scheme Meeting, who did not vote at the Scheme Meeting or who voted against this Scheme) and, to the extent of any inconsistency, overrides the terms of the Finance Documents. This Scheme also binds any party who agrees to be bound by this Scheme pursuant to a Deed Poll.

10.3 Costs and Stamp Duty

(a) The Companies are liable for, and must pay all Stamp Duty on or relating to the execution, delivery and performance of this Scheme, any instrument executed under or in connection with this Scheme or any transaction evidenced, effected or contemplated by this Scheme.

(b) If a person other than the Companies pays any Stamp Duty on or relating to the execution, delivery and performance of this Scheme, any instrument executed under or in connection with this Scheme or any transaction evidenced, effected or contemplated by this Scheme, then the Companies must pay that amount to the paying party on demand.

(c) This clause 10.3 survives completion of this Scheme.

10.4 Amendment

A provision of this Scheme may not be amended or varied except by an order of the Court pursuant to section 411(6) of the Corporations Act, being an order which imposes alterations or conditions which do not change the substance of this Scheme, including the Steps, in any material respect.

10.5 Governing Law and jurisdiction

(a) This Scheme is governed by the laws of the State of New South Wales.

(b) Each party submits to the non-exclusive jurisdiction of the courts of that State and courts of appeal from them, in respect of any proceedings arising out of or in connection with the subject matter of the Scheme.

ANNEXURE B

KordaMentha Report

KordaMentha
restructuring

Boart Longyear Limited

Independent experts' report in relation to the proposed schemes of arrangement

1 May 2017

KordaMentha
restructuring

Chifley Tower
Level 5, 2 Chifley Square
Sydney NSW 2000

GPO Box 2523
Sydney NSW 2001

+61 2 8257 3000
info@kordamentha.com

kordamentha.com

Mr James Marshall
Partner
Ashurst Australia
Level 11
5 Martin Place
Sydney NSW 2000

1 May 2017

Dear Mr Marshall

Independent Experts' Report in relation to the proposed Schemes of Arrangement ('the Schemes') for Boart Longyear Limited ('BLY')

We refer to your letter of instruction dated 1 May 2017, in which you requested we prepare an Independent Experts' Report for the Schemes.

This report addresses the matters which we were instructed to address in the letter of instruction.

Our comments and findings assume that the factual information provided to us by the Group is materially accurate. We understand you have shown a draft of the report to senior personnel of BLY, and to advisors to BLY, and that they have confirmed to you that, to the best of their knowledge, the factual information in the report does not contain any omissions or errors and the report accurately sets out the recent results, state of affairs and prospects of the Group.

This report has been prepared solely for the recipients and purposes stated in the letter of instruction (included at Appendix A to the report) and should not be used for any other purpose.

Thank you for your instructions on this matter.

Yours sincerely

Scott Kershaw
Partner

Jenny Nettleton
Executive Director

Contents

1 Introduction

On 2 April 2017, Boart Longyear Limited ('ListCo') and Boart Longyear Management Pty Limited ('FinCo') entered into a Restructuring Support Agreement ('RSA') in relation to a proposed restructure of financing facilities provided to FinCo, which are guaranteed by other companies in the Group. It is proposed that ListCo, FinCo, Boart Longyear Australia Pty Limited and Votraint No. 1609 Pty Limited (together, the 'Scheme Companies') enter into two creditors' schemes of arrangement, plus other associated documents, to implement the proposed restructure.

This report considers the current valuation of ListCo and its subsidiaries (which includes the Scheme Companies) and the outcomes for Beneficiaries of the proposed creditors' schemes of arrangements ('the Schemes') if the Schemes are approved or, alternatively, if the Scheme Companies were wound up within six months of the hearing date for orders under section 411(1) and (1A) of the Corporations Act 2001 ('the Act').

All amounts in this report are expressed in United States dollars (USD) unless otherwise indicated.

1.1 Scope of work

Included at Appendix A is our Letter of Engagement dated 1 May 2017. We have been instructed to address the following matters in this report:

1. The solvency of the Group following the implementation of the proposed Schemes.
   a. solvency is to be determined following completion of the Schemes
   b. solvency is to be determined with reference to section 95A of the Act.
2. The value of the assets of the Group generally relative to the debts owing under the Finance Facilities.
3. The expected dividend that would be respectively available to the:
   a. Secured Scheme Creditors
   b. Unsecured Scheme Creditors
   c. holders of Subordinate Claims against the Scheme Companies

   if the Scheme Companies were to be wound up within six months of the hearing of the application for an order under section 411(1) and (1A) of the Act.
4. The expected dividend that would be respectively paid to the:
   a. Secured Scheme Creditors
   b. Unsecured Scheme Creditors
   c. holders of Subordinate Claims against the Scheme Companies

   if the Schemes were put into effect as proposed.

   We are instructed that the requirement to calculate the expected dividend that would be paid to scheme creditors if the schemes were to be put into effect as proposed is drawn from Section 8201(b) in Part 2 of Schedule 8 of the Corporations Regulations 2001 (Cth). We are instructed that if, in response to point 1 above, we conclude that the Scheme Companies will be solvent following the implementation of the Schemes, the Scheme Companies would not be wound up following the implementation of the Schemes and based on the terms of the Schemes, despite the calculation required by the Regulations, no dividend would actually be paid to the Secured Scheme Creditors and Unsecured Scheme Creditors. In these circumstances, we are instructed that point 4 above still requires us to calculate the dividend that would be paid to Secured Scheme Creditors and Unsecured Scheme Creditors if the Scheme were implemented, which dividend must be calculated as if a winding up follows the implementation of the Schemes even though it would not do so in our opinion. We are instructed that if we conclude in response to point 1 above that the Scheme Companies would be solvent following the implementation of the Schemes, in order to reduce the risk that a reader of our report might be confused by the use of the term "expected dividend" in circumstances where the Scheme Companies are not being wound up, we have been requested that where we are addressing the calculation described in point 4 above in our

report we refer to implied value of the interests of the Secured Scheme Creditors and the Unsecured Scheme Creditors (Implied Value) instead of "expected dividend".

5. The likely outcome for the Group should the Schemes not be implemented:
   a. having regard to the Scheme Companies' existing financial position, and projections, and
   b. for the purposes of considering this matter only, assuming that there is no standstill in place in respect of the interest payments due to the Secured Scheme Creditors and the Unsecured Scheme Creditors on 1 April 2017.

The outcome of our work is summarised in Table 1.

Table 1 – Scope of work, section guide and conclusions

Item	Scope	Section	Conclusion
1	The solvency of the Group following the implementation of the proposed Schemes	4	In our opinion, the Group will be solvent after implementation of the Schemes. However, if the payment of April 2017 interest is required to be made, our opinion would change.
2	The value of the assets of the Group generally relative to the debts owing under the Finance Facilities	3	We have determined the Enterprise value of the Group to be $266.6 million, which is less than the amount owing under its Finance Facilities of $779.6 million.
3	The expected dividend which would be paid to Beneficiaries if the Scheme Companies were to be wound up within six months of the hearing date	5	The expected dividend to Beneficiaries in a winding up of the Scheme companies is as follows[1]: **Secured Scheme Creditors** Secured Notes: 22.1 TLB: 35.4 TLA: 32.6 **Unsecured Scheme Creditors** Unsecured Notes: Nil **Subordinate Claims**: Nil
4	The Implied Value of the interests of the Beneficiaries if the Schemes were put into effect as proposed, after implementation of the Schemes	5	The Implied Value of the interests of the Beneficiaries if the Schemes were put into effect as proposed, after implementation of the Schemes is as follows[2]: **Secured Scheme Creditors** Secured Notes: 61.0 TLB: 64.3 TLA: 47.2 **Unsecured Scheme Creditors** Subordinated Notes: Nil **Subordinate Claims**: Nil
5	The likely outcome for the Group should the Schemes not be implemented	6	In our opinion, if the Schemes are not implemented, the Australian Group companies would likely be placed into external administration and other Group companies may seek protection from their creditors in their respective jurisdictions.

Our relevant experience is outlined in our curricula vitae which are attached at Appendix B.

A glossary of abbreviations used throughout this report is included at Appendix D.

[1] The above returns are calculated based on the secured claims as at 28 February 2017.
[2] The above Implied Values are calculated based on secured claims as at 28 February 2017, adjusted on a pro-forma basis to calculate interest at the amended rates pursuant to the terms of the Restructuring Support Agreement. We are instructed that accrued PIK interest on the TLA and TLB loans does not form part of the secured claims amount.

1.2 Limitations and restrictions

There are no specific limitations and restrictions within the scope of work we have been instructed to perform. In preparation of this independent expert report, we were provided with information from the Group as set out in Appendix C and footnotes to this report, and obtained additional information from public sources. The documents we have utilised to support our opinions in this report are identified throughout the report by way of footnote or by reference to the information included in Appendix C. In the preparation of this report, we have relied upon the accuracy and completion of information provided by the Group and its advisors.

Neither KordaMentha nor we warrant the accuracy of the information supplied to us and we are not responsible in any way whatsoever to any person in respect of errors in this report arising from incorrect information supplied to us.

The statements and opinions given in this report are wholly based on our own specialised knowledge, given in good faith and in the belief that such statements are not false or misleading. Except where otherwise stated, we reserve the right to alter any conclusions reached on the basis of any changed or additional information which may be provided to us between the date of this report and the date of the meetings called pursuant to section 411(1) of the Act. We have no responsibility to update this report for events or circumstances occurring after the date of this report, apart from any subsequent arrangement.

We note that our statements and opinions are based on a number of assumptions detailed throughout the report, along with the rationale for these assumptions. Unless otherwise noted, we have not been instructed to make these specific assumptions. In considering the outcomes to the Beneficiaries of the Schemes, we have necessarily relied on forecast financial statements provided by the Group.

The forecast information and the assumptions upon which the forecasts are based are solely the responsibility of management and, insofar as the assumptions relate to the future or may be affected by unforeseen events, we can express no opinion on how closely the forecasts will correspond to actual results. While we have reviewed the high level assumptions underlying the forecast information, we do not express an audit opinion or any other form of assurance on these forecasts or assumptions and our comments are based on our evaluation.

We have complied with the requirements of APES 215 – Forensic Accounting Services and APES 225 – Valuation Services, the professional code of practice of CPA Australia and the Chartered Accountants Australia and New Zealand. The valuation included in this report is a limited scope valuation engagement for the purposes of complying with APES 225 – Valuation Services. The reasons for the limitations are set out in Appendix E.

1.3 Pre-existing relationships

We have read ASIC Regulatory Guide 112 on independence and are of the opinion that there is no:

- actual, or perceived, conflict of interest
- actual, or perceived, threat to independence
- other reason for which the engagement could not be accepted.

In accordance with RG112.23 and RG112.28 to RG112.36, the below provides a summary of our prior engagement with the Group and its legal advisors:

2013 engagement

333 Group Pty Limited ('333'), an associated entity of KordaMentha, was engaged by the Group pursuant to a letter of engagement dated 11 November 2013 and undertook the following tasks:

- Reviewed the Group's financial forecasts.
- Assessed the impact of a proposed refinance on the Group and its compliance with existing covenants.
- Assisted the Group to consider recapitalisation options.

2014 engagement

333 was further engaged by the Group pursuant to a letter of engagement dated 10 March 2014 and undertook scenario and deleveraging analysis.

All work under the engagements was completed by September 2014, prior to the TLA and TLB financing structure being implemented. In our opinion, these engagements do not impair our independence, on the basis that:

- 333 did not provide any advice in relation to the financial structure as it now exists.
- The engagements were completed in excess of two years prior to receiving instruction to prepare this report.
- KordaMentha has not undertaken any engagements for any of the Secured Scheme Creditors or the Unsecured Scheme Creditors in relation to the Group.

KordaMentha has been instructed by Ashurst, legal advisors to the Group, to prepare this report. We have not undertaken any other engagements under instruction from Ashurst in relation to the Group. KordaMentha has instructed Ashurst on other matters in which KordaMentha partners and/or staff are involved, in their capacities as receivers, administrators, deed administrators or liquidators of certain companies. In our opinion, these other engagements involving Ashurst do not impair our independence.

In our opinion, there are no other previous relationships, nor other considerations that impair our independence.

1.4 Reliance

This report has been prepared, and may be relied on, solely for the purpose contemplated in the letter of engagement included at Appendix A. This report, or any part of it, may only be published or distributed:

- as an annexure to the explanatory statements to be provided to the Beneficiaries and any relevant authority (including ASIC and the ASX) in relation to the Schemes
- as an annexure to a notice of meeting to the shareholders of the Scheme Companies
- as an annexure to any prospectus issued in connection with the Scheme Companies
- in accordance with any law or by order of a court of competent jurisdiction.

The express written consent of us and KordaMentha must be obtained prior to relying upon, publishing or distributing this report, or part of it, for any purpose other than that detailed above. Neither KordaMentha nor we accept responsibility to anyone if this report is used for some other purpose.

1.5 Assistance by colleagues

In order to arrive at our opinions in this matter, we have selected colleagues to assist us. Our colleagues carried out the work that we decided they should perform. We have reviewed their work and original documents to the extent we considered necessary to form our opinions. The opinions expressed in this report are ours.

1.6 Statement regarding expert witness code

We have read, understood and complied with the Expert Witness Code of Conduct from the Uniform Civil Procedure Rules 2005 (NSW).

As expert witnesses, we have also complied with our general duties to the Court, which include:

- We have a paramount duty to the Court which overrides any duty to any party to the proceedings including our clients.
- We have an overriding duty to assist the Court on matters relevant to our area of expertise in an objective and unbiased manner.
- We have a duty not to be an advocate to any party to the proceedings including our clients.
- We have a duty to make it clear to the Court when a particular question or issue falls outside our area of expertise.

2 Proposed restructure

2.1 The Group

The Group is headquartered in Salt Lake City, in the state of Utah, USA with the ultimate parent company, ListCo, being an Australian company listed on the Australian Securities Exchange ('ASX').

The Group operates two global businesses, Products and Drilling Services:

- The Products division manufactures drill rigs and drill rig components for sale to third parties and its own Drilling Services division
- The Drilling Services division provides aboveground and underground drilling services predominately to mining and resource companies in key markets across North America, Latin America, Australasia and South East Asia as well as Africa and the Middle East

The Group's customers are predominately large mining houses and drilling services companies. The Group's Drilling Services division primarily services the mineral sector, and has a fleet biased towards exploration rather than extraction. The Group has minimal exposure to the oil and gas sectors.

2.2 Current capital structure

As at 28 February 2017, the Group had total finance debt of $779.6 million ('Total Debt'), pursuant to the following facilities ('the Finance Facilities').

Table 2 – Group debt structure as at 28 February 2017

Facility	Maturity	Interest rate (p.a.)	Total due $million[3]
10% Senior Secured Notes ('Secured Notes')	1 October 2018	10.0%	203.0
Term Loan A[4] ('TLA') and accreted Interest	3 January 2021	12.0%	112.3
Term Loan B[5] ('TLB') and accreted Interest	3 January 2021	12.0%	135.7
Secured revolving working capital facility ('ABL')[6]	29 May 2020[7]	Variable	16.5
Delay Draw Loan Facility ('DDL')	31 December 2020	12.0%/10.0%[8]	20.0
7% Unsecured Secured Notes ('Unsecured Notes')	1 April 2021	7.0%	292.1
Total[9]			**779.6**

FinCo is the Group's sole borrower under the Finance Facilities, except for the DDL for which BLY IP Inc is borrower. Several companies in the Group have provided guarantees and security to support the Finance Facilities.

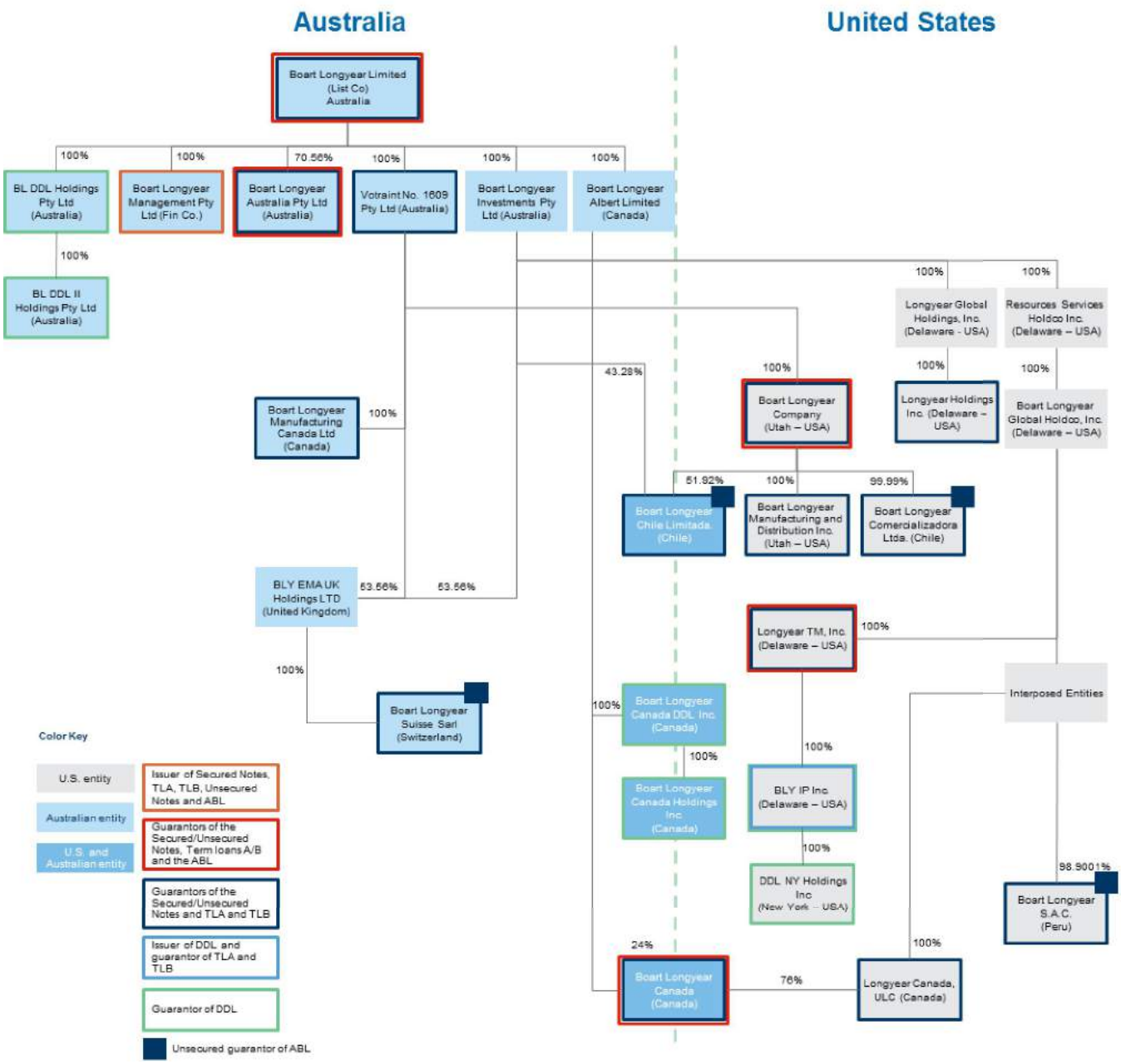
The limit of the ABL is $40.0 million, of which $5.0 million is subject to an availability block (the Group is not currently meeting certain criteria to enable this amount to be utilised). The drawn balance as at 28 February 2017 was $16.5 million, excluding letters of credit issued against facility limit of $11.9 million. In March 2017, a further $1.7 million was drawn on the ABL.

[3] Total due includes interest accrued for the two months ended 28 February 2017. Prepaid Australian withholding tax has been excluded from the debt due under the TLA and TLB.
[4] Debt Balance excludes Australian withholding tax
[5] Ibid
[6] Drawn balance as at 28 February 2017 excluding letters of credit of $11.9 million (i.e. total of $28.4 million).
[7] Maturity is the earlier of 29 May 2020, or 90 days prior to the expiration of the Secured Notes, TLA or TLB
[8] 12.0% p.a. applicable if interest elected to be paid in kind, or 10.0% p.a. if paid in cash
[9] Exclusive of debt issuance costs and finance lease liabilities

The Group also entered into an agreement on 2 April 2017 for an additional interim funding facility ('Interim Facility') from Centerbridge, Ares and Ascribe in the amount of $15.0 million. The initial funding under the Interim Facility was $7.5 million and the Interim Facility is forecast to be fully drawn prior to the implementation of the Schemes.

A summary of the Group corporate and financing structure is set out below.

Figure 1 – Simplified corporate and financing structure[10]



[10] Source: Group records

2.3 Overview of proposed restructure

On 2 April 2017, the Group signed a Restructuring Support Agreement with a number of its lenders.

It is proposed the Scheme Companies enter two creditors' schemes of arrangement as follows:

1. Secured Scheme – for the lenders under the TLA and TLB and holders of the Secured Notes (together the 'Secured Scheme Creditors')
2. Unsecured Scheme – for the holders of the Unsecured Notes (the 'Unsecured Scheme Creditors')

(together, 'the Schemes').

A suite of associated transactions is also proposed, which together with the Schemes, are referred to as the 'Recapitalisation Transactions'.

The purpose of the Recapitalisation Transactions is to reduce the level of indebtedness and amend the terms of the Finance Facilities, having regard to the Group's forecast and sector outlook.

The details of the proposed Schemes and the implementation steps are set out in the Scheme Documents, including:

- The Explanatory Statements
- The schemes of arrangement

(together, 'the Scheme Documents').

This report should be read in conjunction with the Scheme Documents.

If implemented, the Recapitalisation Transactions will alter the current capital structure through:

- Converting to equity a proportion of the Unsecured Notes
- Amending both the maturity and interest terms on Senior Notes, TLA and TLB. The maturity dates of the current debt obligations (excluding the ABL, DDL and Interim Facility) will be extended to 31 December 2022
- The issue of new shares to the TLA and TLB lenders
- The issue of new shares and warrants to holders of the Unsecured Notes.

As a result of the issues of new shares, existing shareholder holdings (excluding Centerbridge) will be diluted to 2.0%, before the option to participate in a share purchase plan for up to AUD $9.0 million and further dilution from warrants being exercised.

2.4 Amendment to debt capital structure

The amendments to each of the Finance Facilities is detailed below.

2.4.1 Amendment to Term Loan A and Term Loan B

The Secured Scheme proposes, in relation to TLA and TLB, that the maturity date of TLA and TLB will be extended to 31 December 2022.

Pursuant to Other Recapitalisation Transactions:

- The interest rate will be reduced from 12.0% to 10.0% through to 31 December 2018 and thereafter, 8.0%. Interest on both TLA and TLB will continue to be paid in kind ('PIK') through the issuance of additional notes at each coupon payment date.

- As consideration for the amendments and resulting interest saving, Centerbridge (as holder of the TLA and TLB) will receive 52.3% of the Company's ordinary equity post-implementation. This is in addition to ListCo's ordinary shares currently held by Centerbridge entities or shares issued on conversion of preference shares held by Centerbridge which together will total 3.7% of the ordinary shares on a diluted basis.

2.4.2 Amendment to Secured Notes

The Secured Scheme will extend the maturity date of the Secured Notes from 1 October 2018 to 31 December 2022. The Group will have the option to pay the first four coupon payments post-restructure in cash at the rate of 10.0% p.a. or in-kind at the rate of 12.0% p.a. Thereafter, the Group must pay interest in cash at the rate of 10.0% p.a. The Group's ability to transfer assets outside the Secured Note guarantor group will also be limited for the benefit of Secured Noteholders.

The coupon payment date will also be amended from April and October to June and December. BLY IP Inc. (the IP Obligor) will also provide a junior unsecured guarantee to holders of the Secured Notes.

2.4.3 Amendment to Unsecured Notes

The Unsecured Scheme proposes that the Unsecured Notes be amended such that the Unsecured Notes balance in excess of $88.2 million[11] will be converted into ordinary shares. The terms of the remaining $88.2 million in Unsecured Notes ('the Subordinated Notes')[12] will be amended as follows:

- expiry of 31 December 2022
- interest rate of 1.5% p.a. (with interest payable in kind).

New ordinary shares will be issued such that the Subordinated Note holders hold 42.0% of the shares on issue in ListCo immediately after implementation of the Schemes but before warrant dilution.

In addition:

- Equity warrants equivalent to 5.0% of the ordinary shares in ListCo will be issued to the holders of the Subordinated Notes, with a seven-year exercise period and a strike price equal to the share value implied by an Enterprise Value of $750.0 million.[13]
- Equity warrants equivalent to 2.5% of the ordinary shares in ListCo will be issued to the holders of the Subordinated Notes, with a seven-year exercise period and a strike price equal to the share value implied by an Enterprise Value of $850.0 million.[14]

The conversion to equity of some of the Unsecured Notes will reduce the Group's cash interest payments by approximately $19.9 million p.a. through to April 2021.

2.4.4 Repayment of DDL and Interim Facility and upsizing of ABL

In January 2017, Centerbridge provided the Group (through BLY IP Inc.) with a new facility of $20.0 million (the 'DDL'). Drilling equipment with a net book value of $50.0 million was transferred to new entities within the Group structure to allow the DDL Obligors to provide security for the DDL.

Centerbridge, Ares and Ascribe have also undertaken to make available the Interim Facility of $15.0 million, which is expected to be fully drawn by the time the Schemes are implemented.

[11] The amount of Unsecured Notes to remain is $88.2 million, comprised of $88.0 million plus accreted interest from 1 January 2017 to 28 February 2017 at 1.5% p.a.
[12] Payments on the Subordinated Notes will be subordinated to payments, to the extent unsecured, on the TLA and TLB
[13] Enterprise Value to be calculated with reference to the net debt balance that exists immediately after implementation of the Schemes.
[14] Ibid

Both the DDL and the Interim Facility are proposed to be repaid immediately after implementation of the Schemes from the Upsized ABL, which will increase from $40.0 million to $75.0 million. The Upsized ABL will be underwritten by Centerbridge and other major shareholders, and will have the same security as the existing ABL. The transfer of assets and provision of security in relation to the DDL noted above will be unwound following the repayment of the DDL as agreed by the Group in the RSA.

We have been advised that the $5.0 million availability block under the ABL will not be a term of the Upsized ABL such that the full $75.0 million will be available to the Group.

The debt of the Group is detailed in Table 3.

Table 3 – Group debt pre and post-restructure (balances as at 28 February 2017)

	Pre-restructure			Post-restructure	
Debt facility	**Maturity date**	**Balance ($'million)**	**Adjustment**	**Balance ($'million)**	**Maturity**
Secured Notes and Accreted Interest	1 October 2018	203.0	0.6	203.6	31 December 2022
TLA and Accreted Interest	3 January 2021	112.3	(0.4)	111.9	31 December 2022
TLB and Accreted Interest	3 January 2021	135.7	(0.4)	135.3	31 December 2022
ABL/Upsized ABL[15]	29 May 2020	16.5	20.0	36.5	29 May 2020
DDL Facility	31 December 2020	20.0	(20.0)	-	N/A
Unsecured Notes	1 April 2012	292.1	(292.1)	-	N/A
Subordinated Notes and Accreted Interest	N/A	-	88.2	88.2	31 December 2022
Total		**779.6**	(204.1)	**575.5**	

Adjustments

The adjustments noted above take into account both the resizing of the debts, as well as proposed amendments to the interest rates which will apply retrospectively to the debt balances as at 31 December 2016. The interest rate applicable to TLA and TLB will be reduced from 12.0% to 10.0% effective 1 January 2017 and the interest on the Secured Notes increases to 12.0% from 10.0%. The pro-forma balance of the new Subordinated Notes includes accrued interest on the $88.0 million face value calculated at the facility interest rate of 1.5% effective from 1 January 2017.

The Interim Facility of $15.0 million has not been included in the above table as it had not been drawn down at 28 February 2017 (but has subsequently been partially drawn). The Interim Facility balance as at Scheme implementation will increase the Upsized ABL by a corresponding amount.

[15] The Upsized ABL includes the refinance of the DDL and Interim Facility balances of $20.0 million and $15.0 million respectively, which are assumed to be fully drawn at Scheme implementation. The increased limit of $75.0 million under the Upsized ABL will be utilised to repay these facilities and the existing ABL. The DDL was fully drawn but the Interim Facility had a nil balance as at 28 February 2017

Shareholding changes

The composition of the shareholder register pre and post the Recapitalisation Transactions being implemented is show in Table 4 below.

Table 4 – Pro-forma shareholder register pre and post-restructure (pre-dilution)[16]

Shareholder class	Shares outstanding pre-restructure '000	% interest voting rights	Adjustment '000	Shares outstanding post-restructure '000	% interest voting rights
Convertible preference shares[17]	434,002	-	(434,002)	-	-
Ordinary shares – Centerbridge	464,502	48.9%	434,002	898,504	3.7%
Ordinary shares – other shareholders	485,270	51.1%	-	485,270	2.0%
Subordinated Noteholders[18]	-	-	10,190,660	10,190,660	42.0%
TLA and TLB	-	-	12,689,044	12,689,044	52.3%
Total preference and ordinary shares outstanding	**1,383,774**		**22,879,704**	**24,263,478**	**100.0%**

In addition to issuing new ordinary shares to the holders of the Subordinated Notes and the TLA and TLB lenders, ListCo will also issue equity warrants to the holders of the Subordinated Notes as detailed at paragraph 2.4.3.

The issuance of new shares will require the approval of current shareholders. If shareholders do not approve the issuance of new shares, the Recapitalisation Transactions will not be implemented.

[16] Pro-forma shareholdings calculated immediately after the Recapitalisation Transactions have been implemented and before any dilution from instruments not considered in Table 4.
[17] These shares are converted into ordinary shares as part of the implementation of the proposed restructuring (albeit not as part of the Schemes), such that the equity outcome set out in Table 4 is achieved.
[18] Does not include any shares already held by holders of the 7% Unsecured Notes.

3 Valuation of the Group

3.1 Summary

We have been asked to assess the value of the assets of the Group generally relative to the debts owing under the Finance Facilities.

We have undertaken a limited scope valuation engagement ('Valuation') of the Group, as that term is defined in APES 225 - Valuation Services. Our valuation is limited in scope because of the limitations outlined in Appendix E of this report. Any references to our Valuation of the enterprise of the Group is a reference to our assessed indicative valuation of the enterprise of the Group.

We have assessed the Enterprise Value of the Group (including surplus assets) to be in the range of $246.5 million to $286.6 million, as set out in Table 5 below.

Further details of the valuation methodology and approach that we have adopted are set out in the section below and in Appendices E to I.

Table 5 – Summary of estimated Enterprise Value of the Group

Valuation methodology	Section reference	Low ($'million)	High ($'million)
Primary methodology			
Earnings capitalisation valuation	3.3	246.5	286.6
Valuation cross-check			
DCF valuation	3.4	210.6	274.1
Net tangible business assets	3.4	250.1	250.1

As detailed in Table 3, as at 28 February 2017, Total Debt was $779.6 million, which exceeds the assessment of Enterprise Value by circa $500 million.

3.2 Methodology

In forming our view of the Enterprise Value of the Group, we have assessed relevant available information, including the Group's Budget Model, audited historic financial results, budget for the year ending 31 December 2017 and other available relevant information (including publicly available information).

We have considered the valuation methodologies outlined in ASIC RG 111 and it is our view that, given the nature of the assets, the capitalisation of future maintainable earnings approach is the most appropriate valuation methodology and we have adopted it as our primary valuation approach. We have cross checked the valuation outcomes under our primary approach:

- using a DCF valuation approach
- with reference to the net tangible business assets of the Group as at 28 February 2017.

A more detailed discussion of the valuation methodologies adopted is set out in Appendix E.

We have also considered a market-based valuation approach, however we deemed this not to be an appropriate reflection of value, for the reasons outlined in Appendix E.

Tax losses carried forward and Canadian tax dispute

Various entities within the Group had available carried forward income tax losses as at 31 December 2016. Forecasts show that the Group overall will continue to incur losses for several more years. We have attributed no value to these carried forward tax losses because:

- The recoverability of the tax losses to a potential purchaser of the Group is subject to certain tests under Australian taxation law (continuity of ownership test, same business test and debt forgiveness) and there is no certainty that those tests will be passed.
- Based on the current circumstances facing the Group and its future prospects, it is uncertain whether the Group will generate sufficient future assessable income to utilise the losses.
- We have not been provided with the necessary information to allow us to review the availability of the tax losses for offset against any future taxable income.

Our assessment of the tax losses is consistent with the accounting treatment of the tax losses adopted by the Group in its financial statements.[19]

The Group is currently in a dispute with the Canadian tax authorities in relation to the 2007 to 2012 tax years and anticipates that similar disputes will arise in relation to the 2013 to 2014 tax years. The Group believes it is too early to forecast an outcome of the disputes and to the extent it is relevant, we have not adjusted our valuation for these items.[20]

3.3 Earnings multiple valuation

Our earnings based valuation is based on the audited financial results for the year ended 31 December 2016 ('FY16 Accounts') and management's budget included in the Budget Model for the year ending 31 December 2017 ('FY17 Budget').

The FY16 accounts were audited by Deloitte and the FY17 Budget was prepared by Management and approved by the Board on 15 December 2016.

We have considered the historic and one year forward EV/EBITDA multiples of comparable listed companies and the earnings multiples implied by recent acquisitions of businesses similar to the Group in assessing the Enterprise Value of the Group. We have assessed an appropriate EBITDA multiple range for the Group to be 6.0x to 7.0x one year forward forecast EBITDA (as shown at Appendix G).

A description of each comparable listed company and the details of the earnings multiples implied by the current market capitalisation of each comparable listed company is set out in Appendices F and G.

3.3.1 FY17 budget review

A memorandum prepared for the Group's Executive Committee sets out the following key comments in relation to the FY17 budgeting process:[21]

- While key mining performance indicators are showing signs of improvement, volatility remains in the Group's underlying markets.
- Metal prices will remain depressed and cost pressures in the mining industry are expected to continue in 2017.
- Global exploration spend is estimated to be $9.0 billion in 2017 which is an increase on previous years (see Figure 2).
- Cash generation continues to be a priority to de-lever the business.

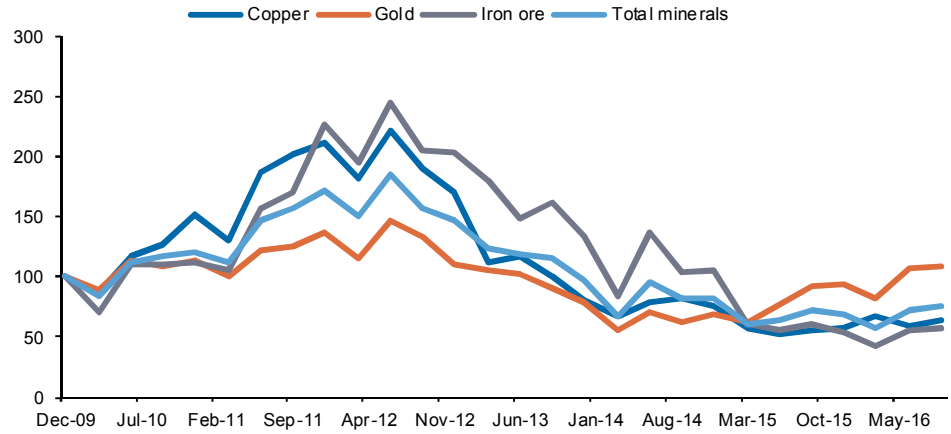
[19] The Group did not recognise a tax asset arising from the current year losses in its audited financial statements for the year ended 31 December 2016
[20] Boart Longyear Canadian tax update
[21] 2017 Budgeting Process Context Memo.V2

- Cash flow from operations will improve through process enhancements, continued reduction in inventory levels and other operational efficiencies and improvements.
- The Group developed three main business improvement initiatives in late 2015 which were implemented in 2016. The ongoing process efficiencies and cash cost savings arising from these initiatives will be realised in 2017.

Figure 2 shows the quarterly private resources and energy exploration expenditure index for Australia, which indicates a year-on-year recovery in in Australia; one of the Group's key markets. This, in part, supports the forecast revenue increase for FY17.

Figure 2 – Private mineral exploration expenditure (Australia)[22]

Quarter-on-quarter moving average growth rate (rebase to 100 at December 2010)



We have also reviewed a presentation detailing the FY17 budget process and underlying key assumptions. That presentation noted that the FY17 budget included the following key assumptions:[23]

- The cost savings initiatives which commenced in 2016 are expected to result in cash flow benefits of $57 million[24] being realised throughout 2017.
- Capital expenditure for the Group will not exceed $27.0 million in 2017[25].

[22] Quarterly private resources and energy exploration expenditure, Australia statistics published by the Office of the Chief Economist, Department of Industry, Innovation and Science dated February 2017
[23] Prelim. 2017 Op Plan.V11_ext
[24] Risk Hedge of $5 million is included in liquidity forecast, so adjusted cash benefit is $52 million
[25] The Group has forecast $35.2 million in capital expenditure including $6.0 million related to the consolidation of sites in Salt Lake City, and $1.9 million in relation to a proposed investment in a supplier.

Table 6 summarises the FY16 actual and FY17 budget, and the variances are discussed below.

Table 6 – Comparison of the FY16 actual and FY17 budget[26]

($'000)	FY16 actual	FY17 budget	Variance
Revenue	642,404	681,909	39,505
Cost of sales	(556,569)	(573,349)	(16,780)
Gross profit	85,835	108,560	22,725
Gross margin	*13.8%*	*15.9%*	*2.1%*
SG&A	(137,236)	(119,644)	17,592
Other expenses	(18,360)	(59,331)	(40,971)
Total other expenses	(155,596)	(178,975)	(23,379)
Other income*	8,939	-	(8,939)
EBIT	**(60,822)**	**(70,415)**	(9,593)
Depreciation and amortisation	62,470	61,924	(546)
EBITDA	**1,648**	**(8,491)**	(10,139)
Restructuring expense	30,400	48,573	18,173
Adjusted EBITDA	**32,048**	**40,082**	8,034

** The budget does not separately record other income and it may be recorded under revenue for budget purposes.*

Overall, EBITDA is budgeted to be ($8.5) million in FY17 which includes $48.6 million of restructuring expenses. Adjusted EBITDA (before restructuring expenses) is budgeted to improve from $32.0 million in FY16 to $40.1 million in FY17. This represents an increase of $8.0 million in underlying earnings for FY17.

The increase in FY17 adjusted EBITDA compared to FY16 is due to the following key assumptions: [27]

- improvements in volume, productivity and cost control
- fixed costs will remain flat in each geographic region
- the gross margin will improve due to higher productivity and continuation of business improvement initiatives.

The budgeted revenue of the Products division in FY17 assumes:[28]

- prices will remain constant
- an expected increase in sales volumes driven by an increase in drilling activity in the mining services industry.

The budgeted revenues of the Drilling Services division in FY17 assumes:[29]

- increased drilling rig activity due to expected increasing demand for drilling services
- minimal foreign exchange impact on revenues in foreign jurisdictions
- pricing pressures (primarily in the EMEA region) offsetting some of the above benefits.

[26] Project Phoenix 2017 Budget Model Reconciliation_External_v34 and Annual Financial Report 2016
[27] Prelim. 2017 Op Plan.V11_Ext
[28] Prelim. 2017 Op Plan.V11_Ext
[29] Ibid

The budget process for Drilling Services makes assumptions in relation to contract renewals and work to be won. Contracts and the resulting revenue are classified as either:[30]

- Under Contract: identified customers and works under contract
- Probable: identified customers where management has assessed there is more than an 80% chance that works will commence
- Blue Sky: unidentified customers where management has assessed a 50% to 80% chance that works will commence.

3.3.2 January and February 2017 performance against budget

We have been provided with the actual financial results of the Group for January and February 2017. The table below compares the actual and budgeted financial results for the period.

Table 7 – Comparison of actual and budgeted financial results for the two months ended February 2017[31]

Two months ended February 2017 ($'000)	Actual	Budget	Variance	Variance %
Revenue	101,660	94,322	7,338	7.8%
Cost of sales	(93,461)	(88,524)	(4,937)	(5.6%)
Gross profit	8,199	5,797	2,402	41.4%
SG&A	(16,958)	(19,630)	2,672	13.6%
Other expenses	(7,980)	(18,125)	10,145	56.0%
Total other expenses	(24,938)	(37,755)	12,817	33.9%
Other income*	1,408	-	1,408	0.0%
EBIT/operating loss	**(15,331)**	**(31,958)**	**16,627**	**52.0%**
Depreciation and amortisation	11,738	13,218	(1,480)	11.2%
EBITDA	**(3,593)**	**(18,740)**	**15,147**	**80.8%**
Restructuring expense	5,731	14,205	(8,474)	59.7%
Adjusted EBITDA	**2,138**	**(4,535)**	**6,673**	**147.1%**

**The budget does not separately record other income and it may be recorded under revenue for budget purposes.*

A comparison of the actual results to budget for January and February 2017 shows that the Adjusted EBITDA is higher than budgeted by $6.7 million. The improved result is a consequence of:

- significantly higher actual revenues ($101.6 million) than budget ($94.3 million)
- an overall reduction in actual SG&A and other expenses relative to budget
- considerably lower restructuring expenses than budgeted due to timing.

3.3.3 Measure of earnings

The choice between EBITDA, EBITA and EBIT as a measure of earnings to be capitalised is usually not critical in the valuation process and should provide similar valuation results. All are commonly used in the valuation of businesses with similar business activities and operating risks to the Group ('Peer Group'). Although it is difficult to include companies with businesses directly comparable to the business of ListCo, the Peer Group we have selected includes a number of listed companies which provide a range of different services to the mining sector in Australia and overseas.

[30] Ibid
[31] 2017 Financial Statements – Feb v1 BL and Annual financial report 2016 and Project Phoenix 2017 Budget Model Reconciliation_External_v34

In our opinion, EBITDA is preferred where depreciation or non-cash charges distort earnings or make comparisons with other companies difficult. Therefore, in determining the Enterprise Value of the Group, we have placed reliance on the EBITDA multiples implied by the current market capitalisation of the Peer Group and recent acquisitions of businesses similar in nature to the Group.

3.3.4 Earnings

We have assessed the current Enterprise Value of the Group on the basis of the FY17 EBITDA forecast in the Budget Model. The Budget Model forecasts a loss of $8.5 million at EBITDA level. The forecast loss of $8.5 million includes $48.6 million of restructuring expenses, which are considered to be once-off expenses that should be excluded from an assessment of the maintainable earnings of the Group.

Despite recent substantial losses, the Group has generated substantial earnings in prior years when the exploration and resource development activity was substantially higher. Before its decline in FY13, the Group generated EBITDA of $350 million in FY12. While we have considered whether the maintainable EBITDA should be based on an average EBITDA throughout the business cycle, given the historical volatility and recent trends, we have determined that the recent earnings are the most appropriate basis on which to value the Group.

We consider the Group's forecast FY17 adjusted EBITDA of $40.1 million as being representative of the future maintainable earnings of the enterprise for valuation purposes as it excludes items that are one-off in nature. We note that the budgeted FY17 EBITDA of $40.1 million is only $8.0 million higher than the adjusted actual FY16 EBITDA of $32.1 million.

3.3.5 Earnings multiple range

In assessing an appropriate earnings (EBITDA) multiple to apply in valuing the enterprise of the Group, we have analysed the earnings multiples implied by:

- The current market capitalisation of the Peer Group (including a 25% increase for an assumed control premium which is discussed further in Appendix E). We have analysed both the implied historic and forecast multiples (FY+1) of the Peer Group at Appendix G. Our analysis of the Peer Group at that Appendix implies forecast FY+1 EBITDA multiples in the range of approximately 5.0x to 12.4x with a median of 8.8x. We have used a Peer Group analysis of both Australian and international companies, including companies that operate in the US and Canada.
- Acquisitions of businesses similar in nature to the Group based on transactions occurring over the past 36 months. Many of those transactions did not involve businesses which were comparable either in size, industry or operations to the Group and therefore we have excluded them from our analysis.

Table 8 is a summary of the transactions that we analysed:

Table 8 – Transaction multiples[32]

Date	Description of transaction	Implied EBITDA Multiple
February 2014	Skilled Group agreed to acquire T & C Services Pty Ltd from Thomas & Coffey Limited.	4.7 x EBITDA (LTM)
December 2015	Kingfish Limited (NZSE:KFL) managed by Fisher Funds Management Limited completed the sale of its stake in Opus International Consultants Ltd. (NZSE:OIC) in the second quarter of 2015.	6.9 x EBITDA (FY+1)
January 2016	Dar Al-Handasah Consultants (Shair & Partners) (U.K.) Limited acquired WorleyParsons Limited (ASX:WOR)	5.1 x EBITDA (FY+1)
March 2016	CIMIC Group offer to acquire Macmahon Holdings Limited	5.9 x EBITDA (FY+1)
May 2016	Hitachi Construction Machinery Co., Ltd. (TSE:6305) acquired Bradken Limited (ASX:BKN)	6.3 x EBITDA (FY+1)
February 2017	Resource Capital Fund IV acquired Ausenco Limited	5.9 x EBITDA (FY+1)
February 2017	CIMIC Group acquired Sedgman Limited	10.4 x EBITDA (FY+1)

[32] S&P Capital IQ

The table above shows that the prices exchanged in almost all of the transactions analysed implied EBITDA multiples in the range of 5.1x to 10.4x (FY+1).

Summary - EBITDA multiple range

Based on our analysis of the Peer Group multiples and the earnings multiples implied in recent transactions of similar businesses, and taking into account the characteristics of the Group, we have assessed an appropriate EBITDA multiple range to be 6.0x to 7.0x EBITDA for the one year forward forecast period.

We have considered the companies in the Peer Group and the level of capital required in each business. The Group has a more capital intensive business than the majority of its peers and our determination of an EBITDA multiple range takes this into account.

We have selected EBITDA multiples that are towards the mid to low end of the Peer Group range, as several of the Peer Group companies have operations which are either larger and more diversified than the Group or less capital intensive. Our low multiple of 6.0x is slightly above the first quartile EV/EBITDA multiples of the Peer Group for the FY+1 period and our high multiple of 7.0x is in the middle of the first quartile and average EV/EBITDA multiples of the Peer Group for the FY+1 period.

3.3.6 Surplus assets

The FY16 financial statements of the Group identified 'Assets classified as held for sale' with a value of $5.9 million[33] as at 31 December 2016. These assets consist primarily of excess rigs and ancillary equipment which are not expected to generate any part of the budgeted FY17 earnings of the Group.

The Group has identified an opportunity to benefit from the disposal of these assets by eliminating the ongoing costs associated with maintaining these assets. We have therefore included the book value of these 'surplus' assets in our assessed Enterprise Value.

We have not adopted any additional value for cash. The Group has advised it requires a minimum cash holding of approximately $25.0 million, and this holding is assumed in the Enterprise Value. Once Scheme costs are paid, there is unlikely to be any surplus cash in the Group.

3.3.7 Enterprise valuation summary

The Enterprise Value range of the Group including surplus assets using the comparable company multiples approach is set out below:

Table 9 – Enterprise valuation range

Multiple	EBITDA ($' million)	EV (excluding surplus assets) ($'million)	Surplus assets ($'million)	EV (including surplus assets) ($'million)
6.0 x Multiple (Low)	40.1	240.6[34]	5.9	246.5
7.0 x Multiple (High)	40.1	280.7[35]	5.9	286.6
Mid-point	40.1	**260.7**		**266.6**

Based on the outcomes shown in the table above, we have assessed the current Enterprise Value of the Group to be in the range of $246.5 million to $286.6 million, with a preferred value of $266.6 million based on the mid-point of the valuation range.

[33] Annual financial report 2016
[34] Calculated as EBITDA of $40.1 million multiplied by a Multiple of 6.0
[35] Calculated as EBITDA of $40.1 million multiplied by a Multiple of 7.0

Our assessed valuation range implies a historic earnings multiple in the range of 8.4 to 9.7 actual FY16 adjusted EBITDA of the Group[36]. We note that the implied historical earnings multiple range is broadly consistent with the historic earnings multiples implied by the current market capitalisation of the Peer Group (adjusted for control[37]).

3.4 Cross-check based on discounted cash flow

3.4.1 Overview

As a cross-check to our primary valuation approach, we have undertaken a DCF valuation to determine the Enterprise Value of the Group.

We were provided with a Budget Model prepared in October 2016 and updated in March 2017 which included financial information for the following periods:

- monthly historic financial results for July 2015 to December 2016
- monthly FY17 forecast financial results which were in line with the FY17 budget
- monthly FY18 to FY21 forecast financial results based on various growth and margin assumptions.

The Budget Model makes assumptions in relation to contract renewals, new work to be won and future margins. As with all contracting businesses, forecasting for long periods of time with any certainty is challenging.

3.4.2 Budget Model review

We have reviewed the long-term forecasts in the Budget Model. The model assumes a significant increase in earnings over the five-year forecast period.

The annual revenue growth rates assumed in the Budget Model are set out in Table 10 below.

Table 10 – FY16A to FY21F Revenue growth[38]

	FY16	FY17	FY18	FY19	FY20	FY21
Revenue ($'million)	642.4	681.9	750.0	830.0	890.0	940.0
Revenue growth percentage		6.1%	10.0%	10.7%	7.2%	5.6%

Profitability

Gross profit contributions are forecast to increase both in line with forecast revenue and due to margin growth. Gross margins are forecast to increase from 15.9% in FY17 to 26.6% in FY21.

Table 11 – FY16A to FY21F gross margin[39]

	FY16	FY17	FY18	FY19	FY20	FY21
Gross margin ($'million)	88.8	108.6	136.8	178.2	213.8	250.2
Gross margin percentage		15.9%	18.2%	21.5%	24.0%	26.6%

[36] Annual Financial Report 2016 adjusted EBITDA of $32.0 million
[37] See further explanation in Appendix E
[38] Project Phoenix 2017 Budget Model Reconciliation_External_v34 and Annual Financial Report 2016
[39] Project Phoenix 2017 Budget Model Reconciliation_External_v34 and Annual Financial Report 2016

Adjusted EBITDA

Adjusted EBITDA is forecast to increase from $32.0 million in FY16 to $201.4 million in FY21[40]. Much of the forecast improvement is assumed to result from an increase in revenues and gross margins. Whilst the forecast increase in EBITDA appears reasonable in the short term (FY17F), we have been unable to verify the assumptions that underpin the forecast increase in revenues and margins after FY17.

3.4.3 Cash flows for DCF analysis

As stated above, we have not been able to verify the assumptions that underpin the revenue and gross margin growth in the Budget Model beyond FY17.

For the purposes of our DCF analysis, we have adopted the FY17 budget of the Group and modelled the results of the business for the FY18 period onwards based on the assumptions set out below:

Table 12 – Key DCF valuation assumptions

Assumption	Value	Comments
Revenue growth	1.0 – 3.0% per annum	IBISWorld has forecast that industry revenues will increase at 0.6% per annum in nominal terms over the next five years. Price competition will play a part in that subdued growth as competition increases. We have adopted revenue growth rate assumptions of 1% to 3% per annum based on IBISWorld's representation that the Group tends to outperform industry trends on an upswing cycle.[41]
Gross margin percentage	15.9 % to 17.9%	We have assumed that the FY17 budgeted margins improved at 0.5% per year over the balance of the forecast period.
Effective tax rate	31%	Estimated having regard to existing Australian (30%), Canadian (28%) and USA (38%) tax rates as well as regional average rates for NAM (35%), LAM (28%) APAC (30%) and EMEA (28%).
Working capital balance	32.4% of forecast revenues	FY17 forecasts shows an investment in working capital of 32.4% of revenues for the year as at 31 December 2017. We have forecast working capital on the same basis and calculated annual movements in working capital balances accordingly.
Terminal CAPEX assumption	$40 million	We have adopted the annual capital expenditure costs in the Budget Model over the period to FY21 and a higher capital expenditure cost in the terminal year on the basis consistent with the long-term growth rate in earnings.

The EBITDA forecast based on these assumptions are summarised in the table below[42].

Table 13 – EBITDA FY17F-FY21F

Scenario EBITDA $million	FY17F	FY18F	FY19F	FY20F	FY21F
Base case	(8.5)	68.0	68.8	74.9	82.2

[40] Project Phoenix 2017 Budget Model Reconciliation_External_v34
[41] IBISWorld Industry Report OD5427 – Oil and Mineral Exploration Drilling in Australia.
[42] The FY17 forecast is after restructuring costs

3.4.4 Key DCF valuation assumptions

A summary of the key valuation assumptions is set out in the table below.

Table 14 – Additional DCF valuation assumptions

Assumption	Value	Comments
WACC (nominal)	10% to 12.0% per annum	As the cash flows in our forecast model are expressed in nominal terms, the discount rate adopted is a nominal WACC. Refer to Appendix H for the assumptions and inputs adopted in calculating the WACC.
Valuation date	Date of this report	
Terminal growth rate	3.0% per annum (nominal)	We have adopted a nominal growth rate in perpetuity broadly consistent with long term drilling industry forecasts.

For further detail on the DCF valuation assumptions and outputs, refer to Appendix H.

3.4.5 DCF valuation range (including surplus assets)

A summary of the various DCF valuations is set out below.

Table 15 – DCF Enterprise Value range

$million	12.0% WACC (low)	10.0% WACC (high)
DCF Enterprise Value (excluding surplus assets)	204.7	274.1
Surplus assets – see Section 3.3.6	5.9	5.9
DCF Enterprise Value (including surplus assets)	210.6	280.0

3.4.6 DCF valuation summary

Our assessment of the Enterprise Value of the Group using the DCF valuation approach supports our primary valuation approach as the value outcome under the DCF approach in the range of $210.6 million to $280.0 million is broadly consistent with the values assessed under the capitalisation of maintainable earnings approach of $246.5 million to $286.6 million.

3.4.7 Net tangible business assets

We have undertaken a reconciliation of our assessed Enterprise Value (including the surplus assets of $5.9 million being held for sale) with the net tangible business assets of the Group as at 28 February 2017.

We have calculated the net tangible business assets of the Group to be $250.1 million at 28 February 2017 as set out in the following table:

Table 16 – Net tangible business assets at 28 February 2017

	$'000
Net liabilities at 28 February 2017	(359,853)
Add:	
Loans and borrowings (current)	120
Loans and borrowings (non-current)	753,584
Less:	
Goodwill	(100,535)
Other intangibles	(43,190)
Net tangible business assets	250,126

Source: 2017 Financial Statements - Feb v1 BL

For the purposes of calculating the net tangible business assets, we have adopted the book values of all business assets and liabilities of the Group (excluding debt and intangible asset balances). We have assumed that there was no material difference between the book values of assets and liabilities and their respective fair market values.

The net tangible business assets of the Group of $250.1 million is within the range of the values assessed under the capitalisation of maintainable earnings approach of $246.5 million to $286.6 million.

4 Solvency review

We have been asked to determine the solvency of the Group following the implementation of the Schemes.

4.1 Summary

In our opinion the Group will be solvent after the implementation of the Schemes.

4.1.1 Qualification of opinion

As at the date of this report, the Group has not paid accrued interest of approximately $19.7 million on the Secured Notes and Unsecured Notes, which was due on 1 April 2017. It is proposed under the terms of the Recapitalisation Transactions that this interest be deferred in the case of the Secured Notes and equitized in the case of the Unsecured Notes. The Group has obtained agreement to the non-payment from a majority of the holders of each of the Secured Notes and Unsecured Notes as a term of the RSA. The Scheme Companies obtained an order of the Supreme Court of NSW on 27 April 2017 pursuant to section 411(16) of the Act, restraining all further proceedings in any action or other civil proceeding against any or all of the Scheme Companies (whether or not such action or proceeding has already been commenced), except by leave of the Court and subject to such terms as the Court imposes.

If the payment of interest is required to be made in relation to some or all of the Secured Notes or Unsecured Notes, our opinion on the solvency of the Group is withdrawn.

4.2 Solvency approach

In determining solvency, the financial position of the Group as a whole has been examined to determine its ability to pay its debts as and when they fall due. The examination of the financial position has been undertaken having taken into account the definition of solvency under Section 95A of the Act and the common law principals described in Appendix J – Solvency definition and common law principals.

The conclusions have been reached after application of the following primary and secondary tests.

Cash flow test (primary test of solvency)

This involves the review of a company's cash flows to determine if the company is able to pay its debts as and when they fall due. This is the primary test of solvency. In line with case law, we have focused our analysis on the 12 months' post anticipated implementation of the Schemes, being the period 1 July 2017 to 30 June 2018.

Balance sheet review (indicative test)

This involves the review of a company's statement of financial position to determine if the company's assets exceed its liabilities.

Analysis of a company's statement of financial position does not ordinarily by itself determine whether the company would be able to meet its debts as and when they became due. However, such an analysis does indicate by how much (if any) assets of a company exceed its liabilities, as well as the various types of assets and liabilities of the company. The statement of financial position can also be viewed as providing a running balance 'score card' of an entity's trading results for both past and current trading periods.

Profitability (indicative test)

This involves reviewing the historic and forecast statement of comprehensive income to determine the Group's profitability.

Other considerations

In forming conclusions regarding solvency, we have considered the following additional matters:

1. Drawn debt facilities, key terms and covenants.
2. Access to additional debt facilities and/or equity and/or other liquidity support.
3. The ability of the Group to refinance the outstanding secured debt facilities upon maturity.
4. The adequacy of the books and records of the Group.

4.3 Source data

The cash flow, balance sheet and profitability analyses have been based on the Group's consolidated Budget Model, historical financial accounts and the Group's pro-forma balance sheet as at 28 February 2017.

The Group's Budget Model shows the Group's base case forecast, as well as a downside and upside case. We have relied on the following outputs from the Budget Model in our analysis:

- actual results up to 31 December 2016
- forecast profit and loss results for FY17 to FY18
- the forecast indirect cash flow statement for FY17 and FY18.

For the purposes of our analysis, we have considered the base case and downside case scenarios only as the upside case is, in our opinion, optimistic and is not a reasonable basis on which to assess the Group's solvency.

4.4 Key assumptions

We have adopted the following assumptions for our analysis:

- The Schemes are implemented on or before 1 July 2017 as proposed
- The Other Recapitalisation Transactions all occur
- Holders of the Secured Notes and the Unsecured Notes have their rights to be paid the cash coupon payments due on 1 April 2017 varied in accordance with the terms of the Recapitalisation Transactions (refer to Section 4.1.1 above).

4.5 Primary evidence of solvency: cash flow test

4.5.1 Overview

In considering the ability of the Group to meet its commitments as they fall due, we have analysed the consolidated cash flow forecast included in the Group's Budget Model. The Budget Model includes:

- the Group's FY17 budget (monthly) which was built using a bottom-up approach
- a high-level forecast of some balance sheet items including cash, working capital and debt finance
- management's forecast capital expenditure estimates.

The Budget Model also includes the Group's estimate of performance through to 31 December 2021 on a monthly basis. The forecasts for FY18 onwards are based on the FY17 budget and includes a number of growth and profitability improvement assumptions as discussed in Section 3.

In our opinion, the FY17 forecast included in the Budget Model has been prepared on a reasonable basis, having regard to historical trends in the business. The Group reported EBITDA of $1.6 million in its FY16 Financial Report ($32.0 million excluding non-recurring items)[43] and has forecast a EBITDA loss of $8.5 million for FY17 (including non-recurring expenses of $48.6 million) resulting in a forecast adjusted EBITDA of $40.1 million. On an adjusted basis, the Group is forecasting an improvement in EBITDA of $8.0 million.

While there is significant uncertainty on the outlook for the mining sector globally, the profit and loss forecast for FY17 does not appear unreasonable taking into consideration:

- Year to date 28 February 2017, the Group is ahead of budget, with Gross Profit 41.4% ahead of budget and adjusted EBITDA of $2.1 million comparing favourably to budget of a loss of $4.5 million.
- As detailed in Section 3.3.1 there are indications that the year-on-year decline in exploration expenditure is slowing in Australia; one of the Group's key markets.
- The Group has identified EBITDA improvement initiatives of c. $21.0 million which have been included in the forecast for FY17. While several of the initiatives are difficult to measure, optimisation of the organisation structure has already netted significant go-forward savings. Together with other measures, the cost and overhead savings achieved since the FY17 budget was approved in December 2016 largely bridge the gap between FY16 results and the FY17 forecast.

4.5.2 Significant cash flow items

In addition to the forecast EBITDA improvements, the Budget Model includes several material assumptions regarding the Group's cash flows:

- no cash interest payments are made in FY17 or FY18, as it is assumed that the Group will elect to pay the first four post-restructure coupon payments on the Secured Notes in kind. The first cash interest payment on the Secured Notes is forecast to be made in June 2019.
- the Group is forecasting significant cash inflows from the realisation of slow moving and obsolete inventory. The net cash receipt in FY17 from movement in inventory is forecast to be $25.0 million. We have been provided with the Group's internal reports which show that, as at February 2017, the Group is ahead of its FY17 stock reduction target. On the information provided, the cash benefit forecast from the sale of slow and obsolete inventory appears reasonable. However, it is likely that achieving the target will get progressively harder over FY17 as the more in-demand items are sold first.
- The Group has included $5.0 million from the sale of a property in Peru in January 2018. The timing of this sale is an estimate and subject to change.
- The Group has also included a $4.0 million receipt in February 2018, being funds held in a collateral account to secure an insurance policy. The collectability and timing of this receipt is unknown.

4.5.3 Findings

The forecast cash flow statement from the Group's Budget Model for both the Base Case and Downside Case are shown below.

The base case forecast included in the Budget Model shows the Group will have sufficient cash and headroom available under the ABL to meet its obligations as and when they fall due through to 31 December 2018.

The downside case assumes a further decline in revenue and margins, and shows the Group's liquidity position would be difficult to manage. Considering recent performance, the downside case appears conservative.

[43] The Adjusted EBITDA is determined by management and is not presented in accordance with accounting standards. Non-recurring items included recapitalisation costs, impairment, restructuring costs and employee and related costs.

Table 17 – Base case indirect cash flow forecast

$'000	Q1FY17	Q2FY17	Q3FY17	Q4FY17	FY17 Total	Q1FY18	Q2FY18	Q3FY18	Q4FY18	FY18 Total
EBITDA	**(19,038)**	**6,052**	**794**	**3,700**	**(8,491)**	**13,560**	**35,245**	**28,187**	**14,676**	**91,668**
Change in net working capital	(35,802)	4,229	9,076	39,785	17,289	(23,688)	(17,743)	1,181	50,654	10,403
Other non-cash items	(12,110)	1,152	3,871	5,271	(1,816)	(3,964)	(2,293)	3,707	3,707	1,158
Interest payments	(211)	(211)	(428)	(371)	(1,220)	(196)	(393)	(331)	(148)	(1,068)
Taxes paid	(1,679)	(1,682)	(11,179)	(11,179)	(25,719)	(3,081)	(4,283)	(5,110)	(13,245)	(25,719)
Cash from operations	**(68,841)**	**9,540**	**2,135**	**37,207**	**(19,958)**	**(17,368)**	**10,533**	**27,633**	**55,644**	**76,443**
Capital expenditure	**(4,295)**	**(4,918)**	**(10,155)**	**(10,155)**	**(29,523)**	**(8,174)**	**(8,174)**	**(8,174)**	**(8,174)**	**(32,695)**
Financing cash flows										
Draw-down of debt facilities	35,000	-	-	-	35,000	-	-	-	-	-
Repayment of debt facilities	-	(36,274)	-	-	(36,274)	-	-	-	-	-
Cash from financing	**35,000**	**(36,274)**	**-**	**-**	**(1,274)**	**-**	**-**	**-**	**-**	**-**
Opening cash	60,114				60,114					0
Opening ABL headroom	5,508				5,508					0
Opening available liquidity	**65,622**	**27,486**	**35,834**	**27,814**	**65,622**	**54,866**	**29,325**	**31,684**	**51,144**	**54,866**
Net cash flow	(38,136)	(31,652)	(8,020)	27,052	(50,756)	(25,542)	2,359	19,460	47,471	43,748
Increase in ABL limit	-	40,000	-	-	40,000	-	-	-	-	-
Closing available liquidity	**27,486**	**35,834**	**27,814**	**54,866**	**54,866**	**29,325**	**31,684**	**51,144**	**98,615**	**98,615**

Observations

- The Group's base case forecast shows that the Group will have positive liquidity (cash plus available headroom in the Upsized ABL) through to 31 December 2018, including the 12 month period immediately following implementation of the Schemes.
- However, total liquidity is forecast to fall below the Group's minimum liquidity balance in July 2017. Liquidity is also forecast to be very tight in Q2 FY18. The Group's cash flow cycles are largely driven by increasing receivables over the peak drilling periods.

Figure 3 – Base case monthly liquidity profile FY17–FY18

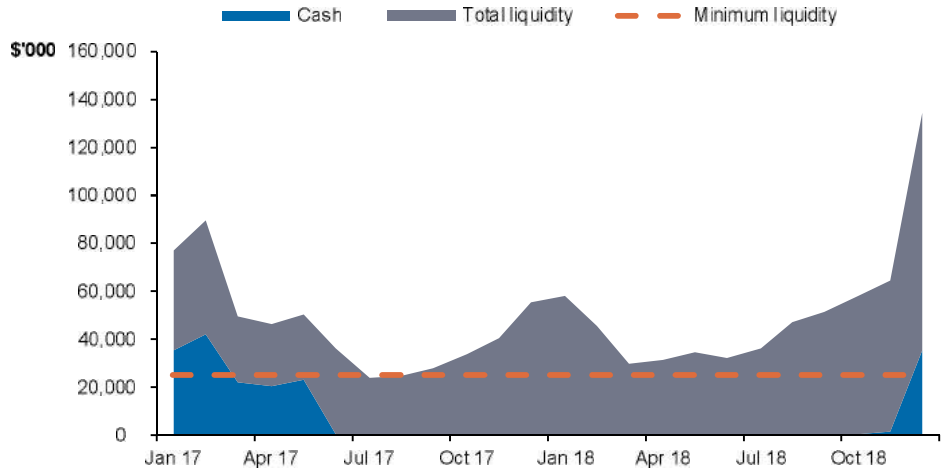


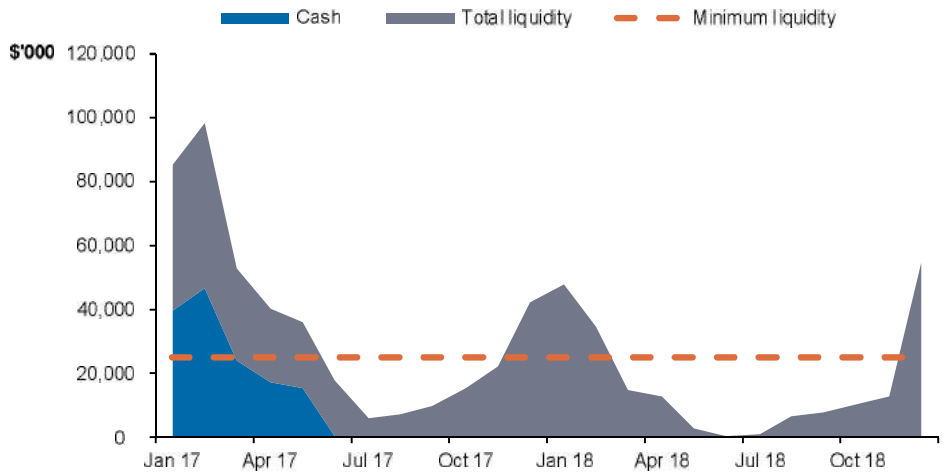
Table 18 – Downside case indirect cash flow forecast

$'000	Q1FY17	Q2FY17	Q3FY17	Q4FY17	FY17 Total	Q1FY18	Q2FY18	Q3FY18	Q4FY18	FY18 Total
EBITDA	**(20,194)**	**(6,624)**	**(4,076)**	**(3,385)**	**(34,280)**	**9,280**	**14,501**	**11,735**	**6,251**	**41,767**
Change in net working capital	(30,570)	(633)	10,393	48,868	28,058	(22,045)	(14,334)	5,074	57,682	26,377
Other non-cash items	(12,110)	1,152	3,871	5,271	(1,816)	(3,964)	(2,293)	3,707	3,707	1,158
Interest payments	(211)	(211)	(596)	(546)	(1,563)	(299)	(599)	(669)	(596)	(2,163)
Taxes paid	(1,679)	(1,682)	(11,179)	(11,179)	(25,719)	(3,081)	(4,283)	(5,110)	(13,245)	(25,719)
Cash from operations	**(64,765)**	**(7,999)**	**(1,587)**	**39,030**	**(35,321)**	**(20,108)**	**(7,009)**	**14,738**	**53,799**	**41,420**
Capital expenditure	**(6,675)**	**(7,050)**	**(6,675)**	**(6,675)**	**(27,075)**	**(7,196)**	**(7,196)**	**(7,196)**	**(7,196)**	**(28,784)**
Financing cash flows										
Draw-down of debt facilities	35,000	-	-	-	35,000	-	-	-	-	-
Repayment of debt facilities	-	(36,274)	-	-	(36,274)	-	-	-	-	-
Cash from financing	**35,000**	**(36,274)**	**-**	**-**	**(1,274)**	**-**	**-**	**-**	**-**	**-**
Opening cash	60,114				60,114					0
Opening ABL headroom	5,508				5,508					0
Opening available liquidity	**65,622**	**29,183**	**17,860**	**9,597**	**65,622**	**41,952**	**14,648**	**443**	**7,985**	**41,952**
Net cash flow	(36,439)	(51,323)	(8,262)	32,355	(63,670)	(27,304)	(14,205)	7,542	46,603	12,636
Increase in ABL limit	-	40,000	-	-	40,000	-	-	-	-	-
Closing available liquidity	**29,183**	**17,860**	**9,597**	**41,952**	**41,952**	**14,648**	**443**	**7,985**	**54,588**	**54,588**

Observations

- The downside case included in the Group's Budget Model assumes substantially lower earnings ($25.8 million in FY17 and $49.9 million in FY18) than the base case. This is driven by lower revenues and lower gross profit margins in both the Drilling Services business and Products business. The gross margin in the downside case is 12.5% in FY17 and 12.3% in FY18 compared to FY16 actual reported results of 13.4%.
- As shown in Figure 4, in the downside case, Group liquidity declines substantially from February in each year, reaching a low point in July and August, because of the build-up of working capital through the peak drilling periods.
- The downside case shows the Group would need substantial additional liquidity funding in the order of $25.0 million to fund operations.

Figure 4 – Downside case monthly liquidity profile FY17–FY18



4.5.4 Conclusion

The downside case shows that further liquidity support would be required to provide sufficient headroom to fund the Group. However, the downside case appears conservative given FY16 results and YTD performance against budget. Accordingly, we have adopted the Group's base case forecast which shows it will continue to maintain an available liquidity balance throughout FY17 and FY18, including the 12-month period immediately following the implementation of the Schemes.

The scope of our engagement has not allowed us time to undertake a detailed review and interrogation of the Group's cash flow forecast. Accordingly, while the Group's base case forecast shows it to have an available liquidity balance of not less than $23.0 million over the course of FY17 and FY18, we note that the ability of the Group to meet its debts as and when they fall due, and remain solvent, is very much tied to its ability to:

- Achieve the EBITDA forecast.
- Realise its surplus and obsolete stock in line with its forecast, which will likely prove more challenging as faster moving items are sold first.
- Realise the estimated net proceeds from the sale of the Peru land as well as obtain the $4.0 million of collateral currently securing the insurance policy (together totalling $9.0 million).
- Manage the collection of its debts across the global operation and not suffer any deterioration in terms (which has from time to time been unilaterally imposed on suppliers by major mining houses).
- Manage the payment of its trade suppliers month-to-month to match its liquidity position.
- Fund the capital expenditure required to sustain the existing drilling fleet in line with forecast.
- Manage unexpected material interruptions to its business owing to weather, adverse movements in underlying commodity prices or other unforeseen events.

Any material adverse outcome in relation to the Canadian tax dispute detailed in section 3.2 that would require payment to be made prior to 30 June 2018 or shortly thereafter, would impact upon the Group's solvency.

From discussions with the Group's management, we note that they are of the opinion that the base case forecast is conservative taking into account performance for the two months ended 28 February 2017 as well as the Group outperforming budget in Q4 of FY16.

The Group is also of the view that post-restructure, it will be in a better position to manage its working capital including obtaining more favourable trade terms from its suppliers.

4.6 Indicative test: balance sheet review

Another method by which to assess solvency is to consider the net asset or liability position of an entity. This test is only to be viewed as indicative of solvency as it represents the position of a company at a point in time, and doesn't take into account the future profitability or cash flows available to service debt obligations.

We have used the Group's balance sheet as at 28 February 2017 to consider if assets exceed liabilities immediately post-implementation of the Schemes. We have adjusted the balance sheet with pro-forma adjustment to reflect the outcome of the Schemes. The pro-forma adjustments are indicative only.

Table 19 – Pro forma post-restructure balance sheet as at 28 February 2017

	Pre-restructure[44] $'000	Adjustments $'000	Post-restructure $'000
Current assets			
Cash	47,846		47,846
Receivables	122,220		122,220
Inventory	170,339		170,339
Other current assets	18,370		18,370
Assets held for sale	5,923		5,923
Total current assets	**364,698**	**-**	**364,698**
Property, plant and equipment	123,922	-	123,922
Goodwill	100,535	-	100,535
Intellectual property	43,190	-	43,190
Other non-current assets	50,440	-	50,440
Total assets	**682,785**	**-**	**682,785**
Current liabilities[45]	222,970	-	222,970
Non-current liabilities			
Unsecured Notes	292,118	(292,118)	-
Subordinated Notes (including accrued interest)	-	88,209	88,209
10% Notes (including accrued interest)	202,963	617	203,580
TLA (including accrued interest)	112,252	(370)	111,882
TLB (including accrued interest)	135,714	(445)	135,268
DDL	20,000	(20,000)	-
ABL/Upsized ABL	16,500	20,000	36,500
Issuance costs	(5,506)	-	(5,506)
Finance lease liabilities	635	-	635
Other borrowings and costs	(120)	-	(120)
Total borrowings			
Deferred tax liabilities	19,646	-	19,646
Provisions	25,466	-	25,466
Total non-current liabilities	**798,696**	**(204,107)**	**594,589**
Total liabilities	**1,042,638**	**(204,107)**	**838,531**
Net assets/(liabilities)	**(359,853)**	**204,107**	**(155,746)**

Liquidity and net asset position

As at 28 February 2017, the Group had a current ratio of 1.5. Although not illiquid, given much of the current asset value was held as inventory ($170.3 million), the Group's short-term asset position is indicative of liquidity concerns.

Despite the Unsecured Note debt being cancelled as part of the restructure, the Group's post restructure pro-forma balance sheet shows a net liability position of $155.7 million.

[44] The pre-restructure debt balances shown have been taken from the Group's balance sheet and do not include accrued interest on the debts through to 28 February 2017. Accrued but unpaid interest (including PIK) is included in current liabilities.
[45] Current liabilities have been reduced for accrued but unpaid interest which has been included in the balances non-current Finance Facilities.

The Group will likely fully draw the Interim Facility of $15.0 million prior to implementation of the proposed restructure. It is proposed that the DDL and Interim Facility will be repaid from a refinance of the ABL (via the Upsized ABL), with funding increasing from $35.0 million to $75.0 million. However, only the fully drawn DDL has been included in the post-restructure of the ABL shown in the table, as the Interim Facility had not been drawn as at 28 February 2017.

If the Schemes are implemented, the Group will continue to carry a significant debt load with the pro-forma net debt at 28 February 2017 being greater than 10.0 times FY17 forecast adjusted EBITDA.

Notwithstanding the above, we are of the opinion that the Group will be solvent immediately after the Schemes are implemented due to the forecast liquidity position detailed in Section 4.5, and the extended maturity dates of the debt facilities providing the Group time to improve earnings or further restructure its balance sheet.

4.7 Indicative test: profit and loss

Profitability is only an indicative test of solvency as it does not take into account:

- The resulting cash flow arising from profitable trading.
- The impact of accounting policies, including depreciation.
- Ongoing investment required to maintain profitable operations.
- The liability position which needs to be serviced from profits.

4.7.1 Profit and loss forecast

The Group's Budget Model includes a profit and loss forecast for FY17 through to FY21 for earnings before interest and tax (EBIT).

Table 20 – Base case profit and loss FY17–FY21

$'000	FY17	FY18	FY19	FY20	FY21
Revenue					
Total revenue	681,909.0	750,000.0	830,000.0	890,000.0	940,000.0
Total cost of sales	(573,349.2)	(613,250.0)	(651,840.0)	(676,200.0)	(689,800.0)
Total gross profit	**108,559.8**	**136,750.0**	**178,160.0**	**213,800.0**	**250,200.0**
Gross margin	*16%*	*18%*	*21%*	*24%*	*27%*
Overhead expenses	(117,051.3)	(45,081.7)	(49,445.4)	(49,339.5)	(48,812.8)
EBITDA	**(8,491.5)**	**91,668.3**	**128,714.6**	**164,460.5**	**201,387.2**
Depreciation and amortisation	(61,923.6)	(66,829.6)	(66,037.5)	(49,058.0)	(49,058.0)
EBIT	**(70,415.1)**	**24,838.7**	**62,677.1**	**115,402.5**	**152,329.2**
Adjusted EBITDA					
Restructuring costs	48,573.0	(4,000.0)	-	-	-
Adjusted EBITDA	**40,081.5**	**87,668.3**	**128,714.6**	**164,460.5**	**201,387.2**
Adj. EBITDA margin	*5.9%*	*11.7%*	*15.5%*	*18.5%*	*21.4%*

Table 21 – Downside case profit and loss forecast FY17–FY21

$'000	FY17	FY18	FY19	FY20	FY21
Revenue					
Total revenue	650,000.0	685,000.0	715,000.0	750,000.0	750,000.0
Total cost of sales	(568,693.8)	(600,784.3)	(626,950.0)	(659,450.0)	(659,450.0)
Total gross profit	**81,306.2**	**84,215.7**	**88,050.0**	**90,550.0**	**90,550.0**
Gross margin	*13%*	*12%*	*12%*	*12%*	*12%*
Overhead expenses	(115,585.9)	(42,448.3)	(47,082.6)	(46,410.1)	(45,793.0)
EBITDA	**(34,279.7)**	**41,767.4**	**40,967.4**	**44,139.9**	**44,757.0**
Depreciation and amortisation	(61,923.6)	(66,829.6)	(66,037.5)	(49,058.0)	(49,058.0)
EBIT	**(96,203.3)**	**(25,062.2)**	**(25,070.1)**	**(4,918.1)**	**(4,301.0)**
Adjusted EBITDA					
Restructuring costs	48,573.0	(4,000.0)	-	-	-
Adjusted EBITDA	**14,293.3**	**37,767.4**	**40,967.4**	**44,139.9**	**44,757.0**
Adj. EBITDA margin	*2.2%*	*5.5%*	*5.7%*	*5.9%*	*6.0%*

The Group has forecast positive EBITDA in FY17 in both the base case and downside cases (after adjusting for restructuring costs). The outlook for FY17–FY21 shows:

- In the base case, the Group is forecasting a material increase in revenue and margin growth, with EBITDA (adjusted) increasing from $40.1 million in FY17 to $201.4 million in FY21.
- the downside case forecast assumes lower revenue growth rates and tighter gross margins over the forecast period compared to the base case, with EBITDA increasing from $14.3 million in FY17 to $44.8 million in FY21.

We have calculated notional NPAT for the Group using the base case forecast and have adopted forecast cash tax payments as a proxy for forecast tax expense.

Table 22 – Notional NPAT FY17–FY21

$'000	FY17	FY18	FY19	FY20	FY21
EBIT	**(70,415.1)**	**24,838.7**	**62,677.1**	**115,402.5**	**152,329.2**
Cash taxes	(25,719.0)	(25,719.4)	(20,000.0)	(20,000.0)	(20,000.0)
Cash interest	(1,220.5)	(1,067.5)	(25,460.1)	(25,078.4)	(25,070.8)
PIK interest	(52,462.7)	(55,286.5)	(26,968.3)	(29,210.6)	(31,474.3)
NPAT	**(149,817.3)**	**(57,234.7)**	**(9,751.3)**	**41,113.5**	**75,784.1**

Using the base case forecast, the Group is forecast to record a cumulative loss after tax of $99.9 million for FY17 through FY21 which will increase the net liability position of the Group (before any impairment write-backs or other adjustments).

Based on the Group's base case forecast, it is highly unlikely that it would be able to repay its debts from cash at the end of the forecast period (FY21) and refinancing will be entirely dependent upon a substantial increase in earnings. However, if the Group does perform in line with its base case forecast, then there may be justification to write-back some of the impaired value of assets (other than goodwill) which would improve the net asset position. Further, if the business performs in line with forecast, the enterprise value of the Group may likely exceed its debt balance at the end of the forecast period.

4.8 Other solvency considerations

4.8.1 Covenants

We have been provided with a summary document of the Group's covenants. The Group's covenants are not performance related and, as such, no forecast covenant testing has been included in the Budget Model. The covenants relate to maintaining certain asset values within the various obligor groups, debt limits and other non-performance related items.

4.8.2 Adequacy of books and records

Section 286(1) of the Act requires a company to keep books and records recording its financial position. This section provides:

A company, registered scheme or disclosing entity must keep written financial records that:

a. Correctly record and explain transaction and financial position and performance

b. Would enable true and fair financial statements to be prepared and audited.

The obligation to keep financial records of transactions extends to transactions undertaken as trustee.

Section 588E(4)(a) of the Act states that in the event of recovery proceedings, a failure by the company to comply with section 286(1) carries a presumption that the company was insolvent for the relevant period.

This report was produced from records made available by the Group. Furthermore, the Group is audited by Deloitte and the audit report does not note any deficiency in the Group's records. Therefore, there are no grounds for presumption of insolvency pursuant to section 588E(4)(a).

4.9 Conclusion on solvency

In our opinion, the Group will be solvent after implementation of the Schemes. However, the Group's ability to continue as a going concern is highly reliant on its ability to closely manage its working capital, the realisation of excess inventory in line with or better than forecast and there being no adverse external impacts on the business.

5 Comparison of outcomes for Beneficiaries under the Schemes versus a winding up

We have been asked to determine:

1. the Implied Value of the interests of the Beneficiaries in the Scheme Companies if the Schemes were to be put into effect as proposed
2. the expected dividend to the Beneficiaries from the Scheme Companies if the Scheme Companies were to be wound-up within six months of the hearing of the application for an order under section 411(1) and 411(1A) of the Act.

Given ListCo is a Scheme Company and also the ultimate holding company of the Group, our analysis of the Implied Value and expected dividend has been calculated based on the Enterprise Value of the Group as determined in Section 3.

5.1 Findings

The Implied Value of the interests of Beneficiaries under the Schemes (assuming all the Recapitalisation Transaction have been completed), and expected dividend on the basis the Scheme Companies were wound up, are detailed in below.

Table 23 – Summary of Beneficiary outcomes

		Schemes		Liquidation	
Beneficiary	**Scheme claim as at 28 February 2017 $'000**	**Implied Value $'000**	**Implied Value (cents in $)**	**Return to creditor $'000**	**Return (cents in $)**
Secured Scheme Creditors					
Secured Notes	203,580.0	124,195.6	61.0	44,889.5	22.1
TLB[46]	105,000.0	67,534.4	64.3	37,220.1	35.4
TLA[47]	85,000.0	40,154.0	47.2	27,734.3	32.6
Unsecured Scheme Creditors					
Subordinated Notes	88,209.0	Nil	Nil	N/A	N/A
Unsecured Notes	292,117.7	N/A	N/A	Nil	Nil

There is no Implied Value or expected dividend attributable to Subordinate Claims either under the Schemes or in a liquidation scenario, noting that we are not aware of any such claims having been made against ListCo.

We note it is possible to trade Secured Notes and Unsecured Notes in the secondary debt market. The current quoted prices, which we understand to be based on trade activity, broker dealer quotes, and valuation models, is 70 cents in the dollar for Secured Notes and 10 cents in the dollar for Unsecured Notes.

5.2 Implied Value if the Schemes are implemented

As detailed in Section 3, we have assessed the Enterprise Value of the Group to be in the range $246.5 million to $286.6 million. We have adopted a mid-point of $266.6 million for the purposes of determining the Implied Value of the interests of Beneficiaries ('the Transaction Value').

[46] We are instructed that the accrued PIK interest on TLA and TLB does not form part of the secured claim amount against the relevant obligors. As such, the accrued PIK interest has not been included in our workings.
[47] Ibid

Table 24 – Transaction Value

Item	Value $'million
Enterprise value high	286.6
Enterprise value low	246.5
Mid-point	**266.6**

As noted in Section 2.4.4, the DDL and Interim Facility are to be repaid on implementation of the Schemes. Accordingly, the analysis of the Implied Value on the basis the Schemes are implemented assumes the Upsized ABL has been affected, to a total value equivalent to the drawn balance of the existing ABL, DDL and Interim Facility.

The Transaction Value is less than the outstanding secured debts owing under the Upsized ABL, Secured Notes, TLA and TLB ('the Secured Lenders'), which is estimated to total $445.1 million[48] (excluding accreted PIK interest on TLA and TLB) at scheme implementation ('the Secured Debts'). The outstanding debt as at 28 February 2017 has been calculated using the interest which will apply upon implementation of the Schemes (as agreed in the Restructuring Support Agreement).

The security provided by the Group in relation to the Secured Debts is complex, and there is no individual Secured Lender who has first ranking security over all assets. There are a number of separate guarantee groups and underlying security packages, with each Secured Lender having guarantees from specific groups of companies, plus differing priorities in respect of different asset types (split generally between working capital assets and other assets). Accordingly, any sale of the Group's business and assets which did not result in repayment of all the Secured Debts would require allocating proceeds between Secured Lenders on a basis agreed between the Secured Lenders. It is likely the allocation would be contentious and subject to considerable analysis and expert review.

We have made a number of assumptions in order to allocate the Transaction Value between the Secured Lenders. These assumptions are set out in the following sections.

5.2.1 Allocation of transaction value

We have adopted the following approach to allocate the Transaction Value:

Step one

The net book value of balance sheet assets and liabilities was allocated between the obligor groups, being the ABL Obligors, Other Obligors, IP Obligor, and the Non-Obligors, with reference to the balance sheet of each of the companies which comprise each obligor group.

We have determined underlying net asset and liability values on the following basis:

- Net book values have been taken from the Group's consolidation workings for FY16, which includes trial balances for each entity as at 31 December 2016
- Consolidation adjustments have been allocated to each asset on a proportional value-weighted basis across all Group entities.

Step two

The book value was allocated between working capital assets and non-working capital assets, as is required to effect the priorities agreed between the Secured Lenders. In this regard, certain assets and liabilities were excluded from these calculations, as detailed in Appendix K.

[48] The Upsized ABL balance includes the current balances of the existing ABL balance as at 28 February 2017 of $16.5 million, the DDL balance as at 28 February 2017 of $20.0 million and the Interim Facility on a fully-drawn basis of $15.0 million.

Step three

The Transaction Value was allocated between the ABL Obligors, IP Obligor and Other Obligors as follows:

- Net working capital (excluding cash) was ascribed full net book value, from which accrued employee liabilities (current and non-current) were deducted. In relation to the assumption that employee entitlements would be offset against working capital, we note:
  - It is usually not possible to sell a business as a going concern without adjusting for accrued entitlements, and it is more likely these will be a deduction from working capital balances rather than fixed assets.
  - The Secured Lenders have a lien over the working capital assets only and do not have any direct ownership of the working capital assets.
- To the extent there was remaining Transaction Value, it was assumed to represent, on a pro rata basis, the value of property, plant and equipment and intellectual property.
- To the extent there was remaining Transaction Value, it was then assumed to represent consideration for goodwill.[49]

For the purposes of the analysis, no value was apportioned to the Non-obligors. In our view:

- The Non-obligors, being non-key trading entities, are unlikely to be valued on the same basis as the key trading entities, and therefore a proportional allocation of consideration would be misleading
- The sale of these entities at a Group level would be by way of a share sale, and hence the ultimate value of the shares would be attributable to obligor entities, either by way of repayment of intercompany loans or by equity distributions into obligor companies.

Step four

The priorities pursuant to the security agreements were applied to determine the return to each of the Secured Lenders. For the purposes of our analysis, we are instructed that the security priorities are as set out in Table 25.

Table 25 – Security and priority structure

Debt obligation	Working capital assets – ABL Obligors	Working capital assets – Other Obligors	IP assets IP Obligor	Other assets – ABL Obligors	Other assets – Other Obligors
Upsized ABL	First ranking	N/A	N/A	Third ranking	N/A
Secured Notes	Third ranking	Second ranking	(Second ranking)[50]	First ranking	First ranking
Term Loan B	Third ranking	Second ranking	(First ranking)[51]	First ranking	First ranking
Term Loan A	Second ranking	First ranking	(First ranking)[52]	Second ranking	Second ranking
Subordinated Notes	Unsecured				

[49] Goodwill is recorded on the balance sheets of the US and Canadian operating entities, both of which are ABL Obligors. Note 18 of the December 2016 Financial Statements notes the impairment test recoverable value of this goodwill exceeds the carrying value.
[50] BLY IP Inc will grant a junior unsecured guarantee to Secured Notes if the Schemes are approved. It will rank junior to the TLA/TLB guarantee.
[51] BLY IP Inc has provided an unsecured guarantee to TLA and TLB. BLY IP Inc has no other creditors and hence this security, albeit unsecured, is effectively first ranking.
[52] Ibid

5.2.2 Value of assets

From the records provided to us, we have determined the value of net working capital and other assets as between the obligor groups is as summarised below.

Table 26 – Net book value of assets adopted for apportionment of Transaction Value

Asset	ABL Obligors $'000	Other Obligors $'000	IP Obligor $'00	Non-Obligors $'000	Total $'000
Net working capital					
Cash	-	-	-	-	-
Trade receivables	50,313.6	14,794.7	-	27,834.4	**92,942.6**
Inventory	64,589.7	49,263.0	-	51,167.5	**165,020.2**
Less: Trade payables	(47,048.6)	(19,672.0)	-	(33,503.7)	**(100,224.3)**
Less: Employee provisions	(33,165.7)	(7,047.4)	-	(17,716.6)	**(57,929.7)**
Net working capital	**34,688.9**	**37,338.2**	-	**27,781.6**	**99,808.8**
Other assets					
Property, plant and equipment	61,492.2	27,614.0	-	38,557.5	**127,663.8**
Intellectual property	36,244.0	1,214.9	6,294.2	167.2	**43,920.3**
Goodwill	100,035.8	-	-	-	**100,035.8**
Total other assets	**197,772.1**	**28,829.0**	**6,294.2**	**38,724.7**	**271,619.9**
Total assets	**232,461.0**	**66,167.2**	**6,294.2**	**66,506.3**	**371,428.7**

The Group's management has advised that while the net book value of the IP assets held within the IP Obligor entity (BLY IP, Inc.) is $6.3 million, it has obtained an independent third party appraisal of the value of the IP which has valued the assets at $44.0 million.

We have adopted net book value for property, plant and equipment and intellectual property assets (which in some cases includes impairments) as the Group does not have (except as noted above) independent appraisals for these assets. To do otherwise would apply an inconsistent approach in allocating value between the various asset groups.

A reconciliation between this table and the Consolidated Statement of Financial Position is included at Appendix K together with reasons for the exclusion of some items from our calculations.

5.2.3 Apportionment of value

The allocation of the Transaction Value between the securities and obligor groups is shown in Table 27.

Table 27 – Apportionment of Transaction Value to obligor groups

$'000	ABL Obligors	Other Obligors	IP Obligor	Total
Enterprise Value				260,650.0
Add: assets held for sale				5,923.0
Transaction Value				**266,573.0**
Apportionment				
Net working capital	34,688.9	37,338.2	-	**72,027.2**
Other assets (PPE,IP)	97,736.3	28,829.0	6,294.2	**132,859.4**
Goodwill	61,686.5	-	-	**61,686.5**
Total allocated	194,111.7	66,167.2	6,294.2	**266,573.0**

5.2.4 Implied Value attributable to Secured Lenders

Based on the allocation of the Transaction Value to the various obligor groups, we have allocated value between the Secured Lenders per the priorities detailed in Table 25, as detailed in the table below.

Table 28 – Allocation of Transaction Value to Secured Lenders[53]

Debt ($'000)	Debt as at 28 Feb 17	WC ABL Obligors	WC Other Obligors	IP Obligor	Other assets ABL Obligors	Other assets Other Obligors	Total Implied Value	Implied Value (cents in $)
Upsized ABL	51,500.0	34,688.9	-	-	-	-	34,688.9	67.4
Secured Notes	203,580.0	-	-	-	105,176.2	19,019.4	124,195.6	61.0
TLB	105,000.0	-	-	3,478.3	54,246.5	9,809.6	67,534.4	64.3
TLA	85,000.0	-	37,338.2	2,815.8	-	-	40,154.0	47.2
Subordinated Notes	88,209.0	-	-	-	-	-	-	-
Total	**533,289.0**	**34,688.9**	**37,338.2**	**6,294.2**	**159,422.7**	**28,829.0**	**266,573.0**	

5.3 Estimated dividend to Beneficiaries if Scheme Companies wound up

In our collective experience, the returns from complex, multi-jurisdictional insolvency are highly uncertain owing to several factors, including:

- insolvency laws across jurisdictions vary greatly
- enforceability of security is often difficult in under-developed and developing countries
- priority structures differ greatly across jurisdictions as does the enforceability of debts and claims
- the value of assets is not readily determinable in smaller, less established markets
- insolvency processes are often expensive, litigious and time consuming processes, often involving court oversight.

In our opinion, if the Group was to be placed into an insolvency process, there are two primary ways in which the assets of the Group could be realised for Beneficiaries:

1. in an orderly and coordinated process, with the appointment of external controllers made only to a limited number of key entities in the Group, leaving much of the Group's operations outside of the formal insolvency process, or
2. in an uncontrolled manner, whereby most if not all Group entities fall into insolvency proceedings in their respective jurisdictions.

For the purposes of determining the expected dividend to the Beneficiaries from the Scheme Companies if the Scheme Companies were to be wound-up, we have assumed a controlled insolvency process could be achieved, by way of a limited insolvency.

In our view, an uncontrolled insolvency process would result in lower realisations and hence a lower expected dividend to Beneficiaries than in a controlled insolvency scenario.

[53] Debt due to the Upsized ABL is the drawn balance of the ABL as at 28 February 2017, being $16.5 million, plus the $20.0 million drawn on the DDL, plus the $15.0 million to be drawn on the Interim Facility. Debt balances include post-restructure adjustments.

The comments made in Section 5.2 regarding the complexity of securities continues to apply in a liquidation scenario. However, if the Schemes were not implemented:

- the Upsized ABL will not come into effect
- the ABL, DDL and Interim Facility will remain in place
- the ABL debt would increase relative to the ABL debt under a Scheme scenario, as guarantee documents drawn against the ABL of $11.9 million are more likely to be called upon by the beneficiaries when an insolvency event occurs
- the full value of the Unsecured Notes would remain, as the conversion to equity of some of the Unsecured Notes would not have occurred
- the claims by lenders would include interest accrued at pre-RSA interest rates
- the priority structures which were put in place for the DDL and Interim Facility will remain. The priorities as between lenders will be as set out in Table 29.

Table 29 – Security and priority structure in liquidation scenario

Debt obligation	Working capital assets – ABL Obligors	Working capital assets – Other Obligors	Certain drill rig assets – DLL Obligors	IP assets – IP Obligor	Other assets – ABL Obligors	Other assets – Other Obligors
ABL (existing)	First ranking	N/A	N/A	N/A	Fourth ranking	N/A
Interim facility	Second ranking	N/A	N/A	N/A	Third ranking	N/A
DDL	N/A	N/A	First Ranking	First ranking	N/A	N/A
Secured Notes	Fourth ranking	Second ranking	N/A	N/A	First ranking	First ranking
Term Loan B	Fourth ranking	Second ranking	(Second ranking)[54]	(Second ranking)[55]	First ranking	First ranking
Term Loan A	Third ranking	First ranking	(Second ranking)[56]	(Second ranking)[57]	Second ranking	Second ranking
Unsecured Notes	Unsecured					

5.3.1 Value of the Group in limited insolvency scenario

We have assumed that the Group would be valued at a lower multiple in a controlled insolvency. Accordingly, we have (based on our experience of liquidation scenarios) adopted an earnings multiple of 4 times FY17 EBITDA, being a lower multiple than that value adopted in Section 3. We have also excluded the value of assets classified as held for sale, as a buyer would be unlikely to attach any additional value to those assets in a distressed sale scenario.

We have assumed that the limited insolvency would extend to key operating and holding entities in each of Australia, the United States of America and Canada, all of which guarantee the ABL facility. In placing these entities into an insolvency or a court supervised restructuring process, we have assumed that a portion (50%) of trade and other liabilities would be avoided or compromised, resulting in increased value to the ABL security holders.

[54] The assets which secure the DDL are held in entities that have no other guarantor obligations. The DDL Obligors have provided an unsecured guarantee in respect to the TLA and TLB debts.
[55] Ibid
[56] Ibid
[57] Ibid

The Transaction Value (limited insolvency) is $153.9 million as detailed below:

Table 30 – Transaction Value (limited insolvency)

Item	Value $'000
Enterprise value	160,400.0
Assets classified as available for sale	-
Add: creditor claims not paid in limited insolvency	23,524.3
Less: realisation costs[58]	(30,000.0)
Transaction Value (limited insolvency)	**153,924.3**

5.3.2 Allocation of Transaction Value (limited insolvency)

In allocating the Transaction Value (limited insolvency) between asset types, we have followed the steps set out in Section 5.2.1, and used the asset values in Section 5.2.2, except that:

- we have assumed a purchaser would only pay 80% of the book value for accounts receivable, due to the risk that some customers may seek to withhold payment or make other claims such that the full book value could not be realised
- we have assumed a purchaser would only pay 70% of the book value for inventory, due to the risk that some inventory may not be realised at book value.

Realisation costs have been applied proportionately to realisations.

5.3.3 Apportionment of value

Based on the assumptions detailed above, Transaction Value (limited insolvency) is applied to the obligor groups as set out in Table 31.

Table 31 – Apportionment of Transaction Value (limited insolvency) to obligor groups

$'000	DDL Obligors	ABL Obligors	Other Obligors	IP Obligor	Total
Enterprise Value					160,400.0
Add: assets held for sale					-
Add: creditors claims not paid in insolvency					23,524.3
Less: realisation costs					(30,000.0)
Transaction Value					**153,924.3**
Apportionment to working capital assets					
Net working capital	-	5,249.3	19,600.4	-	**24,849.7**
Add: creditors claims not paid in insolvency	-	23,524.3	-	-	**23,524.3**
Less: realisation costs	-	(4,693.3)	(3,197.0)	-	**(7,890.3)**
Net realisations	**-**	**24,080.4**	**16,403.4**	**-**	**40,483.7**
Apportionment to non-working capital assets					
DDL security	48,038.1	-	-	-	**48,038.1**
Other assets (PPE,IP)	-	57,829.1	23,558.6	6,124.4	**87,512.1**
Goodwill	-	-	-	-	**-**
Subtotal	**48,038.1**	**57,829.1**	**23,558.6**	**6,124.4**	**135,550.3**
Less: realisation costs	(7,835.5)	(9,432.5)	(3,842.7)	(999.0)	**(22,109.7)**
Net realisations	**40,202.6**	**48,396.5**	**19,716.0**	**5,125.5**	**113,440.6**
Total net realisations	**40,202.6**	**72,476.9**	**36,119.3**	**5,125.5**	**153,924.3**

[58] Realisation costs include insolvency professionals, legal counsel, valuation firms, investment banks and other professional costs.

5.3.4 Estimated dividend attributable to financiers

Based on the allocation of the Transaction Value (limited insolvency) to the various obligor groups, we have allocated value between the financiers per the priorities detailed in Table 26, as detailed in the table below.

Table 32 – Estimated dividend to financiers in a limited insolvency

Debt ($'000)	Debt as at 28 Feb 17	DDL Obligors	WC ABL Obligors	WC Other Obligors	IP Obligor	Other assets ABL Obligors	Other assets Other Obligors	Total return	Return (cents in $)
ABL	28,371.6	-	24,080.4	-	-	-	-	24,080.4	84.9
Interim Facility	15,000.0	-	-	-	-	-	-	-	-
DDL	20,000.0	17,738.5	-	-	2,261.5	-	-	20,000.0	100.0
Secured Notes	202,962.5	-	-	-	-	31,895.7	12,993.8	44,889.5	22.1
TLB	105,000.0	12,414.4	-	-	1,582.7	16,500.8	6,722.2	37,220.1	35.4
TLA	85,000.0	10,049.7	-	16,403.4	1,281.3	-	-	27,734.3	32.6
Unsecured Notes	292,117.7	-	-	-	-	-	-	-	-
Total	**748,451.8**	**40,202.6**	**24,080.4**	**16,403.4**	**5,125.5**	**48,396.5**	**19,716.0**	**153,924.3**	

There would be nil return to Subordinate Claims.

6 Outcome if Schemes are not implemented

We have been instructed to assess the likely outcome for the Group should the Schemes not be implemented:

1. having regard to the Scheme Companies' existing financial position, and projections, and
2. for the purposes of considering this matter only, assuming that there is no standstill in place in respect of the interest payments due to the Secured Scheme Creditors and the Unsecured Scheme Creditors on 1 April 2017.

Our analysis considers:

1. The solvency of the Group assuming all current debt obligations remain unchanged
2. The longer-term outlook for the business, including its ability to refinance its debts as and when they fall due, including the Secured Notes which mature in October 2018.

6.1 Solvency of the Group

We have used the base case forecast contained within the Budget Model to assess the Group's solvency, adjusted as follows:

- Cash interest payments on the Secured Notes and Unsecured Notes have been reinstated from April 2017, resulting in a cash outlay of $19.7 million in April and October each year.
- The PIK interest rate for the TLA and TLB facilities has been re-instated at 12.0% p.a.
- The repayment date for the Secured Notes is assumed to be the existing date of October 2018.

Assuming the above, the base case scenario shows that:

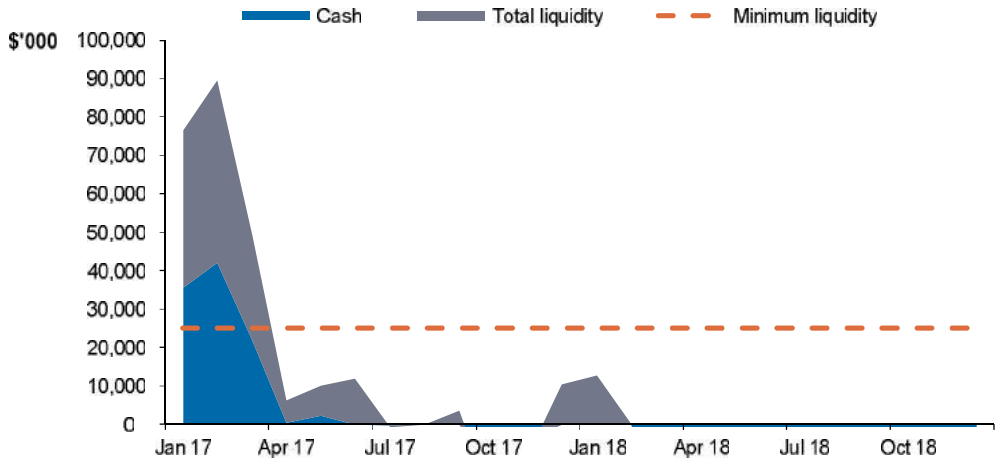
- Group liquidity will decrease considerable in Q2 FY17 to $5.9 million in April 2017, which is below the liquidity headroom of $25.0 million required by the Group, and all cash and liquidity headroom would be fully exhausted by July 2017.
- The available Finance Facilities (assuming the Interim Facility is drawn but no additional facilities are available to the Group) will be insufficient to meet the Group's cash flow requirements by the end of April 2017.

Table 33 – Status quo base case cash flow forecast

$'000	Q1FY17	Q2FY17	Q3FY17	Q4FY17	FY17 Total	Q1FY18	Q2FY18	Q3FY18	Q4FY18	FY18 Total
EBITDA	**(19,038)**	**6,052**	**794**	**3,700**	**(8,491)**	**13,560**	**35,245**	**28,187**	**14,676**	**91,668**
Change in net working capital	(35,802)	4,229	9,076	39,785	17,289	(23,688)	(17,743)	1,181	50,654	10,403
Other non-cash items	(12,110)	1,152	3,871	5,271	(1,816)	(3,964)	(2,293)	3,707	3,707	1,158
Interest payments	(378)	(20,401)	(726)	(20,442)	(41,947)	(690)	(20,453)	(763)	(20,453)	(42,359)
Taxes paid	(1,679)	(1,682)	(11,179)	(11,179)	(25,719)	(3,081)	(4,283)	(5,110)	(13,245)	(25,719)
Cash from operations	**(69,007)**	**(10,650)**	**1,837**	**17,136**	**(60,684)**	**(17,862)**	**(9,527)**	**27,202**	**35,339**	**35,151**
Capital expenditure	**(4,295)**	**(4,918)**	**(10,155)**	**(10,155)**	**(29,523)**	**(8,174)**	**(8,174)**	**(8,174)**	**(8,174)**	**(32,695)**
Financing cash flows										
Draw-down of debt facilities	35,000	-	-	-	35,000	-	-	-	-	-
Repayment of debt facilities	-	-	-	-	-	-	-	-	(195,000)	(195,000)
Cash from financing	**35,000**	**-**	**-**	**-**	**35,000**	**-**	**-**	**-**	**(195,000)**	**(195,000)**
Opening cash	60,114				60,114					
Opening ABL headroom	5,508				5,508					
Opening available liquidity	**65,622**	**27,320**	**11,752**	**3,434**	**65,622**	**10,415**	**(15,621)**	**(33,322)**	**(14,294)**	**10,415**
Net cash flow	(38,302)	(15,568)	(8,318)	6,981	(55,207)	(26,036)	(17,701)	19,028	(167,835)	(192,544)
Increase in ABL limit	-	-	-	-	-	-	-	-	-	-
Closing available liquidity	**27,320**	**11,752**	**3,434**	**10,415**	**10,415**	**(15,621)**	**(33,322)**	**(14,294)**	**(182,129)**	**(182,129)**

The liquidity position on a monthly basis for FY17 and FY18 is shown in the figure below:

Figure 5 – FY17-FY18 liquidity position assuming status quo



In our opinion, if the proposed restructure is not implemented and no alternate restructuring plan was reasonably certain of being advanced, the Group would likely be unable to pay its debts as and when they fall due from April 2017. In these circumstances, it is likely:

- The directors of ListCo would seek to appoint voluntary administrators (or an alternative form of insolvency appointment) to ListCo and other Australian companies.
- The ABL lenders or the Secured Scheme Creditors may seek to appoint receivers to the ABL Obligor and the Other Obligors.
- Without the support of the Group's lenders, either of the above scenarios would likely result in some form of insolvency appointment to subsidiaries in other jurisdictions.

Our opinion on the outcome to Scheme Beneficiaries should the companies be wound-up is set out in Section 5.3.

Appendix A – Letter of Engagement

Our ref: JKM\CCLE\02 3003 0619
Partner: James Marshall
Direct line: +61 2 9258 6508
Email: james.marshall@ashurst.com
Contact: Camilla Clemente, Senior Associate
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1 May 2017

By email

Scott Kershaw
Jenny Nettleton
KordaMentha
Level 5, Chifley Tower
Chifley Square
Sydney NSW 2000

Dear Scott

Engagement for Dividend and Solvency Analysis in relation to the Creditors' Schemes of Arrangement of Boart Longyear Limited (the **Schemes**)

We act for Boart Longyear Limited (**Listco**) and its subsidiaries (**Group**), which include Boart Longyear Management Pty Ltd (**FinCo**), Boart Longyear Australia Pty Limited (**BLY Australia**) and Votraint No. 1609 Pty Limited (**Votraint**).

1. INTRODUCTION

1.1 The Group's debt capital structure can be summarised as follows (all $ are USD):

(a) a secured revolving working capital facility (**Revolver**) provided to FinCo;

(b) a Term Loan A Securities Agreement dated 22 October 2014 issued by FinCo, as amended and restated from time to time (**TLA**);

(c) a Term Loan B Securities Agreement dated 22 October 2014 issued by FinCo, as amended and restated from time to time (**TLB**);

(d) 10% Senior Secured Notes paying a 10% coupon in the sum of $195m issued by FinCo, as amended and restated from time to time (**10% Notes**); and

(e) 7% Unsecured Senior Notes paying a 7% coupon in the sum of $284m, as amended and restated from time to time (**7% Notes**),

together, the **Finance Documents**.

1.2 Listco, Finco, BLY Australia and Votraint (together, the **Scheme Companies**) propose to enter into the following interdependent schemes of arrangement with certain of their creditors under the Finance Documents, being:

(a) the holders of the TLA, TLB and 10% Notes (together, the **Secured Scheme Creditors**); and

(b) the holders of the 7% Notes (the **Unsecured Scheme Creditors**).

1.3 We have been instructed by the Scheme Companies to engage KordaMentha to prepare an independent expert report on behalf of the Scheme Companies and the Group addressing financial matters relating to the proposals by the Scheme Companies and certain of their

creditors to apply for orders under section 411 of the *Corporations Act 2001* (Cth) (**Act**) convening respective meetings of the Secured Scheme Creditors and the Unsecured Scheme Creditors to consider inter-conditional schemes of arrangement. Your independent expert report is also to be prepared for use by the directors of the Scheme Companies in relation to the Schemes.

1.4 The Scheme Companies wish to appoint Scott Kershaw and Jenny Nettleton of your office as expert.

2. INSTRUCTIONS

2.1 For the purpose of this section, the term 'Subordinate Claim' means:

(a) a claim for a debt owed by Listco to a person in the person's capacity as a member of Listco (whether by way of dividends, profits or otherwise); or

(b) any other claim that arises from buying, holding, selling or otherwise dealing in shares of Listco.

2.2 You are instructed to prepare an independent expert report (**KordaMentha Report**) addressing the following matters:

(a) The solvency of the Group following the implementation of the proposed Schemes:

(i) solvency is to be determined following completion of the Schemes; and

(ii) you are to determine "solvency" with reference to section 95A of the Act.

(b) The value of the assets of the Group generally relative to the debts owing under the Finance Documents.

(c) The expected dividend that would be respectively available to the:

(i) Secured Scheme Creditors;

(ii) Unsecured Scheme Creditors; and

(iii) holders of Subordinate Claims against the Scheme Company,

if the Scheme Companies were to be wound up within 6 months of the hearing of the application for an order under section 411(1) and (1A) of the Act.

(d) The expected dividend that would be respectively paid to the:

(i) Secured Scheme Creditors;

(ii) Unsecured Scheme Creditors; and

(iii) holders of Subordinate Claims against the Scheme Companies,

if the Schemes were put into effect as proposed.

The requirement to calculate the expected dividend that would be paid to scheme creditors if the scheme were to be put into effect as proposed is drawn from S 8201(b) in Part 2 of Schedule 8 of the *Corporations Regulations 2001* (Cth). If, in response to (a) above, you conclude that the Scheme Companies will be solvent following the implementation of the Schemes, the Scheme Companies would not be wound up following the implementation of the Schemes and based on the terms of the Schemes, despite the calculation required by the Regulations, no dividend would actually be paid to the Secured Scheme Creditors and Unsecured Scheme

Creditors. In these circumstances, the instruction in (d) above still requires you to calculate the dividend that would be paid to Secured Scheme Creditors and Unsecured Scheme Creditors if the Scheme were implemented, which dividend must be calculated as if a winding up follows the implementation of the Schemes even though it would not do so in your opinion. If you conclude in response to (a) above that the Scheme Companies would be solvent following the implementation of the Schemes, in order to reduce the risk that a reader of your report might be confused by the use of the term "expected dividend" in circumstances where the Scheme Companies are not being wound up, we request that where you are addressing the calculation described in (d) above in your report you refer to implied value of the interests of the Secured Scheme Creditors and the Unsecured Scheme Creditors (**Implied Value**) instead of "expected dividend".

(e) The likely outcome for the Group should the Schemes not be implemented:

(i) having regard to the Scheme Companies' existing financial position, and projections; and

(ii) for the purposes of considering this matter only, assuming that there is no standstill in place in respect of the interest payments due to the Secured Scheme Creditors and the Unsecured Scheme Creditors on 1 April 2017.

2.3 The KordaMentha Report should include a schedule listing the data, reports and other information (to the extent this material is not set out in the body of the KordaMentha Report) which has been used to prepare the KordaMentha Report.

2.4 You are also instructed to read the following **enclosed** documents:

(a) Expert Witness Code of Conduct from the Uniform Civil Procedure Rules 2005 (NSW) and to acknowledge in the KordaMentha Report that you have done so and agree to comply with it; and

(b) Regulatory Guide 112 issued by ASIC on 30 March 2011 and to acknowledge in the KordaMentha Report that you have done so and consider that you are independent in accordance with the requirements of Regulatory Guide 112 and that you consider that you have complied with the terms of that document.

2.5 You are also instructed to disclose in the KordaMentha Report the existence of any engagements you have had with the Group.

3. COURT PROCEEDINGS AND THE USE OF THE KORDAMENTHA REPORT

3.1 You agree that the directors of the Scheme Companies may rely on the KordaMentha Report for, amongst other things, considering whether the Scheme Companies would be solvent (within the meaning of section 95A of the Act) following implementation of the Schemes.

3.2 You agree to the inclusion of the KordaMentha Report as:

(a) an annexure to the Explanatory Statements to be provided by the Scheme Companies to the Secured Scheme Creditors, Unsecured Scheme Creditors and others (including ASIC and the ASX) in relation to the Schemes;

(b) an annexure to a notice of meeting to the shareholders of the Scheme Companies; and

(c) an annexure to any prospectus issued in connection with the Scheme Companies.

3.3 Schemes of arrangement are subject to Court approval. Any applications by the Scheme Companies will require the following documents to be included in the applications to the Court:

(a) the KordaMentha Report; and

(b) an affidavit from Scott Kershaw / Jenny Nettleton introducing and annexing or exhibiting the KordaMentha Report and verifying the opinions contained therein.

3.4 You agree to the KordaMentha Report being used in the proceedings before the Court relating to the Schemes, and to the provision of affidavits by Scott Kershaw / Jenny Nettleton in relation to the KordaMentha Report in the Court proceedings.

4. CONFIDENTIALITY

4.1 Your services as independent expert may require you to receive confidential and/or proprietary information or property of the Scheme Companies. You agree to maintain all documents, information and things obtained in connection with this matter in strict confidence. You agree to maintain any reports, work papers, memoranda or summaries which may be prepared in connection with the engagement by you or personnel assisting you in strict confidence. You agree not to disclose these things to any person or use them for any purpose apart from assisting Ashurst and the Scheme Companies in relation to this matter, and you agree to ensure your personnel are obliged to do the same. You agree to retain all such material, subject to our instructions.

4.2 Apart from engaging with us, the Scheme Companies and its authorised personnel or consultants, and the giving of evidence in the Court proceedings:

(a) you must keep all communications between us confidential (including the contents of this letter). It is a condition of this engagement that you take all reasonable measures to protect the confidentiality of, and any privilege attaching to, these communications;

(b) you must not disclose to anyone the content of any confidential oral or written communication relating to this engagement;

(c) no other use, disclosure or dissemination of such materials or information gained in connection with this engagement is to be made without prior written consent, except as may be required by law; and

(d) you must not discuss any aspect of this matter with any other person, or inform them of your involvement in this matter, without our prior written consent.

4.3 There may be specific confidentiality orders applying to the Court proceedings described above. We will advise you if and when such orders apply to you. If you are ever in doubt about what may be discussed with others, please contact us to ensure there is no inadvertent breach of this agreement or any Court orders.

4.4 Please mark any written communications (including emails) and reports involving this matter ***"Privileged and Confidential"***. Please address all letters and faxes in connection with your services to:

Privileged and Confidential
Attention: James Marshall
Ashurst Australia
Level 11, 5 Martin Place
Sydney NSW 2000

4.5 All documents obtained in the course of this engagement must be returned to us upon request. The obligations in this letter expressly apply to both you and any personnel

providing assistance to you. The obligations in this letter survive expiration or termination of this engagement.

5. **YOUR FEES**

We confirm that the Scheme Companies will ultimately be responsible for your fees for the preparation of the independent expert report.

6. **CONFIRMATION**

Please confirm whether KordaMentha agrees to the terms of this engagement, including the confidentiality requirements, by return letter.

Please contact James Marshall or Camilla Clemente should you require any further information or confirmation, or if you have any questions or issues in relation to this letter or otherwise.

Yours faithfully

Ashurst Australia

ashurst

Uniform Civil Procedure Rules 2005

Current version for 7 April 2017 to date (accessed 1 May 2017 at 09:33)

Schedule 7

Schedule 7 Expert witness code of conduct

(Rule 31.23)

1 Application of code

This code of conduct applies to any expert witness engaged or appointed:

(a) to provide an expert's report for use as evidence in proceedings or proposed proceedings, or

(b) to give opinion evidence in proceedings or proposed proceedings.

2 General duties to the Court

An expert witness is not an advocate for a party and has a paramount duty, overriding any duty to the party to the proceedings or other person retaining the expert witness, to assist the court impartially on matters relevant to the area of expertise of the witness.

3 Content of report

Every report prepared by an expert witness for use in court must clearly state the opinion or opinions of the expert and must state, specify or provide:

(a) the name and address of the expert, and

(b) an acknowledgement that the expert has read this code and agrees to be bound by it, and

(c) the qualifications of the expert to prepare the report, and

(d) the assumptions and material facts on which each opinion expressed in the report is based (a letter of instructions may be annexed), and

(e) the reasons for and any literature or other materials utilised in support of each such opinion, and

(f) (if applicable) that a particular question, issue or matter falls outside the expert's field of expertise, and

(g) any examinations, tests or other investigations on which the expert has relied, identifying the person who carried them out and that person's qualifications, and

(h) the extent to which any opinion which the expert has expressed involves the acceptance of another person's opinion, the identification of that other person and the opinion expressed by that other person, and

(i) a declaration that the expert has made all the inquiries which the expert believes are desirable and appropriate (save for any matters identified explicitly in the report), and that no matters of significance which the expert regards as relevant have, to the knowledge of the expert, been withheld from the court, and

(j) any qualification of an opinion expressed in the report without which the report is or may be incomplete or inaccurate, and

(k) whether any opinion expressed in the report is not a concluded opinion because of insufficient research or insufficient data or for any other reason, and

(l) where the report is lengthy or complex, a brief summary of the report at the beginning of the report.

4 Supplementary report following change of opinion

(1) Where an expert witness has provided to a party (or that party's legal representative) a report for use in court, and the expert thereafter changes his or her opinion on a material matter, the expert must forthwith provide to the party (or that party's legal representative) a supplementary report which must state, specify or provide the information referred to in clause 3 (a), (d), (e), (g), (h), (i), (j), (k) and (l), and if applicable, clause 3 (f).

(2) In any subsequent report (whether prepared in accordance with subclause (1) or not), the expert may refer to material contained in the earlier report without repeating it.

5 Duty to comply with the court's directions

If directed to do so by the court, an expert witness must:

(a) confer with any other expert witness, and

(b) provide the court with a joint report specifying (as the case requires) matters agreed and matters not agreed and the reasons for the experts not agreeing, and

(c) abide in a timely way by any direction of the court.

6 Conferences of experts

Each expert witness must:

(a) exercise his or her independent judgment in relation to every conference in which the expert participates pursuant to a direction of the court and in relation to each report thereafter provided, and must not act on any instruction or request to withhold or avoid agreement, and

(b) endeavour to reach agreement with the other expert witness (or witnesses) on any issue in dispute between them, or failing agreement, endeavour to identify and clarify the basis of disagreement on the issues which are in dispute.

ASIC

Australian Securities & Investments Commission

REGULATORY GUIDE 112

Independence of experts

March 2011

About this guide

This is a guide for any person who commissions, issues or uses an expert report.

It explains how ASIC interprets the requirement that an expert is independent of the party that commissions the expert report (commissioning party) and other interested parties.

> Note: An interested party is a person with an interest in the outcome of the transaction different from the interest of the general body of security holders.

About ASIC regulatory documents

In administering legislation ASIC issues the following types of regulatory documents.

Consultation papers: seek feedback from stakeholders on matters ASIC is considering, such as proposed relief or proposed regulatory guidance.

Regulatory guides: give guidance to regulated entities by:

- explaining when and how ASIC will exercise specific powers under legislation (primarily the Corporations Act)
- explaining how ASIC interprets the law
- describing the principles underlying ASIC's approach
- giving practical guidance (e.g. describing the steps of a process such as applying for a licence or giving practical examples of how regulated entities may decide to meet their obligations).

Information sheets: provide concise guidance on a specific process or compliance issue or an overview of detailed guidance.

Reports: describe ASIC compliance or relief activity or the results of a research project.

Document history

This version was issued on 30 March 2011 and is based on legislation and regulations as at 30 March 2011. The reference to the relief instrument in RG 112.37 was updated in August 2015 because this instrument was reviewed as part of the sunsetting of legislative instruments under the *Legislative Instruments Act 2003*.

Previous versions:

- Superseded Regulatory Guide 112, issued 30 October 2007

Disclaimer

This guide does not constitute legal advice. We encourage you to seek your own professional advice to find out how the Corporations Act and other applicable laws apply to you, as it is your responsibility to determine your obligations.

Examples in this guide are purely for illustration; they are not exhaustive and are not intended to impose or imply particular rules or requirements.

Contents

A Overview

Key points

This guide gives ASIC's view on:

- the need for an expert to be independent (see Section B);
- how previous and existing relationships with commissioning and other interested parties may affect the independence of an expert (see Section C);
- how an expert should deal with the commissioning party and other interested parties to maintain its independence (see Section D); and
- when and how an expert should use a specialist when preparing an expert report (see Section E).

Reports covered by this guide

RG 112.1 This guide focuses on reports prepared for transactions under Chs 2E, 5, 6 and 6A of the *Corporations Act 2001* (Corporations Act), whether the reports are required in the Corporations Act or are commissioned voluntarily. The principles in this guide may also be relevant to independent expert reports commissioned for other purposes—for example, specialist reports like geologist reports or traffic forecast reports (see Section E) for inclusion in Ch 6D disclosure documents and Ch 7 Product Disclosure Statements (PDSs).

RG 112.2 We consider that security holders regard an expert report as being prepared by an independent expert irrespective of whether the report has been prepared voluntarily or because it is required under statute.

RG 112.3 This approach is consistent with the obligations on the holder of an Australian financial services licence (AFS licensee) to manage conflicts of interest. An AFS licensee's obligation to manage conflicts of interest applies to all of its activities as an AFS licensee and, as such, an expert who holds an AFS licence needs to manage conflicts of interest in respect of all expert reports it prepares.

RG 112.4 This guide does not apply to independent or investigating accountant reports.

Underlying principles

RG 112.5 An expert report that is biased frustrates rather than assists informed decision-making. Security holders will assume that an expert report is an independent opinion and will be misled if the opinion is not.

RG 112.6 Brooking J described the role of an expert in *Phosphate Co-operative v Shears (No 3)* (1988) 14 ACLR 323 (*Pivot*) at 339 in the following terms:

> Those who prepare experts' reports in company cases carry a heavy moral responsibility, whatever their legal duties may be. These reports are either required by the [Corporations Act] or provided by way of analogy with those requirements. In either case, they are supposed to be for the protection of individuals who are being invited to enter into some kind of transaction. Unless high [independence] standards are observed by those who prepare these reports, there is a danger that systems established for the protection of the investing public will, in fact, operate to their detriment through reliance on these reports and on the reputations of those who furnish them. In lending his name, the expert will often, as in this case, be lending a name to conjure with … The expert's integrity and freedom from baneful influences are essential.

RG 112.7 The Corporations Act indicates the need for an expert to be independent:

(a) an expert must not be associated with certain interested parties, and must disclose certain interests and relationships, when preparing reports required by the Corporations Act for:

  (i) a takeover bid under Ch 6 (s648A);

  (ii) a scheme of arrangement (reg 5.1.01 and Sch 8, cls 8303 and 8306 of the Corporations Regulations 2001 (Corporations Regulations)); and

  (iii) a compulsory acquisition or buy-out under Ch 6A (s667B); and

(b) as an AFS licensee, an expert needs to establish and maintain systems to comply with its obligations to manage conflicts of interest.

B Expert needs to be independent

Key points

An expert should be, and should appear to be, independent: see RG 112.8–RG 112.15.

An expert should give an opinion that is genuinely its own opinion: see RG 112.16–RG 112.20.

Independence

RG 112.8 The Corporations Act contains indicators that an expert must be, and must appear to be, independent in the provisions requiring an expert report for certain takeover bids, schemes of arrangement, for any compulsory acquisition and in the AFS licensee conflicts management provisions.

RG 112.9 The need for an expert to be, and to appear to be, independent is also indicated in case law establishing that the independence of an expert is critical for the protection of security holders. Mullighan J observed in *Duke Group v Pilmer* (1998) 27 ACSR 1 at 268:

> It may be seen that a true state of independence on the part of the expert is crucial to the efficacy of the [takeover] process and for the protection of the public generally and the company and its members in particular.

RG 112.10 We will consider regulatory action if we have concerns about the independence of an expert: see Regulatory Guide 111 *Content of expert reports* (RG 111) at RG 111.128–RG 111.130.

> Note: In addition to the term 'independence', language also used by the courts, our policies and commentators include: 'impartial judgment'; 'disinterested'; 'objective'; 'unbiased'; 'genuine expression of opinion'; 'integrity' and, negatively: 'conflict of interest'; 'compromised'; 'collusion' and 'acting in a partisan capacity'.

AFS licensee obligations to manage conflicts

RG 112.11 An expert report typically includes a statement of opinion or recommendation intended to influence investors in making a decision on a financial product: s766B(1). This means the expert report usually constitutes financial product advice, triggering the need for an AFS licence: s766A and 911A(1). Accordingly, in most cases, an expert who prepares an independent expert report that will be made available to retail investors will hold an AFS licence.

RG 112.12 Under s912A(1)(aa), an AFS licensee must:

> have in place adequate arrangements for the management of conflicts of interest that may arise wholly, or partially, in relation to activities

> undertaken … in the provision of financial services as part of the financial services business of the licensee or the representative …

RG 112.13 This conflicts management obligation applies irrespective of:

(a) whether the expert states that it is independent of the commissioning party;

(b) any requirement that the expert not be an associate of the commissioning party or any other interested party to a transaction (e.g. s648A); or

(c) whether the expert report has been prepared to meet a statutory obligation.

RG 112.14 Whether an expert's conflicts management arrangements (i.e. measures, processes and procedures) are adequate will depend on the nature, scale and complexity of the expert's business and the circumstances of the expert's engagement. The expert should document its conflicts management policies and procedures. The expert should keep records demonstrating how it has complied with those procedures. General guidance on these obligations is provided in Regulatory Guide 181 *Licensing: Managing conflicts of interest* (RG 181) at RG 181.10–RG 181.11.

RG 112.15 Expert reports are exempt from the licensing regime (reg 7.6.01(u)) when the advice is an opinion on matters other than financial products (e.g. a geologist report) and:

(a) it does not include advice on a financial product;

(b) the document includes a statement that the person is not operating under an AFS licence when giving the advice; and

(c) the expert discloses remuneration, interests and relationships.

Genuine opinion

RG 112.16 The courts have required the opinion of an expert to be genuine and a product of the expert's professional judgment. An expert's opinion that is tailored to support the views of the commissioning party or any other interested party is not a genuine opinion. It may also be misleading or deceptive.

RG 112.17 A court found that a commissioning party's active role in shaping an expert report meant that the expert report was not the product of 'an exercise of judgment' by the expert 'uninfluenced by pressure brought to bear by or on behalf of [the commissioning party]' and was not 'a genuine expression of opinion … but was the result of an exercise carried out for the purpose of arriving at a desired result': *Pivot* at 340 and 342 per Brooking J.

RG 112.18 An expert is subject to statutory obligations to avoid making misleading or deceptive statements and engaging in misleading or deceptive conduct.

Note: See, for example, s412(8), 670A(1)(h), 1041E, 1041F and 1041H and s12DA of the *Australian Securities and Investments Act 2001* (ASIC Act).

RG 112.19 An expert has been found to have engaged in misleading or deceptive conduct when the expert did not hold the opinions expressed in the expert report: *MGICA v Kenny & Good* (1996) 140 ALR 313 at 356–357 (a case involving a property valuation).

RG 112.20 Similarly in *Reiffel v ACN 075 839 226* (2003) 45 ACSR 67 at 92–93, the court held that the expert report was misleading and deceptive in circumstances when 'there was no reasonable basis for the [expert's] statement in the report' and the expert 'did not hold the opinion it expressed'. The court held that the expert should have disclosed that it disagreed with the methodology used by a promoter in its forecasts and disclosed the methodology that the expert in fact used.

C Relationship between the expert and the commissioning party

Key points

An expert should identify relationships and interests that may affect, or may be perceived to affect, the expert's ability to prepare an independent report: see RG 112.21–RG 112.24.

The expert should then consider whether, on the basis of that relationship or interest:

- it should decline the engagement (see RG 112.25–RG 112.27); or
- the relationship or interest can be adequately dealt with by way of disclosure in the expert report (see RG 112.28–RG 112.37).

The expert may also need to take other actions to manage a conflict of interest: see RG 112.38.

Before engaging an expert, a commissioning party should be satisfied that the expert is independent and has sufficient expertise and resources to provide a thorough report: see RG 112.39–RG 112.41.

Note: A reference to expert in this guide is to the person or entity that issues the report. In most cases, this will be a corporate entity holding an AFS licence, even though a senior director or employee may sign the report in the name of the corporate entity and be principally responsible for preparing the report.

Identifying relationships

RG 112.21 Previous and existing relationships may threaten, or appear to threaten, the independence of an expert. The objectivity of an expert may also be compromised, or called into question, if the expert has an interest in the outcome of the transaction that is the subject of its report.

RG 112.22 The closer the relationship between the expert and a commissioning party or any other interested party, the greater the onus on the expert to demonstrate the absence of bias.

RG 112.23 In identifying relationships and interests that may affect, or may be perceived to affect, the expert's ability to prepare an independent report, the expert should not only identify relationships with, and interests of, the expert but also of:

(a) the expert's associates;

(b) those directors and senior employees who are principally responsible for preparing and issuing the expert report; and

(c) the spouse, children and associates of the directors and senior employees who are principally responsible for preparing and issuing the expert report.

RG 112.24 The need to undertake this identification process also arises from the obligation to manage conflicts of interest if the expert is an AFS licensee.

Declining the engagement

RG 112.25 An expert should seriously consider declining an engagement when:

(a) a person to be involved in preparing the expert report is an officer of the commissioning party or an interested party;

(b) the expert, a director or a senior employee who is involved in preparing the expert report has a substantial interest in or is a substantial creditor of the commissioning party or has other material financial interests in the relevant transaction;

(c) the expert has participated in strategic planning work for the commissioning party as a lawyer, financial consultant, tax adviser or accountant, whether in connection with the relevant transaction or generally (e.g. advising on possible takeovers or takeover defences); or

(d) the expert has acted as a lawyer, financial consultant, tax adviser or accountant to the commissioning party (other than providing professional services strictly for compliance purposes rather than strategic or operational decisions or planning).

RG 112.26 The Corporations Act specifically states that an expert must decline an engagement for the preparation of an expert report in each of the following circumstances:

(a) when the report is to be cited or included in a target statement if the expert is an 'associate' (as defined in s12) of the bidder or the target and the bidder has 30% or more of the voting power in the target entity or there are common directors of the target and the bidder (s640 and 648A(2));

(b) when the report is to be cited or included in a bidder's statement if the expert is an 'associate' (as defined in s12) of the bidder or the target and the consideration for a pre-bid stake acquired in a target was unquoted securities (s636(1)(h)(iii), 636(2) and 648A(2));

(c) when the report is to be cited or included in the explanatory statement for a scheme of arrangement if the expert is an 'associate' (as defined in s12) of the parties to the scheme if the other party to a reconstruction in a scheme of arrangement has at least 30% of the voting shares of the scheme company or there are common directors (reg 5.1.01(b) and Sch 8, cls 8303 and 8306 of the Corporations Regulations); and

(d) if the expert is an 'associate' (as defined in s12) of the person issuing a compulsory acquisition or buy-out notice (s663B, 664C, 665B and 667B).

RG 112.27 An expert's AFS licensee obligations to manage conflicts of interest may oblige an expert to decline engagements in some circumstances. Licensee experts may be offered an engagement in which relationships and interests pose such a serious risk of conflict of interest that the threat to the expert's

independence cannot be adequately managed through disclosure or internal controls. The only way an expert can adequately manage these threats is to avoid them and the expert's conflicts management policies and procedures should give specific guidance on circumstances when it should decline engagements: see RG 181.42–RG 181.43 and RG 181.60.

Disclosing relationships and interests

Requirement

RG 112.28 As security holders rely on an expert report, they should be clearly informed about any relationships or interests (including financial or other interests) that could reasonably be regarded as relevant to the independence of the expert. This requirement arises from the Corporations Act and case law: see *ANZ Nominees v Wormald* (1988) 13 ACLR 698 at 707.

RG 112.29 Disclosure of relationships or interests is required under the Corporations Act for an expert report when the report is required to be included in:

(a) a target statement, when the bidder has 30% or more of the voting power in the target entity or there are common directors of the target and the bidder (s648A(3));

(b) a bidder's statement, when the consideration for a pre-bid stake acquired in a target is unquoted securities (s648A(3)); and

(c) a compulsory acquisition or buy-out notice (s667B(2)).

RG 112.30 Similarly, as an AFS licensee, an expert needs to make appropriate disclosure of conflicts of interest to commissioning parties and to those relying on the report as part of the conflicts management obligation: see RG 181.49–RG 181.63.

Content of disclosure

RG 112.31 An expert should prominently disclose in the report:

(a) the business or professional relationships with a commissioning party or any other interested party;

(b) any financial or other interest that could reasonably be regarded as capable of affecting the expert's ability to give an unbiased opinion on the matter being reported on; and

(c) any fee or benefit (whether direct or indirect) to be received in connection with the report (s648A(3) and 667B(2)).

RG 112.32 If an expert has, within the previous two years, valued assets representing more than a *de minimus* (i.e. trivial) proportion by value of the assets that it

has been engaged to value for the commissioning party, this should also be prominently disclosed in the report.

> Note: Disclosure is also required by RG 112.31 if the expert was previously engaged to value the relevant assets by the commissioning party or any other interested party.

RG 112.33 These disclosures should be made in all expert reports irrespective of whether the report is required to be prepared by the Corporations Act or is voluntarily commissioned and supplied to security holders.

RG 112.34 These disclosures should relate to relationships or interests existing at the time of preparation of the report or existing in the previous two years. This two-year period is a minimum period for disclosure and earlier relationships might be so significant that they warrant disclosure as well.

> Note: In *Duke Group v Pilmer,* Mullighan J referred to this benchmark with approval (at 268).

RG 112.35 Disclosures should be timely, prominent, specific and meaningful. An expert should not use 'boilerplate' disclosures (e.g. that the expert has been paid 'a normal professional rate'). An actual amount should be shown for fees paid to an expert for the report.

RG 112.36 When an expert report is cited or included in a bidder's statement in which any securities in the bidder (or a person who controls the bidder) are offered as consideration under the bid, these disclosures must also meet the specific disclosure obligations that apply to prospectuses under s711(2)–(4), including:

(a) any interests that the expert has in the bidder; and
(b) any fees or benefits given or agreed for the expert's services (s636(1)(g)).

RG 112.37 As an expert report will usually constitute financial services advice, an expert will need to give retail investors a Financial Services Guide (FSG). We have given relief to allow an expert to include a FSG as a separate and clearly identifiable part of an expert report: see ASIC Corporations (Financial Services Guides) Instrument 2015/541. In view of this relief, we consider that an expert should include all of its disclosure of interests and benefits, whether flowing from the FSG requirements, conflicts management, s648A or case law, in the FSG rather than duplicating that disclosure in another part of the expert report.

Other measures

RG 112.38 In addition to disclosing any conflict of interest, an expert will need to consider whether other measures to properly manage the conflict of interest are appropriate (e.g. implementing information barriers): see RG 181.35–RG 181.37.

Commissioning an expert

RG 112.39 In commissioning an expert, a commissioning party should consider whether the expert is independent and whether the expert has sufficient expertise and resources to give a thorough opinion on the proposed transaction. The quality of an expert report may be affected if this is not the case. If an expert considers that it is not independent or does not have sufficient expertise or resources to give a thorough opinion, it should decline the engagement.

RG 112.40 In selecting an appropriate expert, we consider that relevant factors are likely to include:

(a) whether the expert has adequate resources (which may include access to appropriate third party specialists) to perform the necessary work;

(b) the qualifications of the expert and whether the expert has the requisite level of technical expertise (including whether the expert meets the requirements of any relevant industry codes);

(c) the experience of the expert. For example, a commissioning party may ask what comparable transactions the expert has given an opinion on and whether that experience is relevant to the current transaction;

(d) whether the expert can meet the timeframe required for the report to be produced; and

(e) whether there are any independence issues.

RG 112.41 While a commissioning party should satisfy itself that an expert is competent, it should ensure that any pre-engagement discussions do not compromise the expert's independence. For example, these discussions should not deal with how the expert proposes to evaluate the transaction or the merits of the transaction: see RG 112.46–RG 112.48.

D Expert's conduct in preparing its report

Key points

An expert should:

- obtain written terms of engagement from the commissioning party before commencing work;
- take care to avoid any communication with the commissioning party or any other interested party that may undermine, or appear to undermine, independence; and
- consent to the use or incorporation of its report.

Commissioning parties should be careful not to release the conclusions of an expert report in advance of the final report.

Interactions with commissioning party

Terms of engagement

RG 112.42 Before commencing work, an expert should obtain written terms of engagement from the commissioning party that:

(a) set out the scope and purpose of the report;

(b) set out the facts of the proposal and relevant data;

(c) recognise the expert's right to refuse to give an opinion or report at all if it is not given the information and explanations it requires to prepare the report;

(d) give the expert the same access to the commissioning party's records as the auditor of the commissioning party; and

(e) set out the fee.

Approval of appointment

RG 112.43 It is possible that some directors of a commissioning party may have a conflict of interest in the proposed transaction, such as cross-directorships held in the target and the bidder. In these circumstances, the expert and commissioning party should ensure that the directors without a conflict select and engage the expert.

RG 112.44 The commissioning party should ensure that the method by which an expert is appointed, and the scope of its engagement, is consistent with the concepts of independence and perceived independence of the expert. For example, it may be appropriate to have a non-executive director oversee the appointment process if management is likely to be perceived to have a strong interest in the outcome of the expert report.

Expert's fee

RG 112.45 We will consider that an expert is not independent if the amount it is to receive for the expert report depends in any way on the outcome of the transaction to which the report relates. This is consistent with the requirement that a person who provides financial services must not hold itself out as 'independent', 'impartial' or 'unbiased' if it is paid success fees or has a conflict of interest arising from a relationship with an issuer of financial products that might reasonably be expected to influence the report: s923A.

Manner of communication

RG 112.46 Ensuring security holders receive an objective expression of opinion in an expert report involves more than identifying and dealing with previous or existing relationships or interests. An expert's objectivity, or the appearance of objectivity, may be undermined by the interactions between the expert and the commissioning and other interested parties.

RG 112.47 We are likely to view the following interactions as indicators of a lack of independence:

(a) the commissioning party having rejected another expert after the expert disclosed its likely approach to evaluating the proposal;

(b) an expert attending discussions on the development of the transaction, the merits of the transaction or on strategies to be adopted by the commissioning party;

(c) an expert taking instructions from, or holding discussions with, a commissioning party, its advisers or any interested party on the choice of methodologies for the report or evaluation of the transaction (including the underlying assumptions or reasoning), although the expert may interrogate those parties for the purpose of the expert's own analysis;

(d) an expert accepting from a commissioning party, its advisers or any interested party their analysis of the transaction, although the expert may interrogate those parties for the purpose of the expert's own analysis;

(e) the expert discussing preliminary views or findings with the commissioning party or any other interested party;

(f) the expert entering into a success fee arrangement with the commissioning party or any other interested party;

(g) the expert discussing future business relationships with the commissioning party or any other interested party before finalising the report. This includes refraining from cross-selling other services of the expert; and

(h) the expert changing its opinion at the suggestion of the commissioning party or any other interested party without adequate explanation: see RG 112.56–RG 112.57.

RG 112.48 We expect that an expert who is an AFS licensee will include in its internal policies and procedures guidelines to address:

(a) communications and interactions with the commissioning party and any other interested party during the commissioning of the expert and the preparation of the report;

(b) remuneration arrangements; and

(c) supervision of the preparation of the report.

Preparing the report

Access to information

RG 112.49 The expert, not the commissioning party, should determine what information will be required for the report. The commissioning party should give the expert all the information it is aware of about the subject of the expert report, in sufficient detail to enable the expert to determine its relevance.

RG 112.50 If the expert is not given access to the records it requires, or is given an unduly short time to complete the report (relative to any applicable statutory time constraints), it should consider refusing to prepare a report at all. An expert should not prepare an unsatisfactory report and attempt to deal with deficiencies in the report by disclaiming responsibility.

Communication

RG 112.51 An expert and its commissioning party may communicate and meet with each other during the preparation of the expert report for the expert to:

(a) discuss the progress of the report;

(b) gain access to information;

(c) ascertain matters of fact or to correct factual errors (*Re Matine* (1998) 28 ACSR 268 at 288); and

(d) interrogate the commissioning party or another interested party for the purposes of its own analysis.

RG 112.52 To help maintain independence and negate any inference of bias, we consider that an expert should direct and lead all meetings and discussions with the commissioning party, its advisers and any other interested party. The expert should keep appropriate file notes of discussions and retain copies of documents worked on in discussions with the commissioning party, its advisers and any other interested party.

RG 112.53 Brooking J in *Pivot* at 339 summarised this issue in the following terms:

> The guiding principle must be that care should be taken to avoid any communication which may undermine, or appear to undermine, the independence of the expert.

Drafts of reports

RG 112.54 An expert may give draft copies of parts of its report to a commissioning party or its advisers for factual checking before delivery of a full draft copy of the report. These early drafts should not contain the expert's analysis of the transaction, the merits of a transaction or the methodologies employed: *Pivot* at 339.

RG 112.55 The expert should only provide a full draft copy of the report to the commissioning party for factual checking when the expert is reasonably assured that the conclusions in the report are unlikely to change.

RG 112.56 If a commissioning party or an adviser disagrees with the expert's analysis in a draft of the expert report, the report should only be altered if the expert is persuaded that all or part of the expert's assessment is based on an error of fact. We would expect an expert, in this situation, to independently reassess the whole or relevant part of the report based on its view of the revised facts.

RG 112.57 After a full draft copy of an expert report has been provided to a commissioning party or its advisers, any alteration of the report made at the suggestion of the commissioning party or its advisers that affects an expert's analysis of the transaction or the expert's conclusions should be clearly and prominently disclosed in the report. This disclosure should include an explanation of the changes, the reasons why the expert considered the changes appropriate and the significance of the changes to the expert's opinion.

RG 112.58 Minor factual corrections made at the suggestion of the commissioning party or its advisers that are immaterial to an expert's analysis, conclusions or opinion need not be disclosed in the report.

Use and distribution

RG 112.59 If a party commissions two or more reports, a copy of each report should be sent to security holders. This should be done regardless of whether more than one report is prepared by the same expert or by different experts: *Pivot* at 339. It should also be done regardless of whether the commissioning party is obliged to do so under s648A(1).

RG 112.60 An expert should deliver its final, signed report to the commissioning party even if the commissioning party requests otherwise (unless the transaction is discontinued or varied substantially).

RG 112.61 The directors of a commissioning party should not adopt or recommend that security holders accept the findings of an expert report without critically analysing the report. The directors should satisfy themselves that the information relied on in the report is accurate and that the report has not omitted material information known to the directors but not given to the expert.

Release of conclusions of expert reports

RG 112.62 An expert report needs to contain sufficient information to assist security holders to make a decision, including providing details of the methodologies and material assumptions on which the report is based, together with any qualifications: see RG 111.64–RG 111.79. The directors of a commissioning party need to ensure that an expert report is not used or referred to in a way that may be misleading or deceptive.

RG 112.63 If a commissioning party releases the conclusions of an expert report in advance of the final report, this is likely to be misleading or deceptive, particularly if the final report contains any 'surprises' for a person who has only read the conclusions. Releasing conclusions without providing relevant supporting information may cause confusion or uncertainty since security holders and the market will not be able to determine whether those conclusions are reasonable.

> Note: In *Re Origin Energy Limited 02* [2008] ATP 23, the Takeovers Panel considered that it was potentially misleading to quote the conclusions of a technical expert's report in a target's statement without giving shareholders a copy of the report or the underlying assumptions and qualifications.

RG 112.64 Consequently, a commissioning party that releases the conclusions of an expert report in advance of the final report risks regulatory action for contravention of the misleading or deceptive conduct provisions or other regulatory action. For example, if a report is provided in relation to a bid, the commissioning party risks an application by us, or another party, to the Takeovers Panel for a declaration of unacceptable circumstances.

RG 112.65 There may be limited situations in which a commissioning party's continuous disclosure obligations will require disclosure of the conclusions of an expert report in advance of the final report (e.g. if confidentiality has been lost before the final report is ready for release to the market). Commissioning parties and experts should put in place processes that minimise the risk that preliminary disclosure will be required before the report has been finalised. If preliminary disclosure is required, commissioning parties should ensure that this is done in a way that is not misleading or confusing (e.g. by highlighting the limitations of the preliminary disclosure and providing all available material information about the report).

Consent of expert

RG 112.66 An expert report may only be incorporated or referred to in a bidder's statement or target statement if the expert has consented to the use of the report in the form and context in which it appears: s636(3) and 638(5). Before consenting, the expert should consider whether the report has been accurately reproduced and used for the purpose for which it was commissioned. The expert should also consider the appropriateness, or otherwise, of express or implied representations about its report, the conclusions or recommendations: see Regulatory Guide 55 *Prospectus and PDS: Consent to quote* (RG 55), which also applies to the consent obligations in s636(3) and 638(5).

E Use of specialists

Key points

If an expert does not have the necessary specialist expertise on a matter that must be determined for the purposes of the report, it should retain an appropriate specialist for that matter who is independent of the commissioning party: see RG 112.67–RG 112.70.

The specialist should report to the expert rather than the commissioning party: see RG 112.71–RG 112.72.

The expert should ensure that the specialist has consented to the use of its report: see RG 112.73–RG 112.77.

Engagement of specialists

RG 112.67 It is the expert's responsibility to:

(a) determine that a specialist's assistance is required on a matter that must be determined for the purposes of the report;

(b) select the specialist and ensure that the specialist is competent in the field;

(c) negotiate the scope and purpose of the specialist's work and ensure that this is clearly documented in an agreement (though the agreement may be with the commissioning party or the expert); and

(d) be satisfied that the specialist is independent of, and is perceived to be independent of, the commissioning party and any other interested party.

RG 112.68 We consider best practice would be for the expert to pay the specialist its fees and recover those fees from the commissioning party.

RG 112.69 We would expect a specialist report to be specifically commissioned and prepared for the transaction the subject of the expert report. We would also expect the expert to make it clear to the specialist that the report is being commissioned for inclusion in the expert report. If the specialist report is not prepared specifically for the current transaction, this should be clearly explained to security holders. The Takeovers Panel in *Re Great Mines Limited* [2004] ATP 01 expressed the disclosure requirement in the following terms (at [56]):

> Wherever a report is re-used in this way, however, shareholders should be advised of the purpose for which the report was prepared. It would be inappropriate to re-use a report in this way to satisfy a requirement for an independent experts report and in general, it would be misleading to describe a report re-used in this way as independent.

RG 112.70 While these comments were made in the context of an independent expert report, we consider they are equally applicable to the use of a specialist report.

Review of specialist report

RG 112.71 The expert should:

(a) critically review the specialist report, particularly to consider whether the specialist has used assumptions and methodologies which appear to be reasonable and has drawn on source data which appears to be appropriate in the circumstances;

(b) have reasonable grounds for believing the specialist report is not false or misleading;

(c) ensure the specialist signs its report and consents to its use in the form and context in which it will be published; and

(d) ensure that the specialist report is used in a way that will not be misleading or deceptive.

RG 112.72 A specialist report commissioned by the expert should be dated close enough to the date of the expert report to ensure that assumptions applied have not been overtaken by time or events.

Use of specialist report

RG 112.73 The expert should ensure that the specialist consents to the use of its report in the form and context in which it will be published. If a specialist does not take responsibility for, or authorise the use of, its report and the expert considers that the material the subject of the report needs to be included in the expert report, the expert must accept entire responsibility for the statements as the expert's own and, as such, must have reasonable grounds for believing the statements not to be misleading or deceptive. This is consistent with our approach to directors assuming responsibility for statements in a prospectus or PDS that are not attributed to another person: see RG 55.11–RG 55.12.

RG 112.74 The expert should exercise its judgment to determine whether to include the specialist report in full or include a concise or short form version or cite or extract the specialist report.

RG 112.75 We encourage an expert to consider whether it is appropriate to have the specialist prepare a concise or short form specialist report for inclusion in the expert report with a longer specialist report available on request free of charge or accessible online.

RG 112.76 An expert should only quote or cite the specialist's work in a way that is fair and representative. Otherwise the expert risks misleading security holders. If the full specialist report contains any 'surprises' for the security holder who only reads the short form or concise report, this would indicate the short form specialist report was misleading.

RG 112.77 In the situation when an expert has obtained more than one specialist report on the same matter, we consider that security holders will not be given all material information if the expert merely supplies abridged results of those reports, and states, without comment or analysis, the result is the sum of the values given in each of the specialist reports.

Key terms

Term	Meaning in this document
AFS licence	An Australian financial services licence under s913B of the Corporations Act that authorises a person who carries out a financial services business to provide financial services Note: This is a definition contained in s761A of the Corporations Act.
AFS licensee	A person who holds an Australian financial services licence under s913B of the Corporations Act Note: This is a definition contained in s761A of the Corporations Act.
ASIC	Australian Securities and Investments Commission
ASIC Act	*Australian Securities and Investments Commission Act 2001*
Corporations Act	*Corporations Act 2001,* including regulations made for the purposes of that Act
Corporations Regulations	Corporations Regulations 2001
expert	The meaning given to that term in s9 of the Corporations Act
Financial Services Guide (FSG)	A document that must be given to a retail client in relation to the provision of a financial service in accordance with Div 2 of Pt 7.7 of the Corporations Act Note: See s761A for the exact definition.
Product Disclosure Statement (PDS)	A document that must be given to a retail client in relation to the offer or issue of a financial product in accordance with Div 2 of Pt 7.9 of the Corporations Act Note: See s761A for the exact definition.
reg 5.1.01 (for example)	A regulation of the Corporations Regulations (in this example numbered 5.1.01)
RG 181 (for example)	An ASIC regulatory guide (in this example numbered 181)
s648A (for example)	A section of the Corporations Act (in this example, numbered 648A), unless otherwise specified
Sch 4 (for example)	A schedule of the Corporations Act (in this example numbered 4), unless otherwise specified

Related information

Headnotes

experts, expert reports, independence, genuine opinion, relationships or interests, declining the engagement, disclosing relationships or interests, conduct of experts, use of specialists

Regulatory guides

RG 55 *Disclosure documents and PDS: Consent to quote*

RG 111 *Content of expert reports*

RG 181 *Licensing: Managing conflicts of interest*

Legislative instruments

ASIC Corporations (Financial Services Guides) Instrument 2015/541

Legislation

Corporations Act, Chs 2E, 6 and 6A, s12, 412(8), 636, 638, 640, 648A, 663B, 664C, 665B, 667B, 670A(1)(h), 711, 766A, 766B(1), 911A(1), 912A(1)(aa), 1041E, 1041F and 1041H, Corporations Regulations, regs 5.1.01 and 7.6.01(u), Sch 8, cls 8303 and 8306

ASIC Act, s12DA

Cases

ANZ Nominees v Wormald (1988) 13 ACLR 698

Re AuIron Energy Limited [2003] ATP 31

Duke Group v Pilmer (1998) 27 ACSR 1

Re Great Mines Limited [2004] ATP 01

Re Matine (1998) 28 ACSR 268

MGICA v Kenny & Good (1996) 140 ALR 313

Re Origin Energy Limited 02 [2008] ATP 23

Phosphate Co-operative Co of Aust Ltd v Shears & Anor (No 3) (1988) 14 ACLR 323

Reiffel v ACN 075 839 226 (2003) 45 ACSR 67

Consultation papers and reports

CP 62 *Better experts' reports*

CP 143 *Expert reports and independence of experts: Updates to RG 111 and RG 112*

REP 234 *Response to submissions on CP 143 Expert reports and independence of experts*

Appendix B – Curriculum vitae

Scott Kershaw

Partner

Tel: +61 2 8257 3055

Email: skershaw@kordamentha.com

Experience

Scott has over 25 years' experience advising Boards and management teams in underperforming businesses which are facing the prospect of a financial restructure.

The breadth and depth of Scott's experience in distressed investing, recapitalisation and financial restructuring is unique in the Australian market. Scott has both lead teams investing in recapitalisations as well as advising companies on the recapitalisation options.

Scott joined KordaMentha in 2009. Prior to that Scott spent 20 years with KPMG in Australia, the UK and Continental Europe in their restructuring and corporate finance groups and 18 months with Helmsman, a special situation fund focusing on investment opportunities in companies facing restructuring.

Qualifications

Bachelor of Business, University of Technology Sydney
Registered Liquidator

Memberships

Chartered Accountants Australia and New Zealand
Australian Restructuring Insolvency and Turnaround Association

Significant appointments

- Working with the management team of ASX listed global mining services company.
- ASX listed global wholesaler/retailer of sporting goods/apparel
- Chairman of an equipment rental company going through a recapitalisation
- Advice to the Board of Directors of a highly leveraged mining services company.

Jenny Nettleton

Executive Director

Tel: +61 2 8257 3044

Email: jnettleton@kordamentha.com

Experience

Jenny has spent her career in the corporate recovery and insolvency industry, encompassing all facets of formal and consulting engagements, and a stint in the workout area of a major Australian bank. She has worked with clients of all sizes, from public companies to SMEs, and Australian and international financiers.

In formal engagements, Jenny has acted as receiver, voluntary administrator, administrator of DOCAs and liquidator, trading and selling businesses, and undertaking investigations.

Prior to joining KordaMentha in 2004, Jenny was a Principal with Ernst & Young's Corporate Restructuring practice and a Director with Arthur Andersen's Corporate Recovery Practice.

Qualifications

Bachelor of Commerce
Masters of Management
Registered Liquidator

Memberships

Chartered Accountants Australia and New Zealand
Australian Restructuring Insolvency and Turnaround Association

Significant appointments

- Chassis Brakes
- Aeropack Australia
- REAL Group
- Allco Finance Group
- CrossCity Motorways
- Pure Logistics Group
- Westpoint Constructions
- Amedeo Development Corporation (Brunei)
- Estate Mortgage Trusts

Appendix C – Information list

Table 34 – Information received from the Group and relied upon for this report

Document Name	Description
31-Dec-16 Consolidation v10 BL	Consolidated Income Statement, Balance sheet by entity and workings as at 31 December 2016
31-Jan-17 Consolidation v2 BL	Consolidated Income Statement, Balance sheet by entity and workings as at 31 January 2017
2015 Financial Statements	Monthly actuals of Profit and Loss, Balance Sheet, Statement of Cashflows for the period January 2015 to December 2015
2016 Financial Statements	Monthly actuals of Profit and Loss, Balance Sheet, Statement of Cashflows for the period January 2016 to December 2016
2017 Financial Statements	Monthly actuals of Profit and Loss, Balance Sheet, Statement of Cashflows for the period January 2017 to February 2017
2017 Budgeting Process Context Memo – V2	Internal Memorandum regarding 2017 budgeting process
Adjusted Group Structure Chart	Group Corporate Structure
Annual Financial Report 2014	Audited Financial Reports for FY14
Annual Financial Report 2015	Audited Financial Reports for FY15
Annual Financial Report 2016	Audited Financial Reports for FY16
Boart Longyear Canadian tax update	Tax information regarding the Canadian tax dispute
Corporate Model v Actuals	Statement of Cashflows – Forecast to Actual for Q3FY16 and Q4FY16 with comments.
Deloitte Report – 14 August 2015	Report from Deloitte to the board of ListCo for the half year ended 30 June 2015
Deloitte Report – 20 February 2016	Report from Deloitte to the board of ListCo for the half year ended 31 December 2015
Deloitte Report – 30 June 2016	Report from Deloitte to the board of ListCo for the half year ended 30 June 2016
Deloitte Report – 17 February 2017	Report from Deloitte to the board of ListCo for the year ended 31 December 2016
Group Structure Chart – 03 Jan 017	Updated Group Corporate Structure
IBISWorld Industry Report OD5427 – Oil and Mineral Exploration Drilling in Australia	A report including forecasts and trends for the Oil and Mineral Exploration Drilling in Australia industry
Prelim.2017 Op Plan.v11	Draft 2017 budget presentation
Project Phoenix 2017 Budget Model Reconciliation_External_v34	Group's budget model
PVA_Feb_v2 BL	Budget versus actual comparison workings for the two months ending 28 February 2017
S&P Capital IQ	Earnings multiples implied by the market capitalisation of comparable listed companies and asset betas and debt ratios of comparable listed companies
Various emails to and from the Group's management, its legal and financial advisors	

Appendix D – Glossary

Table 35 – Glossary of abbreviations used in report

Abbreviation	Full text
$	United States dollars unless otherwise specified
333	333 Group Pty Limited
ABL	Revolving credit facility provided pursuant to Revolving Credit and Security Agreement dated 29 May 2015
ABL Obligors	Includes Boart Longyear Limited, Boart Longyear Management Pty Ltd, Boart Longyear Australia Pty Ltd, Boart Longyear (USA), Boart Longyear (Canada), Longyear TM, In.
Act	Corporations Act 2001
Adjusted EBITDA	Earnings before interest, tax, depreciation, amortisation and restructuring expenses
APES	Australian Professional and Ethical Standards issued by the Australian Professional and Ethical Standards Board
Ares	Affiliates of Ares Management, L.P.
Ascribe	Ascribe II Investments, LLC.
Ashurst	Ashurst Australia
ASIC	Australian Securities and Investments Commission
ASIC RG 111	Australian Securities and Investments Commission Regulatory Guide 111
ASX	Australian Securities Exchange
Beneficiaries	Means the beneficiaries under the Schemes
Budget Model	Forecast model provided to us by the Group which includes the FY17 budget and forecast through to 31 December 2021 - Project Phoenix 2017 Budget Model Reconciliation_External_v34
Capex	Capital Expenditure
CAPM	Capital asset pricing model
Centerbridge	Centerbridge Partners, L.P., its affiliates and related funds
Court	Supreme Court of New South Wales
DDL	Delay Draw Loan Facility pursuant to Term Loan Securities Agreement dated 4 January 2017.
DDL Obligors	Includes BL DDL Holdings Pty Ltd, BL DDL II Holdings Pty Ltd, Boart Longyear Canada DDL Inc, Boart Longyear Canada Holdings Inc, BLY IP Inc, BL DDL NY Holdings Inc.
DCF	Discounted Cash Flow
EBIT	Earnings Before Interest and Tax
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
Enterprise Value or EV	A measure of the market value of the business undertakings of the Group
Explanatory Statements	Information booklet produced by the Scheme Companies, approved by the Court and including the Schemes and explanatory statement in accordance with the Corporations Act
FinCo	Boart Longyear Management Pty Limited
FY	Financial year ended 31 December
FY16	Actual financial results for the year ended 31 December 2016
FY17 – FY21	Forecast financial results for the years ended 31 December 2017 to 2021
FY+1	Current financial year plus one year forward
FY17 Budget	Management's budget included in the Budget Model for the year ending 31 December 2017
Interim Facility	Interim funding facility from Centerbridge in the amount of $15.0 million.
IP Obligor	BLY IP Inc.
KordaMentha	KordaMentha Pty Ltd
ListCo	Boart Longyear Limited

Abbreviation	Full text
LTM	Last twelve months
MRP	Market risk premium
Non-ABL obligors	All entities excluding the ABL Obligors, Other Obligors, DDL Obligors and the IP Obligor
Other Obligors	Includes Votraint No. 1609 Pty Ltd, Boart Longyear Manufacturing Canada Ltd, Boart Longyear Suisse Sarl, Boart Longyear Chile Limitada, Bart Longyear Comercializadora Ltda, Longyear Holdings Inc, Longyear Canada ULC, Boart Longyear S.A.C.
p.a.	Per annum
Peer Group	Businesses with similar business activities and operating risks to the Group
PIK	Payment in Kind
Q1, Q2, Q3, Q4	Financial quarter ending 31 March, 30 June, 30 September and 31 December
RG	Regulatory Guide issued by ASIC
Recapitalisation Transactions	The transactions to be entered into by the Group to implement the recapitalisation as set out in Section 5 of the Explanatory Statement for each of the Secured Scheme and the Unsecured Scheme, which includes the Secured Scheme and the Unsecured Scheme
Other Recapitalisation Transactions	The transactions to be entered into by the Group to implement the recapitalisation as set out in Section 5 of the Explanatory Statement for each of the Secured Scheme and the Unsecured Scheme, but excluding the Secured Scheme and the Unsecured Scheme
Restructuring Support Agreement	Restructuring Support Agreement between the certain Group entities and certain of its financiers dated 2 April 2017
Secured Scheme	Proposed scheme of arrangement for Secured Scheme Creditors
Unsecured Scheme	Proposed scheme of arrangement for Unsecured Scheme Creditors
Scheme Companies	Boart Longyear Limited, Boart Longyear Management Pty Limited, Boart Longyear Australia Pty Limited and Votraint No.1609 Pty Limited
Secured Scheme Creditors	Holders of the TLA, TLB and Secured Notes
Unsecured Scheme Creditors	Holders of the Unsecured Notes
Secured Notes	The 10% secured notes issued pursuant to indenture dated 27 September 2013 as amended from time to time.
Subordinate Claim	Subordinate Claim means: • a claim for a debt owed by BLY to a person in the person's capacity as a member of BLY (whether by way of dividends, profits or otherwise); or • any other claim that arises from buying, holding, selling or otherwise dealing in shares of BLY.
Subordinated Notes	The new subordinated notes to be issued to holders of the Unsecured Notes upon consummation of the proposed restructure
SG&A	Selling, general and administrative expenses
The Finance Facilities	Includes the Secured Notes, TLA, TLB, ABL, DDL, Interim Facility and Unsecured Notes.
The Group	Boart Longyear Limited and its subsidiaries
The Schemes	Proposed schemes of arrangements, comprising the Secured Scheme and the Unsecured Scheme
The Scheme Documents	Includes the explanatory statement and the schemes of arrangement.
TLA	Term loan A issued pursuant to Term Loan A Securities Agreement dated 22 October 2014 as amended from time to time.
TLB	Term loan B issued pursuant to Term Loan B Securities Agreement dated 22 October 2014 as amended from time to time.
Total Debt	The Group's total finance debt from time to time
Unsecured Notes	The 7% unsecured Notes issued pursuant to indenture dated 28 March 2011 as amended from time to time.
WACC	Weighted Average Cost of Capital
We or Us	Scott Kershaw and Jenny Nettleton
Valuation	Enterprise Valuation of the Boart Longyear Group
Valuation Date	The date of this report

Appendix E – Valuation approach

Valuation guidelines

The performance of a valuation service and preparation of valuation report, in accordance with APES 225, can take three engagement forms:

- **Calculation Engagement** is where the Member and the Client or Employer agree on the Valuation Approaches, Valuation Methods and Valuation Procedures the Member will employ. It does not usually include all of the Valuation Procedures required for a Valuation Engagement or a Limited Scope Valuation Engagement.
- **Limited Scope Valuation Engagement** is where the scope of work is limited or restricted. The scope of work is limited or restricted where the Member is not free, as the Member would be but for the limitation or restriction, to employ the Valuation Approaches, Valuation Methods and Valuation Procedures that a reasonable and informed third party would perform taking into consideration all the specific facts and circumstances of the Engagement or Assignment available to the Member at that time, and it is reasonable to expect that the effect of the limitation or restriction on the estimate of value is material.
- **Valuation Engagement** is where the Member is free to employ the Valuation Approaches, Valuation Methods, and Valuation Procedures that a reasonable and informed third party would perform taking into consideration all the specific facts and circumstances of the Engagement or Assignment available to the Member at that time.

We have performed a 'limited scope valuation engagement' as we were unable to perform the following procedures:

- Visit all the sites at which the Group's entities operate.
- Independently verify the historical accounts.
- Undertake a detailed review of all claims against each company for the purposes of assessing the claims of creditors and priority claims in each jurisdiction.
- Engage an independent industry expert to review commercial matters.
- Undertake discussions with local management for each entity.
- Engage property consultants to provide formal valuations of the land and buildings owned by the Group.
- Engage plant and equipment valuers to provide formal valuations of the plant and equipment owned by the Group.
- Engage valuers to provide formal valuations of the intellectual property owned by the Group
- Undertake an assessment of the veracity of management's forecasts.

In order to complete a Valuation Engagement, the above processes would be required for us to establish sufficient evidence to support an opinion. If a Valuation Engagement was undertaken the valuation outcomes may have been different to those assessed in this report.

It is also important to note that the price accepted for assets may vary materially from the fair market value because a buyer is particularly anxious (for example, strategic reasons for buying the asset) or a seller is particularly anxious (for example, under financial stress or subject to an insolvency proceeding/liquidation).

Valuation methodology

ASIC RG 111 outlines the appropriate methodologies which should be considered when valuing assets or securities for the purposes of, amongst other things, share buy-backs, selective capital reductions, schemes of arrangement, takeovers and prospectuses. These include:

- The application of earnings multiples appropriate to the businesses or industries in which the company or its profit centres are engaged, to the estimated future maintainable earnings or cash flows of the company, added to the estimated realisable value of any surplus assets.
- The discounted cash flow (DCF) methodology.
- The amount that would be available for distribution to shareholders in an orderly realisation of assets (asset based valuations).
- The quoted price of listed securities, when there is a liquid and active market and allowing for the fact that the quoted market price may not reflect their value on a 100% controlling interest basis.
- Any recent genuine offers received by the target for any business units or assets as a basis for valuation of those business units or assets.

These valuation techniques are not mutually exclusive and can be applied in conjunction with each other.

Valuation approach adopted

We have considered the valuation methodologies outlined in ASIC RG 111 and are of the opinion, given the nature of the assets, the following valuation methodologies are most appropriate:

- capitalisation of maintainable earnings as the primary valuation methodology
- cross-checking of our primary valuation methodology using a DCF valuation of the Group.

Further detail on these valuation methodologies is set out below.

Capitalisation of maintainable earnings or cash flows

Earnings based valuations require consideration of the following factors:

- Estimation of future maintainable earnings having regard to historical and forecast operating results, the core long term profit potential and future economic conditions.
- Determination of an appropriate earnings multiple that reflects:
  - risks inherent in the business and the industry in which the business operates
  - general characteristics of the business being valued
  - size of the business
  - growth prospects of the business
  - asset backing of the business
  - time value of money.

In this report we have undertaken a separate assessment of the value of surplus/unrelated assets and liabilities, being those assets and liabilities that impliedly are not actively engaged in producing the estimated future earnings. In particular, we have included the value of surplus items of plant and equipment and inventory as part our assessed enterprise value.

Future maintainable earnings are often assessed by reference to past results on the basis they represent a reasonably accurate guide to future results. There may be reasons why past results are not indicative of future results. In such cases, future maintainable earnings must be assessed by obtaining an understanding of the entity's earnings generation capability, past events and expected future events and through the application of professional judgement. The future maintainable profits assessed should be the level of profit which (on average) the business can expect to maintain, in real terms, notwithstanding the vagaries of the economic cycle.

The earnings multiple must be consistent with the earnings period. Historical multiples must be applied to historical earnings and forecast multiples to forecast earnings.

The capitalisation of earnings method is particularly applicable to businesses with relatively steady growth histories and forecasts, regular capital expenditure requirements and an expected life in perpetuity. The expected maintainable earnings of a business is a proxy for the future cash flow of a business.

Earnings-based methods are not appropriate where there is:

- a history of losses
- rapidly declining profits in an industry with poor prospects
- lack of historical data or inadequate prospective financial information such as with start-up businesses
- lumpy capital expenditure requirements
- current losses with an expectation of recovery
- an asset with a finite life.

Control premium

Transactions for 100% ownership typically attract a control premium. The premium for control represents the difference between the value of 100% of the company (for example as evidenced by the price paid in a successful takeover) and the share price (prior to the bid being announced) which represents the market value of a small parcel of shares. It also reflects the value to an acquirer for the ability to control the operations of the business.

Empirical studies show that historical take-over premiums have been in the range of 20% to 35% higher than the pre-bid share price. The percentage uplift depends of the industry in which the business operates and whether the pre-bid share price has already been affected by take-over speculation (and therefore already includes a take-over premium). Our assumed premium of 25% falls into the range identified in those studies, albeit with a slight bias toward the lower end of the range which reflects the current state of the capital markets in Australia.

Capitalisation of earnings valuation conclusion

In our opinion the capitalisation of maintainable earnings methodology is the most appropriate primary valuation methodology for the Group because:

- the Group is currently profitable at the EBITDA level, which we have assessed as the appropriate level of earnings to capitalise
- FY17 budgeted earnings (EBITDA) are broadly commensurate with the actual FY16 EBITDA
- the Group has a life in perpetuity (assuming it continues to secure customers for its services).

DCF valuation

The DCF valuation method is based on the generally accepted theory that the value of a business is the present value of its net future cash flows. This methodology involves:

- the forecasting of future cash flows over a sufficiently long period of time (including, if appropriate, a terminal value of the business being valued)
- the discounting of those cash flows at an appropriate risk adjusted discount rate representing an opportunity cost of capital which reflects the expected rate of return obtainable by investors from similar investments.

Future cash flows comprise two elements:

- the cash amounts expected to be generated each year after paying all cash costs and cash outgoings
- the net cash amount expected to be received upon the ultimate sale of the business.

The DCF method is generally accepted as the most theoretically robust valuation methodology. However, its use in practice is limited due to a number of factors including:

- lack of reliable financial information
- difficulties associated with forecasting future cash flows with the requisite level of certainty.

Due to these restrictions, DCF valuations are usually conducted in the following situations:

- projects or businesses with finite lives (such as resource assets)
- projects or businesses operating in an environment that is undergoing regulatory changes that are likely to significantly impact its earning profile
- projects or businesses expecting a growth phase
- projects or businesses with fluctuating cash flows such as abnormal or lumpy capital expenditure requirements
- businesses with no or limited trading history, such as start-ups.

Discount rate for DCF valuation

The discount rate increases as the level of assessed risk increases. Risk is generally measured as variability in return. The higher the discount rate, the lower the value. The discount rate generally has two components, a cost of equity and a cost of debt. The discount rate is determined by weighting these components using a calculation known as the weighted average cost of capital (WACC).

An underlying assumption of a DCF analysis is that an entity's gearing ratio remains constant over time. Changes in the gearing ratio will change the cost of equity and consequently the discount rate.

There are a number of acceptable methods of assessing an appropriate required return on equity. The methods we would consider in a DCF valuation are:

- using an economic model such as the capital asset pricing model (CAPM)
- building up a discount rate using the adjusted capital asset pricing build-up method
- estimating a rate having regard for similar businesses and professional judgment.

Each of these methods must have regard for the factors affecting the required return on equity. These include:

- operational risk of the industry and the financial asset being valued (company specific factors)
- financial risk (gearing)
- the risk free rate of return
- market risk
- country risk
- size
- liquidity or marketability.

In calculating value using the DCF methodology it is important to ensure that the discount rate determined is expressed in terms consistent with the expression of the cash flows being discounted. In particular:

- if cash flows are expressed on an after-tax basis the discount rate should also be expressed on an after-tax basis
- if cash flows are before debt servicing costs (un-geared) the discount rate should reflect the sources of finance (debt and equity) generating those cash flows
- if cash flows are expressed in real terms the discount rate should also be expressed in real terms.

The basic discounting formula is:

c/(1+i)n

where:

c = cash flow in each period

i = discount rate

n = number of periods the specific cash flow is being discounted

DCF valuation conclusion

In our opinion, the use of the DCF valuation methodology is not appropriate to use as the primary valuation methodology for the Enterprise Value of the Group because the forecast earnings and cash flows provided to us make assumptions about contract renewals, new work to be won and future contract margins which we are unable to verify and consequently there is significant uncertainty associated with the forecast profitability of the business beyond the next 12 to 24 months.

However, we have performed a DCF valuation of the Budget Model as a cross-check to our primary valuation methodology. This is set out in Section 3.4.

Asset-based valuations

Asset-based valuations involve the determination of the net realisable value of the assets used in the business on the basis of an assumed orderly realisation (notional liquidation). This value includes an allowance for reasonable costs of carrying out the sale of assets, the time value of money and the taxation consequences of asset sales. This is not a valuation on the basis of a forced sale where the assets might be sold at values materially below their fair market values.

The sum of a company's individual assets is not usually the most appropriate measure of its value. Asset-based valuations are normally used as a secondary method of valuation and as a cross check on the reasonableness of the level of goodwill implied in an earnings-based or DCF valuation. Asset-based valuations may be appropriate as primary valuation methods in other specific circumstances. They are particularly applicable in a liquidation scenario (i.e. the company is not a going concern) or where the company acts as an investor and does not carry on trading operations and the shares confer control of the company.

The orderly realisation of assets basis of valuation usually provides the lowest realistic valuation for a company or business. This method assumes that the shareholder or owner has the ability to liquidate the company, usually by virtue of being the controlling shareholder. The difference between the value of the company's net assets and the value obtained using a capitalisation of earnings or DCF methodology is attributable to the value of unrecorded intangible assets. By estimating asset values it is therefore possible to work out the implied intangible component of a valuation which can be assessed for reasonableness. The higher the level of implied intangible assets relative to the level of asset backing the higher the risk.

The notional realisation of assets basis of valuation is normally only applied to businesses which do not produce an annual cash flow, or where, because of the stage of establishment of the business or industry conditions, the outlook for a particular company's future earnings is either uncertain or the capitalised value of such earnings is less than the net realisable value of the assets employed.

The net realisable assets methodology is also used to value assets that are surplus to the core operating business.

In our opinion, the use of an asset-based valuation methodology is not appropriate to use as a primary or cross-check valuation methodology because the vast majority of value is in the future earnings of the Group with a sale of the assets likely to result in a materially lower valuation.

Market-based valuations

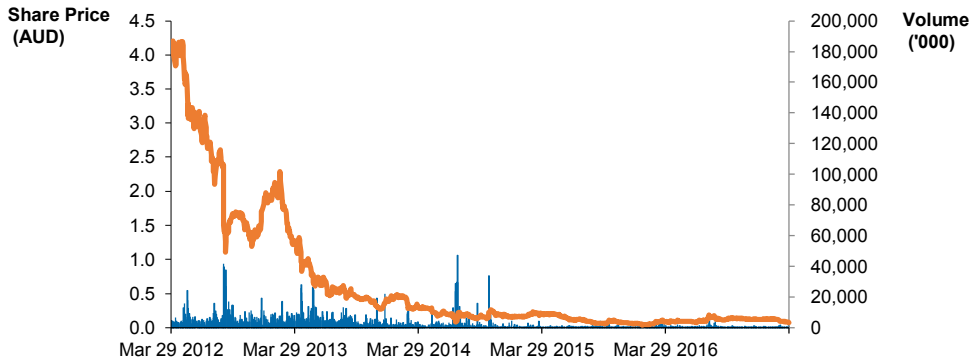
The market-based valuation approach proceeds from values at which shares are traded on the stock exchange, or where transactions are observed in the market place. The share market price may constitute the market value of shares where sufficient trading of the shares takes place. Share market prices usually reflect the prices paid for parcels of shares not offering control to the purchaser.

ListCo is currently listed on the Australian Stock Exchange (ASX) and has a current share price of $0.082[59] (AUD) with a market capitalisation of $77.88 million (AUD)[60].

Market-based valuations are often the most reliable, provided that relevant data is available. This is because they proceed from values at which actual transactions have occurred. All other methodologies seek to estimate values at which it is expected that hypothetical transactions would occur.

In the chart below we have summarised movement in the share price and trading volumes of ListCo for the last five years.[61]

Figure 6 – Share price and trade volume for Boart Longyear Limited (ASX:BLY)



The chart above shows that:

- The share price of ListCo significantly decreased from 2012 to 2014.
- Following the decline in share price, the trading volume of shares in ListCo has decreased significantly from late 2014 to present.

The current market capitalisation of ListCo implies an Enterprise Value significantly in excess of the Enterprise Value we have attributed to the Group.

[59] As at 31 March 2017
[60] S&P Capital IQ
[61] Ibid

However, we do not consider the share price of ListCo to be a relevant reference point in valuing the Group because:

- there is a relatively small free float in the shares of ListCo
- the shares of ListCo are thinly traded and the share price may not be a true reflection of the value of the Group
- the current ListCo share price may also be illustrative of the fact that the market is pricing in the value increment associated with the potential restructuring of the debt, the terms of which are not known to the market.

Recent genuine offers

Where a company has undertaken a detailed and extensive process to dispose of its assets, the final round binding bids are likely to be the market's perception of value.

The final round binding bids represent the amount a potential acquirer is willing to pay based at the immediate point in time and the information available to it.

We have not been provided with any documentary evidence of any recent offers to purchase.

Appendix F – Comparable companies

Table 36 – Description of comparable companies

Company	Description
Ausdrill Limited (ASX:ASL)	Ausdrill Limited operates as an integrated mining and energy services company worldwide. It operates through Drilling Services Australia, Contract Mining Services Africa, Equipment Services & Supplies, and All Other segments. The company is involved in the reverse circulation, diamond drilling, rotary air blast, and air core drilling; geochemical and precious metals analysis; production and monitoring of bores, as well as depressurization and dewatering, and surface hole drilling; and procurement and supply of exploration equipment, parts, and consumables. It also engages in the drill and blast, and grade control drilling; earthmoving equipment rental business; mine development and civil works; grade control; manufacture and supply of drilling consumables, spares, drill rods, and DTH drilling equipment; manufacture of bulk explosives; and provision of blasting services. In addition, the company is involved in the clearing, pre-strip, access, and haul road construction, excavation, loading, hauling, dumping, and equipment hire; underground mining; design, manufacture, and maintenance of blast hole, RC and diamond drill rigs, and support and ancillary equipment; manufacture and supply of RC hammers, bits, drill rods, and other equipment; and sale and rental of pressure, flow, and well control equipment for the oil and gas industry. Further, it engages in the exploration and production drilling of coal seam gas and shallow oil and gas wells; servicing of oil and gas wells; design, drilling, installation, testing, and commissioning of telecom and underground power networks; and motel business. Ausdrill Limited was founded in 1987 and is based in Canning Vale, Australia.
Bradken Limited (ASX:BKN)	Bradken Limited, together with its subsidiaries, manufactures and supplies consumable and capital products worldwide. It operates through Mining & Transport, Mineral Processing, Fixed Plant, Engineered Products, and Cast Metal Services (CMS) segments. The Mining & Transport segment is involved in the design, manufacture, supply, and service of consumable wear components for various types of earth moving equipment in the mining and quarry industries. It offers ground engaging tools and related wear parts; dragline rigging packages; and various buckets for dragline, front-end loader, face shovel, and hydraulic excavator equipment, as well as crawler system products for hydraulic mining excavators and electric rope shovels. This segment also provides industrial cast products for general industry and mining OEMs; and freight rolling stock products, including freight wagons, bogies, drawgear, spare, and renewed parts; and rolling stock maintenance and refurbishment services, as well as inventory management services. The Mineral Processing segment designs, manufactures, supplies, and services mill liner products in the mineral processing industry. It offers custom designed products for grinding mills, crushing, and conveying equipment primarily for the hard rock mining industry. The Fixed Plant segment provides customized wear solutions through the design and manufacture of a range of wear resistant products to protect fixed plant equipment in mining and port operations. Its customers primarily include mining and oil companies. The Engineered Products segment offers steel castings and differentiated consumable products to the mining, resource, transportation, structural, energy, and military industries. The CMS segment provides scrap processing and cast metal services. The company was incorporated in 1922 and is headquartered in Mayfield West, Australia.
Capital Drilling Limited (LSE:CAPD)	Capital Drilling Limited and its subsidiaries provide exploration, development, grade control, blast hole, and energy drilling services to the mineral exploration and mining companies. The company also offers drilling related logistic, equipment rental, and IT support services. Its services include surface diamond core drilling, high air capacity reverse circulation drilling, underground exploration diamond drilling, reverse circulation grade control drilling, Heli-portable diamond drilling, deep directional core orientation drilling, air core drilling using medium to light weight rigs, geotechnical drilling, hole planning and design, water bores and mine dewatering, coal and coal bed methane drilling, and blast hole drilling services. In addition, the company offers surveying, down-hole wireline logging, and support services for the mineral exploration industry; and data and voice solutions to the corporate and non-governmental organizations internationally. It operates a fleet of approximately 94 drilling rigs. The company has operations in Tanzania, Zambia, Egypt, the Democratic Republic of Congo, Pakistan, Armenia, Serbia, Papua New Guinea, Mozambique, Hungary, Eritrea, Chile, the Solomon Islands, Mauritania, and Ethiopia. Capital Drilling Limited was founded in 2004 and is headquartered in Ébène CyberCity, Mauritius.
Downer EDI Limited (ASX:DOW)	Downer EDI Limited provides various services to customers in the transportation, mining, energy and industrial engineering, utilities, communications, and facilities markets in Australia and internationally. The company's Transport Services segment offers transport infrastructure services, such as earthworks, civil construction, asset management, maintenance, surfacing and stabilization, supply of bituminous products and logistics, open space and facilities management, and rail track signaling and electrification works. Its Technology and Communications Services segment provides feasibility, design, civil and network construction, commissioning, testing, operation, and maintenance services for fibre, copper, and radio networks; data centre services; and automated ticketing and intelligent transport technology systems. The company's Utilities Services segment offers lifecycle services to customers in the power, gas, water, and renewable energy industries. Its Rail segment provides rail asset solutions, including passenger and freight build, operation and maintenance, component overhauls, and after-market parts. The company's EC&M segment designs, engineers, constructs, and maintains greenfield and brownfield projects, such as feasibility studies; engineering design; civil works; structural, mechanical, and piping; electrical and instrumentation; mineral process equipment design and manufacture; commissioning; operations maintenance; shutdowns, turnarounds, and outages; strategic asset management; and decommissioning. Its Mining segment provides asset management, blasting, crushing, exploration drilling, mine closure and site rehabilitation, mobile plant maintenance, open cut mining, tire

	management, and underground mining services; manufactures and supplies explosives; undertakes civil projects; and trains and develops ATSI employees. The company is headquartered in North Ryde, Australia.
Imdex Limited (ASX:IMD)	Imdex Limited engages in the minerals business in the Asia-Pacific, Africa, Europe, and the Americas. It is involved in the manufacture, sale, and rental of downhole instrumentation; manufacture and sale of drilling fluids and chemicals, as well as related equipment; and provision of cloud-based data management solutions to the mining and mineral exploration industry. The company also provides data solutions and geo-analytics services to exploration, development, and production companies in the minerals, and oil and gas sectors. It serves mining and mineral exploration, geothermal, water well, HDD, and civil engineering industries. The company was formerly known as Pilbara Gold NL and changed its name to Imdex Limited in July 1985. Imdex Limited was incorporated in 1980 and is headquartered in Balcatta, Australia.
K&S Corporation Limited (ASX:KSC)	K&S Corporation Limited provides transportation and logistics, contract management, warehousing and distribution, and fuel distribution services primarily in Australia and New Zealand. The company operates in three segments: Australian Transport, Fuels, and New Zealand Transport. It provides road, rail, and coastal sea forwarding for full and break bulk loads, including export packing, wharf lodgement, and the delivery of integrated supply chain and system solutions to timber, paper, dairy, agriculture, and general transportation industries; support services to offshore exploration and drilling projects; dry and liquid bulk transportation services to mining, sugar, cement, and fertilizer industries; and fuel distribution services to retail and service stations, primary producers, fishing industry, and transport operators. The company also manages distribution services, as well as provides equipment and personnel. In addition, it offers facility management services to various companies; distribution chain management services for various importers; general, full load, and part load freight services, as well as project services; and heavy haulage services. Further, the company transports bulk solids, liquids, and explosives by road, rail, and sea. K&S Corporation Limited was founded in 1945 and is headquartered in Truganina, Australia. K&S Corporation Limited is subsidiary of AA Scott Pty Ltd.
Layne Christensen Company (NasdaqGS:LAYN)	Layne Christensen Company operates as a water management, construction, and drilling company that provide solutions for the water, mineral, and energy markets worldwide. The company operates through four segments: Water Resources, Inliner, Heavy Civil, and Mineral Services. The Water Resources segment offers water-related products and services, including hydrologic design and construction; source of supply exploration; well and intake construction; and well and pump rehabilitation services. This segment also provides water treatment equipment engineering services and systems for the treatment of regulated and nuisance contaminants. In addition, it offers closed loop water management solutions to energy companies that are involved in hydraulic fracturing. The Inliner segment provides process, sanitary, and storm water rehabilitation solutions to municipalities and industrial customers dealing with aging infrastructure needs, as well as other rehabilitative methods, such as Janssen structural renewal for service lateral connections and mainlines, slip lining, traditional excavation and replacement, and manhole renewal with cementitious and epoxy products. The Heavy Civil segment offers water and wastewater treatment plants design and construction, and pipeline installation services; builds radial collector wells, surface water intakes, pumping stations, and hard rock tunnels, as well as offers marine construction services; and designs and constructs biogas facilities. The Mineral Services segment conducts above ground drilling activities comprising core drilling, reverse circulation, dual tube, hammer, and rotary air-blast methods; and provides exploratory and definition drilling services. The company was formerly known as Layne Inc. and changed its name to Layne Christensen Company in June 1996. Layne Christensen Company was founded in 1981 and is headquartered in The Woodlands, Texas.
Macmahon Holdings Limited (ASX:MAH)	Macmahon Holdings Limited provides contract mining services to clients in Australia, New Zealand, South East Asia, and Africa. It operates through three segments: Surface Mining, Underground Mining, and International Mining. The company offers surface mining services, including mine planning and management, drilling and blasting, bulk and selective mining, crushing and screening, fixed plant maintenance, camp and mine management, train loadout management, and operation and maintenance of client equipment. It also provides underground mining services, such as mine management, underground development and production, portal establishment, raise drilling, cable bolting, shot creting, remote shaft lining, production drilling, and shaft sinking services. In addition, the company offers plant, maintenance, and engineering services, which include commissioning, shutdown, and maintenance management; operation and maintenance of client-owned plant and infrastructure; water management and tailings dam maintenance services; modification to existing plant to suit clients' needs; design, construction, commission, and maintenance of crushing and screening plants; fabrication, installation, and maintenance of structural, mechanical, mining, and electrical plant and equipment for surface and underground clients; and specialized engineering services. Macmahon Holdings Limited was founded in 1963 and is headquartered in Perth, Australia.
Mastermyne Group Limited (ASX:MYE)	Mastermyne Group Limited provides contracting services to the underground long wall mining operations in Australia. It operates through two segments, Mastermyne and Mastertec. The Mastermyne segment offers project management, labour and equipment hiring, underground roadway development, underground ventilation device installation, bulk materials handling system installation and relocation, and underground mine support services, as well as underground conveyor installation, extension, and maintenance services. The Mastertec segment provides a range of above-ground contracting services to ports, resources, industrial, and infrastructure sectors. Its services include scaffolding and rigging, blast and paint, pipeline services, sustainable capital works, fabrication and machining, training and engineering, and technical services. Mastermyne Group Limited was founded in 1996 and is headquartered in Mackay, Australia.
Mineral Resources Limited (ASX:MIN)	Mineral Resources Limited operates as a mining services and processing company in Australia, China, Singapore, and internationally. The company offers contract crushing, screening, and processing services on build-own-operate or build-operate basis for mining companies; mine services, such as materials handling,

	plant and equipment hire and maintenance, tails recovery, and aggregate crushing; and design, engineering, and construction services in the resources sector. It also manages the processing, production, logistics, ship loading, marketing, and export of the resources on behalf of tenement owners. In addition, the company has a portfolio of iron ore assets in the Yilgarn and Pilbara regions of Western Australia; produces manganese from its Sunday Hill and Ant Hill tenements within the Pilbara region; and owns 43.1% interest in the Mt Marion lithium project located to the south west of Kalgoorlie, Western Australia. Further, it offers project management and delivery services for pipeline engineering and construction, mine dewatering systems and hydrocarbon management, HDPE lined steel, polyethylene pipe fittings and components, rock trenching and terrain levelling, underground cable installation, and plant and equipment hire. Mineral Resources Limited was founded in 1993 and is headquartered in Applecross, Australia.
Monadelphous Group Limited (ASX:MND)	Monadelphous Group Limited, an engineering group, provides construction, maintenance, and industrial services to the resources, energy, and infrastructure sectors in Australia. It operates through Engineering Construction; and Maintenance and Industrial Services divisions. The company offers large-scale multidisciplinary project management and construction services, including construction management and execution; civil and electrical construction packages; turnkey design and construction; structural steel, tankage, mechanical works, and process equipment and piping fabrication and installation; fabrication and procurement; modularization and off-site pre-assembly; plant commissioning; demolition and remediation works; and offshore construction services of plant and infrastructure. It also provides multidisciplinary maintenance and improvement solutions, such as structural, mechanical, piping, electrical and instrumentation, and civil maintenance services, as well as minor capital works, shutdowns, and operations and facilities management services. In addition, the company offers process and non-process maintenance; front-end scoping; water and waste water asset construction and maintenance; irrigation; transmission pipelines and facilities construction; power and water assets operation and maintenance; heavy lift and specialist transport; access solutions; and dewatering services. Monadelphous Group Limited was founded in 1972 and is headquartered in Victoria Park, Australia.
NRW Holdings Limited (ASX:NWH)	NRW Holdings Limited, through its subsidiaries, provides civil and mining contracting services to resource and infrastructure sectors in Australia. It operates through three business divisions: NRW Civil & Mining, Action Drill & Blast (ADB), and AES Equipment Solutions (AES). The NRW Civil & Mining division delivers private and public civil infrastructure projects, mine development and contract mining, waste stripping, and ore haulage. This division's civil construction projects include bulk earthworks, rail formation, concrete installation, and construction of roads; and mining projects comprise work in iron ore, coal, and gold. The ADB division provides contract drill and blast services to mining sector, including iron ore, gold, coal, and lithium mines; and civil projects throughout Australia. The AES division offers maintenance services to the mining and resources sectors comprising the fabrication of water and service trucks. The company also sells plants and tires. NRW Holdings Limited was founded in 1994 and is headquartered in Belmont, Australia.
Orica Limited (ASX:ORI)	Orica Limited engages in the manufacture and distribution of commercial blasting systems, and mining and tunnelling support systems to the mining and infrastructure markets in Australia, the United States, and internationally. The company offers bulk systems, electronic blasting systems, initiating systems, packaged explosives, and blasting services to the surface and underground mining, civil tunnelling, quarrying, construction, and oil and gas markets. It also offers mining chemicals comprising sodium cyanide and emulsifiers, as well as offers a range of service solutions consisting of mineral recovery, cyanide handling and use, and onsite technical support. In addition, the company provides ground support solutions, including rock fall and ground support, roof control, ventilation control, water stopping and gas sealing, slope stabilization, cavity filling, ground consolidation, convergences, and backfilling services for the underground mining, construction, tunnelling, and civil engineering industries. Further, it manufactures and supplies specialty bolts, accessories, and chemicals for stabilization and ventilation systems in underground mining and civil tunnelling works. Orica Limited was founded in 1874 and is headquartered in East Melbourne, Australia.
Primoris Services Corporation (NasdaqGS:PRIM)	Primoris Services Corporation, a specialty contractor and infrastructure company, provides a range of construction, fabrication, maintenance, replacement, water and wastewater, and engineering services in the United States and internationally. It operates through three segments: The West Construction Services, The East Construction Services, and The Energy. The company installs, replaces, repairs, and rehabilitates natural gas, refined product, and water and wastewater pipeline systems; diameter gas and liquid pipeline facilities; and heavy civil projects, earthwork, and site development, as well as constructs mechanical facilities and other structures, including power plants, petrochemical facilities, refineries, water and wastewater treatment facilities, and parking structures. It also engages in designing and installing liquid natural gas facilities, high-performance furnaces, and heaters for clients in the oil refining, petrochemical, and power generation industries, as well as offers process and product engineering services. The company serves public utilities, petrochemical companies, energy companies, municipalities, state departments of transportation, and other customers. Primoris Services Corporation is headquartered in Dallas, Texas.

Source: S&P Capital IQ

Appendix G - Comparable company multiples

Table 37 – Earnings multiple implied by the market capitalisation of comparable listed companies

Comparable company	Ticker	Market capitalisation*	Net debt	Enterprise Value	EBIT		EBITDA		EV/EBIT		EV/EBITDA	
					LTM	FY+1	LTM	FY+1	LTM	FY+1	LTM	FY+1
		$'million	$'million	$'million	$'million		$'million		$'million		$'million	
Ausdrill Limited (ASX:ASL)	ASX:ASL	434.4	138.3	572.7	44.6	47.0	92.2	106.7	12.8	12.2	6.2	5.4
Bradken Limited (ASX:BKN)	ASX:BKN	648.5	211.5	860.0	27.8	57.2	53.4	83.0	30.9	15.0	16.1	10.4
Capital Drilling Limited (LSE:CAPD)	LSE:CAPD	112.4	(1.9)	110.5	(1.5)	6.6	13.0	20.1	(76.2)	16.7	8.5	5.5
Downer EDI Limited (ASX:DOW)	ASX:DOW	2,292.0	16.1	2,308.1	206.5	205.2	376.9	380.3	11.2	11.2	6.1	6.1
Imdex Limited (ASX:IMD)	ASX:IMD	234.6	-	234.6	5.6	13.9	13.8	21.9	41.6	16.9	17.0	10.7
K&S Corporation Limited (ASX:KSC)	ASX:KSC	196.3	79.6	275.9	1.8	12.8	28.7	40.4	149.2	21.6	9.6	6.8
Layne Christensen Company (NasdaqGS:LAYN)	NasdaqGS:LAYN	217.1	88.8	305.9	(5.0)	(5.0)	23.0	25.1	(61.7)	(61.0)	13.3	12.2
Macmahon Holdings Limited (ASX:MAH)	ASX:MAH	169.5	-	169.5	(20.6)	-	4.9	-	(8.2)		34.7	
Mastermyne Group Limited (ASX:MYE)	ASX:MYE	26.0	7.6	33.6	(4.0)	(1.3)	1.0	3.8	(8.4)	(26.9)	34.3	8.8
Mineral Resources Limited (ASX:MIN)	ASX:MIN	1,867.7	-	1,867.7	205.7	228.4	312.9	374.2	9.1	8.2	6.0	5.0
Monadelphous Group Limited (ASX:MND)	ASX:MND	1,089.0	-	925.4	56.1	60.1	70.3	74.8	16.5	15.4	13.2	12.4
NRW Holdings Limited (ASX:NWH)	ASX:NWH	213.1	29.5	242.5	14.1	24.1	31.5	47.6	17.2	10.1	7.7	5.1
Orica Limited (ASX:ORI)	ASX:ORI	6,236.7	1,187.6	7,424.3	425.9	498.7	614.3	713.6	17.4	14.9	12.1	10.4
Primoris Services Corporation (NasdaqGS:PRIM)	NasdaqGS:PRIM	1,498.0	126.0	1,623.9	60.5	109.9	128.5	180.2	26.9	14.8	12.6	9.0
Minimum									9.1	8.2	6.0	5.0
First quartile									12.4	11.2	7.3	5.4
Average									33.3	14.3	14.1	8.3
Median									17.3	14.9	12.4	8.8
Third quartile									33.6	16.7	16.3	10.6
Maximum									149.2	21.6	34.7	12.4

*** Includes a control premium of** 25%

Date of data 27/03/2017
Currency USD

Source: S&P Capital IQ

1) The calculations above do not include the negative multiples relating to companies with historic or forecast losses.

Appendix H – DCF discount rate and terminal value

Valuation methodology

The determination of an appropriate discount rate or cost of capital for a business requires identification and consideration of the factors that affect the returns and risks of that business, together with the application of widely accepted methodologies for determining the returns demanded by the debt and equity providers of the capital employed in the business.

The discount rate applied to the projected cash flows from a business represents the financial return that will be demanded before an investor would be prepared to acquire (or invest in) the business.

Market rates of return for equity type investments and project evaluations are frequently assessed using the capital asset pricing model (CAPM). Combining the CAPM results with the cost of debt funding will determine a business' weighted average cost of capital (WACC).

Whilst the CAPM generates the required return on equity investment, the WACC represents the return required by all providers of finance to the business.

Cost of equity and CAPM

The CAPM stems from the theory that a prudent investor would price an investment so that the expected return is equal to the risk free rate of return plus an appropriate premium for risk. The CAPM assumes that there is a positive relationship between risk and return. That is, investors are risk averse and demand higher returns for accepting higher levels of risk.

The CAPM is based on the concept of non-diversifiable risk and calculates the cost of equity as follows:

Table 38 – CAPM

Component	
Re	= Rf+ β(Rm-Rf)
Where:	
Re	= Expected equity investment return or cost of equity
Rf	= Risk free rate of return
β	= Equity beta
Rm	= Expected market return
Rm – Rf	= Market risk premium

The individual components of the CAPM are discussed below.

Risk free rate of return

The risk free rate of return is normally approximated by reference to the yield on a long term government bond with a term to maturity broadly equivalent to the timeframe over which the returns from the assets are expected to be received.

As we are undertaking a US dollar valuation it is appropriate to use the current yield on 20 year US Treasury bonds as a risk free rate. The current yield is 2.74%[62] and is used in conjunction with a market risk premium of 6.5% (refer below). We note that this use of the risk free rate is consistent with current market practice in the US.

[62] As at 28 March 2017

Market risk premium

The market risk premium ('MRP') represents the additional return that investors expect in return for holding risk in the form of a well-diversified portfolio of risky assets (such as a market index). The MRP is the expected risk premium. Given that expectations are not observable, a historic risk premium is generally used to proxy for the expected risk premium.

We note that, strictly speaking, the MRP is the excess of expected returns of shares over government bonds. Since expected returns are generally not observable, a common method of estimating the MRP is based on average realised (ex-post) returns. However, realised rates of return, especially for shares, are highly volatile over short periods. Therefore, short-term average realised returns are unlikely to provide reliable estimates of expected returns and the MRP. For this reason, investors and values usually rely on estimates of MRP derived from historical long term averages of realised returns. Current market practice is to adopt a MRP of between 5.0% and 7.0% per annum in developed economies such as the USA, Canada, Europe and Australia.

For the purposes of this report we have adopted a market risk premium of 6.5% per annum. In our opinion, this is consistent with current valuation practice in the US and is within the range of long-term averages of historical market risk premiums.

Equity beta

Beta is a measure of systematic risk reflecting the sensitivity of a company's share price to the movements of the stock market as a whole. Whilst expected betas cannot be observed, conventional practice is to estimate an appropriate beta with reference to the historical betas for a company over a finite period. It is also appropriate to consider betas for comparable companies and sector averages as a proxy, particularly if the subject company is not listed.

Observed betas in the market place, known as equity betas, are affected by the gearing of the individual company. The beta for equity reflects the non–diversifiable or systematic risk of a company. Equity betas incorporate the operational risk of the underlying company assets and other financial risk associated with the financial structure of the company (i.e. the combination of debt and equity employed to finance the company assets), whereas asset betas reflect only the operational risk.

The beta of an investment represents relative risk, not a measure of the total risk of a particular investment. Under the CAPM framework, the greater a security's beta, the greater the required return. This is indicated by a beta greater than one, which implies that firms with higher volatility of returns (as measured by standard deviation) will have higher required returns due to greater risk, other things being equal.

As mentioned above, determination of a beta can be undertaken with reference to analysis of comparable companies. It is generally necessary to make adjustments to the observed equity betas in the market place to remove the impact of the different capital structures and levels of gearing in the companies examined. This process, known as de-levering, involves removing the gearing of the subject company to arrive at the asset beta and subsequently re-levering in line with the target level of gearing.

We adopt the Harris Pringle formula to de-lever and re-lever betas as follows:

Asset beta (un-geared) = Equity beta (geared)/[1 + (D/E)]

Equity beta (re-geared) = Asset beta (un-geared) x [1 + (D/E)]

where:

E = market value of equity

D = market value of debt

D/E = company's debt to equity ratio

The betas of comparable companies are calculated relative to both the local index of the securities exchange on which the company's shares are listed and the MSCI World Index. We adopt the betas measured against the securities exchange on which the company's shares are listed.

The equity betas of listed companies involved in similar activities or exposed to the same broad industry sectors as the Group are set out in Table 39 below. We have ignored the equity beta of ListCo as its shares are thinly traded, its beta is significantly distorted by its current high gearing levels and there is a weak correlation between movements in its share price and the ASX as a whole:

Table 39 – Asset betas and debt ratios of comparable listed companies

Company	Equity beta	R - squared	Market capitalisation ($'million)	Five year average debt/equity	Five year average debt/EV	Asset beta
Ausdrill Limited	1.42	0.06	347.53	93%	48%	0.74
Bradken Limited	1.26	0.04	518.78	65%	40%	0.76
Capital Drilling Limited	0.90	0.07	89.94	5%	5%	0.85
Downer EDI Limited	1.46	0.31	1,833.60	9%	9%	1.33
Imdex Limited	1.26	0.04	187.67	15%	13%	1.10
K&S Corporation Limited	0.79	0.09	157.06	46%	31%	0.54
Layne Christensen Company	0.72	0.02	173.69	38%	28%	0.52
Macmahon Holdings Limited	1.09	0.03	135.63	12%	11%	0.97
Mastermyne Group Limited	1.36	0.06	20.83	19%	16%	1.14
Mineral Resources Limited	1.27	0.12	1,494.13	2%	2%	1.25
Monadelphous Group Limited	1.83	0.35	871.19	0%	0%	2.11
NRW Holdings Limited	1.32	0.02	170.47	17%	15%	1.12
Orica Limited	0.99	0.24	4,989.35	29%	22%	0.77
Primoris Services Corporation	1.00	0.19	1,198.36	5%	5%	0.95

Date of data	27/03/2017
Currency	USD

Average asset beta	1.01
Median asset beta	0.96
Average (excl R-squared of less than 0.5)	0.96
Median (excl R-squared of less than 0.5)	0.81
Average 5-year average debt/equity	25%
Average 5-year average debt/EV	17%

Source: S&P Capital IQ

Table 40 – Summary of Peer Group asset beta

Minimum	0.52
First quartile	0.75
Average	1.01
Third quartile	1.17
Maximum	2.11

After considering the above beta estimates and the relative risks associated with the Group we have adopted an asset beta of 0.9 to 1.1 for the Group. This range is broadly consistent with the median asset beta and the average asset beta excluding companies with an R-squared of less than 0.5.

The application of our assessed optimal gearing structure of 43% (debt/equity) (30% debt/enterprise value) (also see discussion on following page) to our assessed asset beta range results in an equity beta in the range of 1.29 to 1.57. The equity betas calculated have been regressed against each company's local exchange.

Company specific premium

Taking into account the specific risks of the Group relative to the Peer Group we have included a specific risk premium in the range of 0.5% to 1.5% per annum in our assessed cost of equity.

Cost of equity

Having regard to the above we have assessed the cost of equity for the Group to be 11.6% to 13.0% per annum.

Cost of debt

A pre-tax cost of debt of 9.5% per annum has been used based on the Group's actual weighted average cost of debt as at 31 December 2016. Our analysis of the cost of debt funding of other Peer Group Companies indicates that the Group's cost of debt finance is broadly consistent with the Peer Group. We have assumed the corporate tax rate of 31% to calculate the post-tax cost of debt of 6.6%.

Gearing

The level of gearing can have a significant effect on the WACC calculated and it is an important consideration in any rate of return calculation. The gearing level adopted should represent the level of debt that the asset can reasonably sustain and is not necessarily equivalent to the gearing level of the organisation owning or offering the asset.

The factors that affect the optimum level of gearing will differ between assets. Generally, the major issues to address in determining this optimum level will include:

- The variability in earnings stream
- Working capital requirements
- The level of investment in tangible assets
- The nature and risk profile of the tangible assets.

In general, the lower the expected volatility of cash flows (i.e. risk), the higher the debt levels which can be supported.

When assessing the appropriate gearing level, it is also appropriate to consider the gearing levels of the Peer Group. Our adopted optimal gearing structure is based on our review of the long term average gearing levels of the Peer Group companies. We have adopted an optimal gearing structure (debt to enterprise value ratio) of 30% which is the approximate midpoint of the average long term gearing level of the peer group of and the long term gearing level of Ausdrill Limited, which we believe is the closest comparable company in the Peer Group.

Weighted average cost of capital

The WACC represents the market return required on the total assets of the undertaking by debt and equity providers. This contrasts with the cost of equity, which represents the return required by equity holders only.

As stated earlier, a valuer should use the WACC to assess the appropriate commercial rate of return on the capital invested in the business in recognition that a mix of debt and equity normally fund investments. Accordingly, the selected discount rate should reflect a reasonable level of debt and equity relative to the level of security and the risk attributable to the investment.

There are a number of formulae for the WACC. The differences between the formulae are in the definition of the cash flows (pre-tax or post-tax), the treatment of the tax benefit arising through the deductibility of interest expenses (included in either the cash flow or the discount rate), and the manner and extent to which they adjust for the effects of dividend imputation.

The generally accepted WACC formula is the post-tax WACC, without adjustment for imputation:

$$WACC = Re\left(\frac{E}{D+E}\right) + Rd(1-T)\left(\frac{D}{D+E}\right)$$

Where:

Re = Expected return or discount rate on equity

Rd = Interest rate on debt (pre-tax)

T = Corporate tax rate

E = Market value of equity

D = Market value of debt

Calculation of Nominal WACC

As the Group's Budget Model is expressed in 'nominal' terms, that is, the forecast cash flow has been calculated including the impact of inflation

Summary

The table below summarises our calculation of the Nominal WACC of the Group:

Table 41 – Nominal WACC of the Group

Boart Longyear Group – WACC calculation

Discount rate	Low	High
Risk free rate	2.7%	2.7%
Debt margin	6.8%	6.8%
Pre-tax cost of debt	9.5%	9.5%
Post-tax cost of debt	**6.6%**	**6.6%**
Market risk premium	6.5%	6.5%
Net debt/enterprise value	30.0%	30.0%
Asset Beta	0.90	1.10
Equity Beta	1.29	1.57
Company specific premium	0.5%	1.5%
Cost of equity	**11.6%**	**14.5%**
Post-tax WACC (nominal)	**10.1%**	**12.1%**
Say	**10.0%**	**12.0%**
Tax rate	**31.0%**	

Appendix I summarises our DCF analysis based on the assumptions above.

Appendix I – DCF summary

Table 42 – DCF summary (low case)

For the calendar year ending		Actual FY16A	Forecast FY17F	Forecast FY18F	Forecast FY19F	Forecast FY20F	Forecast FY21F	Terminal Year
Total net revenue		642.4	681.9	688.7	699.1	713.0	730.9	752.8
Revenue growth (1)			*6.1%*	*1.0%*	*1.5%*	*2.0%*	*2.5%*	*3.0%*
Total Cost of goods sold		556.6	573.3	575.6	580.8	588.8	599.9	617.9
Cost of goods sold as a percentage of revenue (2)			*84.1%*	*83.6%*	*83.1%*	*82.6%*	*82.1%*	*82.1%*
Gross profit		85.84	108.56	113.09	118.28	124.21	130.97	134.90
Gross profit margin		13.4%	15.9%	16.4%	16.9%	17.4%	17.9%	17.9%
Overhead and other expenses (offset against D&A)		(84.2)	(117.1)	(45.1)	(49.4)	(49.3)	(48.8)	(50.3)
EBITDA		**1.6**	**(8.5)**	**68.0**	**68.8**	**74.9**	**82.2**	**84.6**
Depreciation		(62.5)	(61.9)	(66.8)	(66.0)	(49.1)	(49.1)	(44.4)
EBIT		**(60.8)**	**(70.4)**	**1.2**	**2.8**	**25.8**	**33.1**	**40.2**
Less: Effective taxes (3)	31%	(6.2)	-	-	-	-	-	(12.5)
Debt-free net income (excl. Amort.)		**(67.0)**	**(70.4)**	**1.2**	**2.8**	**25.8**	**33.1**	**27.8**
Depreciation			61.9	66.8	66.0	49.1	49.1	44.4
Capital expenditure (4)		(22.3)	(35.2)	(32.7)	(45.9)	(55.2)	(64.5)	(46.7)
Movement in net working capital			17.3	(2.2)	(3.3)	(4.5)	(5.8)	-
Debt-free cash flow (5)			(26.4)	33.1	19.6	15.1	11.8	25.4
Low case - WACC of 12%								
Capitalised value (6)								282.6
Implied EBITDA exit multiple								3.3
Periods (Months) (7)			6	18	30	42	54	54
Present value factor (8)	**12.0%**		0.94	0.84	0.75	0.67	0.60	0.60
Present value of cashflows			**(25.0)**	**27.9**	**14.8**	**10.2**	**7.1**	**169.7**
Sum of present value of cashflows (USD million)			**204.7**					

Notes:

1. Based on FY17 forecast, IBISWorld report OD5427 Oil and Mineral Exploration Drilling in Australia annual growth rate of 0.6% for 2017 to 2022 and historical performance.
2. Based on FY17 forecast percentages and revenue growth
3. Based on a review of Australian (30%), Canadian (28%) and USA (38%) tax rates as well as regional average rates for NAM (35%), LAM (28%) APAC (30%) and EMEA (28%).
4. Terminal year level of CAPEX required to support growth and existing operations based on Depreciation being 95% of CAPEX.
5. Reflects cash available to service debt obligations and make distributions to equity investors.
6. Applies Gordon Growth formula. Assumes constant growth after explicit forecast.
7. Reflects mid period discounting convention from Valuation Date.
8. Equal to the Weighted Average Cost of Capital (WACC).

Table 43 – DCF summary (high case)

For the calendar year ending		Actual FY16A	Forecast FY17F	Forecast FY18F	Forecast FY19F	Forecast FY20F	Forecast FY21F	Terminal Year
Total net revenue		642.4	681.9	688.7	699.1	713.0	730.9	752.8
Revenue growth (1)			*6.1%*	*1.0%*	*1.5%*	*2.0%*	*2.5%*	*3.0%*
Total Cost of goods sold		556.6	573.3	575.6	580.8	588.8	599.9	617.9
Cost of goods sold as a percentage of revenue (2)			*84.1%*	*83.6%*	*83.1%*	*82.6%*	*82.1%*	*82.1%*
Gross profit		85.84	108.56	113.09	118.28	124.21	130.97	134.90
Gross profit margin		13.4%	15.9%	16.4%	16.9%	17.4%	17.9%	17.9%
Overhead and other expenses (offset against D&A)		(84.2)	(117.1)	(45.1)	(49.4)	(49.3)	(48.8)	(50.3)
EBITDA		**1.6**	**(8.5)**	**68.0**	**68.8**	**74.9**	**82.2**	**84.6**
Depreciation		(62.5)	(61.9)	(66.8)	(66.0)	(49.1)	(49.1)	(44.4)
EBIT		**(60.8)**	**(70.4)**	**1.2**	**2.8**	**25.8**	**33.1**	**40.2**
Less: Effective taxes (3)	31%	(6.2)	-	-	-	-	-	(12.5)
Debt-free net income (excl. Amort.)		**(67.0)**	**(70.4)**	**1.2**	**2.8**	**25.8**	**33.1**	**27.8**
Depreciation			61.9	66.8	66.0	49.1	49.1	44.4
Capital expenditure (4)		(22.3)	(35.2)	(32.7)	(45.9)	(55.2)	(64.5)	(46.7)
Movement in net working capital			17.3	(2.2)	(3.3)	(4.5)	(5.8)	-
Debt-free cash flow (5)			(26.4)	33.1	19.6	15.1	11.8	25.4
High case - WACC of 10%								
Capitalised value (6)								363.3
Implied EBITDA exit multiple								4.3
Periods (Months) (7)			6	18	30	42	54	54
Present value factor (8)	**10.0%**		0.95	0.87	0.79	0.72	0.65	0.65
Present value of cashflows			**(25.2)**	**28.7**	**15.4**	**10.8**	**7.7**	**236.6**
Sum of present value of cashflows (USD million)			**274.1**					

Notes:

1. Based on FY17 forecast, IBISWorld report OD5427 Oil and Mineral Exploration Drilling in Australia annual growth rate of 0.6% for 2017 to 2022 and historical performance.
2. Based on FY17 forecast percentages and revenue growth
3. Based on a review of Australian (30%), Canadian (28%) and USA (38%) tax rates as well as regional average rates for NAM (35%), LAM (28%) APAC (30%) and EMEA (28%).
4. Terminal year level of CAPEX required to support growth and existing operations based on Depreciation being 95% of CAPEX.
5. Reflects cash available to service debt obligations and make distributions to equity investors.
6. Applies Gordon Growth formula. Assumes constant growth after explicit forecast.
7. Reflects mid period discounting convention from Valuation Date.
8. Equal to the Weighted Average Cost of Capital (WACC).

Appendix J – Solvency definition and common law principals

Statutory definition

Section 95A(1) of the Corporations Act states that:

- a person is solvent if, and only if, the person is able to pay all the person's debts, as and when they become due and payable.

Section 95A(2) further defines that a person who is not solvent is insolvent.

This statutory definition was in existence in one form or another prior to the implementation of the Corporate Law Reform Act on 23 June 1993. In particular it was referred to in section 592(1)(b)(i) as follows:

- there were reasonable grounds to expect that the company will not be able to pay all its debts as and when they become due.

Common law principles

Although the above definition of solvency is simply stated, it has been the source of much litigation. This has resulted in the consideration of basic common law principles when determining solvency or lack thereof, some of which are summarised below:

- If a company has a deficiency of net assets but it is in a position to pay all its debts as and when they become due and payable, because of a very strong profit-making business, it is solvent (Quick v Stoland Pty Ltd, 1998).
- Insolvency, or a severe shortage of liquid assets to meet debts as and when they fall due, needs to be distinguished from a temporary lack of liquidity (Hall and Poolman Pty Limited, 2007);
- There is a difference between temporary illiquidity and an endemic shortage of working capital whereby liquidity can only be restored by a successful outcome of business ventures in which the existing working capital has been deployed (Hymix Concrete Pty Limited v Garritty,1977).
- One must consider if the debtor is able to sell, mortgage or pledge his assets within a relatively short time (taking into account the nature of the debts and the circumstances of the debtor's business), in order to meet his liabilities (Sandell v Porter, 1996).
- Assets which might otherwise be regarded as non-current (and hence not available to pay current liabilities) can, in appropriate circumstances, be taken into account to determine whether all such current and other liabilities can be met as and when they fall due (Re Newark; Taylor v Carroll, 1991).
- Although the test of solvency and insolvency within the meaning of section 95A is to be analysed using a cash flow approach rather than a statement of financial position approach, it is conceivable that solvency might be inferred from a preponderance of current assets over current liabilities (Switz Pty Limited v Glowbind Pty Limited, 2000).
- A company must produce cogent evidence to demonstrate solvency, and not merely a statement from its own accountant asserting that it has a surplus of assets over liabilities, or that the company can pay its debts as they fall due (Expile Pty Limited v Jabb's Excavations Pty Limited, 2003).
- It is well established that in considering a company's financial position as a whole, reference may be had, not merely to strict legal rights and obligations under agreement with creditors and debtors, but to commercial realities (Southern Cross Interiors Pty Limited (in liq) v Deputy Commissioner of Taxation, 2001).
- If the court is satisfied that as a matter of commercial reality the company has resources available to pay all its debts as they become payable, then it will not matter that the resource is an unsecured borrowing or a voluntary extension of credit by another party (Lewis v Doran, 2004). Furthermore, the ability of a company to raise funds from third parties should be considered in assessing solvency (Powell & Duncan v Fryer, Torkin & Perry, 2000).

The commercial reality that creditors will normally allow some latitude for payment of their debts does not, in itself; warrant conclusions that the debts are not payable at the time contractually stipulated and have become debts payable only upon demand (Standard Chartered Bank v Antico, 1995).

Appendix K – Balance sheet reconciliation

Table 44 – Reconciliation between balance sheet and net book values used in Transaction Value allocation

Item	Note	As at 28 February 2017 $'000	Value adopted $'000	Variance $'000
Cash and cash equivalents	1	59,343	-	59,343
Trade and other receivables	2	107,898	92,943	14,955
Inventories		165,020	165,020	-
Asset classified as held for sale	3	5,923	-	5,923
Other current assets	4	18,003	-	18,003
Total current assets		**356,187**	**257,963**	**98,224**
Non-current assets				
Property, plant and equipment		127,660	127,662	(2)
Goodwill		100,036	100,036	-
Other intangible assets		43,920	43,920	-
Deferred tax assets	5	19,465	-	19,465
Non-current tax receivable	5	19,035	-	19,035
Other assets	6	10,326	-	10,326
Total Non-current assets		**320,442**	**271,618**	**48,826**
Total assets		**676,629**	**529,581**	**147,050**
Current liabilities				
Trade and other payables	7	126,589	124,225	2,364
Provisions	8	13,014	9,934	3,080
Current tax payable	5	94,577	-	94,577
Loans and borrowings		140	-	140
Total current liabilities		**234,320**	**134,159**	**100,161**
Non-current liabilities				
Loans and borrowings		734,987	-	734,987
Other financial liabilities		-	-	
Deferred tax liabilities		18,884	-	18,884
Provisions	8	25,941	23,995	1,946
Total non-current liabilities		**779,812**	**23,995**	**755,817**
Total liabilities		**1,014,132**	**158,154**	**855,978**
Net Assets/(Liabilities)		**(337,503)**	**371,427**	**(780,930)**

Notes on variances

1. We have not adopted any additional value for cash. The Group has advised it requires a minimum cash holding of approximately $25.0 million, and this holding is assumed in the Enterprise Value. Once Scheme costs are paid, there is unlikely to be any surplus cash in the Group.
2. We have excluded GST and other unspecified receivables. The GST balances are held largely in developing economies and the value of these assets to a buyer would be questionable.
3. Assets held for sale are included in the Enterprise Value as surplus assets.

4. Other current assets include prepayments and current tax receivables. We have placed no value on tax assets as their underlying value is highly uncertain.
5. Tax assets excluded
6. The nature of the other assets is unknown.
7. Minor accruals and pre-payments excluded as of unknown value
8. Provision balances include employee liabilities which have been adopted in our workings. Other provisions including onerous leases, warranty and restructuring costs have been excluded.

Appendix L – Schedule of tables

Appendix M – Schedule of figures