BOART LONGYEAR LIMITED

ABN 49 123 052 728

NOTICE OF EXTRAORDINARY GENERAL MEETING AND EXPLANATORY STATEMENT

Notice is given of an
Extraordinary General Meeting

to be held on
17 December 2014 at 10.00am
at Clarendon Room A,
Melbourne Exhibition Centre,
2 Clarendon Street,
South Wharf,
Melbourne Vic 3006 Australia

The Independent Directors of Boart Longyear Limited unanimously recommend that Shareholders vote in favour of all the resolutions in the absence of a superior proposal

The Independent Expert has concluded the Recapitalisation Transactions are not fair but 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 9.

Responsibility Statement

This Explanatory Statement (excluding the Independent Expert's Report and the Centerbridge 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 or the Centerbridge 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 Transactions are fair and reasonable to Non-Associated Shareholders.

Centerbridge has provided and is responsible for the information contained in Section 3 of this Explanatory Statement, statements describing Centerbridge's present relevant interest in Shares and statements describing Centerbridge's intentions in relation to its participation in the Rights Issue and acquisition of rights on market and Share Buy Back Offer in Sections 1.5(a) and 1.6(a) (collectively the **Centerbridge Information**). Centerbridge does not assume any responsibility for the completeness or accuracy of any information prepared by the Company 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 18 November 2014.

Currency

As the Company reports its US dollars, the Recapitalisation Transactions have been negotiated in US dollar terms so that all references to dollars in this Explanatory Statement are to US dollars, unless otherwise stated.

Shareholder Information Line

If you have any further questions regarding the Recapitalisation Transactions or this Explanatory Statement or if you would like additional copies of this Explanatory Statement, please contact the Shareholder Information Line on 1800 781 633 toll free within Australia or +61 2 8767 1041 (for international callers and some Australian mobile phone users). The Shareholder Information Line will be available from Monday to Friday (excluding public holidays) from 8.30am to 5.30pm Sydney time from the date of this Explanatory Statement until the date of the EGM.

LETTER FROM THE CHAIR

Dear Shareholder,

On behalf of the Directors of Boart Longyear, I am pleased to invite you to attend an extraordinary general meeting (**EGM**) of Boart Longyear Limited (the **Company**) to consider and vote on the resolutions required to implement the remaining components of the recapitalisation transactions announced on 23 October 2014.

As announced, Boart Longyear has entered into binding agreements with certain entities affiliated with Centerbridge Partners L.P (together, **Centerbridge**) in relation to a comprehensive recapitalisation (**Recapitalisation**), which is expected to provide the Company with a more sustainable capital structure by meaningfully enhancing liquidity and reducing the Company's net debt. The Recapitalisation also preserves your opportunity and that of all Shareholders to participate in the potential future upside of the Company as its markets and performance recover and invest alongside Centerbridge as part of the Recapitalisation.

Most importantly, you and other Shareholders will have the opportunity to consider and approve the remaining components of the Recapitalisation. The proposed Recapitalisation Resolutions are the primary business of the EGM that this Explanatory Statement invites you to consider. Centerbridge and its Associates may not vote on any of the Resolutions (other than Resolution 4), so you are encouraged to vote to express your support for the Recapitalisation, should you wish to do so.

The Recapitalisation will involve a comprehensive recapitalisation of the Company whose two principal components are a debt refinancing and a new equity injection.

The debt refinancing comprises two new term loans from Centerbridge of up to US$225 million (**Term Loan A** and **Term Loan B**). Term Loan A has already been completed in its entirety and drawn down to refinance the Company's previous bank revolving credit facility, which has eliminated the risk of breaching the quarterly financial maintenance covenants associated with that facility. Term Loan B has also been drawn down to fund the repurchase of US$105 million aggregate principal amount of the Existing Secured Notes tendered pursuant to the cash tender offer announced by the Company on 23 October 2014 (**Existing Secured Notes Tender Offer**).

Importantly, the new Term Loans carry "covenant-lite" debt terms and longer maturities, which will provide a more stable capital structure for the Company.

The equity injection will provide US$127 million of new equity capital and comprises the following four key components:

Completed on 23 October 2014

- Initial unconditional placement of US$5.6 million to Centerbridge (**Initial Placement**)

Subject to Shareholder approval at the EGM

- Follow-on conditional placement to Centerbridge of US$21 million (**Follow-on Placement**) and a US$0.6 million premium related to the Initial Placement
- Renounceable rights issue of US$84 million (**Rights Issue**)
- Exchange of Centerbridge's US$16 million holding of Existing Unsecured Notes for equity (**Equitisation**)

The above equity transactions will reduce the Company's net debt but, more importantly, will provide additional liquidity the Board and management consider necessary for the Company to continue to fund its operations based on anticipated market conditions. Centerbridge's maximum voting power as a result of the equity transactions will be 49.9% and Centerbridge may also be issued with Convertible Preference Shares, as outlined in Section 1.12.

In addition to the debt refinancing and equity injection, the Company will also be conducting an equal access off-market buy-back of ordinary shares capped at US$20 million (**Share Buy Back Offer**).

I am therefore pleased to extend to you an invitation to attend the EGM and vote on the Recapitalisation Resolutions for the remaining Recapitalisation Transactions mentioned above and related matters. The EGM will commence at 10.00am on 17 December 2014.

It is the recommendation of all Directors not affiliated with Centerbridge (being Bruce Brook, Roger Brown, Peter Day, Roy Franklin, Tanya Fratto, Barbara Jeremiah, David McLemore, Rex McLennan and Richard O'Brien) (**Independent Directors**) 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 and stakeholders. Each Independent Director intends to vote any Shares that they own in favour of these resolutions. The recommendation of the Independent Directors is subject to no Superior Proposal emerging.

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

- A comprehensive strategic review was undertaken to evaluate and consider all options available to the Company. Other available options considered by the Company either do not provide a comprehensive solution or leave existing Shareholders with significantly less upside and participation going forward;
- The status quo is not likely to be sustainable and the Company requires financial flexibility to withstand current and expected future operating conditions, including the uncertain timing for recovery of the Company's core markets;

LETTER FROM THE CHAIR (CONTINUED)

– The Recapitalisation will likely stabilise the Company's capital structure and provide improved liquidity and financial flexibility; and

– Shareholders are being provided the opportunity to participate in the Recapitalisation by retaining their existing investment and/or investing alongside Centerbridge through the Rights Issue or to exit through the Share Buy Back Offer.

A list of reasons why you may consider voting for or against the proposed Recapitalisation Resolutions is contained in Sections 2.2 and 2.3 respectively.

KPMG has prepared an Independent Expert's Report in relation to the proposed Recapitalisation Resolutions. Although KPMG has concluded that the Recapitalisation Transactions are not fair to Non-Associated Shareholders, KPMG has concluded that the Recapitalisation Transactions are **reasonable** for 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, www.boartlongyear.com/company/investors. 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 23 October 2014 ASX announcement and associated presentation in relation to the Recapitalisation and the Company's most recent half year results and 2013 Annual Report.

If you intend to attend the EGM in person, please bring your Proxy Form with you to assist us in the efficient processing of your registration. The EGM will commence at 10.00am. If you are unable to attend, you may appoint a proxy to vote for you at the EGM 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 10.00am on 15 December 2014.

Your Directors look forward to seeing you at the EGM.

Yours sincerely

Barbara Jeremiah

Barbara Jeremiah
Chair

NOTICE OF EXTRAORDINARY GENERAL MEETING

BOART LONGYEAR LIMITED ABN 49 123 052 728

Notice is given of an Extraordinary General Meeting to be held on 17 December 2014 at 10.00am at Clarendon Room A, Melbourne Exhibition Centre, 2 Clarendon Street, South Wharf, Melbourne Vic 3006 Australia

BUSINESS OF THE MEETING

1. **Refresh placement capacity**

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

   "That, for the purposes of ASX Listing Rule 7.4 and all other purposes, approval is given for the prior issue of 41,325,378 Shares to the Centerbridge Investor at US$0.1350 per Share plus a premium US$0.0135 per Share if shareholder approval is given to the Recapitalisation Resolutions, on the terms and conditions described in the Explanatory Statement."

2. **Approval of the Follow-on Placement**

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

   "Subject to the passing of Resolutions 3, 4, 5, 6 and 7 that, for the purposes of item 7 of section 611 of the Corporations Act and for all other purposes, approval is given for the acquisition of 135,001,936 Shares by the Centerbridge Investor or its Permitted Nominee at US$0.1557 per Share, on the terms and conditions as described in the Explanatory Statement."

3. **Approval of the acquisition of Shares by Centerbridge under the Underwriting Agreement**

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

   "Subject to the passing of Resolutions 2, 4, 5, 6 and 7 that, for the purposes of item 7 of section 611 of the Corporations Act, and for all other purposes, approval is given for the acquisition of Shares by the Centerbridge Investor or its Permitted Nominee on the terms and conditions set out in the Underwriting Agreement which is described in the Explanatory Statement."

4. **Approval of the Share Buy Back Offer**

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

   "Subject to the passing of Resolutions 2, 3, 5, 6 and 7 that, for the purposes of section 257C(1) of the Corporations Act and for all other purposes, approval is given for the Company to buy back Shares from Shareholders, on the terms and conditions set out in the Share Buy Back Offer which is described in the Explanatory Statement."

5. **Approval of the acquisition of Shares by Centerbridge under the Buy Back Subscription Agreement**

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

   "Subject to the passing of Resolutions 2, 3, 4, 6 and 7 that, for the purposes of item 7 of section 611 of the Corporations Act, and for all other purposes, approval is given for the acquisition of Shares by the Centerbridge Investor or its Permitted Nominee on the terms and conditions set out in the Buy Back Subscription Agreement as described in the Explanatory Statement."

6. **Approval of the acquisition of Shares by Centerbridge under the Equitisation Subscription Agreement**

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

   "Subject to the passing of Resolutions 2, 3, 4, 5 and 7 that, for the purposes of item 7 of section 611 of the Corporations Act and for all other purposes, approval is given for the acquisition of 102,757,289 Shares by the Centerbridge Investor or its Permitted Nominee at US$0.1557 on the terms and conditions set out in the Equitisation Subscription Agreement as described in the Explanatory Statement."

7. **Approval of the acquisition of Shares and conversion of Convertible Preference Shares**

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

   "Subject to the passing of Resolutions 2, 3, 4, 5 and 6 that, for the purposes of item 7 of section 611 of the Corporations Act, ASX Listing Rule 7.1 and for all other purposes, approval is given for:

   - *the acquisition of Convertible Preference Shares by the Centerbridge Investor or its Permitted Nominee on the terms and conditions set out in the Underwriting Agreement, the Buy Back Subscription Agreement and the Equitisation Subscription Agreement; and*
   - *the issue of Shares to the Centerbridge Investor or its Permitted Nominee on the conversion of those Convertible Preference Shares,*

   which is described in the Explanatory Statement."

By order of the Board

Fabrizio Rasetti
Company Secretary

18 November 2014

NOTES

Voting Exclusion Statements

The Company will disregard any votes cast on Resolution 1, 2, 3, 5, 6 and 7 by the Centerbridge Investor, its Permitted Nominee or any of their Associates.

However, the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form; or
- it is cast by the person chairing the EGM as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

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 7.00pm on 15 December 2014 will be entitled to attend and vote at the EGM as a Shareholder. Accordingly, transactions registered after that time will be disregarded for determining which Shareholders are entitled to attend and vote at the EGM.

Voting by Proxy

A shareholder entitled to attend and vote at the Meeting 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 to exercise its powers as proxy at the EGM.

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 10.00am on 15 December 2014. 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
By 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 or 1A Homebush Bay Drive, Rhodes NSW 2138

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 10.00am on 15 December 2014, being 48 hours before the EGM.

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 EGM. The appointment of the representative must comply with the requirements under section 250D of the *Corporations Act 2001*. The representative should bring to the EGM a properly executed "Certificate of Appointment of Corporate Representative" (available from the Company's share registry) confirming its authority to act as the Company's representative.

CONTENTS

EXPLANATORY STATEMENT

This Explanatory Statement has been prepared for Shareholders to provide information in relation to the items of business to be considered at the EGM to be held on 17 December 2014 at 10.00am.

This Explanatory Statement is an important document and should be read carefully by all Shareholders.

References in this Explanatory Statement to Centerbridge include a reference to the Centerbridge Investor, where applicable. As described in Section 3.3, Centerbridge has established the Centerbridge Investor for the purposes of participating in the Recapitalisation Transactions. CCP Investor 1 and CCP Investor 2 have agreed to contribute to the Centerbridge Investor the required equity contributions to enable it to fund its payment obligations in respect of the Recapitalisation Transactions under the Implementation Agreement, as described in Sections 3.3 and 5.5.

1. Overview of the Recapitalisation Transactions

1.1 Background

In February 2014, in conjunction with the release of its FY2013 financial results, the Company announced that it had engaged Goldman Sachs to evaluate a comprehensive spectrum of strategic recapitalisation options (the **Strategic Review**) in order to:

- maximise value for the Company's stakeholders;
- preserve the franchise value of the Company;
- provide continuity of services and products to the Company's global customer base; and
- ensure capital adequacy to continue as a going concern and position the business to capture future growth and improved profitability when its core markets recover.

While conducting the Strategic Review, the Company focused on meeting its immediate liquidity requirements by assuring compliance with the maintenance covenants of the Revolver and making operational changes to maximise liquidity. The objective of the Strategic Review, however, was to identify a more sustainable recapitalisation solution to provide needed liquidity and financial flexibility for what the Company expects will be an extended contraction of its markets and a gradual recovery.

On 23 October 2014, the Company announced that, as an outcome of the Strategic Review, it had entered into binding agreements with certain entities affiliated with Centerbridge in relation to a comprehensive recapitalisation transaction (**Recapitalisation Transactions**). The Company believes that the announced Recapitalisation is the best available course of action for Boart Longyear because it creates a more sustainable capital structure, provides substantial liquidity to the Company and allows for participation by existing Shareholders. Further details of potential advantages and disadvantages of the Recapitalisation Transactions are set out in Sections 2.2 and 2.3 respectively.

On 30 October 2014, the Company announced that Moody's Investors Service and Standard & Poor's Ratings Services had reviewed the Recapitalisation Transactions and expect they will increase the Company's liquidity and improve the Company's credit outlook.

1.2 Recapitalisation Transactions which have occurred

The following Recapitalisation Transactions were completed concurrently with the announcement of the Recapitalisation on 23 October 2014.

(a) Initial Placement

The Company raised approximately US$5.6 million by issuing a total of 41,325,378 Shares to Centerbridge at US$0.1350 per Share (the **VWAP Price**) (**Initial Placement**). The VWAP Price is the US Dollar equivalent of the 30-day volume weighted average price of Shares at the close of the market on ASX on 17 October 2014.

If Shareholders approve the Recapitalisation Resolutions at the EGM, an additional US$0.0135 per Share, equal to approximately US$560,000, (the **Contingent Premium**) will be payable by Centerbridge in respect of the Shares issued under the Initial Placement.

As a result of the Initial Placement, Centerbridge now has a relevant interest in approximately 19.90% of the Shares on issue.

(b) Appointment of Centerbridge Investor to the Board of Directors

Jonathan Lewinsohn was appointed to the Company's Board as Centerbridge's nominee to fill a casual vacancy until the Company's next Annual General Meeting. For more information on Mr Lewinsohn, refer to Section 3.2.

(c) New Term Loans

The Company entered into the Term Loan A Securities Agreement and the Term Loan B Securities Agreement with Centerbridge. Term Loan A and Term Loan B are summarised below and in Section 5.2:

Term Loan	Facility Limit	Maturity	Use of funds
Term Loan A	US$120 million	22 October 2020	Refinance the Revolver and cash to balance sheet
Term Loan B	US$105 million	1 October 2018	Fund the principal amount payable in respect of Existing Secured Notes tendered under the Existing Secured Notes Tender Offer

The interest rate on the New Term Loans is 12% per annum, reduced to 11% per annum so long as the Company's trailing 12 month adjusted EBITDA is greater than US$200 million.

The Company drew down Term Loan A in full on 23 October 2014 and refinanced its Revolver. The replacement of the Revolver alleviated the risk that the Company might become unable to access necessary short-term liquidity to fund operations due to the potential it might breach the financial maintenance covenants of the Revolver.

The Company drew down Term Loan B in full on 7 November 2014 (New York City time) to fund the principal amount of US$105 million payable in respect of Existing Secured Notes tendered under the Existing Secured Notes Tender Offer. See Section 1.2(d).

The new Term Loans extend the Company's debt maturities, removing near-term refinancing risk. The accreting nature of the Term Loans' interest (deferring cash interest until maturity) also reduces cash interest costs, providing further liquidity. For further information about the Term Loan Agreements, refer to Section 5.2.

(d) Existing Secured Notes Tender Offer

On 7 November 2014 (New York City time), Boart Management completed a cash tender offer to purchase US$105 million aggregate principal amount of its Existing Secured Notes (**Existing Secured Notes Tender Offer**).

Holders of Existing Secured Notes who validly tendered and did not validly withdraw their Existing Secured Notes from the Existing Secured Notes Tender Offer on or prior to 5.00pm on 4 November 2014 (New York City time) (**Early Tender Time**) and whose Existing Secured Notes were accepted for purchase by Boart Management received consideration of US$1,080 per US$1,000 in principal amount of the Existing Secured Notes validly tendered, which consisted of (i) US$1,050 per US$1,000 in principal amount of the Existing Secured Notes validly tendered, plus (ii) a premium of US$30 per US$1,000 in principal amount of the Existing Secured Notes validly tendered, plus accrued and unpaid interest up to but not including the date of settlement.

On 7 November 2014 (New York City time), Boart Management accepted for purchase the tender of US$105 million aggregate principal amount of its Existing Secured Notes. That principal amount was funded by a drawdown of Term Loan B. The associated premium and accrued and unpaid interest of US$9.5 million was initially funded by funds drawn down under Term Loan A but is ultimately being funded through the Rights Issue. Following the settlement of the Existing Secured Notes Tender Offer, an aggregate principal amount of US$195 million Existing Secured Notes remain outstanding.

(e) Asset Backed Loan

As the aggregate principal amount of Existing Secured Notes purchased under the Existing Secured Notes Tender Offer exceeded US$55 million, the Company has the right to enter into a new asset backed loan on a dollar for dollar basis for up to US$50 million (**Asset Backed Loan**). The proceeds of the Asset Backed Loan may be drawn down to pay down Term Loan A at no cost to the Company. The Company is currently actively engaged with interested parties in arranging the Asset Backed Loan and will disclose details to the market at the appropriate time.

1.3 Recapitalisation Transactions subject to Shareholder approval

The remaining Recapitalisation Transactions are subject to Shareholders approving the Recapitalisation Resolutions and the satisfaction of certain other conditions in the Implementation Agreement, as described in Section 5.1(a). If these conditions are not satisfied or waived in accordance with the Implementation Agreement, the remaining Recapitalisation Transactions will not proceed.

The Recapitalisation Transactions that are subject to Shareholder approval include:

- the acquisition of Shares by Centerbridge pursuant to:
  - the Follow-on Placement (Section 1.4);
  - underwriting the Rights Issue (Section 1.5);
  - funding the Share Buy Back Offer (Section 1.6(b)); and
  - the Equitisation (Section 1.7);
- the acquisition by Centerbridge of Convertible Preference Shares and the conversion of Convertible Preference Shares to Shares (Section 1.8); and
- the Share Buy Back Offer (Section 1.6(a)).

Each of the above Recapitalisation Transactions are inter-conditional such that if one Recapitalisation Resolution is not passed by the requisite majority, the remaining Recapitalisation Resolutions will not be passed. Each Recapitalisation Resolution should be considered in the context of the overall benefits of the Recapitalisation Transactions.

1.4 Follow-on Placement

The Company has agreed to issue 135,001,936 Shares (**Follow-on Shares**) to Centerbridge at US$0.1557 per Share to raise approximately US$21 million (**Follow-on Placement**). The Shares issued pursuant to the Follow-on Placement will be issued at an approximate 15% premium to the VWAP Price.

The percentage of issued Shares that Centerbridge will hold on completion of the Follow-on Placement will be approximately 37%.

In conjunction with the other Recapitalisation Transactions, the Follow-on Placement will reduce the Company's leverage and provide the additional liquidity the Company considers necessary for a capital structure that is appropriate for current and expected market conditions and challenges.

Resolution 2 is seeking the approval of Shareholders for the acquisition by Centerbridge of the Follow-on Shares and the resulting increase in Centerbridge's voting power in the Company.

1.5 Rights Issue

(a) Rights Issue

The Company has also agreed to make a traditional pro rata renounceable rights offer of 0.9798 Shares for each existing Share held by eligible Shareholders on the record date for the Rights Issue to raise approximately US$84 million (see Section 1.5(b)).

The price at which Shares will be offered pursuant to the Rights Issue will be the Australian dollar equivalent of the VWAP Price determined on the Business Day prior to the Launch Date (**Australian Dollar Price**).

Centerbridge does not propose either to sell or take up its rights under the Rights Issue. Centerbridge does not intend to acquire rights on market.

(b) Underwriting of the Rights issue

If Shareholders approve the Recapitalisation Resolutions, Centerbridge has agreed to enter into the Underwriting Agreement to underwrite the Rights Issue. Any rights that Centerbridge acquires as a Shareholder that it does not take up will form part of the shortfall which will be taken up by Centerbridge under the terms of the Underwriting Agreement.

There is a limit on the number of Shares that will be issued to Centerbridge under the Underwriting Agreement. When that limit is reached, Centerbridge will acquire Convertible Preference Shares instead of Shares. For further information about this limit, please refer to Section 1.8.

Centerbridge has agreed to underwrite the Rights Issue to raise US$84 million for the Company. Shares will be offered under the Rights Issue at the Australian Dollar Price. If the Australian dollar depreciates against the US dollar prior to settlement of the shortfall under the Underwriting Agreement so that the Australian Dollar Price subscribed by Centerbridge for each Share comprised in the shortfall is less than the VWAP Price, Centerbridge has agreed to pay an additional amount to the Company to ensure that it receives the VWAP Price for each Share comprised in the shortfall. If there is an appreciation of the Australian dollar against the US dollar prior to settlement of the shortfall under the Underwriting Agreement so that the Australian Dollar Price subscribed by Centerbridge for each Share comprised in the shortfall is more than the VWAP Price, the Company has agreed to pay Centerbridge an amount to ensure that it receives no more than the VWAP price for each Share comprised in the shortfall.

For further information about the Underwriting Agreement, refer to Section 5.3.

Resolution 3 is seeking the approval of Shareholders to the issue of Shares to Centerbridge pursuant to the Underwriting Agreement and any resulting increase in Centerbridge's voting power in the Company.

1.6 Share Buy Back Offer

(a) Share Buy Back Offer

The Share Buy Back Offer is designed to give Shareholders an opportunity to exit their investment in the Company if they wish to do so. The Share Buy Back Offer will be conducted by way of an off market equal access scheme for the purposes of the Corporations Act.

Under the Share Buy Back Offer, the Company will offer to buy back Shares from Shareholders at the Australian Dollar Price. The Australian Dollar Price may be more or less than the market price of Shares at the time of the Share Buy Back Offer.

The Share Buy Back Offer is subject to a cap of the Australian dollar equivalent of US$20 million, which cap may be reduced if it would result in Centerbridge becoming a Majority Stockholder (**Buyback Limit**). The Australian dollar equivalent of US$20 million will be determined on the Business Day prior to the Launch Date.

If the Company receives acceptances from eligible Shareholders in excess of the Buyback Limit, the Share Buy Back Offer will be scaled back on a pro rata basis, such that all acceptances are reduced in the same proportions.

Centerbridge will not accept the Share Buy Back Offer in respect of any Shares held by it on the record date for the Share Buy Back Offer.

For further information about the Share Buy Back Offer, refer to Section 6.

Resolution 4 is seeking the approval of Shareholders for the Company buying back Shares on the terms and conditions of the Share Buy Back Offer and any resulting increase in Centerbridge's voting power in the Company.

(b) Funding of the Share Buy Back Offer

The Company will fund the Share Buy Back Offer through the issue of Shares to Centerbridge at the Australian Dollar Price pursuant to the Buy Back Subscription Agreement.

There is a limit on the number of Shares that will be issued to Centerbridge under the Buy Back Subscription Agreement. When that limit is reached Convertible Preference Shares will be issued instead of Shares. For further information about this limit please refer to Section 1.8.

The total number of Shares in which Centerbridge will have a relevant interest after the Share Buy Back Offer will depend on the take up of the Rights Issue and acceptances of the Share Buy Back Offer. The table in Section 1.11 sets out possible scenarios for Centerbridge's relevant interest in Shares on completion of the Recapitalisation Transactions.

Resolution 5 is seeking the approval of Shareholders to issue Shares to Centerbridge pursuant to the Buy Back Subscription Agreement.

1.7 Equitisation

The Equitisation involves the issue by the Company to Centerbridge of 102,757,289 Shares at US$0.1557 per Share as payment in lieu of all amounts outstanding under the Equitised Unsecured Notes in accordance with the Equitisation Subscription Agreement. The Shares issued pursuant to the Equitisation Subscription Agreement will be issued at an approximate 15% premium to the VWAP Price. The Equitised Unsecured Notes will be cancelled at par value.

The total number of Shares in which Centerbridge will have a relevant interest after the Equitisation will depend on the take up of the Rights Issue and acceptances of the Share Buy Back Offer. The table in Section 1.11 sets out possible scenarios for Centerbridge's relevant interest in Shares on completion of the Recapitalisation Transactions.

The Equitisation will reduce the Company's indebtedness by US$16 million and ongoing interest costs by approximately US$1.1 million per annum. The Equitisation, in conjunction with the other Recapitalisation Transactions, seeks to improve the Company's financial position and better position the Company to confront the uncertainty regarding the timing and nature of the recovery of its core markets.

There is a limit on the number of Shares that will be issued to Centerbridge under the Equitisation Subscription Agreement. When that limit is reached Convertible Preference Shares will be issued instead of Shares. For further information about this limit please refer to Section 1.8.

Resolution 6 is seeking the approval of Shareholders to issue Shares to Centerbridge pursuant to the Equitisation Subscription Agreement and the resulting increase in Centerbridge's voting power in the Company.

1.8 Issue of Convertible Preference Shares and conversion of Convertible Preference Shares to Shares

If the issue of Shares to Centerbridge under any of the Underwriting Agreement, the Buy Back Subscription Agreement or the Equitisation Subscription Agreement would result in Centerbridge becoming a Majority Stockholder, the Company will issue Convertible Preference Shares to Centerbridge instead of Shares. For further information about the terms of the Convertible Preference Shares, refer to Section 5.4 and Schedule 1. The restriction on Centerbridge becoming a Majority Stockholder arises from the terms of the Company's Existing Secured Notes and Existing Unsecured Notes, pursuant to which the note holders could elect to require the Company to redeem the notes at 101% of par value upon Centerbridge or any other person becoming a Majority Stockholder. As a result of this restriction, Centerbridge will not become a Majority Stockholder as a result of the Recapitalisation Transactions.

The issue of Convertible Preference Shares to Centerbridge under:

- the Underwriting Agreement will be issued at the Australian Dollar Price;
- the Buy Back Subscription Agreement will be issued at the Australian Dollar Price; and
- the Equitisation Subscription Agreement will be issued at US$0.1557 per Share.

The Convertible Preference Shares are convertible at a ratio of one Convertible Preference Share to one Share (subject to usual adjustments). Centerbridge is contractually restricted from converting the Convertible Preference Shares if such conversion would mean that Centerbridge would become a Majority Stockholder (the **Conversion Cap**). Further, Centerbridge is obligated to convert the Convertible Preference Shares if the Conversion Cap or the law would not prevent it doing so.

The terms of the Convertible Preference Shares are summarised in Section 5.4 and are set out in full in Schedule 1.

Resolution 7 is seeking the approval of Shareholders to the issue of Convertible Preference Shares to Centerbridge pursuant to the Underwriting Agreement, the Buy Back Subscription Agreement and the Equitisation Subscription Agreement, the issue of Shares on conversion of those Convertible Preference Shares and the resulting increase in Centerbridge's voting power in the Company.

1.9 Governance Matters

For so long as Centerbridge holds a relevant interest in not less than 10% and not more than 19.9% of the Shares on issue, under the Implementation Agreement, it will have the right to appoint a nominee to the Board. Jonathan Lewinsohn was appointed to the Board as Centerbridge's nominee on 23 October 2014. For more information on Mr Lewinsohn, refer to Sections 1.2(b) and 3.2.

If the Recapitalisation Transactions are completed and for so long as Centerbridge holds a relevant interest in at least 19.9% of the Shares on issue, the Company has, under the Implementation Agreement, agreed to appoint such number of persons nominated by Centerbridge that is proportional to Centerbridge's percentage shareholding in the Company, provided that the Centerbridge nominees may not equal or exceed half the Board at any time.

In addition, for so long as Centerbridge holds a relevant interest in at least 40% of the Shares on issue, Centerbridge will be entitled to nominate (subject to the approval of the majority of the Board) which of the Directors will serve as Chair of the Board.

1.10 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 and pro forma capitalisation

Sources	US$m	Uses	US$m
New Term Loan – Tranche A	120	Bank Revolver	38
New Term Loan – Tranche B	105	Sr. Secured Notes Tender Offer – par	105
Initial Equity Placement	6	Sr. Secured Notes Tender Offer – premium and accrued and unpaid interest	9
Follow-on Equity Placement	21	Sr. Unsecured Note Equitisation	16
Rights Issue	84	Transaction Fees	35
Sr. Unsecured Notes Equitisation	16	Cash to Balance Sheet (post fees)	149
Total Sources	**352**	**Total Uses**	**352**

Pro forma Capitalisation		Transaction announcement										
US$m	30 June 2014	Debt	Equity	Tender Offer	Post Refinance	Conditional Placement	Rights Issue	Sr. Unsec. Notes Recapitalisation	Trans-action Fees	Pro forma Post Recap.	Maturity	Interest rate
Bank Revolver	38	(38)	–	–	–	–	–	–	–	–	Jul 2016	L + 475bps
Sr. Secured Notes	300	–	–	(105)	195	–	–	–	–	195	Oct 2018	10.0%
Sr. Unsecured Notes	300	–	–	–	300	–	–	(16)	–	284	Apr 2021	7.0%
New Term Loan – Tranche A	–	120	–	–	120	–	–	–	–	120	Oct 2020	12.0% A.I.
New Term Loan – Tranche B	–	–	–	105	105	–	–	–	–	105	Oct 2018	12.0% A.I.
Total Debt	**638**	**82**	**–**	**–**	**720**	**–**	**–**	**(16)**	**–**	**704**		
Initial Equity Placement	–	–	6	–	6	1	–	–	–	6		
Follow-on Equity Placement	–	–	–	–	–	21	–	–	–	21		
Rights Issue	–	–	–	–	–	–	84	–	–	84		
Sr. Unsecured Notes Equitisation	–	–	–	–	–	–	–	16	–	16		
Total Equity	**–**	**–**	**6**	**–**	**6**	**22**	**84**	**16**	**–**	**127**		
Sr. Secured Notes Tender Premium and accrued and unpaid interest	–	–	–	(9)	(9)	–	–	–	–	(9)		
Transaction Fees	–	–	–	–	–	–	–	–	(35)	(35)		
Total Cash	**68**	**82**	**6**	**(9)**	**147**	**22**	**84**	**–**	**(35)**	**217**		
Net Debt	**570**	**–**	**(6)**	**9**	**573**	**(22)**	**(84)**	**(16)**	**35**	**487**		

The transaction fees of US$35 million will be allocated between debt in respect of debt issuance costs, total equity in respect of equity raising costs and the profit and loss for the balance of the costs. The allocation has not been shown as a pro forma adjustment in the tables above.

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

Table 2: Pro forma Capitalisation

Pro forma Capitalisation US$m	30 June 2014	Pro forma Post Recap.
Total Debt	638	704
LTM Adjusted EBITDA	46	46
Total Gross Leverage Ratio	**13.9 x**	**15.3 x**
Net Debt	570	487
LTM Adjusted EBITDA	46	46
Total Net Leverage Ratio	**12.4 x**	**10.6 x**
LTM Adjusted EBITDA	46	46
Total Interest Expense (payable in cash)	52	39
Cash Interest Coverage Ratio	**0.9 x**	**1.2 x**
LTM Adjusted EBITDA	46	46
Total Interest Expense (per Profit and Loss)	52	66
Interest Coverage Ratio	**0.9 x**	**0.7 x**

Debt figures above exclude debt issuance costs of US$13.6 million which would reduce the total debt balance for financial reporting purposes.

Note 1: The information presented in the tables above has been prepared and is based on the financial statements as at 30 June 2014, as announced to the ASX on 26 August 2014 but adjusted for:

- the draw down of Term Loan A of US$120 million and the subsequent repayment of the Revolver;
- the Initial Placement of US$6.1 million (which includes the initial placement of US$5.6 million and the contingent premium of US$0.6 million);
- the draw down of US$105 million under Term Loan B and the subsequent retiring of US$105 million of Existing Secured Notes;
- the Follow-on Placement of US$21 million;
- the Rights Issue of US$84 million, assuming constant foreign exchange rates from the Business Day prior to the Launch Date and settlement of the issue of Shares under the Rights Issue; and
- the Equitisation.

Note 2: Tables 1 and 2 assume the Company does not exercise its right to replace a portion of Term Loan A with a new Asset Backed Loan of up to US$50 million.

Note 3: Neither the historical financial information or the pro forma financial information presented in the tables above should be taken to represent the views of the Company or any other person as to future financial performance or forward looking statements.

Note 4: The interest rate on the New Term Loans would be reduced to 11% per annum (from 12% per annum) so long as the Company's trailing 12 month adjusted EBITDA is greater than US$200 million.

Note 5: Gross leverage as at 30 June 2014 excludes undrawn capacity under the Revolver (total facility size of US$140 million).

Note 6: Debt figures above exclude debt issuance costs. At 30 June 2014, debt issuance costs of US$13.6 million were netted against total debt for financial reporting purposes.

1.11 Effect of Recapitalisation Transactions – Company's capital structure

The tables below show the potential changes in Centerbridge's relevant interest in Shares and interest in Convertible Preference Shares as a result of the different steps of the Recapitalisation Transactions. Table 3 shows the maximum relevant interest in Shares and interest in Convertible Preference Shares that Centerbridge could acquire under the Recapitalisation Transactions. Table 4 shows the minimum relevant interest in Shares and interest in Convertible Preference Shares that Centerbridge could acquire under the Recapitalisation Transactions.

Table 3: Assuming US$20 million of shares bought back under the Share Buy Back Offer and 0% take up of the Rights Issue by non-Centerbridge Shareholders

$20m Buy back	Convertible Preference Shares	Ordinary Shares			Relevant Interest	
0% Take up	(US$m)	CB	Non-CB	Total	CB	Non-CB
Pre-Initial placement	0.0	58.7	402.5	461.2	12.7%	87.3%
Initial Placement	0.0	41.3	0.0	41.3		
Current	0.0	100.0	402.5	502.5	19.9%	80.1%
Follow-on Placement	0.0	135.0	0.0	135.0		
PF post Follow-on Placement	0.0	235.0	402.5	637.5	36.9%	63.1%
Rights Issue and Buy back	101.8	18.3	(148.1)	(129.8)		
PF post Rights Issue and Buy back	101.8	253.3	254.3	507.7	49.9%	50.1%
Equitisation	16.0	0.0	0.0	0.0		
PF post Equitisation	117.8	253.3	254.3	507.7	49.9%	50.1%

Table 4: Assuming $0 million of shares bought back under the Share Buy Back Offer and 100% take up of the Rights Issue by non-Centerbridge Shareholders

$0m Buy back	Convertible Preference Shares	Ordinary Shares			Relevant Interest	
100% Take up	(US$m)	CB	Non-CB	Total	CB	Non-CB
Pre-Initial placement	0.0	58.7	402.5	461.2	12.7%	87.3%
Initial Placement	0.0	41.3	0.0	41.3		
Current	0.0	100.0	402.5	502.5	19.9%	80.1%
Follow-on Placement	0.0	135.0	0.0	135.0		
PF post Follow-on Placement	0.0	235.0	402.5	637.5	36.9%	63.1%
Rights Issue and Buy back	0.0	230.3	394.4	624.6		
PF post Rights Issue and Buy back	0.0	465.2	796.9	1,262.1	36.9%	63.1%
Equitisation	0.0	102.8	0.0	102.8		
PF post Equitisation	0.0	568.0	796.9	1,364.9	41.6%	58.4%

1.12 Minimum and maximum voting power of Centerbridge in the Company

Centerbridge's minimum voting power in the Company as a result of the Recapitalisation Transactions will be 41.6% (see Table 4 in Section 1.11).

Centerbridge's maximum voting power in the Company as a result of the Recapitalisation Transactions will be 49.9% due to the reasons set out in Section 1.8, although Centerbridge may acquire non-voting Convertible Preference Shares to the extent any issue of Shares to Centerbridge would result in it becoming a Majority Stockholder. The Convertible Preference Shares may be converted into Shares, however conversion of the Convertible Preference Shares is not permitted if doing so will result in Centerbridge becoming a Majority Stockholder. This means that Centerbridge's voting power in the Company as a result of the Recapitalisation Transactions can not exceed 49.9%. The maximum value of non-voting Convertible Preference Shares Centerbridge may be issued is US$117.8 million. The Convertible Preference Shares do not confer any voting rights on the holder. Shareholders should note that although Centerbridge cannot acquire voting power in more than 49.9%, if the Recapitalisation Resolutions are approved, Centerbridge will have the right to appoint nominees to the Board but not to equal or exceed half the Board (refer to Section 1.9).

1.13 Timetable

The timetable for implementation of the Recapitalisation Transactions is set out below. The timetable is indicative only and the Company reserves the right to amend the timetable in its absolute discretion.

Date	Event
23 October 2014	Announcement of the Recapitalisation Transactions Initial Placement and draw down of Term Loan A
23 October 2014 (22 October 2014 in New York City)	Existing Secured Notes Tender Offer launched
4 November 2014 (in New York City)	Early Tender Time with respect to the Existing Secured Notes Tender Offer
7 November 2014	Settlement of purchase of Existing Secured Notes tendered prior to the Early Tender Time Draw down of Term Loan B
15 December 2014	Record date for voting at EGM
17 December 2014	EGM to consider the Resolutions
18 December 2014	Follow-on Placement Launch Rights Issue
22 December 2014	Rights commence trading
24 December 2014	Record date for Rights Issue and Share Buy Back Offer
29 December 2014	Open date for Rights Issue and Share Buy Back Offer
12 January 2015	Rights trading ends
19 January 2015	Closing date for Rights Issue and Share Buy Back Offer
27 January 2015	Settle Rights Issue Shares cancelled pursuant to Share Buy Back Offer Shares or Convertible Preference Shares issued under the Buy Back Subscription Agreement Shares or Convertible Preference Shares issued under the Equitisation Subscription Agreement

1.14 Independent Expert's Report

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

The Independent Expert has concluded that the Recapitalisation Transactions are not fair but reasonable to Non-Associated Shareholders.

1.15 Independent Directors' Recommendation

The Board comprises ten Directors, including Mr Lewinsohn, the Centerbridge nominee who was appointed at the time of the Initial Placement.

All of the Directors have approved the proposal to put the Resolutions in this Explanatory Statement to Shareholders.

Mr Lewinsohn, the Director nominated by Centerbridge pursuant to the Implementation Agreement, has a material interest in the Recapitalisation Transactions (as he is a Centerbridge nominee) and therefore has abstained from making a recommendation in respect of the Recapitalisation Resolutions.

The Directors other than Mr Lewinsohn (the **Independent Directors**) consider that the Recapitalisation Transactions successfully achieve the primary objectives of the Strategic Review, namely creating a more sustainable capital structure and increasing financial flexibility to allow the Company to better manage through a difficult operating environment and an uncertain period for recovery in the Company's core markets and to implement 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 (and, therefore, the Recapitalisation Transactions which have not yet occurred) are set out in detail in Section 2. In making their recommendation, the Independent Directors have considered:

(a) the advantages of the Recapitalisation Transactions being implemented, together with other factors relevant to a Shareholder's decision whether to vote for or against the Recapitalisation Transactions summarised in Section 2;

(b) the risks associated with the Recapitalisation Transactions, as summarised in Section 2; 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 Transactions clearly outweighs the risks of the Recapitalisation Transactions.

It is important for Shareholders to note that the remaining Recapitalisation Transactions are 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 none of the remaining Recapitalisation Transactions will occur.**

1.16 Advantages and risks of the Recapitalisation Transactions

For information about the advantages and risks of the Recapitalisation Transactions, refer to Section 2.

2. Advantages and risks of the Recapitalisation Transactions

2.1 Rationale for Recapitalisation Transactions

The Independent Directors believe that the Recapitalisation Transactions provide a comprehensive recapitalisation solution that is the best available option to maximise long-term Shareholder value, with the other options they considered as part of the Strategic Review either not providing a comprehensive solution or leaving existing Shareholders with significantly less upside and participation going forward. The Independent Directors believe that the Recapitalisation Transactions will likely stabilise 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.

2.2 Reasons Shareholders may vote FOR the Recapitalisation Resolutions

(a) Even with the replacement of the Revolver with Term Loan A, the Company believes the status quo is not likely to be sustainable and that it requires additional liquidity to withstand current and expected future operating conditions, including the uncertain timing for recovery of the Company's core markets.

The Board wishes to emphasise that, while it was important for the Company to enter into arrangements in relation to the Term Loans when it did, the remaining equity transactions (namely the Follow-on Placement, Rights Issue and Equitisation), were a distinguishing feature that factored into the Board's decision to pursue the Recapitalisation Transactions. Without the remaining equity transactions, the Board and management expect the Company would not have had adequate liquidity to sustain operations through expected market conditions. This will mean the Company will need to find alternative sources of liquidity in the near term.

(b) The Recapitalisation Transactions are the result of a comprehensive Strategic Review in which a broad range of potential recapitalisation and restructuring options were evaluated. Those alternatives included a potential sale of all or parts of the Company, raising new debt or equity capital and debt-to-equity conversions, among others. The Company believes that the announced Recapitalisation Transactions represent the best available option for Boart Longyear to create a more sustainable capital structure and provide needed liquidity while allowing existing Shareholders to participate. Other available options considered as part of the Strategic Review either did not provide a comprehensive solution or left existing Shareholders with significantly less upside and participation going forward.

(c) The Follow-on Placement and Rights Issue will provide the Company with US$105 million of additional cash proceeds. These proceeds will reduce net debt to a more appropriate level, although the Company will still retain significant debt levels. Lower debt levels and the accretion of interest (rather than regular cash payment) under the Term Loans will result in reduced annual cash interest costs, providing greater liquidity as the Company manages through a difficult operating environment.

(d) Given the Company has already explored a broad range of options, it may be difficult to find alternative sources of liquidity on the same terms as the Recapitalisation and such alternatives, if found, may result in a less favourable outcome for Shareholders. The process to seek alternative financing options will distract management from operations and take time, with no guarantees of a transaction being agreed or implemented.

(e) The Recapitalisation Transactions provide an opportunity for existing Shareholders to either participate in the future of the Company through their existing holding or further investing alongside Centerbridge through the Rights Issue.

(f) If the Recapitalisation Transactions are not approved by the requisite majority of Shareholders, Centerbridge will hold 19.9% of the Shares on issue, the Term Loans will remain in place (unless the make whole described in Section 5.2 is paid or certain other limited events permitting prepayment occur) and Boart Longyear will be required to fund the premium and accrued interest under the Existing Secured Notes Tender Offer, being US$9.5 million, from existing cash on balance sheet.

(g) The Recapitalisation Transactions provide an opportunity to work with Centerbridge, an internationally recognised investment firm with a proven track record of executing turnaround strategies, with their equity being invested alongside, and their equity sharing the same risks and potential upside with existing Shareholders.

(h) The Recapitalisation Transactions are expected to result in a supportive Company register and a stable investor in Centerbridge, signalling confidence in the Board, management and long-term strategy of the Company.

(i) The Share Buy Back Offer provides Shareholders who do not wish to participate or continue to hold Shares the opportunity to sell their Shares at the Australian Dollar Price, allowing them to realise cash for their Shares without incurring brokerage or other transaction costs associated with selling their Shares on the ASX.

(j) The Independent Expert has concluded the Recapitalisation Transactions are not fair but reasonable to Non-Associated Shareholders.

2.3 Reasons Shareholders may vote AGAINST the Recapitalisation Resolutions

(a) The aggregate percentage holding of existing Shareholders will be diluted by the Follow-on Placement. Following this, Centerbridge would hold approximately 37% of the Shares, compared to 19.9% following the Initial Placement. The aggregate holding of existing Shareholders will also be diluted by the Equitisation, which will occur following the Rights Issue. Further, Centerbridge's minimum ownership following the Recapitalisation Transactions will be at least 41.6% and likely will be higher to the extent there is a shortfall from the Rights Issue or Shareholders accept the Share Buy Back Offer. However, in no event will Centerbridge become a Majority Stockholder.

(b) If the Recapitalisation Resolutions are approved, Centerbridge will have an increased shareholding in the Company, as well as a holding in the Term Loans, and potential alternative transactions (including change of control transactions) would, in effect, require the support of Centerbridge.

(c) You may disagree with the Independent Directors and/or the findings of the Independent Expert and believe the Recapitalisation Transactions are not in your best interests. If the Recapitalisation Resolutions are not passed, none of the benefits outlined above will be realised.

Despite the reasons set out immediately above, the Independent Directors believe that the advantages outlined in Section 2.2 outweigh these considerations.

3. Overview of Centerbridge

3.1 Overview of Centerbridge

Centerbridge is a private investment firm with approximately US$25 billion in capital under management as of November 2014, including approximately US$13 billion in private equity funds. 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 November 2014 currently has 73 investment professionals across its headquarters in New York and its office in London.

Recapitalisation investments in Australian publicly listed companies of note include:

- Recapitalisation of Billabong, 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.

3.2 Directors

Jonathan Lewinsohn has been appointed to the Board as Centerbridge's nominee pursuant to the Implementation Agreement. In the event it acquires the right to appoint any additional Directors under the Implementation Agreement, Centerbridge will determine who its additional appointees will be and provide additional disclosure on those individuals as soon as practicable.

Prior to joining Centerbridge in 2013, Mr Lewinsohn was Head of Research and a member of the Investment Committee at Anchorage Capital Group. He previously served as a law clerk to Judge Richard A. Posner of the U.S. Court of Appeals and worked at Morgan Stanley in the Mergers & Acquisitions Group. Mr Lewinsohn has extensive experience working on Australian restructurings, including Alinta Energy, I-MED Network Radiology, and Gunns. He has been published in the Yale Law Journal, the Yale Journal of International Law, and Antitrust Law Stories (2007 Foundation Press). He received his J.D. from Yale Law School and his B.A., summa cum laude, from Cornell University's College of Arts and Sciences as a Merrill Presidential Scholar. He is a Term Member of the US Council on Foreign Relations and a member of the Economic Club of New York.

Centerbridge will confirm the identities of the other Centerbridge nominees to Boart by 3 December 2014, being 14 days prior to the date of the EGM. The Company will disclose the details of the persons to be appointed through its ASX announcement platform and on its website at www.boartlongyear.com.

3.3 Structure of Centerbridge's investment in the Company

Acquisition Structure

The following information is provided on the acquisition structure of Centerbridge's various interests in the Company.

Centerbridge has established the Centerbridge Investor as the special purpose vehicle through which it will participate in the Recapitalisation Transactions. The Centerbridge Investor may itself nominate a Permitted Nominee to be issued Shares under the Recapitalisation Transactions.

The Centerbridge Investor is a special purpose vehicle registered in the Netherlands.

The Directors of the Centerbridge Investor are Conor Tochilin, Kevin Fusco, Hendrikus Zuidema, Sidney Stacie and Sang-ki Brands.

Equity Commitments

The following information is provided on the equity commitments provided by Centerbridge. Pursuant to the Implementation Agreement, Centerbridge Capital Partners II (Cayman), LP (**CCP Investor 1**) and Centerbridge Capital Partners SBS II (Cayman), LP (**CCP Investor 2**) have each given a commitment to provide (or procure the provision of) up to US$138,194,054 (in the case of CCP Investor 1) or US$3,708,125 (in the case of CCP Investor 2) for the purpose of Centerbridge satisfying its obligation to pay the subscription amount for the Shares under the Recapitalisation Transactions (i.e. US$141,902,179, being the aggregate of the commitments of CCP Investor 1 and CCP Investor 2), on and subject to the terms of the Implementation Agreement.

3.4 Future intentions

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

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

(a) the statements are based on the information concerning the Company and the circumstances affecting the business of the Company that are known to Centerbridge at the date of this Explanatory Statement;

(b) Centerbridge 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;

(c) Centerbridge 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;

(d) the Directors nominated by Centerbridge to the Board of the Company in accordance with the Implementation Agreement will not represent a majority of the Board and therefore will not be able to themselves determine decisions of the Board. However, there is no restriction on Centerbridge exercising any nomination rights for the appointment of Directors it has according to law in the future, although Centerbridge has no present intention to exercise such rights;

(e) the Directors nominated by Centerbridge 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

(f) 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 Centerbridge or its Affiliates.

Nature and conduct of business

(a) To the extent that Centerbridge will have influence over the nature and conduct of the business of the Company, neither Centerbridge nor the Company has a present intention to make any changes to it other than where this would be consistent with the turnaround strategy of the Board of the Company.

(b) Centerbridge is supportive of the Company's chief executive officer, Mr Richard O'Brien, and his management team.

Injection of further capital

To the extent that Centerbridge will have influence over the capital management of the Company, Centerbridge considers the Recapitalisation Transactions to be sufficient to position the business so that it does not require additional capital in the near to medium term. Consequently apart from the remaining Recapitalisation Transactions, Centerbridge has no present intention to provide further additional capital to the Company.

Future employment of employees

To the extent that Centerbridge will have influence over the employment of the present employees of the Company, Centerbridge does not 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.

Transfer of assets

Centerbridge does not intend to propose any transfer of assets between the Company and Centerbridge or its affiliates.

Redeployment of fixed assets

To the extent that Centerbridge will have influence over the deployment of the fixed assets of the Company, Centerbridge does not intend to redeploy any of those assets.

Financial or dividend policies

To the extent that Centerbridge will have influence over the financial or dividend policies of the Company, Centerbridge intends 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).

EXPLANATORY STATEMENT (CONTINUED)

4. Overview of the Company

The Company is the world's leading integrated provider of drilling services, drilling equipment and performance tooling for mining and mineral drilling companies globally. The Company provides drilling services, drilling equipment and performance tooling to mining and drilling companies globally by offering a comprehensive portfolio of technologically advanced and innovative drilling services and products and operates in five geographic regions, which are defined as North America, Latin America, Europe, Asia Pacific, and Africa. The Company operates through two divisions: "Global Drilling Services" and "Global Products" and believes that its market-leading positions in the mineral drilling industry are driven by a variety of factors, including the performance, expertise, reliability and high safety standards of Global Drilling Services, the technological innovation, engineering excellence and global manufacturing capabilities of Global Products and its vertically integrated business model. These factors, in combination with the Company's global footprint, have allowed the Company to establish and maintain long-standing relationships with a diverse and blue-chip customer base worldwide that includes many of the world's leading mining companies. With approximately 125 years of drilling expertise, the Company believes its insignia and brand represent the gold standard in the global mineral drilling industry.

Global Drilling Services

Overview

Global Drilling Services performs contract drilling work for a diverse mining customer base, operating across a wide range of commodities, including gold, copper, nickel, zinc, uranium and other metals and minerals. The Company's contract drilling services include, but are not limited to, providing core samples and completed holes to clients as an integral part of their evaluation of subsurface ground composition. As an example, clients in the mining industry use the Company's contract drilling services as a key component in their mineral exploration, evaluation and resource delineation activities. As at 30 June 2014, Boart Longyear had 948 drilling rigs deployed around the world and provided contract drilling services in approximately 35 countries.

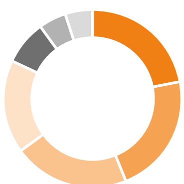
Global Drilling Services generates the majority of its revenue from the minerals industry but in recent years the Company has continued to develop drilling capabilities for energy and other industries.

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

Drilling services offered

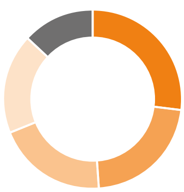
- **Mining:** Drilling services for minerals primarily involves the extraction of solid rock core or chip samples for technical analysis. This is regarded as a non-core activity by mining companies and is typically contracted to third party service providers, such as Boart Longyear. The samples extracted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

REVENUE BY TYPE (1H2014)



Rotary/RC	22%
Performance Tooling	22%
Surface Coring	21%
Underground Coring	17%
Production Drilling	8%
Drilling Equipment	5%
Other	5%

REVENUE BY GEOGRAPHY (1H2014)

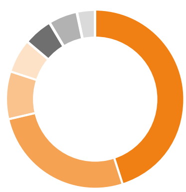


Asia Pacific	27%
Canada	22%
United States	20%
Europe, the Middle East and Africa	18%
Latin America	13%

REVENUE BY OPERATING DIVISION (1H2014)

Global drilling services	73%
Global products	27%

DRILLING SERVICES REVENUE BY COMMODITY (1H2014)



Gold	43%
Copper	25%
Iron	8%
Nickel	6%
Other Metals	5%
Energy	5%
Water Services	3%

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 the most sophisticated form of drilling due to the information that it yields and it commands a higher service margin than other forms of drilling. The core barrel assembly used in diamond core drilling enables core samples to be retrieved through the hollow drill rods with a wireline device. The wireline device allows the core sample to be extracted without having to remove the entire string of drill rods from the hole to reach the sample. The benefits of this device are of particular importance for deep drilling.
- **Production drilling** – Production drilling is a fast and effective method to quickly remove earth and obtain ore. Holes are drilled with a pneumatic/hydraulic top hammer or an in-the-hole hammer with a carbide percussive bit. Once the hole is drilled into the rock, it is filled with explosives. After detonation, the debris is cleared and the process is repeated. This method of drilling is sometimes referred to as long-hole drill-and-blast. This method of drilling is also used when holes are needed to connect from level to level in an underground mine or when up-holes are drilled in the back of underground tunnels to install cables for structural support in the tunnels.
- **Rotary drilling** – Rotary drilling involves a continuous rotation of a drill bit to bore through earth and rock. As cuttings are created, they are circulated out of the borehole with either air or drilling fluids. There are several technologies used to perform rotary drilling including reverse circulation, flooded reverse, and conventional rotary. Reverse circulation drilling is used to collect rock samples quickly and efficiently using a large rotary drill and air compressor. This method is ideal for obtaining mineral samples in the early phases of an exploration project. In addition, rotary drilling is used in the development and production stages of mining. 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 948 rigs as at 30 June 2014, is the largest fleet operated by a mineral drilling services company in the world. The Company's drill rigs range from small underground drills costing approximately $250,000 to large diameter rotary rigs that cost in excess of $4 million. The operational life of a drill rig varies greatly. Underground rigs depreciate over a five year period, while surface core rigs are depreciated over 10 years and rotary rigs over 12 years, or their estimated useful life.

Global Products

Global Products is a leading manufacturer, marketer and distributor of a wide range of drilling equipment and performance tooling, including diamond drill bits, drill rods, wireline core extraction systems, drilling rigs and other products used in mineral exploration, mine development, mine production and environmental and infrastructure drilling. 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.

Of Global Products' revenue for the half year ended 30 June 2014, approximately 80% was comprised of performance tooling components. Through a worldwide network of approximately 140 sales and customer service representatives, the Company primarily sells its products to drilling services contractors. No external Global Products customer represented more than 2% of the Company's consolidated revenue for the half year ended 30 June 2014. Global Products also provides the products necessary for the Company's Global Drilling Services division. The Company has manufacturing facilities located in Europe, North America and China that currently employ approximately 470 manufacturing employees.

Drilling Products Offered

Global Products supplies drilling equipment (surface and underground) and performance tooling (diamond drill bits, percussive drill bits, core barrels, drill rods and casings and other products) to the minerals, environmental and infrastructure and energy industries. Below is a summary of the primary products 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. Parts repair and rebuild services are offered as a more efficient replacement parts option for major components.

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 30 June 2014, the Company had approximately 355 issued patents, 629 registered trademarks, 300 pending patent applications and 76 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. 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. In the half-year period ended 30 June 2014, the Company launched four new products and the Company continues to invest in its new product pipeline. New product development efforts remain focused on incremental product changes that customers will pay for in any environment.

Board of Directors

Name	Role
Bruce Brook	Non-Executive Director
Roger Brown	Non-Executive Director
Peter Day	Non-Executive Director
Roy Franklin	Non-Executive Director
Tanya Fratto	Non-Executive Director
Barbara Jeremiah	Chair, Non-Executive Director
Jonathan Lewinsohn	Non-Executive Director
David McLemore	Non-Executive Director
Rex McLennan	Non-Executive Director
Richard O'Brien	Managing Director, Chief Executive Officer

5. Details of the Recapitalisation Transactions

5.1 Implementation Agreement

The Company, Centerbridge and others entered into the Implementation Agreement on 23 October 2014. The Implementation Agreement sets out the terms and conditions on which the Recapitalisation Transactions will take place. The material provisions of the Implementation Agreement are summarised below:

(a) Conditions precedent

The remaining Recapitalisation Transactions will be implemented in two stages if Shareholders approve the Recapitalisation Transactions.

The first stage involves completion of the Follow-on Placement (Section 1.4) (**Second Closing Transactions**), which is subject to the satisfaction of certain conditions precedent, including that:

– there shall not have occurred any Material Adverse Effect;

– the representations and warranties given by the Boart Parties are true and correct as at the date of closing except where the failure of such representation or warranty to be so true and correct would not individually or in the aggregate have or reasonably be expected to have a Material Adverse Effect;

– neither the Company or any of its subsidiaries shall have become bankrupt or insolvent;

– the Company shall not have been delisted or the Shares suspended from quotation;

– all required regulatory approvals shall have been obtained and there being no orders in place preventing completion; and

– the Boart Parties have complied in all material respects with their obligations under the Implementation Agreement,

together, the **Closing Conditions Precedent**.

After completion of the Follow-on Placement, the Company will launch the Rights Issue and the Share Buy Back Offer.

The second stage involves the issue of Shares or Convertible Preference Shares to Centerbridge under the Underwriting Agreement (Section 1.5(b)), the Buy Back Subscription Agreement (Section 1.6) and the Equitisation Subscription Agreement (Section 1.7) and the cancellation of Shares under the Share Buy Back Offer (together, the **Final Closing Transactions**). The Final Closing Transactions are also subject to satisfaction of the Closing Conditions Precedent.

(b) Pre-completion conduct of business

The Implementation Agreement contains customary covenants aimed at preserving the value of the Company between the date of signing and completion of the Recapitalisation, including provisions to restrict the Company from taking certain actions outside the ordinary course of business or materially inconsistent with past practice.

(c) Exclusivity

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

– **No solicitation** – The Company must not solicit, encourage, invite any Competing Proposal or initiate discussions with a third party with a view to obtaining any expression of interest, offer or proposal in relation to a Competing Proposal;

– **No talk, no due diligence** – Subject to a fiduciary carve-out (summarised below), the Company must not participate in any discussions or negotiations in relation to a Competing Proposal or which may reasonably be expected to lead to a Competing Proposal, enter into any agreement to consummate a Competing Proposal or provide information to a third party to enable that party to make a Competing Proposal;

– **Notification** – Subject to a fiduciary carve-out (summarised below), the Company must promptly notify Centerbridge if it receives a Competing Proposal or any written proposal or communication which may reasonably be expected to lead to a Competing Proposal (including providing material terms of the Competing Proposal).

The fiduciary carve-out allows the Board to consider certain Competing Proposals received after entering into the Implementation Agreement and before Shareholders approve the remaining Recapitalisation transactions at the EGM, if:

– the Board considers in good faith that the Competing Proposal is a Superior Proposal or would reasonably be expected to lead to a Competing Proposal that is a Superior Proposal; and

– the Board has received specific written legal advice from the Company's external legal advisor that failing to take, or failing to omit to take, such action would reasonably be expected to constitute a breach of the Directors' fiduciary or statutory duties.

(d) Matching right

The Implementation Agreement requires the Company to give a "matching right" to Centerbridge such that, upon determining that a Competing Proposal from a third party is a Superior Proposal and that the Company wishes to proceed with such Superior Proposal, the Company is required to give a written notice to Centerbridge (i) offering to provide, upon request, the identity of the party involved in the Competing Proposal and (ii) setting out the material terms of such proposal (see notification obligations summarised above).

Within four Business Days of receiving the matching right notice, Centerbridge will be given the right (but not an obligation) to present one or more offers to the Board for its consideration (**Investor Counterproposal**). The Board is required to review the Investor Counterproposal in good faith. If the Board considers the Investor Counterproposal is on terms more favourable to the Company and the Shareholders, then the Company must give effect to the Investor Counterproposal. The receipt of any further Competing Proposal will require a new notice to Centerbridge.

(e) Board appointment rights

Centerbridge is granted certain Board appointment rights from and after Final Closing which are summarised in Section 1.10.

(f) Reimbursement of advisory expenses and break fee

The Company has agreed to reimburse Centerbridge for certain advisory expenses incurred by Centerbridge in connection with the Recapitalisation Transactions, as outlined below.

On 23 October 2014, the Company became obliged to reimburse Centerbridge for:

– expenses incurred by Centerbridge for work performed by its advisers from 14 August 2014 until 9 September 2014 in relation to the Recapitalisation which are estimated to be US$1.938 million (the **Stage 1 Advisory Fees**); and

– the First Closing Advisory Fees estimated to be US$2.620 million being:

  • US$0.948 million in respect of advisory expenses incurred by Centerbridge in connection with the negotiation and execution of the New Term Loan Agreements; and

  • US$1.673 million being 20% of advisory expenses incurred by Centerbridge which were accrued through and, including the First Closing.

The Stage 1 Advisory Fees represent the expenses incurred by Centerbridge prior to 9 September 2014 in the initial review of the Company and the negotiation of potential high level terms for the Recapitalisation Transactions. The Company agreed to reimburse Centerbridge for these expenses when the parties first agreed to consider initial high level terms of the Recapitalisation Transactions and the Company provided Centerbridge with a limited period of exclusivity in order to conduct further due diligence and negotiate definitive terms of potential Recapitalisation Transactions. The First Closing Advisory Fees include the expenses that are customarily paid upon consummation of debt financing transactions, such as expenses for Centerbridge's legal and financial advisers for the New Term Loans. The First Closing Advisory Fees also include 20% of the additional expenses incurred to date in connection with diligencing, negotiating, documenting and executing the Recapitalisation Transactions.

If Final Closing occurs the Company is obliged to reimburse Centerbridge for unpaid advisory expenses through and including the Final Closing (provided that the Company is not obliged to reimburse advisory expenses incurred on or prior to the First Closing of greater than US$6.441 million).

If the Recapitalisation Resolutions are not approved by Shareholders the Company is required to reimburse Centerbridge for any unpaid advisory expenses through and including the date of the EGM capped at US$0.94 million.

A break fee of US$6 million plus unpaid advisory expenses that would be payable by the Company on Final Closing (provided that the Company is not obliged to reimburse advisory expenses incurred on or prior to the First Closing of greater than US$6.441 million) if the Implementation Agreement is terminated for any of the following reasons:

– the Board changes its recommendation to Shareholders to vote in favour of the Recapitalisation Resolutions (unless the Independent Expert concludes that the Recapitalisation is not fair and not reasonable), the Company breaches the exclusivity provisions, or the Company announces an intention to do any of these things;

– prior to the EGM, the Board authorises the Company to enter into a binding agreement to give effect to a Superior Proposal; or

– there is a material breach by the Company of the Implementation Agreement which results in a failure of a condition to Second Closing or Final Closing which is not cured by 28 February 2015 or 30 April 2015, as the case may be or within 30 days of a notice of breach from Centerbridge stating its intention to terminate.

(g) Termination

Either party may terminate the Implementation Agreement if:

– completion of the Follow-on Placement has not occurred by 28 February 2015;

– completion of the Rights Issue and Share Buy Back Offer has not occurred by 30 April 2015;

– a court issues an injunction or other order prohibiting completion of any of the Recapitalisation Transactions:

– shareholder approval for the Recapitalisation Resolutions is not obtained.

Centerbridge may terminate the Implementation Agreement if:

– the Independent Directors change their recommendation or recommend a Competing Proposal or a Superior Proposal or breach the exclusivity provisions;

– the Company is in material breach of its obligations under the Implementation Agreement; or

– the Company or its subsidiaries enter bankruptcy or become insolvent.

The Company may terminate the Implementation Agreement:

– if prior to Shareholder approval of the Recapitalisation Resolutions, it enters into a binding agreement to give effect to a Superior Proposal; or

– if Centerbridge is in material breach of its obligations under the Implementation Agreement.

5.2 Term Loan Agreements

	Term Loan A	Term Loan B
Initial Principal Amount	US$120 million	US$105 million
Maturity	6 years (22 October 2020)	Almost 4 years (1 October 2018)
Use of Proceeds	Refinancing the Revolver (including cash collateralising of any existing letters of credit); working capital, capital expenditures and other corporate purposes	Fund the principal amount payable in respect of Existing Secured Notes tendered under the Existing Secured Notes Tender Offer
Interest Rate	Accreting interest of 12% annual (or 11%, if EBITDA in the most recent four fiscal quarters exceeds US$200 million)	
Default Rate	2%	
Collateral	Secured by first lien on the Company's working capital assets (previously pledged to the Company's former bank credit facility) Secured by second lien on the Company's fixed assets Secured by up to US$420 million secured debt limit in the note indentures, after which any obligations under the Term Loan A would be unsecured and rank pari passu with the existing Senior Unsecured Notes	Secured pari passu with the Company's Existing Secured Notes
	The obligations under the Term Loan Agreements are to be guaranteed by an unrestricted subsidiary funded with assets with a fair market value of approximately US$44 million.	
Voluntary Prepayment	Prior to 22 October 2018 (subject to make-whole premium), in whole. At any time (not subject to make-whole premium): – In whole, if the Implementation Agreement is terminated (i) by Centerbridge following a material adverse effect or (ii) Centerbridge or the Company following certain other breaches of the Implementation Agreement. – In whole, at redemption price of 101%, in the event of a change of control transaction. In respect to Term Loan A, 22 October 2018 or later (not subject to make-whole premium), in whole.	
Mandatory Prepayment	– Change of control prepayment – Asset sale prepayment – Casualty event prepayment – Incurrence by the Company or any Group member of the Asset Backed Loan The following events constitute a change of control: (a) any person or group other than Centerbridge becoming a beneficial owner of 25% of total voting stock of the Company; (b) the liquidation or dissolution of the Company or Boart Management; (c) the merger or consolidation of the Company, other than where no person or group is the beneficial owner of more than 25% of total voting stock of the surviving entity; (d) the Company ceases to own all of the equity interest in Boart Management; (e) a change of control occurs under any other indebtedness of Boart Management or its subsidiaries in an aggregate outstanding amount in excess of US$20,000,000; or (f) certain major changes in the composition of the Board.	
Make-whole payments	Typical US high yield make-whole applies generally for early repayment of the loan. The make-whole will not apply in certain limited circumstances involving specified terminations of the Implementation Agreement, including as a result of Centerbridge's or the Company's breach of certain provisions thereunder and certain specified material and adverse changes to the business of the Company.	

5.3 Underwriting Agreement

Under the Implementation Agreement, Centerbridge has, subject to Shareholder approval of the Recapitalisation Resolutions, agreed to enter into an Underwriting Agreement with the Company to underwrite the Rights Issue.

(a) Fees

Centerbridge is not entitled to any fees for underwriting the Rights Issue and, except as provided in the Implementation Agreement, will be responsible for all its costs incurred in connection with underwriting the Rights Issue.

(b) Indemnities granted by the Company

The Company indemnifies Centerbridge against losses incurred in respect of the Rights Issue including in connection with:

- any misleading or deceptive statement in the offer materials or ancillary information;
- a breach of its obligations in respect of the offer materials or the Rights Issue;
- the making of the Rights Issue;
- the issue of the Shares under the Rights Issue;
- any liability under the Corporations Act or other applicable law in relation to the Rights Issue; and
- any review, inquiry or investigation undertaken by the Australian Prudential Regulation Authority, ASIC, the ASX, the Australian Taxation Office or other regulatory body in relation to the Rights Issue,

other than insofar as the losses relate to fraud, wilful misconduct or gross negligence, penalties or fines due to contravention of the Corporations Act or any amount in respect of which the indemnity would be illegal, void or unenforceable under Australian law.

(c) Centerbridge termination rights

If any of the events listed below occurs at any time prior to settlement, Centerbridge may terminate the Underwriting Agreement:

- the conditions precedent to the Final Closing Transactions (see Section 5.1(a)) are not satisfied or waived;
- the Company withdraws the Rights Issue;
- the Company is prevented from allotting and issuing the Shares in accordance with the Underwriting Agreement;
- the Company ceases to be admitted to the official list of ASX; or
- ASX advises the Company in writing that the official quotation of the Shares (other than the Convertible Preference Shares) under the Rights Issue will not be granted.

(d) Centerbridge termination rights subject to reasonableness test

If any of the following events has occurred at any time prior to settlement and, in the reasonable opinion of Centerbridge, Centerbridge will contravene, or be involved in a contravention of, or incur a liability under the Corporations Act or any other applicable law as a result of the event, Centerbridge may terminate the Underwriting Agreement:

- ASIC applies for an order, investigates or commences proceedings in relation to the Rights Issue or offer materials;
- the offer materials do not comply with the Corporations Act, the Listing Rules or any other applicable law;
- a new circumstance arises which is a matter materially adverse to investors in the Shares and which would have been required by the Corporations Act to be included in the offer materials had the new circumstance arisen before the offer materials were given to ASX;
- civil or criminal proceedings are brought against the Company or any officer of the Company in relation to any fraudulent, misleading or deceptive conduct relating to the Company whether or not in connection with the Rights Issue;
- a representation or warranty made or given, or deemed to have been made or given, by the Company under the Underwriting Agreement proves to be untrue or incorrect;
- the Company fails to comply with any of its obligations under this agreement, or any representation or warranty by the Company in the Underwriting Agreement is or becomes untrue or incorrect; or
- the Rights Issue or the offer materials do not comply with any applicable law or regulatory requirement or there is a contravention by the Company of the Corporations Act, its constitution or any of the ASX Listing Rules.

(e) Foreign exchange hedge

The parties have agreed to hedge their exposure to movements in the AUD:USD exchange rate between the Business Day prior to the Launch Date and the Business Day prior to settlement of the shortfall under the Underwriting Agreement, in respect of the amount of the shortfall under the Underwriting Agreement. For more information regarding the foreign exchange hedge, refer to Section 1.5(b).

(f) Representations and warranties

Common representations and warranties are provided by the parties in respect of matters such as power to enter into the Underwriting Agreement, corporate authority and that the Underwriting Agreement is a valid and binding obligation.

The Company gives a number of additional representations and warranties, including full and proper disclosure of information, that the offer materials will not contain any material statements which are misleading or deceptive or any material omissions, its entry into the transaction will not breach any agreement or law and that it has the ability to offer the securities.

5.4 Terms of Convertible Preference Shares

If the issue of Shares to Centerbridge under any of the Underwriting Agreement, the Buy Back Subscription Agreement or the Equitisation Subscription Agreement would result in Centerbridge becoming a Majority Stockholder, the Company will issue Convertible Preference Shares to Centerbridge instead of Shares.

The terms of the Convertible Preference Shares are set out in Schedule 1 and are summarised below.

Preferential Dividend	Convertible Preference Shares will confer on the holders a right to be paid a Preferential Dividend in respect of a financial half-year period (**Preferential Dividend Period**) in accordance with the following formula: $\text{Preferential Dividend} = \dfrac{\text{PDR x Per Share Price x N}}{365}$ Where: **N** = the number of days in the Dividend Period **PDR** = 5% **Per Share Price** = the issue price of the Convertible Preference Share Payment of a Preferential Dividend is subject to the Board determining that it is payable and subject to there being funds legally available to pay the Preferential Dividend. Preferential Dividends are non-cumulative. If the Board determines to pay any dividend on Shares (**Ordinary Dividend**) in respect of a Preferential Dividend Period, the Board must also determine to pay a Preferential Dividend in respect of that Preferential Dividend Period, and the amount of the Ordinary Dividend must not exceed the amount of the Preferential Dividend. If the Company declares an in specie dividend of voting securities and the issue of the securities will cause a breach of the Conversion Cap, the Company will issue Convertible Preference Shares instead.
Priority on a winding up	Convertible Preference Shares will confer on the holders a right to be paid on a winding up, cash in priority to any other class of shares, equal to the aggregate of the issue price and any accrued dividends which are unpaid. A Convertible Preference Share does not confer on the holder any further rights to participate in assets or profits of the Company.
Conversion	Each Convertible Preference Share holder will be entitled to convert any or all of its Convertible Preference Shares into Shares at the Conversion Rate, provided that: – no holder will be entitled to convert the Convertible Preference Share if it would breach the Conversion Cap; and – a holder must convert a Convertible Preference Share if the holder is not prevented from doing so by reason of the law or the Conversion Cap. However, if a Convertible Preference Share holder wishes to convert but the Company is in possession of "excluded information" (i.e. information which is market sensitive and has not been disclosed to ASX pursuant to an applicable continuous disclosure exception) and it has determined, in good faith and acting reasonably, that disclosure of that "excluded information" at that time would not be in the best interests of the Company (having regard to, among other things, whether disclosure may expose the Company to possible liability or regulatory action): – the Convertible Preference Share holder may elect to proceed with conversion, provided that the Convertible Preference Share holder provides an undertaking not to on-sell the new Shares until the period of 12 months has passed after the issue of those Shares, except to persons to whom Shares can be on-sold without disclosure, provided that they provide the same undertaking to the Company; or – conversion will not proceed (if the Convertible Preference Share holder elects to not proceed with conversion).
Conversion Rate	Each Convertible Preference Share is convertible into one Share (i.e. the Conversion Rate is 1:1). The Conversion Rate may be adjusted from time to time if there is a consolidation or sub-division of Shares or a reconstruction of the Company's Share capital. In such cases the Conversion Rate is to be adjusted, by resolution of the Board, so that each Convertible Preference Share holder is in no better or worse position as a result of such consolidation, sub-division or reconstruction, such adjustment to become effective immediately after such consolidation, sub-division or reconstruction.

Change of control	If a takeover bid is made for Shares, acceptance of which is recommended by the Board, or the Board recommends a scheme of arrangement under Part 5.1 of the Corporations Act in respect of the Shares which will result in a person having a relevant interest of at least 50% of the Shares, the Board will use all reasonable endeavours to procure that equivalent takeover offers are made to Convertible Preference Share holders or that they are entitled to participate in the scheme of arrangement or a similar transaction.
General meetings	Convertible Preference Share holders will have the same rights as the holders of Shares to receive notices, reports and accounts and to attend and be heard at all general meetings of the Company, but will not have the right to vote at general meetings except as described below.
Voting rights	Convertible Preference Share holders may vote: – on any question considered at a meeting if, at the date of the meeting, the dividend that is owed on Convertible Preference Shares is in arrears; – on a proposal to reduce the share capital of the Company; – on a proposal that affects rights attached to Convertible Preference Shares; – on a proposal to wind up the Company; or – on a proposal for the disposal of the whole of the property, business and undertakings of the Company; – on a resolution to approve the terms of a buy-back agreement; and – on any question considered at a meeting held during the winding up of the Company, However, the holders of Convertible Preference Shares will not, in any circumstances, be entitled to vote on the election of any Director to the Board, or managers or trustees thereof.
Assignability	Convertible Preference Shares are not assignable except to an Affiliate or a Related Fund.
Quotation	Convertible Preference Shares will not be quoted on ASX. The Company will apply for quotation of the Shares issued upon conversion of the Convertible Preference Share on ASX, with such Shares to rank pari passu with existing Shares.

5.5 Equity commitment letters and guarantee

The Centerbridge Investor is a special purpose vehicle established by Centerbridge for the purposes of participating in the Recapitalisation Transactions.

CCP Investor 1 and CCP Investor 2, being funds established by Centerbridge, have entered into equity commitment letters in favour of the Company as a third party beneficiary pursuant to which they have agreed to contribute to the Centerbridge Investor the required equity contributions to enable it to fund its payment obligations in respect of the Recapitalisation Transactions under the Implementation Agreement.

CCP Investor 1 and CCP Investor 2 have also given a limited guarantee in favour of the Company in respect of the performance and payment by the Centerbridge Investor of its obligations under the Implementation Agreement and related documents.

For more information about CCP Investor 1 and CCP Investor 2, refer to Section 3.3.

6. Share Buy Back Offer

6.1 Terms of the Share Buy Back Offer

Under the Share Buy Back Offer the Company will offer to buy back Shares from Shareholders at the Australian Dollar Price. The Australian Dollar Price may be more or less than the market price of Shares at the time of the Share Buy Back Offer.

The Share Buy Back Offer will be conducted in accordance with the timetable in Section 1.13 and is subject to a cap of the Australian dollar equivalent of US$20 million determined on the Business Day prior to the Launch Date (**Buyback Limit**). The Buyback Limit will be reduced if the Share Buy Back Offer would result in Centerbridge becoming a Majority Stockholder. If the Company receives acceptances from eligible Shareholders in excess of the Buyback Limit, the Share Buy Back Offer will be scaled back on a pro rata basis, such that acceptances are reduced in the same proportions, to cap the Share Buy Back Offer at the Buyback Limit.

The Share Buy Back Offer is conditional on:

- the conditions precedent to the Buy Back Subscription Agreement, being the satisfaction of certain conditions precedent to the Final Closing Transactions having been satisfied or waived in accordance with its terms; and
- the Buy Back Subscription Agreement not being terminated (which will occur if the Implementation Agreement is terminated).

6.2 Reasons for the Share Buy Back Offer

The Company is making the Share Buy Back Offer to provide a liquidity option for Shareholders who do not wish to retain Shares should the Recapitalisation Transactions be approved.

6.3 Source of funds for the buy back

For information on how the Company proposes to fund the Share Buy Back Offer, refer to Section 1.6(b).

6.4 Current market price

At the close of trading on 13 November 2014, being the last practical date prior to printing of this Explanatory Statement, Shares closed at A$0.195 per Share. For the current market price of Shares, refer to www.asx.com.au.

6.5 Advantages of the Share Buy Back Offer

Advantages of the Share Buy Back Offer include:

- The Share Buy Back Offer provides equitable access to immediate liquidity at a specified minimum Share price (i.e. the Australian Dollar Price) for Shareholders who do not wish to participate in the Recapitalisation Transactions.
- The Share Buy Back Offer offers a certain outcome, as opposed to the ongoing risks associated with a continued investment in the Company.
- By accepting the Share Buy Back Offer, Shareholders who do not wish to participate in the Recapitalisation Transactions will save on brokerage and other relevant transaction costs associated with a sale of the Shares on the ASX.

6.6 Disadvantages of the Share Buy Back Offer

Disadvantages of the Share Buy Back Offer include:

- The Australian Dollar Price offered by the Company under the Share Buy Back Offer may be less than the then prevailing market price of Shares.
- By accepting the Share Buy Back Offer, Shareholders will no longer own Shares and will lose access to any potential upside in the value of the Shares following the completion of the Recapitalisation Transactions.

6.7 Other disclosures

As at the date of this Explanatory Statement, the Company has a total of 502,488,790 Shares on issue.

Excluding the effects of the Rights Issue which will be undertaken concurrently with the Share Buy Back Offer and assuming 100% take up of the Share Buy Back Offer and no reduction to the Buyback Cap, the Company will buy back 148,148,148 Shares, representing approximately:

- 30% of the Shares on issue as at the date of this Explanatory Statement; and
- 23% of the Shares on issue at the time of the launch of the Share Buy Back Offer (i.e. following the Follow-on Placement), assuming the Recapitalisation Transactions are approved by Shareholders.

The Company will be issuing Centerbridge one Share or Convertible Preference Share for every Share bought back by the Company under the Share Buy Back Offer. As a result, there may be a decrease in the number of Shares on issue as a result of the Share Buy Back Offer but an increase in the number of Convertible Preference Shares on issue.

For further information regarding the Share Buy Back Offer, refer to the Independent Expert's Report.

7. Reasons why Shareholder approval is required

7.1 Introduction

The remaining Recapitalisation Transactions can only proceed if all the Recapitalisation Resolutions are passed at the EGM and the other conditions set out in the Implementation Agreement are either satisfied or waived.

All 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 Resolutions is explained in this Section. This explanation should be read together with the entirety of the Explanatory Statement.

7.2 Resolution 1: Refresh placement capacity

ASX Listing Rule 7.1 prohibits a listed entity from issuing or agreeing to issue equity securities in any 12 month period which amount to more than 15% of its ordinary securities, unless one of the exceptions to ASX Listing Rule 7.1 applies or security holder approval is obtained.

ASX Listing Rule 7.4 provides that an issue of securities made without approval under 7.1 is treated as having been made with approval for the purposes of ASX Listing Rule 7.1 if each of the following applies:

- the issue did not breach ASX Listing Rule 7.1 (ASX Listing Rule 7.4.1); and
- holders of ordinary securities subsequently approve it (ASX Listing Rule 7.4.2).

Under Resolution 1, the Company seeks from Shareholders ratification of the issue of the Shares issued under the Initial Placement so as to limit the restrictive effect of ASX Listing Rule 7.1 on any further issues of securities over the next 12 months. Details of the share issue as required under ASX Listing Rule 7.5 are as follows:

Date of issue	Number of securities	Terms of securities	Issue price (per security)	Allottees	Use of funds raised
23 October 2014	41,325,378	Ordinary shares	US$0.135 per Share plus US$0.0135 payable if Shareholders approve the Recapitalisation Resolutions	Centerbridge	General working capital

7.3 Resolutions 2, 3, 5 and 6: Approval of acquisition of Shares under the Follow-on Placement, Underwriting Agreement, Buy Back Subscription Agreement and Equitisation Subscription Agreement and on conversion of Convertible Preference Shares

Resolutions 2, 3, 5, 6 and 7 (the **Item 7 Resolutions**) are resolutions for the purposes of item 7 of section 611 of the Corporations Act seeking members' approval to allow Centerbridge to acquire a "relevant interest" in:

- the Follow-on Shares;
- the Underwriting Shares;
- any Shares Centerbridge acquires in the performance of its obligations under the Buy Back Subscription Agreement (**Buy Back Subscription Shares**); and
- the Shares issued to Centerbridge under the Equitisation Subscription Agreement (the **Equitisation Shares**),

where, in the absence of the Item 7 Resolutions being passed, one or more of the above acquisitions of Shares may breach section 606 of the Corporations Act.

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 19.90%. As a result of the acquisition of the Follow-on Placement Shares, the Underwriting Shares, the Buy Back Subscription Shares and the Equitisation Shares, Centerbridge will acquire a relevant interest in Shares which gives rise to an increase in its voting power in the Company. Shareholder approval is therefore required under item 7 of section 611 of the Corporations Act for the issue of such Shares to Centerbridge.

The following table sets out the extent of increase in Centerbridge's voting power in such circumstances, the relevant Resolution and its conditions. Centerbridge's maximum voting power in the Company as a result of the Recapitalisation Transactions is 49.9%.

Centerbridge acquisition of Shares	Extent of increase in voting power	Relevant Resolution and conditions
Acquisition of the Follow-on Shares	Centerbridge's voting power will increase to approximately 37%	Resolution 2 Conditional on the passing of Resolutions 3, 4, 5, 6 and 7
Acquisition of the Underwriting Shares	Centerbridge's minimum voting power will be approximately 37% and its maximum voting power will be 49.9% (see Section 1.12)	Resolution 3 Conditional on the passing of Resolutions 2, 4, 5, 6 and 7
Acquisition of the Buy Back Subscription Shares	Centerbridge's minimum voting power will be approximately 37% and its maximum voting power will be 49.9% (see Section 1.12)	Resolution 5 Conditional on the passing of Resolutions 2, 3, 4, 6 and 7
Acquisition of the Equitisation Shares	Centerbridge's minimum voting power will be 41.6% and its maximum voting power will be 49.9% (see Section 1.12)	Resolution 6 Conditional on the passing of Resolutions 2, 3, 4, 5 and 7

The extent of Centerbridge's voting power as a result of the acquisition of Shares under the Underwriting Agreement, the Buy Back Subscription Agreement and the Bond Equitisation Agreement will depend on take up of the Rights Issue and the level of acceptances under the Share Buy Back Offer. See Section 1.11.

7.4 Resolution 4: Approval of the Share Buy Back Offer

Under the Corporations Act where a Company proposes an equal access buy back which exceeds the 10/12 limit, shareholder approval is required. The 10/12 limit for a company proposing to make a buy back is 10% of the smallest number of votes attaching to voting shares which were on issue at any time in that previous 12 months.

Despite the existence of the Buyback Limit, it is not possible to ascertain how many Shareholders may wish to accept the Share Buy Back Offer and therefore it is not possible to ensure that the 10/12 limit will not be exceeded.

As a result, Shareholder approval is required under section 257C(1) of the Corporations Act to allow the Company to make the Share Buy Back Offer and exceed the 10/12 limit if necessary.

Resolution 4 is conditional upon the passing of Resolutions 2, 3, 5, 6 and 7.

7.5 Resolution 7: Approval of the issue and conversion of Convertible Preference Shares

If the issue of Shares to Centerbridge under any of the Underwriting Agreement, the Buy Back Subscription Agreement or the Equitisation Subscription Agreement would result in Centerbridge becoming a Majority Stockholder, the Company will issue Convertible Preference Shares to Centerbridge instead of Shares.

Resolution 7 is an approval for the purposes of item 7 of section 611 of the Corporations Act and ASX Listing Rule 7.1.

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.

If the Recapitalisation Transactions are approved, Centerbridge will have voting power of a minimum of 41.6% and a maximum of 49.9%. Conversion of the Convertible Preference Shares is subject to the Conversion Cap. If Centerbridge is issued Shares on conversion of the Convertible Preference Shares, the issue of those Shares will increase its voting power from a starting point that is above 20%. Its voting power will never increase above 49.9% due to the Conversion Cap. Shareholder approval is therefore required under item 7 of section 611 of the Corporations Act for the issue of the Shares to Centerbridge on conversion of the Convertible Preference Shares.

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 one of the exceptions to ASX Listing Rule 7.1 applies or security holder approval is obtained.

The Convertible Preference Shares are equity securities within the meaning of the ASX Listing Rules as they are by their terms convertible into Shares. Details of the issue of Convertible Preference Shares as required under ASX Listing Rule 7.3 are as follows:

Formula for calculating number of securities to be issued	Date by which securities will be issued	Issue price (per security)	Allottees	Terms	Use of funds raised
One Convertible Preference Share for every Share Centerbridge would be issued under the Underwriting Agreement, the Buy Back Subscription Agreement or the Equitisation Subscription Agreement if the issue of such a Share would result in Centerbridge becoming a Majority Stockholder Refer to Sections 1.11 and 1.12 for future information	17 March 2015	If issued under the Underwriting Agreement or Buy Back Subscription Agreement, the Australian Dollar Price (being the Australian dollar equivalent to US$0.1350 determined on the Business Day prior to the Launch Date) If issued under the Equitisation Subscription Agreement, US$0.1557	Centerbridge or its Permitted Nominee	See Section 5.4 and Schedule 1	General working capital

If this Resolution is passed, the Convertible Preference Shares will not be counted towards the 15% limit as Shareholders will have approved the issue.

Resolution 7 is conditional upon the passing of Resolutions 2, 3, 4, 5 and 6.

8. Additional Information

8.1 Regulatory approvals

The Company has applied for and been granted a waiver by ASX from ASX Listing Rule 6.5 to permit the Company to issue the Convertible Preference Shares to Centerbridge. This waiver is set out in Schedule 2 and is subject to the following conditions:

- the Convertible Preference Shares are not transferable except to Centerbridge or any of its Associates, or Related Funds of Centerbridge or its Associates;
- the Company discloses in each annual report for the periods in which the Convertible Preference Shares remain on issue, a summary of the terms of the Convertible Preference Shares, whether any of the Convertible Preference Shares have been converted to ordinary shares, and how many Convertible Preference Shares remain on issue; and
- the Company releases the terms of the waiver and basis for granting it to the market simultaneously with this Explanatory Statement.

The Company has also applied for and been granted a waiver by ASX from the application of ASX Listing Rule 10.1 to permit the Company and its subsidiaries to grant security over all of its assets in favour of Centerbridge and its Associates (**Security**) to secure the Company's obligations under the Term Loans, without Shareholder approval. This waiver was released to ASX on 27 October 2014. This waiver is subject to a number of conditions, including:

- the Security including a term that if an event of default occurs and Centerbridge, or any of its Associates, exercises their rights under the Security, neither Centerbridge nor any of its 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 Term Loan Agreement 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 Centerbridge or any of its Associates) appointed by Centerbridge or any of its Associates exercising their power of sale under the Term Loan Agreement 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 Centerbridge or an Associate, in accordance with their legal entitlements;
- a summary of the material terms of the Term Loan Agreements and Security being disclosed in each annual report of the Company during the term of the Term Loan Agreements and the Security; and
- any variations to the terms of the Term Loan Agreement or the Security which is:
  - a material change; or
  - inconsistent with the terms of the waiver,

  must be subject to Shareholder approval; and
- the Company must seek to discharge the Security when the funds advanced under the Term Loan Agreement are repaid, or if it is not discharged, seek Shareholder approval for the continuation of the Security for any further loan amount.

8.2 Interests of Directors in the Recapitalisation Transactions

The follow table sets out the number of Shares in which each Director currently has a relevant interest:

Director	Number of Shares in which each has a relevant interest	Number of options convertible into Shares
Bruce Brook	220,000	Nil
Roger Brown	100,000	Nil
Peter Day	175,000	Nil
Roy Franklin	300,000	Nil
Tanya Fratto	120,000	Nil
Barbara Jeremiah	455,000	Nil
Jonathan Lewinsohn	0	Nil
David McLemore	1,155,861	Nil
Rex McLennan	100,000	Nil
Richard O'Brien	300,000	10,725,278

8.3 Transaction costs

The estimated fees and expenses associated with the Recapitalisation Transactions are summarised in this Section. These costs are one-off in nature and will be paid by Boart Longyear. Total fees and expenses are expected to be US$35 million.

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

Goldman Sachs fees and expenses	$12.7
Other financial advisory fees and expenses	$6.1
Legal fees and expenses	$3.2
Reimbursement of Centerbridge fees and expenses	$11.2
Other fees and expenses	$1.7
Total fees and expenses	**$35**

8.4 Disclosure of other interests

Goldman Sachs has informed the Company that it previously held a US$14 million position in the Revolver. As previously mentioned the proceeds from the Term Loan A have been applied to repay the Revolver in full. Ultimately, some of the proceeds received from Term Loan A may have benefited Goldman Sachs by way of retiring Goldman Sachs' interest in the Revolver.

8.5 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
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.

9. Glossary of terms

In this Explanatory Statement, unless the context requires otherwise:

ASIC means the Australian Securities and Investments Commission.

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).

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 Implementation 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.

Australian Dollar Price means the Australian dollar equivalent of the VWAP Price determined on the Business Day prior to the Launch Date.

Board means the Board of Directors of the Company.

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

Boart Parties means the Company, Boart Management, Longyear Canada, ULC and Boart Longyear Canada.

Director means a Director of the Company.

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

Buy Back Subscription Agreement means the buy back subscription agreement to be entered into by the Company and Centerbridge as described in Section 1.6(b).

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.

Centerbridge means Centerbridge Partners, L.P.

Centerbridge Information means:

(a) the information contained in Section 3;

(b) statements describing Centerbridge's relevant interest in Shares; and

(c) statements describing Centerbridge's intentions in relation to its participation in the Rights Issue and Share Buy Back Offer in Sections 1.5(a) and 1.6(a).

Centerbridge Investor means CCP II Dutch Acquisition – E2, B.V., the special purpose vehicle established by Centerbridge for the purposes of participating in the Recapitalisation Transactions.

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

Competing Proposal means any offer, proposal or expression of interest, transaction or arrangement (including, by way of takeover bid or scheme of arrangement) (i) that would reasonably be likely to foreclose or materially impede the consummation of the Recapitalisation Transactions or (ii) under which, if ultimately completed substantially in accordance with its terms, a person or two or more persons who are Associates would directly or indirectly:

(a) acquire a relevant interest in or become the holder of more than 10% of the Shares or Share equivalents of the Company or any of its Subsidiaries or repay, repurchase, redeem, refinance, defease or cancel any material amount of Indebtedness of the Company or any of its subsidiaries;

(b) acquire, obtain a right to acquire, or otherwise obtain an economic interest in, 10% or more by value of the business or property of the Company or any of its subsidiaries;

(c) acquire control of the Company, within the meaning of section 50AA of the Corporations Act;

(d) otherwise acquire or merge with the Company or amalgamate with, or acquire a significant shareholding or economic interest in the Company or any of its subsidiaries or 10% or more by value of the total assets or business of the Company or any of its subsidiaries, whether by way of takeover bid, scheme of arrangement, shareholder approved 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 entity for the Company or other synthetic merger or any other transaction or arrangement; or

(e) cause the Company to cease to be admitted to the official list of ASX or the Shares to cease to be officially quoted on the market operated by ASX.

Constitution means the constitution of the Company.

Contingent Premium means the premium of US$0.0135 per Share equal to approximately US$560,000 payable by Centerbridge in respect of the Shares issued under the Initial Placement.

Conversion Cap has the meaning given to that expression in Section 1.8.

Convertible Preference Shares means convertible preference shares issued by the Company on the terms described in Section 5.4 and set out in Schedule 1.

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

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

EGM means the extraordinary general meeting of Shareholders to be held on 17 December 2014 at 10.00am to consider the Resolutions.

Equitisation means the issue of the Shares or Convertible Preference Shares in consideration for the cancellation of the Equitised Unsecured Notes pursuant to the Equitisation Subscription Agreement, as described in Section 1.7.

Equitisation Subscription Agreement means the equitisation subscription agreement to be entered into by the Company and Centerbridge as described in Section 1.7.

Equitised Unsecured Notes means the US$16 million Existing Unsecured Notes held by Centerbridge and its Affiliates and Related Funds.

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.

Existing Secured Notes means Boart Management's outstanding 10.00% Senior Secured Notes due 2018.

Existing Secured Notes Tender Offer means the cash tender offer launched by Boart Management on 23 October 2014 to purchase up to US$105 million aggregate principal amount of its Existing Secured Notes as described in Section 1.2(d).

Existing Unsecured Notes means Boart Management's outstanding 7.00% Senior Notes Due 2021.

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

Follow-on Shares means 135,001,936 Shares to be issued to Centerbridge pursuant to the Follow-on Placement.

Follow-on Placement means the issue of the Follow-on Shares to Centerbridge pursuant to the Implementation Agreement as described in Section 1.4.

Final Closing means the closing of the Final Closing Transactions.

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.

GST Law means the same as "GST Law" in *A New Tax System (Goods and Services Tax) Act 1999* (Cth).

Implementation Agreement means the implementation agreement dated 23 October 2014 between the Boart Parties and the Centerbridge Investor.

Independent Directors mean Bruce Brook, Roger Brown, Peter Day, Roy Franklin, Tanya Fratto, Barbara Jeremiah, David McLemore, Rex McLennan and Richard O'Brien.

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 Transactions are fair and reasonable to Non-Associated Shareholders.

Initial Placement means the issue of 41,325,378 Shares to Centerbridge which occurred on 23 October 2014 as described in Section 1.2(a).

Launch Date means the date the Rights Issue is launched.

Majority Stockholder means a "person" or a member of "group" (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act) that is the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under the Exchange Act), directly or indirectly, of more than 49.9% of the total voting power of the Voting Stock of the Company as of such time.

Material Adverse Effect means any event, change, effect, occurrence, development, circumstance or change of fact occurring after the date hereof that, individually, or taken together with all other event(s), change(s), effect(s), occurrence(s), development(s), circumstance(s) or change(s) of fact, (i) has had, or would reasonably be expected to have, a material adverse effect on the business, results of operations, condition (financial or otherwise), assets or liabilities of the Company and its subsidiaries, taken as a whole or (ii) would, or would be reasonably expected to, prevent or materially impair or delay the ability of any Boart Party to consummate the Recapitalisation Transactions; provided that, solely with respect to clause (i) of this definition, none of the following will be deemed to constitute a Material Adverse Effect or be taken into account in determining whether a Material Adverse Effect has occurred: (A) any change in applicable laws, International Financial Reporting Standards or the Australian equivalent to the International Financial Reporting Standards, or the interpretation or enforcement thereof, (B) any act of war or terrorism or natural disaster, (C) any change in the global economy generally, capital, credit, debt or financial markets generally, or the industry in which the Company and its subsidiaries operate or (D) the entry into the Implementation Agreement; provided, however, that the events, changes, effects, occurrences, developments, circumstances or changes of fact described in the case of the foregoing clauses (A) through (C) will be disregarded only if the effect or change does not have a disproportionately adverse impact on the Company and its subsidiaries, taken as a whole, relative to other businesses in the industry in which the Company and its subsidiaries operate.

Non-Associated Shareholders means Shareholders other than Centerbridge and its Associates.

Notice of Meeting means the Notice of EGM included in this Explanatory Statement.

Permitted Nominee means an Affiliate of the Centerbridge Investor or a Related Fund or any other person, in each case, over which the Centerbridge Investor, or any group of its Affiliates or any Related Funds controlled by the Centerbridge Investor, collectively exercise, directly or indirectly, control.

Proxy Form means the proxy form accompanying this Explanatory Statement.

Recapitalisation Resolutions means each of Resolutions 2 to 7 (inclusive), the approval of which are conditions precedent to a number of the Recapitalisation Transactions, as specified in the Implementation Agreement.

Recapitalisation Transactions means the transactions contemplated by the Implementation Agreement, including the Follow-on Placement, the Rights Issue, the Share Buy Back Offer, the Equitisation, the issue of Shares pursuant to the Buy Back Subscription Agreement and the issue and conversion of the Convertible Preference Shares.

Related Funds means with respect to Centerbridge, (i) any fund, account or investment vehicle that is controlled or managed by (A) Centerbridge, (B) an Affiliate of Centerbridge or (C) the same investment manager or adviser as Centerbridge or an Affiliate of such investment manager or adviser or (ii) any person formed and controlled by any of the foregoing, individually or collectively, for the purpose of consummating the Recapitalisation Transactions.

Resolutions means each resolution in this Explanatory Statement which requires Shareholder approval, including the Recapitalisation Resolutions.

Revolver means the Credit Agreement, dated 29 July 2011, among Boart Management, the Company Longyear Canada ULC, Boart Longyear Canada and the other Guarantors (as defined therein), the Lenders (as defined therein) and Bank of America, N.A., as amended from time to time and repaid by the draw down of Term Loan A on 23 October 2014.

Rights Issue means the pro rata renounceable traditional rights issue described in section 1.5.

Second Closing means the closing of the Second Closing Transactions.

Securities Exchange Act means the U.S. Securities Exchange Act of 1934.

Share means a fully paid ordinary share in the Company.

Share Buy Back Offer means the offer by the Company to buy back Shares as described in Section 1.6

Shareholder means a holder of a Share.

Superior Proposal means a bona fide written Competing Proposal (other than a Competing Proposal resulting from a breach of the exclusivity provisions in the Implementation Agreement) which, after receiving advice from its financial adviser, the Board determines in good faith acting reasonably that: (i) is capable of being valued and consummated, taking into account all aspects of the Competing Proposal known to the Company at the time of the Board's determination (including its valuation, terms, conditionality, necessary consents and approvals, and likelihood of and time period for consummation) and the financial standing (and sources of, and certainty of, financing) of the party proposing the Competing Proposal and such Competing Proposal is reasonably likely to be consummated; and (ii) the Competing Proposal would reasonably be considered to be more favorable to the Company and the Shareholders than the Recapitalisation Transactions (as adjusted by any counterproposal from Centerbridge).

Takeovers Panel means the Takeovers Panel constituted under the *Australian Securities and Investments Commission Act 2001* (Cth).

Timetable means the timetable for the Recapitalisation Transactions as set out in Section 1.14.

Term Loan A means the term loan provided to the Company under the Term Loan A Securities Agreement.

Term Loan A Securities Agreement means the term loan agreement entered into by the Company and Centerbridge on 23 October 2014 pursuant to which Centerbridge provided Term Loan A.

Term Loan B means the term loan provided to the Company under the Term Loan B Securities Agreement.

Term Loan B Securities Agreement means the term loan agreement entered into by the Company and Centerbridge on 23 October 2014 pursuant to which Centerbridge provided Term Loan B.

Term Loans 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.

Underwriting Agreement means the underwriting agreement to be entered into between the Company and Centerbridge as described in Section 5.3 of this Explanatory Statement.

Underwriting Shares means the Shares acquired by the Centerbridge Investor in fulfilling its obligations under the Underwriting Agreement.

Voting Stock of the Company means all classes of Equity Interests of the Company then outstanding and normally entitled (without regard to the occurrence of any contingency) to vote in the election of the Directors, managers or trustees thereof, and including any other share equivalents of the Company that constitute "Voting Stock" as defined in the Indenture, dated as of March 28, 2011, as supplemented, amended or modified from time to time, between Boart Management and U.S. Bank National Association, as trustee, governing the Existing Unsecured Notes.

VWAP Price means US$0.1350 per Share.

SCHEDULE 1

CONVERTIBLE PREFERENCE SHARE TERMS

Boart Longyear Limited
Terms of Issue of Convertible Preference Shares

1. Defined terms

In these Terms of Issue:

Affiliate means, with respect to any holder of Preference Shares, any person or entity that directly or indirectly controls, or is under common control with, or is controlled by, such holder; provided that in no event will the Company or any of its subsidiaries be deemed to be an Affiliate of a holder of Preference Shares or vice versa, notwithstanding any control that the holder may have over the Company or its subsidiaries. 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 another person or entity (whether through ownership of securities or partnership or other ownership interests, by Contract or otherwise).

ASX means the Australian Securities Exchange (or such other exchange as shares of the Company may then be listed).

Board means the board of directors of the Company.

Business Day means:

(a) for receiving a notice under clause 8, a day that is not a Saturday, Sunday, public holiday or bank holiday in the place where the notice is received; and

(b) for all other purposes, a day that is not a Saturday, Sunday, public holiday or bank holiday in New South Wales, Australia.

Cleansing Notice means a notice which complies with section 708A(6) of the Corporations Act.

Company means Boart Longyear Limited ACN 123 052 728.

Constitution means the constitution as adopted and varied from time to time by the Company.

Contract means any agreement, contract, obligation, promise, understanding, commitment or undertaking, whether written or oral.

Conversion Cap has the meaning given in clause 8(a).

Conversion Date means the date for conversion of Preference Shares specified in clause 8(f)(i) or 8(f)(ii).

Conversion Notice has the meaning given in clause 8(e).

Conversion Rate means the number of Ordinary Shares into which each Preference Share is convertible, being the rate of one Ordinary Share for each Preference Share as adjusted in accordance with clause 8.

Conversion Shares has the meaning given in clause 8(g).

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

Dividend Payment Date means in respect of a Preferential Dividend Period, the same day on which dividends are paid on the Ordinary Shares for that Preferential Dividend Period.

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Exchange Act means the U.S. Exchange Act of 1934, as amended.

Go Ahead Notice has the meaning given in clause 8(f)(ii).

Implementation Agreement means the Recapitalization Implementation Agreement entered into between BLY, Boart Longyear Management Pty Limited, Longyear Canada ULC, Boart Longyear Canada and CCP II Dutch Acquisition – E2, B.V. on or about 23 October 2014.

Ordinary Dividend has the meaning given in clause 3(e).

Ordinary Shares means ordinary shares in the capital of the Company.

Per Share Price means:

(a) in respect of Preference Shares issued in connection with the Rights Offering (as defined in the Implementation Agreement), the price for the Rights Offering determined under clause 1.4(a) of the Implementation Agreement; and

(b) in respect of Preference Shares issued in connection with the Equitization (as defined in the Implementation Agreement) the price for the issue of Equitization Shares determined in accordance with clause 1.5(c)(iv) of the Implementation Agreement; and

(c) in respect of Preference Shares issued under the Buy Back Subscription Agreement (as defined in the Implementation Agreement), the price for the issue of the Ordinary Shares under the Buy Back Subscription Agreement as set out in clause 1.5(c)(i) of the Implementation Agreement.

Preference Shares means preference shares in the capital of the Company having the rights set out in these Terms of Issue.

Preferential Dividend has the meaning given in clause 3(a).

Preferential Dividend Entitlement has the meaning given in clause 3(a).

Preferential Dividend Period means in respect of a Preference Share:

(a) the period from (but not including) the date of allotment of the Preference Share until the first to occur of 30 June and 31 December in the year in which the Preference Share was allotted; and

(b) thereafter, either of (as applicable):

(i) the period from and including 1 January in any year to 30 June inclusive; and

(ii) the period from and including 1 July that year to 31 December of that year

until the Preference Share is converted in which case the Preferential Dividend Period will end on the day of conversion.

Related Fund means, with respect to a holder of Preference Shares:

(a) any fund, account or investment vehicle that is controlled or managed by:

(i) the holder of the Preference Shares;

(ii) an Affiliate of the holder; or

(iii) the same investment manager or advisor as the holder or an Affiliate of such investment manager or advisor; or

(b) any entity formed and controlled by any of the foregoing, individually or collectively, for the purpose of subscribing for the Preference Shares the subject of these Terms of Issue.

Voting Stock has the meaning given to it in the Implementation Agreement.

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2. Issue price

The issue price for each Preference Share will be the Per Share Price.

3. Preferential dividend

(a) Subject to clause 3(b) a Preference Share will confer on its holder a right to receive, out of the profits of the Company, a preferential dividend (**Preferential Dividend**) in respect of each Preferential Dividend Period (**Preferential Dividend Entitlement**) calculated in accordance with the following formula:

$$Preferential\ Dividend = \frac{PDR\ x\ Per\ Share\ Price\ x\ N}{365}$$

Where:

N = the number of days in the Preferential Dividend Period

PDR = 5%

(b) The payment of a Preferential Dividend is subject to:

(i) the Board, at its discretion, determining that a Preferential Dividend is to be payable; and

(ii) compliance with section 254T of the Corporations Act.

(c) The entitlement of a holder to the payment of a Preferential Dividend is non-cumulative so that if because of clause 3(b) a Preferential Dividend is not paid in respect of a Preferential Dividend Period or a Preferential Dividend paid in respect of a Preferential Dividend Period is less than the Preferential Dividend Entitlement for that period, the holder has no claim in respect of that Preferential Dividend Entitlement or the balance of that Preferential Dividend Entitlement at any time including on a winding up.

(d) Subject to this clause 3, Preferential Dividends in respect of a Preferential Dividend Period will be payable in arrears on a Dividend Payment Date for that Preferential Dividend Period.

(e) If the Company determines to pay a dividend on the Ordinary Shares (**Ordinary Dividend**) in respect of any Preferential Dividend Period:

(i) the Board must also determine to pay a Preferential Dividend on each Preference Share in respect of that Preferential Dividend Period; and

(ii) the amount of the Ordinary Dividend the Board determines to pay on an Ordinary Share for that Preferential Dividend Period must not exceed the amount of the Preferential Dividend which the Board determines to pay on a Preference Share for that Preferential Dividend Period.

(f) If the Company declares a dividend *in specie* of voting securities or rights exercisable for voting securities and if the receipt of such voting securities or the exercise of such rights would result in a holder of Preference Sharesbeing a "person" or a member of “group” (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) that is the “beneficial owner” (as defined in Rules 13d-3 and 13d-5 under the Exchange Act), directly or indirectly, of more than 49.9% of the total voting power of the Voting Stock of the Company (including Ordinary Shares) as of such time, then in lieu of issuing each such voting security in excess thereof, the Company will instead issue one Preference Share.

4. Winding up

(a) On a winding up of the Company (whether voluntary or involuntary) a Preference Share will confer on its holder the right to a payment in cash in priority to the holder(s) of any other class of share, equal to the aggregate of:

(i) the Per Share Price; and

(ii) the amount (if any) equal to the aggregate of any dividends accrued (whether determined or not) but unpaid or in arrears on those Preference Shares.

(b) The Preference Shares do not confer on the holders any further rights to participate in assets or profits of the Company.

5. Voting rights

(a) The holders of Preference Shares will have the same rights as the holders of Ordinary Shares to receive notices, reports and accounts and to attend and be heard at all general meetings of the Company, but will not have the right to vote at general meetings except as follows:

(i) on any question considered at a meeting if, at the date of the meeting, the dividend that is owed on the Preference Shares is in arrears;

(ii) on a proposal:

(A) to reduce the share capital of the Company;

(B) that affects rights attached to the Preference Shares;

(C) to wind up the Company; or

(D) for the disposal of the whole of the property, business and undertaking of the Company;

(iii) on a resolution to approve the terms of a buy-back agreement; and

(iv) on any question considered at a meeting held during the winding up of the Company,

provided that the holders of the Preference Shares will not, in any circumstances, be entitled to vote in the election of any director to the Board, or managers or trustees thereof.

(b) Subject to the foregoing, on a resolution to be decided on a poll, each Preference Share will entitle the holder to one vote.

6. New issues

If any offer or invitation by way of rights to subscribe for or be issued shares or other securities in or of the Company is made on a pro rata basis to the holders of the Ordinary Shares, the Company must make or, so far as it is able, procure that there is made a like offer or invitation at the same time to each holder of Preference Shares as if its conversion rights had been exercisable and exercised in full on the record date for such offer or invitation.

7. Change of control

If:

(a) a takeover bid is made for Ordinary Shares, acceptance of which is recommended by the Board; or

(b) the Board recommends a scheme of arrangement under Part 5.1 of the Corporations Act in respect of the Ordinary Shares which will result in a person having a relevant interest (as defined in section 608 of the Corporations Act) of at least 50% of the Ordinary Shares,

the Board will use all reasonable endeavours to procure that equivalent takeover offers are made to the holders of Preference Shares or that they are entitled to participate in the scheme of arrangement or a similar transaction.

8. Conversion

(a) Each holder of Preference Shares will be entitled at any time in the manner set out in this clause 8 to convert any or all of its Preference Shares into fully paid new Ordinary Shares at the Conversion Rate, provided that no holder of Preference Shares will be entitled to exercise this right of conversion if giving effect to such conversion would result in a holder of Preference Shares being a "person" or a member of “group” (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) that is the “beneficial owner” (as defined in Rules 13d-3 and 13d-5 under the Exchange Act), directly or indirectly, of more than 49.9% of the total voting power of the Voting Stock of the Company (including Ordinary Shares) as of such time (**Conversion Cap**).

(b) Subject to this clause 8 and any applicable laws, a holder of a Preference Share must convert that Preference Share if it is not prevented from doing so by the Conversion Cap.

(c) If there is a consolidation or sub-division of Ordinary Shares or a reconstruction of the Company's Ordinary Share capital (including without limitation by way of a reduction of share capital or scheme of arrangement under Part 5.1 of the Corporations Act), the Conversion Rate is to be adjusted (by resolution of the Board) so that each holder of Preference Shares is in no better or worse position as a result of such consolidation, sub-division or reconstruction, such adjustment to become effective immediately after such consolidation, sub-division or reconstruction.

(d) If a doubt or dispute arises concerning an adjustment of the Conversion Rate in accordance with clause 8(c), the Board will refer the matter to the Company's auditors (or such other reputable firm of accountants as the Board may select) for determination who will make available to all shareholders their report and whose certificate as to the amount of the adjustment, is, in the absence of manifest error, conclusive and binding on all concerned and their costs will be met by the Company.

(e) Subject to clause 8(a) above, the right to convert Preference Shares is exercisable by a holder of Preference Shares by completing a notice which will specify the number of Preference Shares which are to be converted (**Conversion Notice**) and delivering that notice to the Company together with the certificate for the Preference Shares the subject of the Conversion Notice. Once served, a Conversion Notice cannot be withdrawn or revoked except upon receipt of a notice from the Company under clause 8(f)(ii) or with the written consent of the Company.

(f) Within 4 Business Days; of receipt of a Conversion Notice, the Company must either:

(i) confirm that the conversion contemplated by such notice will take place and give written notice to each holder of Preference Shares who has given a Conversion Notice, stating the number of Ordinary Shares which will be issued to it upon conversion, in which case the Conversion Date will be the date which is 5 Business Days after the date on which the Conversion Notice is received by the Company; or

(ii) give written notice to each holder of Preference Shares who has given a Conversion Notice, under which an officer of the Company certifies that:

(A) the Company is in possession of "excluded information" (as that term is defined in section 708A(7)) of the Corporations Act; and

(B) the Company has determined in good faith acting reasonably that disclosure of that "excluded information" at that time would not be in the best interests of the Company having regard to, among other things, whether disclosure may expose the Company to possible liability or regulatory action,

in which event, subject to clause 8(h), the conversion will not proceed and the Company will promptly give the holder notice at the earliest possible time when it is able to give a Cleansing Notice (**Go Ahead Notice**) and the Conversion Date for the conversion will be 2 Business Days after the date on which the holder receives the Go Ahead Notice.

(g) Conversion of the Preference Shares due to be converted in accordance with this clause 8 on the Conversion Date (**Conversion Shares**) is to be effected as authorised by law and as the Board from time to time may determine.

(h) If the Company is not required to issue a Cleansing Notice because the certificate contemplated by clause 8(f)(ii) is given to a holder or holders or Preference Shares, then, at the election of the holder of Preference Shares, the Company must:

(i) convert the Conversion Shares into Ordinary Shares;

(ii) apply for and obtain the quotation of the Ordinary Shares that are issued upon conversion of the Conversion Shares the subject of any Conversion Notice delivered to the Company under clause 8(e) (**Converted Ordinary Shares**); and

(iii) promptly upon the relevant holder of the Preference Shares undertaking to the Company in a form acceptable to the Company (acting reasonably) that:

(A) it will not; and

(B) it will procure that any purchaser of such Converted Ordinary Shares (**Purchaser**) will undertake to the Company in a form acceptable to the Company (acting reasonably) that the Purchaser will not and will procure that any subsequent purchaser of such Converted Ordinary Shares undertakes to the Company in a form acceptable to the Company (acting reasonably) that it will not,

offer any of the Converted Ordinary Shares for sale within 12 months after their issue unless such sale is permitted without disclosure under section 708 or 708A of the Corporations Act.

(i) The new Ordinary Shares to which a holder is entitled upon conversion will for all purposes:

(i) be credited as fully paid;

(ii) rank *pari passu* in all respects and form one class with the Ordinary Shares then on issue; and

(iii) entitle the holder to receive dividends and other distributions declared or determined to be paid on Ordinary Shares by reference to a record date on or after the Conversion Date provided that the former Preference Share holder maintains its entitlement to all Preferential Dividends which the Board has determined to pay on the Preference Shares which have not been paid by the Conversion Date.

(j) A new certificate for the balance of any Preference Shares not converted into Ordinary Shares will be made available for collection at the registered office of the Company or dispatched (at the holder's risk) to each holder without charge promptly upon receipt of the certificate (or certificates) for such holder's Preference Shares or if lost an indemnity in respect thereof in a form reasonably satisfactory to the Board, and the Company will procure the despatch of holding statements in respect of Ordinary Shares into which Preference Shares have been converted.

(k) If any holder of Preference Shares becomes entitled to fractions of an Ordinary Share as a result of conversion the Board will round such fraction down to the nearest whole number.

(l) For the avoidance of doubt, the conversion of a Preference Share will not constitute the cancellation, redemption or termination of the Preference Share but will be by way of variation to the status of and rights attracting to the Preference Share so that it becomes a fully paid Ordinary Share in the Company.

9. No redemption

Preference Shares are not redeemable by the Company or by any holder of Preference Shares.

10. Quotation on ASX

The Company will use its reasonable endeavours to procure that trading on ASX in the Ordinary Shares issued by the Company upon a conversion effected in accordance with clause 8 is able to occur as from the opening of trading on the first business day after the Conversion Date.

11. No assignment

Preference Shares are not transferrable other than to an Affiliate or Related Fund of the Preference Share holder.

SCHEDULE 2

ASX WAIVER OF LISTING RULE 6.5

Decision

Based solely on the information provided, ASX Limited grants ("ASX") Boart Longyear Limited (the "Company") waivers from Listing Rule 6.5 to permit the Company to issue convertible preference shares ("Preference Shares") to Centerbridge Partners, L.P. ("Centerbridge") or any of its associates, or related funds of Centerbridge or its associates on the following conditions:

(a) The Preference Shares are not transferable except to Centerbridge or any of its associates, or related funds of Centerbridge or its associates.

(b) The Company discloses in each annual report for the periods in which the Preference Shares remain on issue, a summary of the terms of the Preference Shares, whether any of the Preference Shares have been converted to ordinary shares, and how many Preference Shares remain on issue.

(c) The Company releases the terms of this waiver and basis for granting it to the market simultaneously with the notice of meeting to shareholders concerning a recapitalisation proposal.

Basis for decision

Underlying policy

Preference shares must carry an entitlement to a commercial rate of return in preference to holders of ordinary securities, which is appropriate to their being an equity instrument with some debt-like characteristics.

Facts and Reasons for Granting Waiver

The Company has significant outstanding debts and as part of a recapitalisation proposal to improve its financial position the Company will be required to issue preference shares. The Company is issuing the Preference Shares rather than a debt instrument so as to comply with certain financial covenants and so as to not trigger certain potential redemption rights for note holders. The Preference Shares entitle the holder to a dividend at a commercial rate in preference to holders of ordinary securities, however due to its current financial situation the Company will not be in a position to pay a dividend at the time of issue of the Preference Shares or in the immediate future. The Company has a history of paying dividends when in a position to do so and is hopeful to do so again. The Company last paid a dividend for the period ended 31 December 2012. Ordinarily, when preference shares are issued it is expected that the entity issuing these securities be in a position to immediately pay to the holder a dividend at a commercial rate in preference to holders of ordinary securities. Given the Company's circumstances, it is not considered the issue of the Preference Shares on conditions will offend the policy behind the rule.

1

ANNEXURE A

INDEPENDENT EXPERT'S REPORT

KPMG Corporate Finance
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The Directors
Boart Longyear Limited
26 Butler Boulevard
Burbridge Business Park
Adelaide Airport SA 5950

14 November 2014

Dear Directors

Independent Expert Report

Part One – Independent Expert's Report

1 Introduction

On 23 October 2014 (**Announcement Date**), Boart Longyear Limited (**Boart Longyear** or **the Company**) announced it had entered into binding agreements with certain entities affiliated with Centerbridge, L.P. (**Centerbridge**) to recapitalise the Company, in which Centerbridge will contribute both debt and equity, potentially acquiring up to 49.9% of Boart Longyear's ordinary shares with a minimum shareholding of 41.6% of the ordinary shares. Centerbridge would also potentially acquire 857.2 million of Preference Shares.[1]

The recapitalisation will involve a series of steps, as follows:

- the issue of US$5.6[2] million in shares to Centerbridge at US$0.135[3] per share (based on the 30 day Volume Weighted Average Price (**VWAP**) as at 17 October 2014 (**Proposal Value**)). In addition, if the remainder of the recapitalisation process is approved, an additional US$0.6 million premium will be paid by Centerbridge with respect to the shares issued under the initial equity placement (**Initial Equity Placement**)

[1] Assuming no Shareholders participate in the Rights Offer and a full take up of shares under the Share Buy Back
[2] All currency amounts in this report are denominated in United States dollars (**US$**) unless otherwise stated
[3] Based on a VWAP of AUD0.154 and an exchange rate of 0.8744 US$/AUD as at 17 October 2014

- a follow-on equity placement of approximately US$21.0 million in shares to Centerbridge at the Proposal Value plus an additional approximate 15.0% premium to the Proposal Value (**Follow-on Conditional Placement**)
- a renounceable rights issue of approximately US$84.0 million at the Australian Dollar equivalent Proposal Value based on the prevailing Australian Dollar to US Dollar exchange rate on the business day prior to the launch of the rights issue (**Australian Dollar Rights Price**), for which Centerbridge will act as underwriter (the **Rights Issue**)
- an equal access off-market buy back offer of up to US$20.0 million for the shareholders of Boart Longyear (**Shareholders**) at the Australian Dollar Rights Price, for which Centerbridge has the right to effectively be issued shares of an equivalent amount, capped at an amount of US$20.0 million (the **Share Buy Back**)
- the exchange of US$16.0 million existing unsecured notes held by Centerbridge at the Proposal Value at an approximate 15.0% premium (**Equitisation**),

collectively referred to as the proposal (the **Proposal**).

In addition, we note that Centerbridge has already increased its shareholding via the Initial Equity Placement from 12.7% to 19.9%.

The combined effect of the Proposal is an equity injection of approximately US$127.0 million and an increase in proforma cash (as of 30 June 2014) to approximately US$250.0 million (prior to transaction costs)[4].

To assist Shareholders in assessing the Proposal, the independent directors of Boart Longyear (excluding the recently appointed director from Centerbridge) (**Independent Directors**) have requested KPMG Financial Advisory Services (Australia) Pty Ltd (of which KPMG Corporate Finance is a division) (**KPMG Corporate Finance**) to prepare an Independent Expert Report (**IER**) to the Shareholders indicating whether in our opinion, the Proposal is fair and reasonable.

Boart Longyear is a leading global provider of drilling services and manufacturer of drilling equipment and performance tooling for mining and drilling companies. As at 22 October 2014, the Company had a market capitalisation of US$60.4 million[5].

Centerbridge, a US-based private equity firm, and its affiliates manage approximately US$25.0 billion of capital, including approximately US$13.0 billion of capital in private equity funds which focus on making investments within various industries. Centerbridge's partners include prominent financial institutions, universities, pension and sovereign wealth funds, private foundations and charitable trusts.

This report sets out KPMG Corporate Finance's opinion on the Proposal, and will be included in the Notice of Meeting to be sent to shareholders prior to the Extraordinary General Meeting. This report

[4] Sourced from the Boart Longyear ASX announcement issued on 23 October 2014
[5] Based on an exchange rate of 0.8806 US$/AUD and market capitalisation the day prior to Announcement Date

should be considered in conjunction with, and not independently of, the information set out in the Notice of Meeting.

The Proposal is subject to the satisfaction of a number of conditions which are set out in full in Section 5.1 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 Initial Equity Placement, the Follow-On Conditional Placement, the underwriting of the Rights Issue, the Share Buy Back and the Equitisation have the potential to increase the shareholding of Centerbridge in excess of 20.0%. Following completion of the Proposal, Centerbridge will potentially increase its direct relevant interest in the Company from 19.9% to up to 49.9%[6]. 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 Follow-On Conditional Placement, Rights Issue, Share Buy Back and the Equitisation components of the Proposal to proceed.

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 Proposal. In such circumstances, the Directors are required to provide shareholders with a detailed analysis of whether the Proposal 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 Proposal. In this case, the Independent Directors have requested KPMG Corporate Finance to prepare an IER, opining on whether the Proposal is fair and reasonable.

Further, we note that the analysis as to fairness must be made on the basis that the Proposal 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.

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[6] Centerbridge would also potentially acquire 857.2 million of Preference Shares, assuming no Shareholders participate in the Rights Offer and a full take up of shares under the Share Buy Back

3 Summary of opinion

3.1 Conclusion

In our opinion, having assessed the Proposal to the Shareholders, we consider the Proposal to be **not fair but reasonable**, in the absence of a superior proposal.

In arriving at this opinion we have:

- assessed whether the Proposal is fair on the basis of our assessed value of Boart Longyear and the terms of the Proposal. In this regard we have made the comparison against both the Proposal Value and the value under the Follow-on Conditional Placement and Equitisation
- assessed the reasonableness of the Proposal including the advantages, disadvantages, alternatives and consequences of not approving the Proposal.

The Proposal is the outcome of a strategic review process which Boart Longyear initiated in February 2014 as a result of a significant reduction in the Company's earnings and liquidity, due to the ongoing volatility in the mining industry and the related reduction in mining exploration spending. This decline led to a reduction in revenues from approximately US$2,000.0 million in the calendar year ended 31 December 2012 (**CY**12) to approximately US$1,220.0 million in CY13 and an estimated revenue in the order of approximately US$850.0 million in CY14[7]. As a result adjusted Earnings Before Interest, Tax, Depreciation and Amortisation (**EBITDA**) decreased from approximately US$330.0 million in CY12 to an estimated US$41.7 million in CY14[8]. The unfavourable industry conditions together with additional debt taken on by the Company also led to a qualification of the audit statement for the half year ended 30 June 2014 (**HY**14) indicating potential difficulties regarding covenant compliance as at June 2015. Any examination of the Proposal needs to recognise these events, their impact on available alternatives and the consequences should the Proposal not be approved.

As a starting point, we have assessed whether the Proposal is fair having based our fairness assessment on comparing the Proposal Value under the Rights Issue and the Share Buy Back and the value under the Initial Equity Placement, the Follow-on Conditional Placement and the Equitisation, which are either at an approximate 10.0% or 15.0% premium to the Proposal Value, to our assessed value of Boart Longyear on a 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 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. Our valuation analysis indicated that the Proposal falls short of our assessed value range of US$0.20 to US$0.45 per share on a controlling basis and accordingly we consider the Proposal not fair. This outcome is not unexpected given the current position of Boart Longyear in the industry cycle. In addition the Proposal does not include a control premium for the Rights Issue or the Share Buy Back, in that all shares under the Rights Issue and the Share Buy Back will be issued or

[7] Source: Broker consensus forecast, refer to Section 15
[8] Source: Broker consensus forecast, refer to Section 15

purchased at the same price to all Shareholders and thereby, prima facie, Centerbridge is not paying any control premium in relation to such shares.

In forming our opinion as to the reasonableness of the Proposal, we have considered a number of advantages and disadvantages for the Shareholders. The principal factors supporting the conclusion include:

- it represents in our view the most superior option currently available to Shareholders
- it provides sufficient liquidity to allow Boart Longyear to trade until an expected improvement in the mining industry cycle
- the Proposal exchanges the current debt maturity profile for a longer dated maturity profile, combined with the removal of various financial covenants and reduces net debt of the Company
- the value for the Initial Equity Placement is at an approximate 10.0% premium, the value for the Follow-On Conditional Placement and the Equitisation is at an approximate 15.0% premium to the VWAP over the last 30 days
- the Rights Issue allows Shareholders to maintain their investment in Boart Longyear at the Australian Dollar Rights Price
- the Proposal provides increased certainty of outcome in relation to the strategic review
- the removal of liquidity concerns may result in improved business performance as the management of Boart Longyear (**Management**) can focus more on improving operational results, rather than on the liquidity concerns
- a cornerstone investor in the Company, such as Centerbridge, provides a level of comfort as to the Company's future prospects
- the significantly adverse consequences of not approving the Proposal are avoided including the likely negative impact on the share price and potential solvency issues that will otherwise arise.

Principal factors that do not support the conclusion include:

- the significant increase in influence and equity held by Centerbridge without a significant control premium being paid, including the potential number of Directors that Centerbridge has the right to appoint (Centerbridge will be limited to less than 50.0% of the Board seats)
- the Shareholders' investments will be significantly diluted, depending on their participation in the Rights Issue and Share Buy Back
- whilst liquidity levels increase, overall debt levels are not reduced and interest costs will increase
- the reduced likelihood of a future control transaction given the size of Centerbridge's holding.

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 Proposal to considerably exceed the disadvantages particularly given the potential adverse effects should the Proposal not be approved.

The principal matters that KPMG Corporate Finance has taken into consideration in forming its opinion that the Proposal is not fair but reasonable are summarised in the remainder of Section 3 below.

3.2 Assessment of fairness

Our fairness assessment has been based on comparing the Proposal Value under the Rights Issue and the Share Buy Back and the value under the Follow-on Conditional Placement and the Equitisation to our assessed value of a Boart Longyear share.

Whilst Centerbridge is not acquiring 100.0% of Boart Longyear we are required to consider the value as if it was an offer 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 all 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 the Company is operating in, 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. Under this approach, we have assessed the control value of a Boart Longyear share to be in the range of US$0.20 to US$0.45 per share, as outlined in the table below.

Table 1: Boart Longyear valuation summary

	Report Section	Value range ($ million)	
		Low	High
Maintainable earnings (EBITDA)	16.4	130.0	170.0
EBITDA multiple (on a controlling basis)	16.5	5.0	4.5
Enterprise Value of Boart Longyear		**650.0**	**765.0**
Less: Debt		(624.4)	(624.4)
Add: Cash		68.7	68.7
Equity Value of Boart Longyear		**94.2**	**209.2**
Issued shares (million)		461.2	461.2
Equity value per share on a marketable, controlling basis ($)		**0.20**	**0.45**
Foreign currency exchange rate ($:AUD)		0.8744	0.8744
Equity value per share on a marketable, controlling basis (AUD)		**0.23**	**0.52**

Source: KPMG Corporate Finance Analysis
Note 1: Differences in calculation due to rounding

A comparison of the Proposal Value and the value under the Follow-on Conditional Placement and the Equitisation to our assessed value per Boart Longyear share on a controlling basis is outlined in the table below.

Table 2: Comparison of consideration offered to assessed fair value

	Rights Issue and Share Buy Back		Follow-on Conditional Placement and Equitisation	
US$ unless otherwise stated	**Low**	**High**	**Low**	**High**
Values under the Proposal per Boart Longyear share	0.1350	0.1350	0.1557	0.1557
Assessed value per Boart Longyear share	0.20	0.45	0.20	0.45
Premium/(discount) (%)	**(33.9)%**	**(70.2)%**	**(23.8)%**	**(65.7)%**

Source: KPMG Corporate Finance Analysis

We also recognise that given the implicit level of gearing currently in Boart Longyear, the comparison of our assessed value to the values under the Proposal are extremely sensitive to small changes in earnings and the EBITDA multiple. We have performed a sensitivity analysis to illustrate this sensitivity based on a change in the earnings range +/- US$10.0 million. Reducing the earnings range by US$10.0 million results in a value per share between US$0.10 to US$0.36 which reflects a decrease in value per share of between 53.1% and 21.5%. An increase by US$10.0 million in earnings results in a value per share range of US$0.31 to US$0.55, which reflects an increase of 53.1% to 21.5%, as a result of the high leverage of the company.

Additionally we have set out below an indicative calculation, for illustrative purposes only, of the value per share on a post-transactions basis, which is based on an equity value for a minority shareholder and the number of shares post dilution. This value per share post-transaction takes also into account the reduction of net debt and includes transaction costs of US$35.0 million. This calculation results in a value range for a Boart Longyear share post-transaction of US$0.11 to US$0.18. This compares to share trading pre announcement at a one month VWAP and three month VWAP of US$0.14 and US$0.17.

The calculation is shown in the table below.

Table 3: Post-transaction value analysis

	Report Section	Value range (US$ million) Post-Proposal	
		Low	**High**
Maintainable earnings (EBITDA)	16.4	130.0	170.0
EBITDA multiple (on a controlling basis)	16.5	5.0	4.5
Enterprise Value of Boart Longyear		**650.0**	**765.0**
Less: Debt		(690.4)	(690.4)
Add: Cash		218.8	218.8
Equity Value of Boart Longyear on a controlling basis		**178.3**	**293.3**
less: Minority Discount (16.67%)[2]		(29.7)	(48.9)
Equity Value of Boart Longyear on a minority basis		**148.6**	**244.4**
Issued shares (million)		1,364.9	1,364.9
Equity value per share (US$)		**0.11**	**0.18**
Foreign currency exchange rate (US$:AUD)		0.8744	0.8744
Equity value per share (AUD)		**0.12**	**0.20**

Source: KPMG Corporate Finance Analysis
Note 1: Differences in calculation due to rounding
Note 2: A 20.0% control premium translates into a 16.67% minority discount

According to RG 111, the Proposal should be considered fair if the Proposal Value and value under the Follow-on Conditional Placement and the Equitisation offered to non-associated Shareholders is equal to or higher than our assessed value of a Boart Longyear share.

In this respect the Proposal Value and the value under the Follow-on Conditional Placement and Equitisation offered per Boart Longyear share are not within our assessed value range for a Boart Longyear share and therefore we consider the Proposal not 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 Proposal 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 Proposal is reasonable.

Advantages

The Proposal represents in our view the most superior option currently available to Shareholders

In assessing the merits of the Proposal, we considered the relative attractiveness of other options available to Boart Longyear. During the strategic review process the Company has reviewed a full range of recapitalisation and other options including:

- change of control transactions for the Company or its divisions
- debt and equity alternatives (and combinations of the two)
- debt-to-equity conversions, or
- combinations of the above.

We note that whilst a control transaction was pursued and notwithstanding various discussions, no formal offer was received.

The current Proposal 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 Shareholders the opportunity to participate in potential future upside if industry and business performance improve. Importantly, it is also the only option that has progressed to a point where it is capable of completion.

The Proposal provides sufficient liquidity to allow Boart Longyear to trade until an expected improvement in the mining industry cycle

The Proposal provides liquidity by refinancing Boart Longyear's debt and infusing additional equity instruments and therefore provides the company with additional cash of approximately US$185.1 million (prior to transaction costs) to continue to operate during the current industry cycle until the mining industry recovers. The Proposal also reduces cash interest costs as both tranches of the new term loan includes a provision that defers interest until the maturity of the various tranches.

Currently, the Company as well as analysts do not expect significant improvements in the industry cycle until CY16. Additionally, the HY14 financial report was issued with an audit qualification regarding the going concern basis of preparation. Approval of the Proposal is expected to reduce the materiality of the risks noted by Directors and the Auditor in relation to the current debt structure of the Company.

Taking into consideration the additional cash of approximately US$185.1[9] million (prior to transaction costs) that the Proposal will provide to Boart Longyear and based on a historical cash flow analysis, the Company will have significantly increased its financial viability over the coming years.

There remains the possibility however that the mining cycle does not shift.

The Proposal exchanges the current debt maturity profile for a longer dated maturity profile combined with the removal of maintaining financial covenants

By refinancing the former revolving credit facility with Tranche A[10], this will extend the maturity profile of the debt from CY16 through to CY20 and will provide Boart Longyear greater certainty around planning in the current business environment. Additionally, there will be no requirement to maintain financial covenants under the terms of the Tranche A agreement, hence reducing the risk of default for the Company in relation to the revolving credit facility and potential cross defaults of the current senior notes.

As noted in the qualified audit opinion of the financial statements as at 30 June 2014 there is a serious risk that without the recapitalisation the Company will not be in compliance with its financial covenants as at 30 June 2015 and that the going concern assumption depends on a successful conclusion of the strategic review process prior to 30 June 2015.

The Follow-on Conditional Placement and Equitisation is at a premium to recent trading

The premium of approximately 15.0% over the 30 day VWAP of US$0.135 in relation to the Follow-on Conditional Placement and the Equitisation is advantageous to existing shareholders as in effect Centerbridge is paying a greater price under this aspect of the proposal than under either the Rights Issue or Share Buy Back which reduces the dilution impact for current shareholders.

The Proposal allows shareholders to maintain their investment at a similar price to Centerbridge

Under the Rights Issue shareholders will pay the same amount for new shares as Centerbridge. To the extent they participate this will diminish the impact of dilution of their equity interest under the Proposal. Further, should they choose not to participate their respective interest will reduce. In this respect we note that their position would be further reduced if the Rights Issue was being undertaken at a discount to market.

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[9] Refer to Section 14 of this Report for further detail

[10] Refer to Section 5 of this Report for further detail

The Proposal provides increased certainty of outcome in relation to the strategic review and better management focus

Certainty of outcome has the effect of lowering risk for Shareholder's investments. Under the Proposal, Shareholders can elect to take cash and achieve certainty in relation to the pre-tax amount they will receive, as compared to maintaining an interest in Boart Longyear whose future holds considerable risk with or without the Proposal, as ultimately Boart Longyear's future is dependent on an improvement in the industry. Further, any remaining alternative options available to Boart Longyear, should the Proposal not be approved, bear significant execution risk, uncertainty and, in our view, are unlikely to result in Shareholders realising value greater than the Proposal Value and the value under the Follow-on Conditional Placement and the Equitisation.

The resolution of the strategic review and the increase in liquidity as well as reduced covenants will also allow management to focus more on improving business performance and operational results.

Centerbridge will be a cornerstone investor

As Centerbridge will hold a minimum of 41.6% and up to 49.9% ordinary shares. Centerbridge will also hold up 857.2 million of Preference Shares[11] and will have as such a significant incentive to ensure the long term success of Boart Longyear. This provides a level of comfort for existing shareholders as to the future prospects of the Company.

Boart Longyear's share price is likely to fall in the event the Proposal is not approved

Boart Longyear shares traded at a one month VWAP and three month VWAP of US$0.14 and US$0.17, respectively, prior to the Announcement Date. Whilst it is not possible to accurately predict the prices at which Boart Longyear shares might trade in the future in the absence of the Proposal, we consider it highly likely that the price for Boart Longyear shares on the Australian Stock Exchange (**ASX**) will fall.

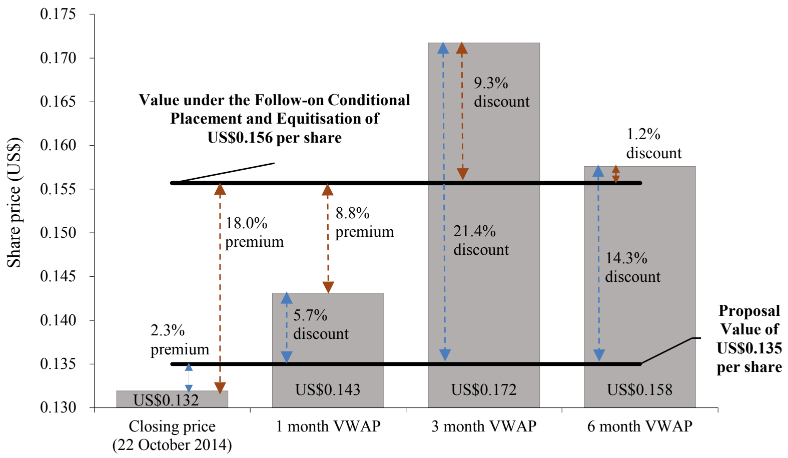
Disadvantages

Significant increase in influence and equity held by Centerbridge without a significant control premium being paid

The consideration offered under the Proposal compared to the VWAP of Boart Longyear shares prior to the Announcement Date, is set out in the figure below.

[11] Assuming no Shareholders participate in the Rights Offer and a full take up of shares under the Share Buy Back

Figure 1: Proposal price compared to trading price prior to the Announcement Date



Source: S&P Capital IQ and KPMG Corporate Finance Analysis

It is commonly accepted that acquirers of 100.0% of a business should pay a premium over the value implied by the trading price of a share to reflect their ability to obtain control over the target's strategy and operations, as well as extract synergies from integration. However, the level of premium observed in takeovers varies and depends largely on the circumstances of the target, competitive tension in the sales process and the level of synergies available. Observations from transaction evidence indicate that these premiums concentrate around a range between 20.0% and 35.0%[12].

For the Rights Issue and Share Buy Back, no premium is effectively being paid by Centerbridge as the Proposal Value does not include a control premium. All shares as part of the Rights Issue and Share Buy Back will be issued or purchased at the same price to all Shareholders and thereby Centerbridge, prima facie, is not paying any control premium in relation to such shares.

Shareholders' investments will be significantly diluted, depending on their participation in the Rights Issue

Depending on the participation of the non-associated Shareholders in the Rights Issue, the non-associated Shareholders investment will be diluted from the existing 80.1%. As the maximum amount of existing secured notes (US$105.0 million) has been tendered and if all non-associated Shareholders participate in the Rights Issue, their investment will be diluted to 58.4%. However, if none of the non-associated

[12] Connect4 Control Premiums at 8 August 2013 – Median estimates

Shareholders participate in the Rights Issue their investment in the Company will be reduced to 50.1% with US$77.9 million of preferred interest ahead of them, with a corresponding effect on their participation in any distribution of future dividends.

Liquidity levels increase however overall debt levels are not reduced and interest costs will increase

The recapitalisation will result in increasing cash on the balance sheet to US$253.8 million (prior to transaction costs) and a reduction in net debt of approximately US$119.0 million. Cash interest will be reduced by approximately US$12.8 million per annum. The overall amount of gross debt will increase to US$690.4 million from US$624.4 million and interest cost will increase as a result of higher interest rates of 12.0%, stepping down to 11.0% if LTM EBITDA exceeds US$200.0 million for the calculation period. These are accretion rates which need to be paid at maturity and not as a yearly or half-yearly cash interest expense, which will reduce cash needs in the short term especially during the current mining down cycle.

Reduced likelihood of a future control transaction given the size of Centerbridge's holding

It is unclear what level of participation will be received in the Rights Issue and the Share Buy Back. Under the Proposal, the maximum ownership that Centerbridge can reach is between 41.6% and 49.9%, as well as up to 857.2 million Preference Shares[13] depending on the level of participation in the Rights Issue and the Share Buy-Back. As such, the ultimate level of participation will influence the number of shares that will remain trading on the ASX. The greater the level of participation of non-associated Shareholders in the Share Buy Back, the greater the likelihood that there will be lower liquidity as well as reduced coverage from analysts and also a lower possibility of any other transaction emerging, without the support of Centerbridge.

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 Proposal, we consider it appropriate to address these considerations in arriving at our opinion:

- under the new financing structure, operating assets from an unrestricted subsidiary will guarantee the interest that accretes under the Tranche A and Tranche B term loans. The assets under the subsidiary are not to exceed US$44.0 million
- the Board of Directors of Boart Longyear (**Board**) has appointed one Centerbridge representative to the Board and Centerbridge will receive the right to nominate a number of additional representatives proportional to Centerbridge's percentage shareholding, but not equal to or exceeding half the members of the Board after the transaction
- under the Proposal, the maximum ownership that Centerbridge can reach is 49.9% of ordinary shares and up to 857.2 million Preference Shares[14]. As such, the ultimate level of participation will influence the number of shares that will remain trading on the ASX. The greater the share of Centerbridge at

[13] Assuming no Shareholders participate in the Rights Offer and a full take up of shares under the Share Buy Back
[14] Assuming no Shareholders participate in the Rights Offer and a full take up of shares under the Share Buy Back

the end of the Proposal period the less likely a future control transaction by a third party without Centerbridge's approval, which potentially reduces the possibilities for Shareholders to receive a superior proposal, including a potential control premium.

- under the Proposal, Boart Longyear must pay Centerbridge a break fee of US$6.0 million, plus the advisory fees incurred by Centerbridge that would be payable on completion of the transaction (see below), if the Board changes their recommendation for the Proposal, or otherwise announces or enters into a binding agreement to give effect to a competing proposal
- upon the successful completion of the transaction, Boart Longyear is expected to incur total transaction costs of approximately US$35.0 million (US$0.07 per share[15]) including advisory costs, legal fees, independent expert fees and other costs associated with the Proposal (including advisory fees incurred by Centerbridge required to be reimbursed by Boart Longyear). Of these costs, US$3.2 million was already incurred by 30 June 2014. In relation to fees incurred by Centerbridge, Boart Longyear is required to pay Centerbridge's advisory fees incurred as at 23 October 2014 subject to a cap of US$11.0 million (less any amounts incurred as at 23 October 2014 that have already been paid), and will be required to pay any additional advisory fees incurred by Centerbridge from 23 October 2014 to completion of the transaction. We note however that any alternative option would also likely impose considerable costs on Boart Longyear to implement
- Shareholders will not incur brokerage fees or other relevant transaction costs associated with transferring their Boart Longyear shares to Centerbridge under the Share Buy Back
- 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 Proposal is not approved

In the event the Proposal is not approved, Boart Longyear will continue to operate "as-is" and its share price will likely decline, with further downside risk considering the process that has been undertaken to date.

These downside risks are significant and include:

- if the Proposal is rejected, the Initial Equity Placement and following refinancing transactions will already be executed which we set out in the pro-forma balance sheet in Section 14, and may leave Boart Longyear with an increased overall amount of debt, including interest costs without improving liquidity, as the Rights Issue will not take place
- Boart Longyear's ability to refinance its current debt. Due to the amount of debt that Boart Longyear has taken on, the current performance of the business and the foreseeable industry performance, it is

[15] Based on the current number of shares

unlikely that the Company would have been able to refinance its former revolving credit facility in case of a breach of the financial covenants in June 2015

- in the absence of a debt restructuring or the option of refinancing the current debt instruments, the Company may need to raise additional capital in the future via an issuance of shares. However, the capital increase would likely be at unfavourable terms to the Company compared to the terms of the Proposal, as usually equity rights issues are offered at a discount to the current share price or VWAP. In addition there is a potential risk as to whether such an issue could be underwritten.
- the lack of sufficient liquidity is detrimental to ongoing operational abilities and may lead to a necessary sale of assets. This will impact Boart Longyear's ability to act quickly to a potential turnaround in the market and also to take advantage of such a turnaround due to a lack of working capital
- Management will have to focus on solvency or pursuing alternative refinancing options instead of operations.

In addition, a portion of the transaction costs noted above will be incurred even in the event the Proposal is not approved. Centerbridge's transaction costs, which are reimbursed by Boart Longyear, will be capped in this case at US$5.5 million.

4 Other matters

In forming our opinion, we have considered the interests of 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 Proposal on individual Shareholders as their financial circumstances are not known. The decision of Shareholders as to whether or not to approve the Proposal 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 shareholders in considering the Proposal. 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 Proposal, 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	Adele Thomas
Authorised Representative	Authorised Representative

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5 The Proposal

On 23 October 2014, Boart Longyear and Centerbridge jointly announced they had entered into agreements to undertake the Proposal under item 7 of section 611 of the Act.

The objectives of the Proposal are to increase Boart Longyear's equity, improve liquidity, lower cash interest costs and reduce reliance on bank funding to ensure the Company's sustainability going forward. The Proposal will include an equity injection of approximately US$127.0 million. Of the new equity, US$16.0 million will relate to the Equitisation, where a portion of the Company's existing unsecured senior notes will be exchanged for equity. The Proposal also includes a refinancing transaction that replaced the Company's former revolving credit facility with a funded term loan. An additional term loan was made available to tender for up to US$105.0 million of the Company's existing secured senior notes.

The Proposal will be implemented as follows:

- *Initial Equity Placement* – The Company has issued to Centerbridge an equity placement for US$5.6 million to bring Centerbridge's equity ownership to 19.9%, based on the Proposal Value. In addition, if the remainder of the recapitalisation process is approved, a US$0.6 million premium will be paid with respect to the shares issued under the Initial Equity Placement. As a result of the increase in stake, Boart Longyear has appointed one representative from Centerbridge to the Board.

  In conjunction with the Initial Equity Placement, the Company has borrowed under a term loan comprising of two tranches, Tranche A (facility limit of US$120.0 million) and Tranche B (facility limit of US$105.0 million). Tranche A was drawn immediately to refinance the former credit facility and collateralise outstanding letters of credit. Tranche B was used to tender for up to US$105.0 million of the secured senior notes at a price not exceeding 108.0% of the face value of the notes. At current, these notes have been fully tendered. The term loan tranches have been funded by Centerbridge.

  Under the term loan, Tranche A will mature six years from the date it is funded and Tranche B will mature as at 1 October 2018. In addition, Tranche A will be non-callable for the initial four years it is outstanding and Tranche B will be non-callable. Both tranches will be covenant-lite and will accrete interest at a rate of 12.0% annual (quarterly compounding), which will decrease to 11.0% for all quarterly calculation periods during which the last twelve months trailing (**LTM**) EBITDA exceeds US$200.0 million.

  As more than US$55.0 million of the secured senior notes have been tendered, Centerbridge permits the Company to enter into a new revolving credit facility with a third-party, to replace on a dollar for dollar basis US$50.0 million, for each dollar that Tranche B has been drawn above US$55.0 million and subsequently reduced the Tranche A term loan on a dollar-for-dollar basis.

- *Follow-on Conditional Placement* – Pursuant to the vote of Shareholders, the Company will issue to Centerbridge, for cash consideration, a follow-on equity placement of approximately 135.0 million shares at the Proposal Value plus an additional approximate 15.0% premium. The subsequent ownership by Centerbridge in Boart Longyear is expected to be approximately 37.0%

- *Rights Issue and Share Buy Back* – Subsequent to the Follow-on Conditional Placement, Centerbridge will underwrite a rights offering where Shareholders will receive rights to purchase at the Australian Dollar Rights Price 0.98 new shares for each existing share, based on the amount of secured senior notes tendered. This implies new equity in the range of approximately US$84.0 million. All common Shareholders will be able to participate in the Rights Issue in proportion to their shareholdings (after adjusting for the impact of the Initial Equity Placement and Follow-on Conditional Placement).

  In addition to the Rights Issue, Centerbridge will provide a liquidity option for Shareholders whom do not wish to participate in the Rights Issue or retain their shares, whereby Centerbridge will fund an equal access off-market buy-back of common shares by the Company at the Australian Dollar Rights Price. Throughout the process, Centerbridge and the Company will work together to ensure there is no change of control triggered and to the extent necessary, Centerbridge will receive the portion of its equity above 49.9% in the form of convertible preference shares which are convertible into common shares at the Proposal Value at any time (**Preference Shares**).

  The issue of the Preference Shares and the issue of ordinary shares upon the conversion of the Preference Shares will be subject to Shareholder approval under ASX Listing Rule 7.1 and item 7, s611 of the Corporations Act. The Preference Shares will confer to Centerbridge the right to a preferential dividend, determined by the Board from time to time, and on a winding up, cash in priority to any other class of shares equal to the assigned issue price and any accrued dividends which are unpaid. However on a winding up, the Preference Shares do not allow Centerbridge to participate in any further assets or profits of the Company. In addition the agreement does not allow for the Preference Shares to be converted, where as a result of the conversion, the holder would become the owner of more than 49.9% of the voting power in Boart Longyear. A holder must convert a Preference Share if the holder is not precluded from doing so by reason of the 49.9% conversion cap.

- *Equitisation* – Pursuant to the Shareholders vote, Centerbridge will equitise US$16.0 million of the senior unsecured notes at the Proposal Value plus an additional approximate 15.0% premium.

The impact of the Proposal on the statement of financial position is discussed in further detail in Section 14.

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 Proposal 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 Proposal.

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. 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. 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 Proposal is reasonable, we have considered the following factors:

- the rationale and implications of the Proposal 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 Proposal
- any other benefits or disadvantages of the Proposal 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

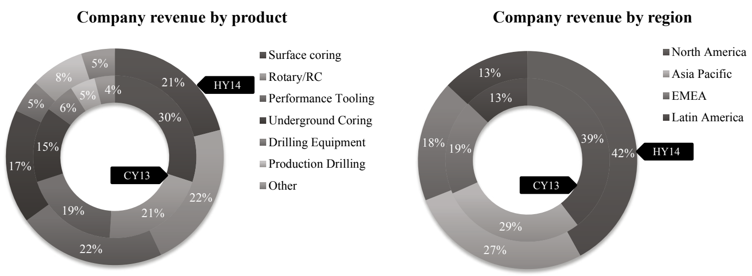
7.1 Overview

Boart Longyear is a leading provider of drilling service and manufacturer of 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 service, energy drilling, mine de-watering, oil sands exploration, and production drilling. Boart Longyear comprises of two main operating divisions, being 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 as well as drilling products globally is unique and gives Boart Longyear the ability to integrate knowledge gained from both divisions into the development of new products, as well as to improving its drilling services offering.

Boart Longyear operates across four regions, namely, Asia Pacific (**ASPAC**), North America (**NAM**), Europe, the Middle East and Africa (**EMEA**), and Latin America (**LAM**). For CY13, operations in the NAM region accounted for 39.0% of the Company's total revenue, followed by ASPAC with 28.0%, EMEA with 19.0% and LAM with 13.0%.

A split of Boart Longyear’s revenue by product and geographic region for CY13 and HY14 is shown below:

Figure 2: Boart Longyear revenue by product and region



Source: Boart Longyear financial report for CY13 and HY14

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 the CY10 to the year to date (**YTD**) CY14, starting with a low normalised EBITDA of **US$**236.2 million for CY10 (based on LTM), increasing to a normalised EBITDA of US$326.5 million for CY12 before decreasing to US$135.1 million and US$66.3 million for CY13 and HY14 respectively. Further decreases are being estimated for CY14. This compares with an average 'through-the-cycle' EBITDA for CY10 through to HY14 of US$224.5 million (based on LTM).

The revenues and earnings of Boart Longyear have been significantly reduced as commodity prices continue to decline during CY14, particularly for gold, copper and iron ore. Consequently, mining companies have cancelled or deferred projects to focus on cost reductions and capital allocations, resulting in the reduction in global mining exploration activity and mining investments. According to the SNL Metals Economics Group (**SNL MEG**), global mining capital expenditure on exploration activity has reduced from a record high during CY12 of US$21.5 billion to US$15.2 billion during CY13.

The percentage of operating drilling rigs in the Drilling Services division can be seen as an economic indicator for the performance of the division. During CY13, Boart Longyear's operating rig rate was approximately 30.0%, which is below historical CY09 levels of approximately 38.0%. During CY10 through to CY12, the percentage of operating rigs was approximately 50.0% to 60.0%.

For the Products division, the order backlog can be seen as an economic indicator. Due to the market contraction, many of the division's key customers have undergone de-stocking and are holding historically low levels of inventory, causing order backlogs during CY13 to reduce below CY09 levels. The company's overbuilt inventory position and resultant availability to immediately deliver from existing stock has also led to lower backlog. Within the business, drilling applications and products for underground mining and performance tooling are in relatively stable demand, as producing mine sites are typically less volatile relative to exploration activities within the mining sector.

In response to the downturn and an unsustainable capital structure for the current market, Boart Longyear implemented a strategic review for the business and implemented cost saving initiatives to reduce spending. Boart Longyear has taken the following restructuring measures since CY12:

- restructuring management by reducing the number of Vice Presidents (**VPs**) from 25 to 13, and reducing the regional management structure from four VPs to a single VP
- consolidating the supply chain for the Drilling Services and Products divisions, by using a centralised planning, warehousing and procurement system and sharing inventory between divisions
- simplifying the organisational structure by consolidating 23 operating zones (previously each region had their own separate support structure) into 10 operating territories
- creating shared services centres in Poland and Salt Lake City for the back office support functions of the operational business. Prior to the restructure, no shared services function existed with the back office support and transactions occurring at four regional offices
- centralising aftermarket and maintenance functions leading to lower cost through facility and workforce consolidation
- reducing general and administrative expenses, and sales and marketing expenses (together, **SG&A**) run rate by nearly 50.0% to combat the decline in revenues.

From the initiatives outlined above, the Company expects to realise additional cost savings of US$30.0 million during CY14 (relative to the CY13 run-rate). Additionally, Boart Longyear implemented further cost reduction schemes during January 2014, targeting further cost reductions of US$28.0 million during CY14. The reductions mainly comprise of wage freezes and a reduction in bonus payments. The restructuring measures have incurred costs amounting to US$461.2 million during CY13 (US$44.4 million representing the cash restructuring expenses) and US$51.7 million during HY14 (US$8.7 million representing the cash restructuring expenses). In addition, Boart Longyear has reduced its cash requirements by cutting its capital expenditure plan for CY14 by US$25.0 million and has suspended its dividend since CY12. The Company also negotiated the refinancing of its revolver loan facility during September 2013, as well as three subsequent amendments, to secure additional liquidity during the market downcycle.

From a business perspective, Boart Longyear will focus on the following initiatives going forward:

- maintaining and improving the current health and safety record by providing training to employees
- managing the variable cost of the business
- increasing productivity through the use of information technology in the drilling process
- continuing to further integrate the Drilling Services and Products divisions, by continuing to refine a centralised maintenance servicing function for both divisions.

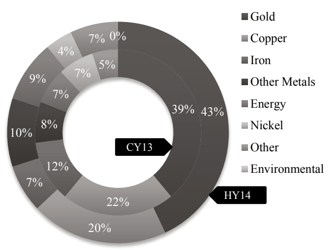
Strategically, Boart Longyear will focus on increasing the services and products it supplies to low cost mining projects, as they are more competitive in an international context. Low cost mining projects are relatively more sustainable as they are able to retain profitability during a market downcycle. In particular, the Drilling Services division will focus on increasing existing market share through the provision of water services, underground production drilling and exploration drilling in non-mineral applications.

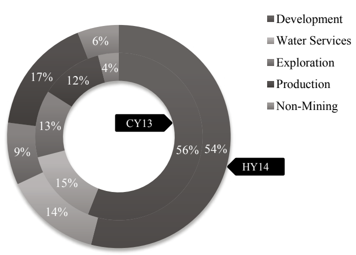
7.3 Drilling Services

The Drilling Services division 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 35 countries. The division primarily offers drilling services for commodities such as gold, copper, nickel and iron ore, 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.

A split of Drilling Services revenue by commodity and stage for CY13 and HY14 is shown below:

Figure 3: Drilling Services revenue by commodity and stage





Source: Boart Longyear financial report for CY13 and HY14, and HY14 presentation

The Drilling Services division provides its services to major and intermediate mining companies which represent 87.0% of division revenues during CY13, whilst junior mining companies and non-mining companies represented 9.0% and 4.0% respectively. Major customers during the CY13 period included, but were not limited to BHP Billiton Limited, Goldcorp Inc., Barrick Gold Corporation and Rio Tinto Ltd.

The Drilling Services division operates in the exploration, production and development stage of the mining cycle, with the development and exploration stages generating the majority of revenue. However, services provided for development and exploration activities have traditionally been volatile to external market conditions. The cut backs in exploration activity over the prior two years by miners in an effort to contain costs and to improve profitability show no signs of changing during the next 12 to 18 months. In contrast, mining activities in the production stage can provide reliable margins with relatively stable revenues. For the production stage, Boart Longyear primarily provides underground mining equipment and services to production mine sites.

As at 30 June 2014, the Company had 980 operating drilling rigs deployed globally, making Boart Longyear the single largest provider of rigs to the mining and resources industries. Drilling Services accounted for 75.0% of the Company's total revenue during CY13 of US$917.3 million, indicating a decrease of 39.5% over CY12 revenue. Due to a weakening in commodity prices, revenue is expected to decline further as rig utilisation rates drop, particularly in the South America and Asia-Pacific regions where exploration activity has reduced substantially. Low rig utilisation rates have caused an oversupply of rigs in the market, creating a highly competitive environment and resulting in price and margin pressures.

Recognising the reduction in exploration and development activity, Boart Longyear implemented a series of actions in addition to the restructuring measures set out previously, which are as follows:

- exiting unprofitable markets for the Company, such as Brazil, as an oversupply of drill rigs has caused drilling services to be less profitable due to high pricing costs and low margins being generated
- increasing focus on growing existing revenues from services which are traditionally non-cyclical to the mining sector. This includes services such as water management solutions provided for mine sites (watering and de-watering), underground production drilling and exploration drilling for the oil & gas sector, particularly in North America.

7.4 Products

The Products division 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. Globally, the division operates six production facilities currently operating on average at 35.0% capacity.

The Products division predominantly sells exploration tooling and production tooling to drilling services contractors as well as mining companies. The key customers during CY13 for the Products division were Barminco Ltd, Major Drilling Group International Inc. (**Major Drilling**), Swick Mining Services Limited and Foraco International SA.

Overall, the Products division accounted for 25.0% of the Company's total revenue during CY13. The division still carries significant inventory levels, which were built up during CY12 on 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. Boart Longyear reduced stock by US$234.7 million (including US$102.0 million of impairments) during CY13 and is aiming for a further US$30.0 million reduction during CY14. As indicated previously, order backlogs have historically been seen as a measure of activity within the Products division. We note that as at 30 June 2014, there are sufficient levels of inventory in place to fill most of the customer demand and purchasing activities at production facilities at production facilities are relatively low.

As a result of customers reducing demand for products, revenue during CY13 decreased by 38.3% to US$305.5 million, with further reductions to revenue of 41.4% to US$113.2 million during HY14.

Due to the reduction in exploration and development activity, Boart Longyear is seeking to expand its business revenues from the production stage of the mine lifecycle. Also, the Company aims to access new markets which have not traditionally been focused on, such as the construction industry, which should lead to more stable revenue generation and earnings margins due to the sector being comparatively less volatile to the factors influencing the mining sector.

Boart Longyear's research and development (**R&D**) activities focus on the development, design and testing of new and improved products. Furthermore they work in co-operation with customers to identify issues and develop technical solutions. By way of example, during CY13 the Company launched six new products. Consequently, the quality of Boart Longyear's drilling equipment has kept competitors from low cost countries from entering the market (such as China and India), as the product quality from these regions are inferior to the performance and safety standards of the Company's products, particularly in the high-end hard rock deep drilling market.

8 Financial overview

8.1 Going concern basis

Boart Longyear's financial reports for HY14 were prepared 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 relation to this, the Directors noted in the HY14 financial report the following risks which give rise to material uncertainty:

- the Company incurred a net loss after tax of US$142.8 million for HY14 (CY13: US$619.9 million)
- based on internal projections the Directors' have stated that difficulties may arise to comply with the financial covenants and terms under the amended credit facility agreement on the 30 June 2015 testing date in the absence of improved mining market conditions and financial performance of the Company, or a future amendment of the terms of the credit facility
- the latest amendments to the credit facility also do not guarantee the Company's ability to comply with the financial covenants at the testing dates prior to 30 June 2015, as the mining industry, which comprises Boart Longyear's main customer base, is volatile and prone to significant, rapid and unpredictable changes in demand
- price pressure for the Drilling Services division continues to be significant and future price impacts could materially affect financial performance. Under the terms and conditions of the credit facility, a breach of financial covenants, other default or occurrence of an event or circumstance likely to have a material adverse effect on the Company, could prevent the Company from accessing the revolving bank facility. Under these circumstances, Boart Longyear would not have any readily available alternate sources of liquidity to fund day-to-day requirements.

Notwithstanding the above, the Directors indicated that they were satisfied that it was appropriate to prepare the financial statements on a going concern basis having regard to the following factors:

- the current and expected liquidity from operating cash flows and the amount of available funds under the revolving credit facility, provide reasonable grounds to believe that the Company would be able to pay its debts as and when they become due and payable
- the initiatives taken by Management, including the reduction of operating, SG&A and capital costs, to increase current cash flows through the reduction of inventory levels and minimising working capital
- since the commencement of and ongoing commitment to a strategic review of a full range of recapitalisation options, the Directors and Management have evaluated the options and believe the strategic review will yield a transaction prior to the 30 June 2015 compliance testing date

- the Company was in compliance with all covenants of the credit agreement as at 30 June 2014 and based on internal projections of revenue and EBITDA to be compliant through the 31 March 2015 compliance testing date. In addition, due to the ongoing support of the Company's bank group, on 16 August 2014 Boart Longyear negotiated further amendments to its credit facilities providing additional head room and comfort under certain covenants that the company will continue to have access to its credit facility during the evaluation of its recapitalisation options.

Deloitte Touche Tohmatsu, the statutory auditor of Boart Longyear, noted in respect of the HY14 financial statements that based on the factors outlined by the Directors, there is the existence of material uncertainty as to whether the Company has the ability to continue to meet its debts as and when they fall due and whether they will realise their assets and extinguish their liabilities in the normal course of business at the amounts stated in the financial report for HY14.

8.2 Financial performance

The historical consolidated financial performance of Boart Longyear for CY11, CY12, CY13 and HY14 are summarised below.

Table 4: Financial performance

For US$ million unless otherwise stated	CY11	CY12	CY13	HY13	HY14
Revenue	2,020.3	2,011.5	1,222.9	718.9	421.5
Cost of goods sold	(1,456.0)	(1,499.1)	(1,020.7)	(584.5)	(365.6)
Gross margin	**564.3**	**512.4**	**202.1**	**134.4**	**55.9**
Other income	3.2	3.1	18.2	0.3	4.3
General and administrative expenses	(263.6)	(236.2)	(157.7)	(85.5)	(63.0)
Sales and marketing expenses	(39.0)	(61.5)	(44.4)	(24.6)	(20.3)
Restructuring expenses and related impairments	(0.0)	(67.6)	(461.2)	(315.5)	(51.7)
Other expenses	(19.3)	(23.5)	(24.8)	(15.6)	(11.2)
Operating profit / (loss)	**245.6**	**126.8**	**(467.8)**	**(306.6)**	**(86.0)**
Interest income	5.1	3.1	2.9	0.9	2.8
Finance costs	(23.9)	(30.1)	(40.9)	(16.7)	(30.9)
Profit / (loss) before taxation	**226.8**	**99.9**	**(505.9)**	**(322.3)**	**(114.1)**
Income tax expense	(66.9)	(31.8)	(114.0)	(7.1)	(28.8)
Profit / (loss) after tax attributable to equity holders of the parent	**159.9**	**68.2**	**(619.9)**	**(329.4)**	**(142.8)**
Basic (loss) earnings per share (cents)	35.1	15.0	(136.1)	(72.5)	(31.3)
Diluted (loss) earnings per share (cents)	34.8	14.8	(136.1)	(72.5)	(31.3)
Financial metrics					
Revenue growth	*36.9%*	*(0.4)%*	*(39.2)%*	*(34.6)%*	*(41.4)%*
Gross margin	*27.9%*	*25.5%*	*16.5%*	*18.7%*	*13.3%*
Net operating profit / (loss) margin	*12.2%*	*6.3%*	*(38.3)%*	*(42.6)%*	*(20.4)%*
Operating expenses as a % of revenue	*(15.9)%*	*(19.3)%*	*(56.3)%*	*(61.4)%*	*(34.7)%*
Profit / (loss) after tax margin	*7.9%*	*3.4%*	*(50.7)%*	*(45.8)%*	*(33.9)%*

Source: Boart Longyear financial report for CY11, CY12, CY13, HY13 and HY14, 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, HY14 revenue of US$421.5 million decreased by 41.4% compared to HY13. Comparatively, CY13 revenue of US$1,222.9 million decreased by 39.2% from CY12. In relation to the revenue impact of the business divisions, we note the following:

- the decrease in the Drilling Services division revenue during HY14 by 42.7% to US$308.3 million compared to HY13 (CY13: 39.5% decrease to US$917.3 million from CY12) has coincided with reported reductions in drilling activity by both major and junior miners causing rig utilisation rates to decline significantly, particularly in the LAM and ASPAC regions
- HY14 revenue from the Products division also decreased by 37.5% to US$113.2 million compared to HY13 (CY13: 38.3% decrease to US$305.5 million from CY12), primarily due to Boart Longyear's key customers de-stocking and holding historically low levels of inventory. Reductions during HY14 relate to continued cost saving efforts by miners and primarily impacts exploration activities, which has reduced the sale of drilling equipment by 49.2% to US$21.0 million compared to HY13 (CY13: 48.5% to US$73.0 million from CY12) and decreased performance tooling by 34.1% to US$92.2 million from HY13 (CY13: 34.2% to US$232.5 million from CY12). The sales of consumables related to production activities were relatively constant over the period.

- Boart Longyear undertook a strategic review of the business, leading to the implementation of cost saving initiatives to combat the decline in revenues. As a result, expenses during HY14 comprising of Cost of Goods Sold (**COGS**) and SG&A totalled US$448.9 million, representing a 35.4% decrease in costs compared to HY13 (CY13: 31.9% decrease to US$1,222.9 million from CY12). Refer to Section 7.2 for further details on the cost saving initiatives
- during CY13, COGS were adversely impacted by the recognition of inventory obsolescence charges and non-deferrable manufacturing costs as production plants were reduced to near idle capacity. As a result, COGS increased as a percentage of revenue from 74.5% in CY12 to 83.5% in CY13. In absolute terms COGS decreased, however by 31.9% to US$1,020.7 million during CY13 and decreased further during HY14 by 37.5% compared to HY13 to US$365.6 million
- part of the cost savings in CY13 and HY14 was a focus to reduce 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 HY14, Boart Longyear realised significant additional cost savings of approximately US$26.8 million or 24.4%, reducing HY14 SG&A expenses to US$83.3 million compared to HY13 (CY13: US$95.5 million or 32.1% in cost savings, reducing SG&A expenses to US$202.1 million from CY12)
- Boart Longyear recognised US$461.2 million of pre-tax restructuring costs in CY13 (US$44.4 million representing cash restructuring expenses) attributable to its cost saving initiatives across both business divisions. During HY14, an additional charge of US$51.7 million was incurred (US$8.7 million representing cash restructuring expenses). 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 during HY14 related to the amortisation of intangible assets and net losses on foreign currency exchanges

- finance costs during HY14 increased by US$14.2 million or 85.4% to US$30.9 million compared to HY13 (CY13: US$10.8 million or 36.0% to US$40.9 million from CY12) as a result of average debt levels and interest rates increasing
- income tax expenses of US$28.8 million for HY14 is attributed to the following:
  - profits in higher tax rate countries
  - significant losses in lower tax rate countries
  - withholding taxes on intercompany transactions
  - the non-recognition of HY14 losses
  - the de-recognition of prior deferred tax assets (**DTAs**) as Boart Longyear is in a tax loss position in many of its operating jurisdictions for HY14.

8.3 Financial position

The historical consolidated financial position of Boart Longyear as at 31 December 2011, 31 December 2012, 31 December 2013 and 30 June 2014 are summarised below.

Table 5: Financial position

As at US$ million unless otherwise stated	31-Dec-11	31-Dec-12	31-Dec-13	30-Jun-14
Current assets				
Cash and cash equivalents	82.3	89.6	59.1	68.7
Trade and other receivables	320.8	260.5	196.9	189.7
Inventories	400.4	533.7	298.9	277.5
Current tax receivable	30.0	39.3	18.3	15.0
Prepaid expenses and ther assets	23.8	42.0	25.1	21.5
Assets classified as held for sale	-	34.0	-	-
Total current assets	**857.3**	**999.2**	**598.2**	**572.4**
Non-current assets				
Property, plant and equipment	508.2	628.7	408.3	337.1
Goodwill	294.1	290.8	104.0	104.0
Other intangible assets	129.8	128.2	92.0	84.8
Deferred tax assets	144.6	192.4	110.2	99.9
Other assets	10.8	11.6	17.7	31.7
Total non-current assets	**1,087.5**	**1,251.6**	**732.3**	**657.5**
Total assets	**1,944.7**	**2,250.7**	**1,330.5**	**1,229.8**
Current liabilities				
Trade and other payables	316.7	284.3	153.2	144.5
Provisions	22.3	36.3	33.3	31.7
Current tax payable	82.0	97.5	91.6	92.8
Loans and borrowings	2.5	0.2	0.1	0.0
Total current liabilities	**423.5**	**418.2**	**278.1**	**269.0**
Non-current liabilities				
Loans and borrowings	310.3	601.7	585.4	624.4
Deferred tax liabilities	2.9	7.8	1.2	17.7
Provisions	73.6	87.6	37.2	39.4
Total non-current liabilities	**386.8**	**697.1**	**623.7**	**681.5**
Total liabilities	**810.3**	**1,115.3**	**901.9**	**950.5**
Net assets	**1,134.4**	**1,135.4**	**428.6**	**279.3**
Equity				
Share capital	1,128.9	1,122.2	1,129.0	1,131.5
Reserves	59.7	70.9	(37.3)	(41.9)
Other equity	(137.2)	(137.2)	(137.2)	(137.2)
Retained earnings/(Accumulated losses)	83.0	79.5	(525.9)	(673.1)
Total equity	**1,134.4**	**1,135.4**	**428.6**	**279.3**
Calculation of debtor and creditor days				
Debtor days	57.9	47.3	58.8	82.1
Creditor days	79.4	69.2	54.8	72.1

Source: Boart Longyear financial report for CY12, CY13, and HY14, and KPMG Corporate Finance Analysis
Note 1: Based on 365 days in a year

With regard to the historical financial position summarised above, we note the following:

- as a result of an increase in financing cash flows in conjunction with a reduction in operating and investing cash flows during HY14, cash and cash equivalents increased by US$9.6 million to US$68.7 million as at 30 June 2014
- trade and other receivables decreased by US$7.3 million to US$189.7 million as at 30 June 2014 from 31 December 2013, primarily as a result of decreased revenues from a reduction in demand for drilling services and products
- inventories decreased by US$21.4 million (7.2% to US$277.5 million) as at 30 June 2014 from 31 December 2013. The reduction primarily related to an increase in impairment and obsolescence provisions (US$1.2 million) and the sale and consumption of inventory (US$22.5 million). These decreases were partially offset by foreign currency exchange differences and other non-cash charges (US$2.3 million). As at 31 December 2013, inventories decreased by US$234.8 million to US$298.9 million from 31 December 2012 with the decrease mainly attributable to an increase in the provision for impairment and obsolescence of US$124.6 million and US$102.0 million in sale and consumption of inventory and foreign currency exchange differences. Due to the build-up in inventory during CY10 through to CY12 on the expectation that the upcycle in the mining industry would continue in the long term, the market contraction led to a reduction in order backlogs causing a surplus of inventory
- as at 30 June 2014, the income tax receivable (US$27.7 million) was classified as US$15.0 million of current tax receivables and US$12.7 million of other non-current assets. In addition, the Company has included provisions for any tax payable arising under the audits by the Canadian Revenue Authority (**CRA**) which is discussed further in Section 11
- assets classified as held for sale as at 31 December 2012 of US$34.0 million reduced to nil as at 31 December 2013 and remained constant as at 30 June 2014 with the disposal of the US-based environmental and infrastructure drilling services operations on 15 July 2013. Refer to Section 8.4 for further detail on the disposal
- as at 30 June 2014, the carrying balance of property, plant and equipment decreased by US$71.3 million (17.5% to US$337.1 million) from as at 31 December 2013. The decrease related to a reduction in capital spend, depreciation expenses of US$44.0 million and impairment charges of US$41.4 million, resulting from a decline in rig utilisations due to the contraction of the mining and resources markets
- goodwill decreased by US$186.8 million to US$104.0 million as at 31 December 2013 and remained constant as at 30 June 2014. An impairment of US$166.3 million was recorded during CY13 with the remaining decrease due to foreign exchange rate impacts as the US dollar strengthened against other currencies
- the carrying balance of other intangible assets decreased by US$7.2 million to US$84.8 million as at 30 June 2014, due to amortisation expenses of US$8.9 million, partially offset by foreign currency

exchange differences and additions in trademark, patent, software and development assets of US$1.8 million

- DTAs as at 30 June 2014 decreased by 9.4% to US$10.4 million from 31 December 2013 primarily due to write offs. After considering the probability of fully utilising the DTA, a portion was derecognised as it was considered to be of uncertain benefit to Boart Longyear
- trade and other payables as at 30 June 2014 decreased by 5.7% to US$144.5 million. As at 31 December 2013, trade and other payables decreased by US$131.1 million to US$153.2 million from 31 December 2012. During CY13, trade and other payables decreased as a result of reduced purchasing volumes, resulting in the reduction of average creditor days to approximately 55 days (31 December 2012: approximately 79 days). However, as at 30 June 2014 the average creditor days was approximately 72 days which primarily reflected the seasonality of the business
- provisions as at 30 June 2014 remained relatively constant compared to as at 31 December 2013 at US$71.1 million. Provisions decreased by US$53.5 million to US$70.5 million as at 31 December 2013 from 31 December 2012, primarily due to decreases in pension and post-retirement benefits and other employee benefits as the Company decided in August 2013 to terminate the US post-retirement medical plan. The majority of this balance is made up of employee provisions, which is inclusive of 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 30 June 2014, the current tax payable of US$92.8 million related to income tax payable attributable to Boart Longyear and entities in the consolidated group
- loans and borrowings as at 30 June 2014 totalled US$624.4 million and increased by US$38.9 million during HY14. See Section 10.2 for further detail.

8.4 Statement of cash flows

The historical consolidated statement of cash flows of Boart Longyear for CY11, CY12, CY13 and HY14 are summarised below.

Table 6: Statement of cash flows

For US$ million unless otherwise stated	CY11	CY12	CY13	HY14
Cashflow from operating activities				
Profit / (loss) for the year	**159.9**	**68.2**	**(619.9)**	**(142.8)**
Adjustments provided by operating activities:				
Income tax expense recognised in profit	66.9	31.8	114.0	28.8
Finance costs recognised in profit	23.9	30.1	40.9	30.9
Depreciation and amortisation	110.6	127.4	130.7	52.9
Interest income recognised in profit	(5.1)	(3.1)	(2.9)	(2.8)
Impairment of current and non-current assets	(0.4)	0.9	(0.4)	42.5
Loss (gain) on sale or disposal of non-current assets	0.5	36.3	2.0	(0.2)
Loss on disposal of business	-	-	405.0	-
Non-cash foreign exchange loss	0.7	1.5	2.9	0.8
Share-based compensation	5.9	7.3	1.2	1.5
Long-term compensation - cash rights	2.7	3.3	(0.0)	2.3
Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses:				
Trade and other receivables	(62.1)	45.9	45.9	7.2
Inventories	(126.3)	(140.3)	101.8	22.5
Other assets	11.3	(20.6)	16.4	(5.6)
Trade and other payables	58.8	(39.7)	(138.7)	(13.1)
Provisions	(3.8)	6.7	(22.6)	(8.7)
Cash generated from operations	243.5	155.7	76.3	16.1
Interest paid	(23.5)	(28.9)	(31.6)	(28.6)
Interest received	5.1	3.1	2.9	2.8
Income taxes (paid) / received	(27.4)	(65.7)	(36.0)	(4.9)
Net cash flows from operating activities	**197.7**	**64.2**	**11.5**	**(14.6)**
Cash flows from investing activities				
Purchase of property, plant and equipment	(179.7)	(247.7)	(35.5)	(6.5)
Proceeds from sale of property, plant and equipment	2.9	3.3	14.5	2.7
Intangible costs paid	(41.3)	(35.1)	(6.0)	(3.4)
Proceeds on disposal of subsidiary, net of cash disposed	-	-	24.8	-
Net cash flows used in investing activities	**(218.0)**	**(279.5)**	**(2.2)**	**(7.1)**
Cash flows from financing activities				
Payments for share purlchases for LTIP	(8.3)	(9.2)	-	-
Payments for debt issuance costs	(7.6)	(0.5)	(10.1)	(0.8)
Proceeds from borrowings	752.2	418.4	453.0	51.0
Repayment of borrowings	(683.7)	(129.9)	(461.1)	(13.1)
Dividends paid	(37.8)	(55.3)	(4.6)	-
Net cash flows provided by / (used in) financing activities	**14.8**	**223.6**	**(22.9)**	**37.1**
Net increase/(decrease) in cash held	(5.6)	8.3	(13.5)	15.3
Cash and cash equivalents at the beginning of the year	94.9	82.3	89.6	59.1
Effects of exchange rate changes on opening cash brought forward	(7.1)	(0.9)	(17.0)	(5.7)
Cash and cash equivalents at the end of the year	**82.3**	**89.6**	**59.1**	**68.7**

Source: Boart Longyear financial report for CY12, CY13 and HY14

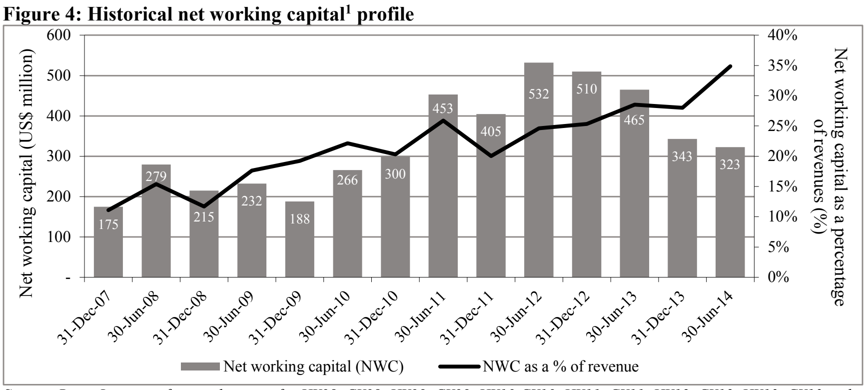
With regard to the historical statement of cash flows summarised above, we note the following:

- during HY14, net operating cash flows reduced to negative US$14.6 million (HY13: negative US$28.7 million) primarily due to reduced business activity, on-cash tax expenses and decreases in accounts payable as a result of tighter creditor management by the Company, partially offset by cash generated from inventory sales, and lower cash taxes payable
- reductions in capital expenditure during CY13 and HY14 led to significant decreases in net cash flows from investing activities as the contraction in the mining sector caused drill rig utilisation rates to decline, causing Boart Longyear to decrease their capital expenditure by 85.3% to US$41.5 million during CY13 (CY12: US$282.8 million). During HY14, capital spend decreased by 54.9% to US$9.9 million compared to HY13. The capital expenditure during HY14 primarily related to the development of water rigs to expand the water solution services division of the business (US$1.5 million), other product development activities (US$1.0 million) and maintenance expenditures on existing rigs and equipment (US$5.3 million)
- Management estimates that the minimum amount of capital expenditure during a downcycle to sustain the business would be in the range of US$25.0 million to US$50.0 million. During a market upturn, this is estimated to be in the range of US$80.0 million to US$90.0 million (excluding potential acquisitions)
- other investing activities during CY13 included the sale of the Company's non-core environmental and infrastructure drilling services operations based in the Unites States. The divestment generated net cash proceeds of US$24.8 million, resulting in a pre-tax loss of US$2.0 million. The disposal will allow Boart Longyear to focus its resources on its core markets and on the Drilling Services division to provide higher margins
- during HY14, the Company recorded US$37.1 million in net cash flows from financing activities. During CY13, Boart Longyear recorded US$22.9 million in net cash flows used in financing activities. These cash flows primarily related to the US$300.0 million senior secured debt offering completed in September 2013, with the net proceeds used to pay down loans under the Company's revolving credit facility, and to pay the debt issuance and other related costs.

9 Working capital

The historical net working capital balances of Boart Longyear are illustrated in the graph below.

Figure 4: Historical net working capital[1] profile



Source: Boart Longyear financial reports for HY08, CY08, HY09, CY09, HY10 CY10, HY11, CY11, HY12, CY12, HY13, CY13 and HY14, and KPMG Corporate Finance Analysis
Note 1: Calculation for net working capital = Trade and other receivables + Inventories – Trade and other payables

With regard to the historical net working capital above, we note the following:

- the increase in net working capital at 31 December 2010 to that at 31 December 2012 of US$210.0 million was due to the significant build-up of inventories and equipment during CY10 through to CY12
- the restructure of the credit facility allows for sufficient liquidity available to be accessed to meet increases in demand for drilling services. In addition, the Company has sufficient inventory in place to meet existing demand and allows for any potential increases in order backlogs. We note that during the first quarter of CY14, the Company announced an increase in purchasing activity from its key accounts with their performance tooling product sales remaining stable over the period
- the consolidation and integration of the inventory management and supply chain functions combined with lower revenues has reduced the need for working capital, shown by a reduction in the balance by US$20.0 million to US$322.7 million as at 30 June 2014 from 31 December 2013
- 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 and 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 30 June 2014 are summarised below.

Table 7: Debt facilities

US$ million unless otherwise stated	Total facilities	Amount drawn	Available facility[1]	Interest Rate	Maturity
Unsecured senior notes	300.0	300.0	-	7.0%	1-Apr-21
Secured senior notes	300.0	300.0	-	10.0%	1-Oct-18
Revolver loan	140.0	38.0	90.9	***[2]	29-Jul-16

Source: Boart Longyear financial report for CY13 and HY14
Note 1: Outstanding letters of credit as at 30 June 2014 reduce the amount funds available to be drawn from the facility. This is explained in further detail below.
Note 2: Applicable interest rates for the revolver loan 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 unsecured senior notes issued on 28 March 2011 at a total of US$300.0 million have an applicable interest rate of 7.0% and mature on 1 April 2021
- the secured senior notes issued on 27 September 2013 at a total of US$300.0 million have an applicable interest rate of 10.0% and mature on 1 October 2018. The Company used the net proceeds to substantially pay down loans outstanding under their bank debt facility and to secure modifications in order to provide a flexible covenant structure
- due to the Company's view that market conditions will not significantly improve in the short term, the credit facility agreement was amended to provide the Company with continued access to the revolving credit facility and provides additional head room under the new financial covenants. The amendment was effective from 22 February 2014. The facility provides US$140.0 million with a scheduled maturity date of 29 July 2016. Up to US$120.0 million of the credit facility is available in the form of revolving loans or letters of credit, with the remaining US$20.0 million available as letters of credit. Boart Longyear had no drawn borrowings under the bank revolver loan facility as at 31 December 2013. However, prior to the amendments, there were US$11.1 million in outstanding letters of credit, which reduces the funds available to be drawn under the facility.

  The amended financial covenants to the credit facility are set out below:

  – minimum LTM EBITDA of US$45.0 million through to 31 March 2015 (tested quarterly)

  – maximum quarterly debt levels through to the maturity date, as set out below:

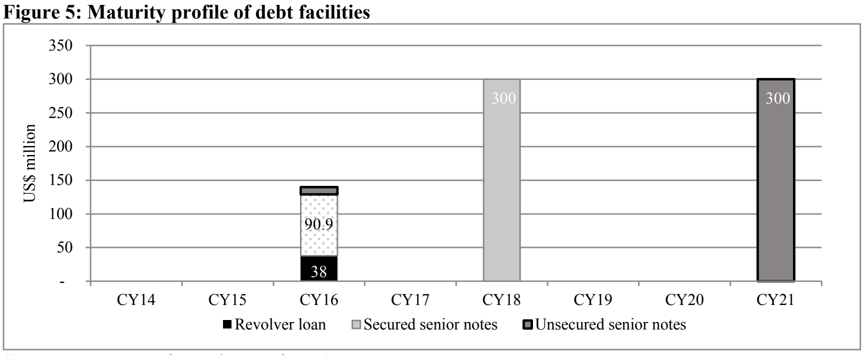
    - US$700.0 million as at 30 June 2014
    - US$700.0 million as at 30 September 2014
    - US$670.0 million as at 31 December 2014

  - US$720.0 million as at 31 March 2015
  - US$725.0 million as at 30 June 2015 and each quarter going forward.
- effective on 16 August 2014, the Company negotiated further amendments to the credit facility agreement to provide additional flexibility around the facility's financial covenants. The primary changes to the financial covenants of the credit facility are a reduction of the minimum LTM EBITDA to US$35.0 million through to 31 March 2015 and an increase to the maximum quarterly debt level at the 30 September 2014 compliance testing date to US$715.0 million. In addition, the maturity date and aggregated commitments remain consistent, however a provision has been included requiring a reduction in aggregate commitments from US$140.0 million to US$120.0 million if the Company's tax assessments from the CRA for CY07 through to CY09 are overturned
- as at 30 June 2014, US$38.0 million was drawn under the credit facility with a scheduled maturity date of 29 July 2016. The applicable interest rate on the borrowings as at 30 June 2014 was based on a base rate plus a margin. The base rate was based on the 30 day US dollar LIBOR between 0.151% and 0.153%, plus a margin of 4.75% for a weighted average interest rate of 4.9%
- outstanding letters of credit of US$11.1 million as at 30 June 2014 reduced the funds available to be drawn under the facility.

10.2 Debt maturity profile

Boart Longyear's debt maturity profile post the September 2013 paydown, modifications of the revolving loan facility and issuance of the secured senior notes is illustrated below.

Figure 5: Maturity profile of debt facilities

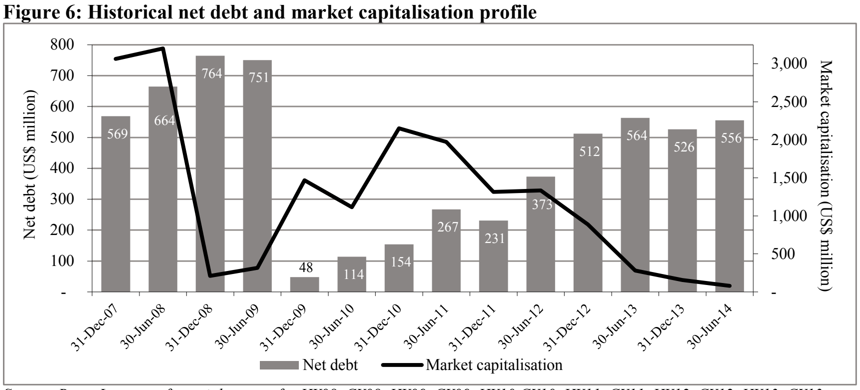


Source: Boart Longyear financial reports for HY14

10.3 Historical net debt and market capitalisation profile

Boart Longyear's historical net debt and market capitalisation profile is illustrated below.

Figure 6: Historical net debt and market capitalisation profile



*Source: Boart Longyear financial reports for HY08, CY08, HY09, CY09, HY10 CY10, HY11, CY11, HY12, CY12, HY13, CY13, HY14, Standard & Poor's (**S&P**) Capital IQ, and KPMG Corporate Finance Analysis*

The contraction in the market has led to companies 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 an impact to Boart Longyear's market capitalisation, which has continued to fall in line with the mining downcycle over time.

10.4 Credit rating

During CY14, Boart Longyear experienced a series of credit rating downgrades, as summarised below:

- 27 February 2014 – Moody's Investors Service (**Moody's**) placed Boart Longyear on negative credit watch as the Company continued to face liquidity issues and subsequently revised their credit ratings as follows:
  - corporate rating downgraded from 'B2' to 'B3'
  - secured note rating downgraded from 'B1' to 'B2'
  - unsecured note rating downgraded from 'B3' to 'Caa2'.
- 7 March 2014 – S&P's revised the Company's credit ratings as follows:
  - corporate rating downgraded from 'B' to 'CCC+'

- secured note rating downgraded from 'BB-' to 'B'
- unsecured note rating downgraded from 'B' to 'CCC+'.

- 19 June 2014 – Moody's applied further revisions to their credit ratings for Boart Longyear as follows:
  - corporate rating downgraded from 'B3' to 'Caa1'. This is considered to be a speculative-grade investment rating
  - secured note rating downgraded from 'B2' to 'B3'
  - unsecured note rating remained unchanged at 'Caa2'.
- 21 July 2014– S&P's revised the Company's credit ratings as follows:
  - corporate rating downgraded from 'CCC+' to 'CCC'
  - secured note rating downgraded from 'B' to 'B-'
  - unsecured note rating downgraded from 'CCC+' to 'CCC'.

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
- as at 30 June 2014, Boart Longyear's dividend franking account was US$1.4 million. No dividend was determined for CY13 or HY14
- Boart Longyear's Canadian tax returns for CY05 and CY06 have been subject to a review by the 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, CAD59.4 million of federal taxes, penalties and interest was reversed and a security of CAD35.5 million, provided by Boart Longyear was released
- During CY07 to CY09, the Company received income adjustments of CAD77.3 million (including interest and penalty fees), potentially requiring security of CAD42.0 million whilst the matter is being disputed. Boart Longyear has sought relief from the security requirement as the income adjustments were determined under substantially similar basis as the reversed assessments for CY05 and CY06. The requirement to provide security has not yet been resolved with the CRA. On 20 August 2014, the

Company received written notice that the transfer pricing review committee made the decision to not recommend the application of the penalty to the transfer pricing adjustments. This results in a reduction of CAD11.0 million of the above mentioned adjustments.

- CRA has commenced the audit of CY10 through CY12. Boart Longyear expects the audit to follow similar procedures to the prior audits performed, which may require security for any disputed amounts when the audit is complete and an assessment is made
- 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. 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 influence the calculation of the gross debt under the covenants of the amended credit facility.

12 Capital structure and ownership

As at 22 October 2014, Boart Longyear had the following securities on issue:

- 461,163,412 ordinary shares, held by 15,813 individual Shareholders
- 13,287,167 share options, held by five 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 22 October 2014.

Table 8: Top 20 Shareholders as at 22 October 2014

Shareholder	Number of ordinary shares	Percentage of issued capital
HSBC Custody Nominees (Australia) Limited-GSCO ECA	61,269,218	13.29%
HSBC Custody Nominees (Australia) Limited	53,942,796	11.70%
Citicorp Nominees Pty Limited	51,325,895	11.13%
J P Morgan Nominees Australia Limited	33,495,922	7.26%
Snowside Pty Ltd	25,204,788	5.47%
National Nominees Limited	10,985,877	2.38%
National Nominees Limited	6,945,494	1.51%
HSBC Custody Nominees (Australia) Limited - A/C 2	5,121,566	1.11%
Band and Co	3,402,675	0.74%
Merrill Lynch (Australia) Nominees Pty Limited	2,932,291	0.64%
Darrell James Pty Ltd	2,905,600	0.63%
Mr Jimmy Thomas & Ms Ivy Ruth Ponniah	2,751,210	0.60%
Mr Carl Eric Hold & Mrs Lorraine Holt	2,600,000	0.56%
CS Fourth Nominees Pty Ltd	1,789,988	0.39%
Ms Ying Ge	1,700,000	0.37%
Warbont Nominees Pty Ltd	1,581,620	0.34%
Mr Anthony Maurici	1,568,393	0.34%
QIC Limited	1,567,570	0.34%
Pacific Custodians Pty Ltd	1,376,494	0.30%
Aycom Australia Pty Ltd	1,287,874	0.28%
Total shares held by top 20 shareholders	**273,755,271**	**59.36%**
Other shareholders	187,408,141	40.64%
Total shares on issue	**461,163,412**	**100.00%**

Source: Share register analysis provided by Boart Longyear and KPMG Corporate Finance Analysis

In relation to the top 20 Shareholders, we note:

- the top 10 registered Shareholders account for approximately 55.0% of the ordinary shares on issue
- during July 2014, Boart Longyear's previous largest shareholder, Beutel Goodman & Company Ltd, liquidated its shareholding of 16.2%.

12.2 Shareholder distribution

As at 22 October 2014, there were 9,369 Shareholders holding less than a marketable parcel of ordinary shares. Furthermore, only five individuals own options in Boart Longyear. These options do not convey any rights to vote and are discussed further in Section 12.3. The spread of Shareholders is set out in the table below.

Table 9: Shareholder distribution schedule as at 22 October 2014

Size of shareholding	Holders - fully paid ordinary shares	Holders - share options
1 - 1000	5,863	
1,001 - 5,000	5,100	
5,001 - 10,000	1,990	
10,001 - 100,000	2,541	
100,001 and over	319	5
Total	**15,813**	**5**

Source: Management

12.3 Options

During HY14, the Board approved the Boart Longyear Limited Option Plan to assist in recruiting and retaining highly qualified employees, provide an incentive for productivity, and an opportunity to share in the growth and value of the Company. Pursuant to the terms of this plan, the Board and shareholders approved a special retention award of 9,104,258 options to the CEO. These options will vest in three equal tranches with the first tranche vesting on the date of the 2014 Annual General Meeting of Shareholders and the remaining two tranches vesting on 1 April 2015 and 1 April 2016. Vested options can be exercised for 10 years from the vesting date. These options have a strike price of AUD0.19. In addition, the Company granted 4,262,053 share options to members of Management, of which Shareholders approved 1,621,020 to the CEO. The options will vest three years from the grant date and can be exercised for seven years after the vesting date. At the time of grant, the options were granted a strike price of AUD0.32. All outstanding share options above have a combined fair value of approximately AUD3.0 million.

12.4 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 net debt reduction and total Shareholder return performance achieved cumulatively during each of the three years applicable to the CY14 performance awards. During HY14, 19,453,175 share rights were granted under the LTI plan with a combined value of approximately US$4.9 million with a vesting period of three years as of the grant date.

12.5 Director's interest

As at 23 October 2014, the Directors held the following shares:

Table 10: Director's interest

Name	Position	Total interest in ordinary shares held
Bruce Brook	Non-executive Director	220,000
Roger Brown	Non-executive Director	100,000
W Peter Day	Non-executive Director	175,000
Roy A Franklin	Non-executive Director	300,000
Tanya Fratto	Non-executive Director	120,000
Barbara Jeremiah	Chairman and Non-executive Director	455,000
Dave McLemore[1]	Non-executive Director	1,155,861
Rex McLennan	Non-executive Director	100,000
Richard O'Brien	CEO, President and Executive Director	300,000
Total		**2,925,861**

Source: Share register analysis provided by Boart Longyear
Note 1: Dave McLemore holds 1,155,861 of the shares through an indirect interest

13 Share price performance and liquidity analysis

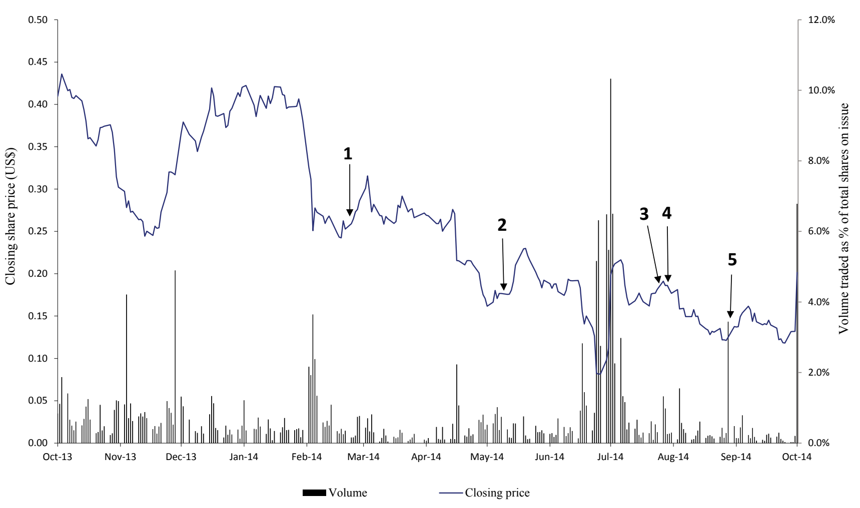
13.1 VWAP and liquidity analysis

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 22 October 2014, 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 22 October 2014
- assessed the VWAP and trading liquidity of Boart Longyear's shares for the one year period ending 22 October 2014.

Figure 7 depicts Boart Longyear's daily closing price on the ASX in US$ (converted using a daily average exchange rate) in the year prior to 22 October 2014, along with the daily volume of shares traded on the ASX as a percentage of total issued capital over the period.

Figure 7: Share price performance and volume of shares traded



Source: S&P Capital IQ, KPMG Corporate Finance Analysis and ASX announcements

As illustrated in Figure 7, Boart Longyear's closing share price and volume has exhibited significant volatility over the one year period. The share price trended downward over the period driven by a sector-wide contraction in mining expenditure that began in the final two quarters of CY12, which has persisted through CY13 and CY14. The Company's share price finished the remainder of the period relatively stable, closing at US$0.132 on 22 October 2014.

Significant announcements by Boart Longyear in the LTM to 22 October 2014 that may have had an impact on its recent share price include:

1. 24 February 2014 – Boart Longyear released its annual financial reporting figures for CY13. As part of the release, the Company announced a net loss of US$620.0 million, comparing to a net profit of US$116.0 million for CY12. The share price decreased by approximately 15.0% to AUD0.36, with a turnover of approximately 10.0 million shares In addition, the Company announced further cost reduction initiatives to be undertaken during CY14 in its full year results presentation
2. 8 May 2014 – Boart Longyear released a market update. The document outlined the intentions of the Company to pursue several significant non-mining related drilling projects in the municipal, agricultural and energy sectors
3. 21 July 2014 – Boart Longyear announced Standard and Poor's downgraded the Company's credit rating, causing significant daily turnover of approximately 30.0 million shares

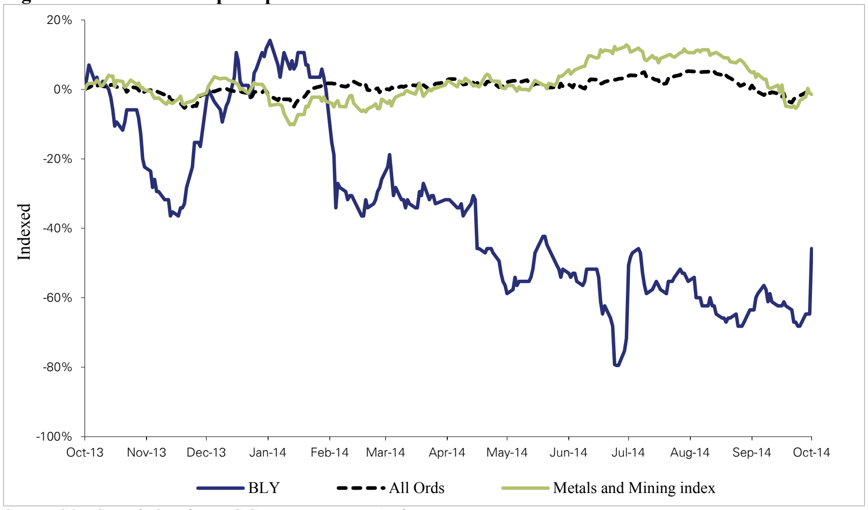
4. 22 July 2014 – Boart Longyear's previous largest shareholder, Beutel Goodman, liquidated its shareholding of 16.2%

5. 18 August 2014 – Boart Longyear announced the amendment to its credit facility terms to provide additional flexibility around covenants. The Company's share price increased by approximately 5.0%, with a turnover of approximately 6.0 million shares.

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 23 October 2014. Boart Longyear underperformed relative to both indices over the period. Boart Longyear's share price performance was down approximately 45.9%, compared to an increase in the All Ordinaries and Metals and Mining Index by 0.2% and 1.4% respectively, for the one year period ended 23 October 2014. We note that the Boart Longyear share price displayed significantly greater volatility relative to both indices which is not uncommon given the enhanced diversification of an index as opposed to a single company.

Figure 8: Relative share price performance



Source: S&P Capital IQ and KPMG Corporate Finance Analysis

13.2 Dividends

The dividends declared by Boart Longyear over CY11, CY12 and CY13 are summarised in the table below.

Table 11: Dividends

For US$ million unless otherwise stated	CY11 12 months	CY12 12 months	CY13 12 months	HY14 6 months
Dividend (US$ cents)				
Interim	4.8	6.4	-	-
Final	5.6	1.0	-	-
Total	10.4	7.4	-	-
Share price as at	31-Dec-11	31-Dec-12	31-Dec-13	30-Jun-14
Share price (US$)	2.9	1.9	0.3	0.2
Implied dividend yield	*3.6%*	*3.8%*	-	-
Dividend payout ratio [1]	*23.7%*	*81.0%*	-	-

Source: Boart Longyear financial report for CY12, CY13 and HY14, and KPMG Corporate Finance Analysis
*Note 1: CY11 and CY12 dividend payout ratio calculated based on underlying Net Profit After Tax (**NPAT**)*

Due to the need to preserve liquidity, Boart Longyear announced on 26 August 2014 that no interim dividend had been determined for HY14. As key performance indicators and market conditions improve, Boart Longyear may resume the payment of dividends going forward.

14 Financial implications of the Proposal

It is important to understand the impact of the Proposal on Boart Longyear's financial position. In order to understand this, we have used the financial position of Boart Longyear as at 30 June 2014 as a base position and then created a pro-forma balance sheet based on the Proposal 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 rights offering.

Table 12: Pro-forma balance sheet following the Proposal

As at US$ million unless otherwise stated	30-Jun-14	Step 1 Initial Placement	Pro-forma - Shareholders reject resolutions	Step 2 Follow-on Conditional Placement	Step 3 Rights Issue & Share Buy Back	Step 4 Equitisation	Pro-forma - Pursuant to succesful shareholders vote[1]
Current assets							
Cash and cash equivalents[2]	68.7	79.2	147.9	21.6	84.3	-	253.8
Trade and other receivables	189.7	-	189.7	-	-	-	189.7
Inventories	277.5	-	277.5	-	-	-	277.5
Current tax receivable	15.0	-	15.0	-	-	-	15.0
Prepaid expenses and ther assets	21.5	-	21.5	-	-	-	21.5
Assets classified as held for sale	-	-	-	-	-	-	-
Total current assets	**572.4**	**79.2**	**651.5**	**21.6**	**84.3**	**-**	**757.4**
Non-current assets							
Property, plant and equipment	337.1	-	337.1	-	-	-	337.1
Goodwill	104.0	-	104.0	-	-	-	104.0
Other intangible assets	84.8	-	84.8	-	-	-	84.8
Deferred tax assets	99.9	-	99.9	-	-	-	99.9
Other assets	31.7	-	31.7	-	-	-	31.7
Total non-current assets	**657.5**	**-**	**657.5**	**-**	**-**	**-**	**657.5**
Total assets	**1,229.8**	**79.2**	**1,309.0**	**21.6**	**84.3**	**-**	**1,414.9**
Current liabilities							
Trade and other payables	144.5	-	144.5	-	-	-	144.5
Provisions	31.7	-	31.7	-	-	-	31.7
Current tax payable	92.8	-	92.8	-	-	-	92.8
Loans and borrowings	0.0	-	0.0	-	-	-	0.0
Total current liabilities	**269.0**	**-**	**269.0**	**-**	**-**	**-**	**269.0**
Non-current liabilities							
Loans and borrowings	624.4	82.0	706.4	-	-	(16.0)	690.4
Deferred tax liabilities	17.7	-	17.7	-	-	-	17.7
Provisions	39.4	-	39.4	-	-	-	39.4
Total non-current liabilities	**681.5**	**82.0**	**763.5**	**-**	**-**	**(16.0)**	**747.5**
Total liabilities	**950.5**	**82.0**	**1,032.5**	**-**	**-**	**(16.0)**	**1,016.5**
Net assets	**279.3**	**(2.8)**	**276.5**	**21.6**	**84.3**	**16.0**	**398.4**
Net assets per share (US$)	*0.61*	*(0.07)*	*0.55*	*0.16*	*0.14*	*0.16*	*0.29*
Equity							
Issued shares	461.16	41.3	502.5	135.0	624.6	102.8	1,364.9
Non-associated	*402.5*	-	*402.5*	-	-	-	*402.5*
Centerbridge - ordinary shares	*58.67*	*41.3*	*100.0*	*135.0*	*165.9*	-	*400.9*
Centerbridge % - ordinary shares	*12.7%*	*19.9%*	*19.9%*	*36.9%*	*49.9%*	*49.9%*	*49.9%*
Centerbridge - Preference Shares	-	-	-	-	*458.7*	*102.8*	*561.5*
Share capital	1,131.5	5.6	1,137.1	21.6	84.3	16.0	1,259.0
Reserves	(41.9)	-	(41.9)	-	-	-	(41.9)
Other equity	(137.2)	-	(137.2)	-	-	-	(137.2)
Retained earnings/(Accumulated losses)	(673.1)	(8.4)	(681.5)	-	-	-	(681.5)
Total equity	**279.3**	**(2.8)**	**276.5**	**21.6**	**84.3**	**16.0**	**398.4**

Source: Boart Longyear financial report for HY14, Boart Longyear Final Terms Letter
Note 1: All of the secured notes of US$105.0 million have been tendered
Note 2: Excluding restricted cash of US$11.1 million, relating to cash collateralised letters of credit

In preparing the pro-forma balance sheet, we have assumed the following for each stage of the Proposal:

Step 1: Initial Equity Placement

- increase in cash of US$79.2 million based on:
  - the Company issuing an equity placement of US$5.6 million to Centerbridge representing 9.0% of the current shares outstanding (i.e. approximately 41.3 million shares) at the Proposal Value.

This results in a corresponding increase in cash of US$5.6 million and an additional premium of US$0.6 million, if the transaction is approved, which is explained in Step 2 below

- the Company drawing all of the Tranche A loan provided by Centerbridge of US$120.0 million and the repayment of the former revolving credit facility of US$38.0 million and cash collateralisation of outstanding letters of credit of US$11.1 million. This results in a corresponding increase in cash liquidity of US$70.9 million, net of US$11.1 million letters of credit
- the Company has tendered all of the secured senior notes at a price not exceeding 108.0% of the face value (US$105.0 million) using the Tranche B term loan provided by Centerbridge. Hence the cash balance was reduced by the 8.0% premium on US$105.0 million, which equates to US$8.4 million. This results in a corresponding loss of US$8.4 million, which is shown as a decrease in retained earnings
- the Company will enter into a new asset backed loan up to the value of US$50.0 million as all of the secured senior notes have been tendered. This reduces the Tranche A term loan to US$70.0 million from US$120.0 million.

Step 2: Follow-on Conditional Placement

- increase in cash of US$21.6 million based on:
  - post the Initial Equity Placement and subject to the approval of Shareholders, the Company will issue to Centerbridge a follow-on equity placement of approximately 135.0 million shares at the Proposal Value plus an additional premium of approximately 15.0%. This equates to a corresponding US$21.0 million increase in cash
  - in addition, if the recapitalisation process is approved, an additional US$0.6 million premium will be paid by Centerbridge with respect to the shares issued under the Initial Equity Placement. This results in a corresponding increase in cash and share capital of US$0.6 million.

Step 3: Rights Issue and Share Buy Back

- increase in cash of US$84.3 million based on:
  - the rights offering, whereby Shareholders will receive rights to purchase 0.98 new shares for each existing share at the Australian Dollar Rights Price. Assuming none of the existing shareholders take-up the Rights Issue or sell their shares under the Share Buy Back, this results in the issue of approximately 624.6 million shares to Centerbridge at the Australian Dollar Rights Price, which equates to an increase in cash and share capital of US$84.3 million. In addition, for each share that causes Centerbridge's equity holding to exceed 49.9%, these will be issued as Preference Shares
  - there is no effect due to the Share Buy Back as the pro-forma calculation assumes that no Shareholders participate in this offer as the current share price is in excess of the offer price. If the Share Buy Back is fully taken up then Centerbridge's relevant interest would be 49.9% in ordinary shares and 857.2 million of Preference Shares

Step 4: Equitisation

- decrease in loans and borrowings of US$16.0 million based on:
  - pursuant to the Shareholders vote, Centerbridge will equitise US$16.0 million of the senior unsecured notes at the Proposal Value plus an additional approximate 15.0% premium, which equates to the issuance of an additional 102.8 million shares. This results in a corresponding increase in share capital of US$16.0 million

In relation to the Proposal, we note the following impacts to Boart Longyear's financial position:

Net assets

- an increase in net assets from US$279.3 million to US$398.4 million
- this results in an improved capital structure for Boart Longyear by improving the percentage of net assets to total assets from 22.7% to 28.2%.

Cash

- an increase in cash from US$68.7 million to US$253.8 million
- this results in increased liquidity and therefore improved capacity for Boart Longyear to be able to operate through the current market downcycle until the mining market recovers. Taking into consideration the additional liquidity that the Proposal will provide to Boart Longyear and based on a historical cash flow analysis, the Company will have a significantly increased financial viability over the next years.

Borrowings

- an increase in gross borrowings from US$624.4 million to US$690.4 million. However, with the increase in equity, this results in an overall reduction in leverage (debt to equity ratio) from 223.6% to 173.3%
- the change in borrowing obligations to Centerbridge will reduce the Company's reliance on bank funding. Under the new term loan, Tranche A and Tranche B will be covenant-lite with a maturity of six years from the date Tranche A is funded and 1 October 2018 for Tranche B. Furthermore, Tranche A will be non-callable for the initial four years it is outstanding and Tranche B will be non-callable, providing additional certainty around funding to the Company. In addition, both tranches will accrete interest at 12.0% which will decrease to 11.0% for all quarterly calculation periods during where LTM EBITDA exceeds US$200.0 million
- interest costs will increase, however the structure of the accreting interest allows the Company to preserve liquidity as a result of the accretion of the interest as principal, which will result in a decrease in cash interest in the short term and thereby improve liquidity of the Company
- the changes in the Company's capital structure leaves the majority of the existing unsecured senior notes, which will continue to allow the Company to benefit from the notes long-term maturity until

April 2021 and the low interest rate of 7.0%. Following the Proposal, the Company should have sufficient liquidity to service the unsecured senior notes.

Equity

- approximately 903.7 million shares will be issued as a result of the Proposal, of which US$41.3 million have already been issued
- this improves the equity basis of the Company and allows all existing shareholders to participate from the capital restructure, including the opportunity to participate in the rights offering which allows them to reduce the impact of any dilution.

15 Outlook

During the presentation of the financial results for HY14 in August 2014 as well as in the announcement of the CY14 third quarter results, Boart Longyear did not provide a market outlook for CY14 revenue or EBITDA to its shareholders. The Company announced in August that it expected the primary factors driving its revenue, such as rig utilisation rates and product sales volumes, to remain broadly consistent with levels experienced in the first half of CY14. In addition, the Company announced that profitability will be influenced by other factors, such as price, productivity, lower levels of exploration and development spending by mining companies, the fact that drilling services and products can be cancelled with little notice, and management's ability to further control costs.

In the financial report for HY14, Boart Longyear announced that market expectations for CY14 revenue and EBITDA compiled by Bloomberg as at 15 August 2014 (being a mean revenue and normalised EBITDA of US$842.0 million and US$47.0 million respectively, based on analyst estimates), reasonably conform to the Company's range of expectations for CY14. In addition, Boart Longyear released several other metrics as an outlook for CY14, being SG&A expenses estimated within a range of US$165.0 million to US$170.0 million, net interest expense within US$50.0 million to US$55.0 million and capital spending within US$25.0 million to US$50.0 million.

Whilst Boart Longyear has not disclosed forecasts for revenue and earnings to provide an indication of the expected future financial performance of the Company, we have considered the broker consensus forecasts for Boart Longyear as detailed in the table below.

Table 13: Broker consensus forecasts

US$ million unless otherwise stated	CY14 Forecast	CY15 Forecast	CY16 Forecast	CY17 Forecast
Consensus financials (median)				
Revenue	844.3	864.4	960.0	1,088.1
# of broker estimates	8.0	8.0	6.0	2.0
EBITDA	43.3	67.9	90.0	123.2
# of broker estimates	6.0	8.0	6.0	3.0
EBIT	(60.6)	(28.8)	1.1	24.7
# of broker estimates	6.0	8.0	6.0	2.0
PBT	(113.6)	(87.9)	(50.1)	(28.4)
# of broker estimates	5.0	8.0	6.0	2.0
NPAT	(105.8)	(64.1)	(35.6)	(20.7)
# of broker estimates	6.0	8.0	6.0	2.0
Statistics				
Revenue growth % [1]	*(31.0)%*	*2.4%*	*11.1%*	*13.3%*
EBIT growth % [1]	*(107.2)%*	*57.1%*	*32.4%*	*37.0%*
EBIT growth % [1]	*(87.1)%*	*(52.4)%*	*(103.8)%*	*2,139.4%*
PBT growth % [1]	*(77.5)%*	*(22.6)%*	*(43.1)%*	*(43.2)%*
EBITDA margin %	*5.1%*	*7.9%*	*9.4%*	*11.3%*
EBIT margin %	*(7.2)%*	*(3.3)%*	*0.1%*	*2.3%*
PBT margin %	*(13.5)%*	*(10.2)%*	*(5.2)%*	*(2.6)%*

Source: S&P Capital IQ broker consensus forecasts as at 23 October 2014 and KPMG Corporate Finance Analysis
Note 1: Growth for CY14 forecasts has been calculated based on actual CY13 financial results

With regards to the table above, we note the following:

- the forecasts represent the latest available broker consensus forecast for Boart Longyear sourced from S&P Capital IQ
- the median consensus brokers' forecast indicates revenue of US$844.3 million for CY14, representing a decline of 31.0% from CY13 revenues
- the median consensus brokers' forecasts for EBITDA indicates a decrease of 68.0% compared to CY13 adjusted EBITDA to US$43.3 million, and increase throughout CY15 to CY17.

The expected EBITDA recovery throughout CY15 to CY17 reflects the underlying broker consensus view in relation the downcycle of the mining and mining services industry, indicating an expected slight upturn from CY15 onwards. The significant increase in earnings estimates compared to revenue estimates reflects the efforts Boart Longyear has made in terms of reducing the costs run rate and optimising the operating model across the Drilling Services and Products business divisions. However, the brokers indicate that they do not expect to see revenue volumes seen during CY13 to be duplicated before CY17, although higher profitability is expected to be achieved. Compared to the EBITDA margins achieved during CY13, the broker consensus forecast expects the EBITDA margin during CY17 to increase to approximately 11.3%.

16 Evaluation of proposed transaction

16.1 General

An important aspect when considering whether the Proposal is fair to Boart Longyear shareholders is to compare the underlying value per Boart Longyear share to the value of the consideration being offered to the Boart Longyear shareholders under the Proposal.

This section sets out our assessment of the underlying value of Boart Longyear shares inclusive 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 value of synergies and benefits that may be unique to Centerbridge. Accordingly, our valuation of a share in Boart Longyear has been determined regardless of the acquirer.

We also have recognised the current difficulty in determining an appropriate value given the current industry down cycle, the corresponding decline in Boart Longyear's earnings and its current financial distress. In this regard we have valued Boart Longyear as a going concern, which implicitly assumes that existing debt arrangements would continue or be refinanced.

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 EBITDA, as the primary method. We have adopted this approach based on the following considerations:

- a capitalised earnings approach is a commonly used method for the valuation of industrial businesses, especially those with a long operating history and a consistent earnings trend that is sufficiently stable to be indicative of ongoing earnings potential. In this regard, we note there is sufficient market evidence available from which a meaningful earnings multiple can be derived. In particular, we note 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 long term forecasts 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.

16.2.2 Selection of earnings metric for capitalised earnings approach

A capitalised earnings approach can be applied to a number of different earnings or cash flow measures, including EBITDA, Earnings Before Interest and Tax (**EBIT**) and 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 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.

Taking into consideration the above, we consider EBITDA to be the most appropriate metric for the capitalised earnings valuation of Boart Longyear's business operations.

16.2.3 Control premium considerations

With regard to the multiples applied in a capitalised earnings approach, they 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.

Consistent 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% 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.

16.3 Capitalised earnings approach

16.3.1 Summary

As summarised in the table below, KPMG Corporate Finance estimates the enterprise value of Boart Longyear's business operations to be in the range of US$650.0 million to US$765.0 million on a controlling basis. We have also assessed the underlying value of 100.0% of the equity as summarised in the table below and detailed in the remainder of this section. Refer to the relevant sections of this document for further detail on specific items and adjustments.

Table 14: Valuation of business operations

	Report Section	Value range ($ million) Low	High
Maintainable earnings (EBITDA)	16.4	130.0	170.0
EBITDA multiple (on a controlling basis)	16.5	5.0	4.5
Enterprise Value of Boart Longyear		**650.0**	**765.0**
Less: Debt		(624.4)	(624.4)
Add: Cash		68.7	68.7
Equity Value of Boart Longyear		**94.2**	**209.2**
Issued shares (million)		461.2	461.2
Equity value per share on a marketable, controlling basis ($)		**0.20**	**0.45**
Foreign currency exchange rate ($:AUD)		0.8744	0.8744
Equity value per share on a marketable, controlling basis (AUD)		**0.23**	**0.52**

Source: KPMG Corporate Finance analysis
Note 1: Differences in calculation due to rounding

The valuation of Boart Longyear's business operations was determined using a capitalised earnings approach, based on a normalised EBITDA range of US$130.0 million to US$170.0 million and a capitalisation multiple of 4.5x to 5.0x. The basis for each of these assumptions is discussed in the sections below.

With regards to the selected EBITDA multiple range, we note this factors in a control premium, and hence the enterprise value of Boart Longyear's business operations has been determined on a controlling basis. Additionally we have set out below an indicative calculation, for illustrative purposes only, of the value per share on a post-transactions basis, which is based on an equity value for a minority shareholder and the number of shares post dilution. This value per share post-transaction takes also into account the reduction of net debt and includes transaction costs of US$35.0 million. This calculation results in a value range for a Boart Longyear share post-transaction of US$0.11 to US$0.18. The calculation is shown in the table below.

Table 15: Post-transaction value analysis

	Report Section	Value range (US$ million) Post-Proposal Low	High
Maintainable earnings (EBITDA)	16.4	130.0	170.0
EBITDA multiple (on a controlling basis)	16.5	5.0	4.5
Enterprise Value of Boart Longyear		**650.0**	**765.0**
Less: Debt		(690.4)	(690.4)
Add: Cash		218.8	218.8
Equity Value of Boart Longyear on a controlling basis		**178.3**	**293.3**
less: Minority Discount (16.67%)[2]		(29.7)	(48.9)
Equity Value of Boart Longyear on a minority basis		**148.6**	**244.4**
Issued shares (million)		1,364.9	1,364.9
Equity value per share (US$)		**0.11**	**0.18**
Foreign currency exchange rate (US$:AUD)		0.8744	0.8744
Equity value per share (AUD)		**0.12**	**0.20**

Source: KPMG Corporate Finance Analysis
Note 1: Differences in calculation due to rounding
Note 2: A 20.0% control premium translates into a 16.67% minority discount

Our overall valuation approach in relation to the underlying value of Boart Longyear has been to estimate the enterprise value of Boart Longyear using a capitalisation of earnings methodology, to which we added surplus assets and from which the value of net debt is deducted in order to determine the equity value of Boart Longyear shares on a controlling basis. The assessed valuation range reflects the current stage of the industry cycle being at a long term low and therefore 'through-the-cycle' earnings being higher than actual and forecasted earnings figures. The range also reflects some optionality as to when and by what magnitude the industry and Boart Longyear's earnings will recover.

To assess the reasonableness of our valuation of Boart Longyear, we have undertaken the following cross checks:

- a high level DCF which utilises historical financial cash flows and forecasts taking into account management's expectations, other growth assumptions and long-term inflation expectations (Section 16.5.1)
- analysis of VWAPs over multiple periods of Boart Longyear shares to understand both trading levels and volumes as well as market disclosures (Section 16.5.2).

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) and recent volatility in the financial markets. While KPMG Corporate Finance acknowledges that a recovery in the mining market and commodity prices, favourable weather conditions 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 Summary of Boart Longyear earnings

It is common to have regard to a maintainable level of earnings in applying the capitalisation of earnings methodology, which is the level of earnings considered to be the level below which, in the absence of unforeseen and exceptional circumstances, the income stream is unlikely to fall. The level of maintainable earnings is influenced by a number of factors, including 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 had regard to the historical financial results and operations for Boart Longyear, strategic plans of Boart Longyear and current broker consensus forecasts for CY14 and CY15. Earnings for each of these periods are summarised below, along with any adjustments for non-recurring items.

Table 16: Summary of maintainable historical and forecast earnings

For the period US$ million	CY10	CY11	CY12	CY13	HY14 LTM	CY14 Forecast	CY15 Forecast
Boart Longyear Revenue	1,475.9	2,020.3	2,011.5	1,222.9	925.5	-	-
Boart Longyear EBITDA	221.8	356.3	254.3	(337.1)	(135.0)	-	-
Broker consensus EBITDA	-	-	-	-	-	43.3	67.9
Add: Impairment charges (Goodwill)	-	-	6.8	166.3	-	-	-
Add: Impairment charges (PP&E)	0.1	0.1	6.0	109.9	95.6	-	-
Add: Impairment charges (Inventory)	0.6	0.6	7.7	101.9	46.0	-	-
Add: Employee separation and related costs	2.3	0.2	23.0	44.8	34.6	-	-
Add: Impairment charges (Development asset)	-	-	8.5	14.6	6.5	-	-
Add: Impairment charges (Intangibles)	-	0.4	3.4	9.1	(0.0)	-	-
Add: Other restructuring and impairment charges	4.7	(0.1)	12.2	14.6	14.7	-	-
Less: Gain on termination of post-retirement medical plan	-	-	-	(16.9)	(16.9)	-	-
Other income/expenses	6.8	1.2	4.6	28.0	20.8	-	-
Normalised EBITDA of business operations	**236.2**	**358.6**	**326.5**	**135.1**	**66.3**	**43.3**	**67.9**
EBITDA % change	*n/a*	*51.8%*	*(9.0)%*	*(58.6)%*	*(50.9)%*	*(34.7)%*	*57.1%*
Averages							
3 year average EBITDA (CY12-CY14)	168.3						
3 year average EBITDA (CY13-CY15)	82.1						
5 year average EBITDA (CY10-CY14)	219.9						
5 year average EBITDA (CY11-CY15)	186.3						

Source: Management and KPMG Corporate Finance Analysis
Note 1: CY14 and CY15 forecasts are based on broker consensus forecasts

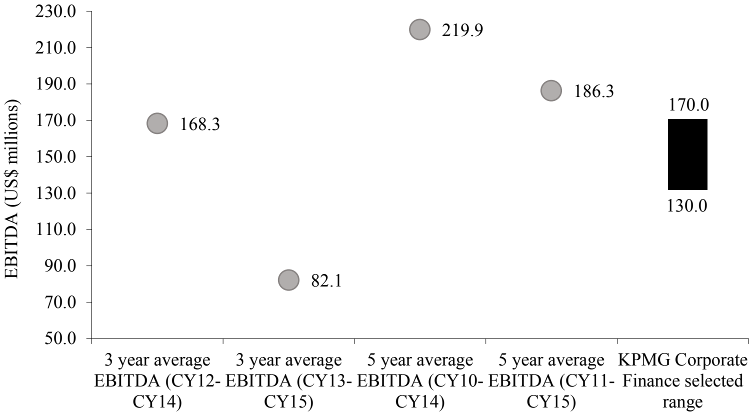
In relation to the selection of a maintainable EBITDA, we note the following:

- 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
- as per the announcement on 26 August 2014, Management expected the full-year 2014 financial performance to be consistent with current broker consensus forecasts for revenue and EBITDA, as

reflected by Bloomberg as at 15 August 2014[16]. We have applied the current earnings broker consensus forecast as at 23 October 2014, a forecast EBITDA in CY14 of US$43.3 million[17], which represents a further decline from CY13. This decline is mainly a result of the ongoing underperformance of the mining industry and the related reluctance of mining exploration spending.

Boart Longyear's business is impacted by industry cycles which is at a historical low. In determining a maintainable EBITDA we have sought to reflect the nature of the cycle by looking at the average EBITDA of various three year and five year cycles including considering relevant adjustments. Based on the considerations above, we have selected a maintainable EBITDA range of US$130.0 million to US$170.0 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.

Figure 9: 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 time period to that for our earnings analysis

[16] Source: Boart Longyear 2014 Half-Year Results Announcement published 26 August 2014

[17] For further details regarding broker consensus forecasts refer to Section 15

- the current stage of the industry cycle being at a long time low and therefore historical multiples possibly being exaggerated
- 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 relative to listed peers
- the risks associated with Boart Longyear's ability to grow during an upcycle and the effect of implemented cost cutting initiatives.

Considering the above we have selected an average EBITDA multiple of 4.5x to 5.0x (including 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 is a market leader in the provision of drilling services and products to the global mining and energy industry. As such, 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, who operate in all areas of the globe and in all phases of the mining lifecycle
- Boart Longyear's long-standing business relationships with key global mining players, such as BHP Billiton Limited, Rio Tinto Ltd. and Goldcorp Inc, who own or operate mineral deposits located throughout the world, has led to Boart Longyear developing a large global presence. Recognising the global nature of Boart Longyear's business operations, we have considered trading multiples of companies from a variety of regions, primarily ASPAC, EMEA, the US and Canada.

The table below sets out the implied EBITDA multiples for selected listed companies that are considered to be comparable to Boart Longyear.

Table 17: Share market evidence

Company Name	Market Focus[1]	Geographic Focus[2]	Market Cap (AUDm)	EBITDA Multiple LTM[3]	NTM[4]	Average 3 year[6]	Average 5 year[6]
ASPAC							
AJ Lucas Group Limited	E/P	AU	221	nmf[6]	nmf[6]	nmf[6]	nmf[6]
Ausdrill Ltd.	E/D/P	AU/AF	274	4.0	3.9	4.9	4.7
Hughes Drilling Limited	E/P	AU	34	4.0	2.8	3.3	5.9
MACA Limited	E/D/P	AU	346	2.4	2.2	4.7	4.7
Mitchell Services Limited	E/P	AU	35	nmf[6]	nmf[6]	2.3	3.6
Swick Mining Services Limited	P	AU	50	4.0	3.4	3.4	4.9
EMEA							
Capital Drilling Ltd	E/D	AF	80	5.2	3.3	5.6	7.5
Foraco International SA	E/D/P	G	58	2.3	4.6	4.2	4.2
US & CANADA							
Energold Drilling Corp.	E/P	G	71	nmf[6]	7.5	10.1	11.7
Major Drilling Group International	E	AM	640	17.5	14.2	7.3	7.2
Orbit Garant Drilling	E/D/P	AM	54	25.8	5.5	6.9	5.4
Low				**2.3**	**2.2**	**2.3**	**3.6**
High				**25.8**	**14.2**	**10.1**	**11.7**
Median				**4.0**	**3.9**	**4.8**	**5.1**
Average				**8.2**	**5.3**	**5.3**	**6.0**

Source: S&P Capital IQ (data as at 23 October 2014) 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
Note 7: Average multiples calculated based on average enterprise values and reported EBITDA for the prior 5 years from 23 October 2014

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 energy and mining industries. Similar to Boart Longyear, the core business operations of the companies selected include an array of drilling-related services and therefore the set of comparable companies is exposed to similar industry and economic related 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, the diversity of the company's service mix and offerings ultimately led them to be less comparable, when considering the entire business.

Market focus

Although the companies provide a similar service mix, they differ in the mining stage that they target. As illustrated in Table 17, the set of comparable companies provide drilling services to exploration, development or production stages of the mining lifecycle. The assortment of targeted market sectors is one of the key drivers behind the growth outlook for each of the comparable companies, varying significantly depending on the phase of the mining lifecycle that each company targets. For example, companies offering drilling services to mining companies in the exploration phase are exposed to greater cyclicality due to the inherent uncertain nature of projects at this stage of development.

Geographical diversification

Due to the variability in growth outlook and underlying market and economic conditions, the geographic focus of companies providing drilling services is another key value driver. For example, the US and Canadian drilling companies, such as Major Drilling and Orbit Garant Drilling, Inc., servicing the North American metals and mining markets have recently experienced particularly challenging environmental conditions. The unexpected harsh weather in the first quarter of CY14 adversely impacted key areas, which in turn affected the demand, pricing and productivity of drilling operations. Moreover, demand for capital goods in Europe and North America have been quite subdued following the onset of the GFC, although early signs of recovery have been observed. By contrast, Australia is in a different stage of its economic cycle, as it did not suffer from the GFC to the same extent, partly due to the Australian mining boom over this period. However, as the mining industry transitions from the investment phase to the export phase, demand for drilling services and mining services in general has softened significantly.

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 303 drill rigs internationally, focusing the provision of services on regions such as South America (32.0% CY13 revenue), EMEA (27.0%), ASPAC (24.0%) and North America (17.0%).

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 relatively mature which is evidenced by relatively flat earnings growth forecasts for a number of the comparable companies, particularly those operating in the ASPAC region in the near term. Specifically, due to the strong correlation exhibited between drilling services companies and the mining sector in general, a contraction in mining capital expenditure on the back of uncertain global economic conditions is expected to continue to impede revenue and EBITDA figures for drilling services companies. Therefore, a mature, low growth business, in tandem with a slowdown in the mining sector, will reflect lower multiples than those businesses with significant earnings growth potential, like companies that are involved in drilling for the oil and gas sector.

Size

In the construction and engineering and diversified metals and mining sector, 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 which will 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. Another advantage relates to the ability of the larger companies to absorb losses on specific projects. 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 detailed above, larger companies in this sector typically trade at a premium.

In respect of the specific comparable companies, we note the following:

ASPAC

As illustrated in Table 17, six publicly listed companies were identified to have similar core business operations to that of Boart Longyear in the ASPAC region.

Based on LTM EBITDA trading multiples for the set of comparables operating in the ASPAC region, a range of 2.4x to 4.0x can be observed. NTM EBITDA multiples for the set of comparables operating in the ASPAC region are in a range of 2.2x to 3.9x.

There are a number of factors contributing to the determination of the EBITDA trading multiples, including the following:

- 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. Recent market data delineates a large contraction in mining expenditure and a slowdown in the mining sector, which in turn has adversely impacted the demand for contract mining services, such as drilling services. As a specific example, in the Australian mining industry approximately AUD50.0 billion worth of coal projects have been put on hold during CY12 through to CY13. Additionally new coal seam gas (**CSG**) wells face increasing opposition from environmental groups and the general public. This has negatively impacted companies such as AJ Lucas Group Limited that provide drilling services to the Australian coal 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
- Ausdrill Ltd's trading multiples are slightly stronger amongst the peer group. This reflects, among other factors, the higher level of diversification in terms of service offering and geographic presence. For example, as well as offering a variety of traditional surface and underground mining services, and exploration and mine development services for gold and copper mines, Ausdrill Ltd has recently broadened its production mining services into iron ore via drill and blast as well as providing dewatering services. Ausdrill Ltd is also involved in African underground gold mining which has recently put some pressure on the earnings of the company
- Hughes Drilling Limited is trading at a small premium to the other set of ASPAC comparable companies, as the company currently has a high utilisation of rigs as it derives its revenue mainly from production mining, specifically drill and blast services for coal miners as well as the provision of watering/dewatering services. The company has recently been awarded new contracts from large clients such as Fortescue Metals, the Water Corporation of Western Australia and Sirius Resources,

which in turn has evoked a positive outlook on future earnings, reflected in brokers forecast expectations of EBITDA.

Europe, Middle East and Africa

As illustrated in Table 17, only two companies in the EMEA region were identified to be largely comparable to Boart Longyear. Although other companies, such as the Scandinavian businesses, Atlas Copco AB and Sandvik AB compete directly with Boart Longyear in the manufacture and sale of drilling products, the size and diversity of these two companies created difficulties in our comparison analysis and were therefore excluded from the set.

Capital Drilling Limited

Capital Drilling Limited benefits from providing services mainly in Africa, a region that recently has experienced high growth in the metals and mining industry. Although significant uncertainty exists surrounding demand for drillings services in the region, the NTM multiples for the company are lower than the LTM multiples, reflecting expectations that earnings will increase from their current levels in the near future. This is on the back of implemented cost cutting measures and an almost debt free balance sheet, removing additional financing risks in the company. The company has also started production blast hole drilling at the Gelta gold mine in Tanzania which has already increased revenues in the first quarter of CY14.

Foraco International SA

Foraco International SA benefits from the ability to target services towards all stages of the mining lifecycle. The brokers' consensus forecast reflects expectations that earnings will continue to weaken, highlighted in the higher NTM EBITDA multiple compared with the LTM EBITDA multiple. Overall, Foraco International SA's financial performance over the past two years has failed to meet announced expectations and targets as the company battles with the difficult market conditions. The LTM EBITDA multiple for Foraco International SA has been adjusted as the reported operating results included US$27.0 million of other operating income resulting from an earlier acquisition.

US and Canada

As illustrated in Table 17, the observed EBITDA multiples are evidently high which intuitively appears inappropriate given current market conditions. The following provides a brief explanation of the factors impacting on the multiples.

Energold Drilling Corporation

Energold Drilling Corporation is a proven player in the Canadian oil sands market with a track record in the business dating back to 1963. The Canadian oil sands market itself is a high-margin niche market with large potential for short and long term growth. Therefore the market expects that the slow-down in the traditional drilling market will be smoothed out by the oil sand business, keeping the share price of Energold Drilling Corporation up, even during times when the traditional drilling market suffers. Therefore the NTM EBITDA multiple is a result of an already slightly improved positive outlook on earnings, driven by optimistic trends in energy/oil sands drilling and the recent expansion of the company into Latin America.

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 being:

- a large contraction in revenue and ultimately earnings for the year ending 30 April 2014. EBITDA fell from CAD142.8 million in the year ended 30 April 2013 to CAD44.4 million in the year ended 30 April 2014, driven by the reduction in capital expenditure for new exploration projects by junior miners, on the back of volatile gold and base metal prices, leading to a reduction in demand for the company's exploration drilling services. Moreover, the weak demand for drilling services over the period was exacerbated by the abnormally cold weather in drilling regions in the US and Canada
- Major Drilling is the largest company, in terms of market capitalization, in comparison to the other 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 2014, Major Drilling improved its cost structure by reducing employee headcount significantly, a strategy not viable for many smaller companies
- the company has a higher profitability compared to the other comparable companies in the Americas and EMEA peer groups. Major Drilling has achieved a 14.2% EBITDA margin during the year ending 30 April 2014, which may also reflect the above mentioned cost cutting initiatives
- historically, over the previous 6 years Major Drilling has traded at an EBITDA multiple range of 3.9x to 17.3x and by the conclusion of the year ended 30 April 2014, the company was trading at 11.3x EBITDA. However 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 LTM EBITDA trading multiple of Orbit Garant Drilling, Inc. is potentially impacted by the following:

- as at 23 October 2014, Orbit Garant Drilling, Inc. traded at 25.8x LTM EBITDA. The relatively high EBITDA multiple can be attributed to a rapid contraction in revenue, which fell from CAD104.2 million for FY13 to CAD71.6 million for FY14. The significant fall in revenue and earnings is linked to the softening demand for drilling services worldwide during CY14, and also the unexpectedly harsh winter conditions in the company's core drilling regions, particularly in the Northern Ontario and Quebec drilling regions, which markets see as a one-time effect
- the company's EBITDA figure of CAD2.2 million for FY14, is by far the lowest annual reported figure over the past five years. According to broker consensus forecasts, the company's EBITDA estimate is CAD11.2 million and should revert to historical levels on the back of normal weather

conditions, assisting drilling operations and supporting demand by miners. As a result the NTM EBITDA multiple for FY15 is 5.5x.

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. Hence we have applied a control premium of 20.0% in performing our analysis of the comparable companies.

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. However, there are also a number of differences, particularly in relation to the larger size of Major Drilling, on a market capitalisation basis, to both Boart Longyear and the other companies chosen for comparable purposes. Major Drilling's existing strong balance sheet position in comparison to Boart Longyear places the company in a competitive position ahead of the next eventual increase in exploration activity. As a consequence of Major Drilling's net cash position and relative size compared to Boart Longyear and its competitors, it would be expected that Major Drilling would trade at premium. However, Major Drilling's LTM and NTM multiple of 17.5x to 14.2x respectively, is distorted due to a large, rapid contraction in earnings and therefore the average or 'through-the-cycle' multiple may provide a more meaningful benchmark on an EBITDA multiple basis
- *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 FY14, Ausdrill Ltd generated 57.0% of its revenue from drilling services, 30.0% from contract mining and 7.0% from the manufacture of drilling consumables. Similarly in CY13, Boart Longyear generated approximately 75.0% of its revenue from drilling services and 25.0% from the design, manufacture and sale of drilling equipment. Furthermore, both companies focus core operations in geographical areas with a strong metals and mining presence such as Australia and Africa. Comparatively, Boart Longyear's operations and customer base are more geographically diversified than Ausdrill Ltd. As such, we would expect Ausdrill Ltd to trade at a small discount to Boart Longyear, with the company currently trading at LTM and NTM multiples of 4.0x and 3.9x respectively
- the remaining companies in the peer group are considered to be less comparable, but are relevant to demonstrate the impact of size, service mix, market focus and growth prospects on earnings multiples.

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 ASPAC listed drilling services businesses is extremely limited. As a consequence, we have also considered recent transactions involving sizable international drilling services businesses, 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 recent transactions that involved companies operating in the drilling services industry within ASPAC 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

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 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 ASPAC region, the acquisition of Mitchell Drilling Corporation by AJ Lucas Group Limited occurred prior to the onset of the 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 ASPAC 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 does exist. Further, the Mitchell Drilling Corporation transaction 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. Whilst there is a strong fit with Boart Longyear's core Drilling Services division, all three companies had minimal to no exposure to the resources sector. Moreover, the oil and gas industry, particularly in the US has benefited from recent strong growth conditions, increasing the opportunities for production drilling contracting services companies. In contrast, mining services companies have been challenged 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 market leading, global orientated position in the provision of drilling services and products. The Company has a strong brand and reputation with more than a 120 year history of expertise
- in terms of service offering and market focus, Boart Longyear is more diversified than many of the comparable companies and target companies. This diversification may support a more stable earnings profile. Boart Longyear's integrated business model allows the company to offer a wide array of drilling services and products on a global scale, in addition to benefiting from multiple entry points into the mining lifecycle. Moreover, Boart Longyear has a proven track record of being able to rebalance its service offering and market focus in response to structural shifts in demand. For example, 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 and energy markets in regions including ASPAC, 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:

- during the period CY10 to CY12 Boart Longyear has significantly invested in the business, increasing financial leverage to a level that is unsustainable, due to the weak and uncertain market environment in which Boart Longyear currently operates. The Company's liquidity has deteriorated substantially, which has led to a revision in the company's debt rating by credit rating agencies. 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, which is not given particularly for the operational businesses of both parties. With Centerbridge being a private equity firm Management anticipates that there are no considerable opportunities to capture significant recurring benefits (or synergies) post the proposed transaction. Additionally Boart Longyear has already executed or initiated several cost saving initiatives, so that any further recurring benefits probably would be attributable to a specific buyer.

16.4.2 Net debt

Net debt is calculated as total borrowings (revolving credit and senior notes) less cash and cash equivalents. We have used the net debt balance of US$555.8 million as at 30 June 2014, as confirmed by Management, as presented below for the purpose of our valuation.

Table 19: Boart Longyear's net debt

As at US$ million	30-Jun-14
Senior notes (unsecured)	300.0
Senior notes (secured)	300.0
Revolver bank loans	38.0
Less: Debt issuance costs	(13.6)
Total debt	624.4
Less: Cash and cash equivalents	(68.7)
Net debt	**555.8**

Source: Boart Longyear's financial report for HY14

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.

Based on our discussions with Management, we are not aware of any surplus assets or liabilities.

16.5 Valuation cross checks of our assessed value of Boart Longyear on a consolidated basis

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 WACC range 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 financial forecasts for the period from CY14 to CY18
- our understanding of Boart Longyear's future prospects following discussions with Management for the period beyond CY14
- projections for EBITDA were estimated based on current projections of industry performance over the next years. In the terminal value calculation, we have adopted an average adjusted rolling average EBITDA
- movements in working capital were estimated based on target ratios. In the terminal value calculation, we have estimated movement in working capital based on a percentage of sales
- tax has been calculated based on EBIT and applying a corporate tax rate of 34.0% (28.0% in the terminal value) as provided in the financial forecasts
- 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
- 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 18.1% to 19.2%. This range seems quite high, however given the optional nature of the business plan, including significant uncertainties on the Company's ability to achieve the financial forecasts given that certain adopted assumptions about events and circumstances have not yet transpired, we consider the resulting range reasonable. This includes the uncertainty of when and if the mining markets will recover, the associated risk of the strength of the recovery and the possibility it will continue to decline if commodity prices weaken further. In addition, based on internal projections performed by the Directors and assuming the Proposal will not be approved, difficulties may arise to comply with the financial covenants and terms under the existing financing structure on the 30 June 2015 testing date in the absence of improved mining market conditions and financial performance of the Company, or a future amendment of the terms of the credit facility.

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 16 October 2014 (period before the date the Proposal Value is based on). For example, '1 day' means one day prior to and including 16 October 2014.

Table 20 below summarises an analysis of the volume of trade in Boart Longyear's shares on the ASX.

Table 20: VWAP and liquidity analysis

US$ unless otherwise stated	Price (low)	Price (high)	VWAP	Cumulative value US$ million	Cumulative volume million	% of issued capital
Period 1						
1 day	0.11	0.12	0.12	0.0	0.3	0.1
1 week	0.11	0.14	0.13	0.5	3.7	0.8
1 month	0.11	0.16	0.13	5.1	38.3	8.4
3 months	0.08	0.24	0.15	45.5	308.4	67.5
6 months	0.08	0.29	0.16	73.7	466.5	102.1
12 months	0.08	0.45	0.24	205.1	858.5	188.2

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 high liquidity over the 12 month period to 16 October 2014, with 188.2% of total shares on issue traded in the last 12 months and 102.1% traded in the last six months
- over the 12 month period to 16 October 2014, Boart Longyear's shares traded at an average daily volume of 3.4 million shares and value of approximately US$811,000
- the VWAP trended downward over the 12 month period.

With the high level of share turnover over the past 12 months, in addition to a free float of amount of approximately 78.0%, we would consider Boart Longyear to be a reasonably liquid stock. We note that historically, Boart Longyear has exhibited a relatively low level of liquidity. During the period set out above, our assessed underlying value of Boart Longyear per share is higher than the VWAP of Boart Longyear mainly due to the fact that our value includes the benefits of the future growth prospects of Boart Longyear, a control premium and a consideration of potential synergies.

16.6 Valuation cross check conclusion

Based on the cross checks performed we consider our equity value range of US$94.2 million to US$209.2 million, which implies a value per Boart Longyear share of US$0.20 to US$0.45, to be 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 in Australia 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 in Australia and South Africa. Both Ian and Adele have a significant number of years 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 Proposal 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 Proposal or any other document prepared in respect of the Proposal. Accordingly, we take no responsibility for the content of the Proposal as a whole or other documents prepared in respect of the Proposal.

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 Proposal 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 Notice of Extraordinary General Meeting
- annual reports for the three years ended 31 December 2011, 31 December 2012 and 31 December 2013
- 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 Proposal
- the Implementation Agreement
- 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 21: Share market evidence

Company Name	Market Focus[1]	Geographic Focus[2]	Market Cap (AUDm)	EBITDA Multiple LTM[3]	NTM[4]	Average 3 year[6]	Average 5 year[6]
ASPAC							
AJ Lucas Group Limited	E/P	AU	221	nmf[5]	nmf[5]	nmf[5]	nmf[5]
Ausdrill Ltd.	E/D/P	AU/AF	274	4.0	3.9	4.9	4.7
Hughes Drilling Limited	E/P	AU	34	4.0	2.8	3.3	5.9
MACA Limited	E/D/P	AU	346	2.4	2.2	4.7	4.7
Mitchell Services Limited	E/P	AU	35	nmf[5]	nmf[5]	2.3	3.6
Swick Mining Services Limited	P	AU	50	4.0	3.4	3.4	4.9
EMEA							
Capital Drilling Ltd	E/D	AF	80	5.2	3.3	5.6	7.5
Foraco International SA	E/D/P	G	58	2.3	4.6	4.2	4.2
US & CANADA							
Energold Drilling Corp.	E/P	G	71	nmf[5]	7.5	10.1	11.7
Major Drilling Group International	E	AM	640	17.5	14.2	7.3	7.2
Orbit Garant Drilling	E/D/P	AM	54	25.8	5.5	6.9	5.4
Low				**2.3**	**2.2**	**2.3**	**3.6**
High				**25.8**	**14.2**	**10.1**	**11.7**
Median				**4.0**	**3.9**	**4.8**	**5.1**
Average				**8.2**	**5.3**	**5.3**	**6.0**

Source: S&P Capital IQ (data as at 23 October 2014) 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: LTM multiples calculated after normalisation adjustments applied to reported EBITDA and PAT
Note 4: NTM multiples based on broker consensus forecasts sourced from S&P Capital IQ
Note 5: nmf = not meaningful
Note 6: Average multiples calculated based on average enterprise values and reported EBITDA for the prior 5 years from 23 October 2014

The multiples are based on share market prices as at 23 October 2014 and are commonly assumed to exclude a premium for control. A brief description of each company is outlined below.

ASPAC

AJ Lucas Group Limited

AJ Lucas Group Limited operates as a diversified infrastructure, construction, and mining services company. The company 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. During FY14, AJ Lucas Group Limited's Drilling division generated 43.0% of total revenue (AUD233.6 million), with the provision of drilling services provided to the coal and coal seam gas industries. Although the Drilling division produced a positive EBITDA figure of approximately AUD9.1 million during FY14, the two other divisions more than offset this result with negative operating cash flows, rendering the EBITDA multiples not meaningful. During FY14, all revenue was derived from operations located in Australia.

Ausdrill Ltd

Ausdrill Ltd provides production related services to mining clients in Australia and Africa. It operates through five divisions: Mining Services Australia, Contract Mining Services Africa, Manufacturing, Supply and Logistics, and Other. Ausdrill Ltd's Mining Services Australia division is its major focus and offers drill and blast, grade control, water well drilling, exploration drilling, and mineral analysis services. This division also provides exploration and production drilling services for onshore oil and gas. The Contract Mining Services Africa division provides contract mining services, including drill and blast, grade control and exploration drilling services, etc. The Manufacturing division manufactures and sells drill rigs, drill rods, consumables and drill pipes. During FY14, Ausdrill Ltd's derived approximately AUD502.1 million in revenue from contract mining services, representing 54.0% of total revenue. The company generated LTM EBITDA of AUD168.5 million as at 23 October 2014. On 20 October 2014, Ausdrill Ltd released a revision of its operating results for FY15 because of the prevailing market conditions stating that EBITDA will be lower in a range of AUD150.0 million to AUD160.0 million (before any impairment charges) with revenues estimated at approximately AUD840.0 million. Ausdrill Ltd. also announced that it will test its business units for impairment.

Hughes Drilling Limited

Hughes Drilling Limited, together with its subsidiaries, provides drilling services to mining companies in Australia and rest of the world. It offers drill and blast services, as well as exploration services. The company operates a fleet of 14 drill rigs. It also manufactures and supplies production drilling rigs, supplies spare parts and equipment primarily for production and exploration drilling. In FY14, Hughes Drilling Limited generated total revenue of AUD93.7 million, of which 81.6% (AUD76.4 million) was derived by drilling services. Moreover, Hughes Drilling Limited generated LTM EBITDA of AUD28.8 million. In March 2013, Hughes Drilling Limited acquired REICHdrill Inc, the company designs, develops, manufactures, and markets drilling equipment. In FY13, the remaining 7.0% of total revenue was generated by sales from REICHdrill.

MACA Limited

MACA Limited provides contract mining and civil services for the mining and resources industry in Australia. The company provides a diverse range of drilling services such as, but not limited to, loading and hauling services in the areas of complete load and haul mining contracts, bulk overburden removal, and drilling and blasting services in the areas of production drilling, pre-split drilling, contour drilling, blast hole sample and probe drilling and drill and blast design services. In FY14, MACA Limited's contract mining services generated 87.5% of MACA Limited's revenue and 95.9% of Net Profit Before Tax (**NPBT**). Overall, MACA Limited achieved LTM EBITDA of AUD151.4 million as at 23 October 2014.

Mitchell Services Limited

Mitchell Services Limited provides exploration and mine site contract drilling services to the mining industry. It offers auger drilling, rotary air blast drilling, rotary mud drilling, reverse circulation drilling, and diamond drilling services. The company operates a fleet of 35 drill rigs. The company was formerly known as Drill Torque Limited and changed its name to Mitchell Services Limited in December 2013. In FY14, Mitchell Services Limited derived all of its revenue (AUD15.0 million) from its drilling operations. Overall, the company has found the market conditions difficult, with only a small proportion of their available drill rig fleet being utilised. Consequently, the company generated a negative EBITDA figure over the LTM of AUD3.1 million as at 23 October 2014.

Swick Mining Services Limited

Swick Mining Services Limited provides mineral drilling services to the mining industry in ASPAC and internationally. The company offers services in the areas of underground diamond drilling, underground production drilling, and surface reverse circulation drilling. It serves mining houses in precious and base metals, and bulk commodities. As at 30 June 2013, the company had 45 drill rigs in operation in Australia and 9 drill rigs in operation outside of the ASPAC region. During FY14, Swick Mining Services Limited derived all of its revenue (AUD146.5 million) from its drilling operations, 95.0% within the ASPAC region and 5.0% internationally. The company generated LTM EBITDA of AUD16.5 million as at 23 October 2014.

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. Capital Drilling Limited provides a complete range of drilling services such as, but not limited to, surface diamond core drilling, high air capacity reverse circulation drilling, underground exploration diamond drilling, reverse circulation grade control drilling, geotechnical drilling, coal and coal bed methane drilling, blast hole drilling, gas drilling. In CY13, Capital Drilling Limited derived a consolidated total revenue figure of US$116.3 million, of which 82.0% (US$95.6 million) was derived in Africa and the remaining 18.0% (US$20.7 million), internationally. The company operates a fleet of 95 drilling rigs and generated LTM EBITDA of US$16.0 million as at 23 October 2014. 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 CY04 and is headquartered in Singapore.

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. In CY13, the Mining division, which offers its drilling services to the mining and energy industry during the exploration, development, and production phases of mining projects, generated 96.0% (US$237.7 million) of revenue. Foraco International SA generated LTM EBITDA of US$68.8 million as at 23 October 2014. The company currently operates approximately 303 drill rigs internationally, focusing the provision of services on regions such as South America (32.0% of CY13 revenue), EMEA (27.0%), ASPAC (24.0%) and North America (17.0%).

US and Canada

Energold Drilling Corporation

Energold Drilling Corporation, together with its subsidiaries, provides drilling services to the mining and energy sectors primarily in North America, Mexico, the Caribbean, Central America, South America, Africa and Asia. The company primarily offers 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. The company operates approximately 230 rigs. In CY13, the company generated CAD122.8 million, of which 42.0% was generated by the Energy division, Minerals division (39.0%) and Manufacturing division (19.0%). The company generated a negative LTM EBITDA of CAD1.0 million as at 23 October 2014.

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, but is not limited to, surface and underground coring, directional, reverse circulation, geotechnical, environmental and shallow gas drilling services. For the year ended 30 April 2014, Major Drilling reported total revenue of CAD354.9 million, with 50.0% of revenue derived in US and Canada. Major Drilling generated LTM EBITDA of CAD34.5 million as at 23 October 2014.

Orbit Garant Drilling, Inc.

Orbit Garant Drilling, Inc. provides drilling services in Canada and internationally. The company offers surface and underground diamond drilling services for each stage of mineral exploration, mine development, and production to major, intermediate, and junior mining companies. As at September 2013, the company operated a fleet of 214 drill rigs. Additionally, the company manufactures and maintains surface and underground drills, custom drill rigs for drilling projects and other equipment. In FY14, the company generated CAD104.2 million in total revenue, of which 95.4% was derived from the provision of drilling services in Canada and the remaining 4.6%, internationally. Additionally, the company generated LTM EBITDA CAD2.4 million as at 23 October 2014.

Transaction Evidence

The table below sets out the EBITDA multiples implied by recent transactions that involved companies operating in the drilling services industry within ASPAC and internationally.

Table 22: 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.

ASPAC transactions

Acquisition of Industrea Limited by General Electric Company

On 23 February 2011, General Electric Company completed the acquisition of Industrea Limited for a cash consideration of AUD468.5 million plus adjustments for cash, debt and other items. Industrea Limited engaged in the provision of mining products and services. It operates in four divisions: Mining Equipment, Mining Technology, Mining Services, and Gas Management. As at 30 June 2011, the company's Mining Services division generated 47.0% of Industrea Limited's total revenue, with Mining Technology and Mining Equipment contributing 32.0% and 19.0%, respectively. The Mining Services division provided integrated contract mining services that include mine planning and management, open cut mining and earth moving services, drill and blast contracting services, civil works, and crushing activities. Industrea Limited was significantly concentrated in the ASPAC region with approximately 70.0% of revenue being derived from this geographic division.

Acquisition of Brandrill Limited by Ausdrill Ltd

On 26 November 2009, Brandrill Limited shareholders approved the offer by Ausdrill Ltd to acquire all shares in Brandrill Limited for a total stock consideration of AUD45.2 million plus adjustment for cash, debt and other items. 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 FY09, Brandrill Limited's Contracting division derived AUD167.4 million, which accounted for 94.0% of revenue. 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 completed the acquisition of Mitchell Drilling Corporation, from the Mitchell family, for AUD150.0 million. The consideration included AUD120.0 million to be paid in cash on closing of the deal, AUD15.0 million through an equity placement to the vendor which would be escrowed for 12 months and AUD15.0 million to be paid in cash in 12 months, subsequent to the deal closing. Mitchell Drilling Corporation provides drilling and ancillary services to the natural resources industry. The company offered, amongst other services, seam drilling, dewatering and pumping, semi and under-balanced drilling, directional drilling and project management services. The company had operations in the Americas and ASPAC region.

International transactions

Acquisition of Taurus Drilling Services ULC by Major Drilling

On 1 August 2014, Major Drilling completed the acquisition of the 100.0% stake in Taurus Drilling Services ULC, for an amount of US$23.3 million. Taurus Drilling Services ULC provides mainly services in the production drilling segment, which has been less impacted by the current downturn in the mining industry and mining exploration spending. Per the agreement, Taurus Drilling Services ULC has paid CAD15.9 million in cash and CAD7.5 million in Major Drilling Group International Inc. stock and CAD 4.3 million in assumption of debt on closing and an additional maximum amount of CAD 11.5 million, contingent on growing EBITDA run rates above current levels. Taurus Drilling Services ULC generated a LTM revenue of approximately CAD39.0 million and a LTM EBITDA of approximately CAD8.0 million as at the date of the transaction. As part of the transaction, Major Drilling Group International Inc. retained Taurus Drilling Services ULC management teams as well as other employees, including experienced drillers. Through this purchase, Major Drilling Group International Inc. acquired 39 drilling rigs, together with related equipment, inventory and contracts.

Acquisition of John Nitschke Drilling Pty Ltd by Foraco International SA

On 19 November 2012, Foraco International SA completed the acquisition of the 100.0% stake in John Nitschke Drilling Pty Ltd, an Australian based drilling service provider, for a consideration of AUD60.0 million in cash and warrants. The consideration includes AUD30.0 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. As of 24 September 2012, John Nitschke Drilling Pty Ltd'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.

Acquisition of WFS Sondagem Ltda by Foraco International SA

On 20 April 2012, Foraco International SA completed the acquisition of 51.0% stake in WFS Sondagem Ltda, a Brazilian drilling service provider, for an amount of US$44.2 million. As part of the agreement, the company had an option to acquire, and the current minority shareholders of WFS Sondagem Ltda had an option to sell, the remaining 49.0% after three years. WFS Sondagem Ltda provides 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.

Acquisition of Bradley Group Limited by Major Drilling

On 30 September 2011, Major Drilling completed the acquisition of Bradley Group Limited for CAD95.0 million. The consideration was structured so that CAD72.0 million would be payable in cash at the closing of the acquisition with the balance of CAD8.0 million being subject to a hold-back over 3 years. In addition, Major Drilling would repay CAD10.0 million of Bradley Group Limited's debt and assume CAD5.0 million in debt. Bradley Group Limited offers gold and diamond drilling services. The company owned and operated a fleet of 124 mining rigs. The company is based in Rouyn Noranda, Canada.

Acquisition of Bertram International Corporation by Energold Drilling Corporation

On 25 July 2011, Energold Drilling Corporation completed the acquisition of 100.0% shareholding in Bertram International Corporation for CAD42.3 million. The initial consideration of the transaction was CAD15.0 million in the form of cash and shares in Energold Drilling Corporation. In addition to the initial consideration, certain shareholders of Bertram International Corporation who were active in managing the business following the transaction date were entitled to receive a payment equivalent to a multiple of EBITDA based on the performance of the division over three consecutive twelve month periods, commencing May 2011. However, as of 20 January 2014 Energold Drilling Corporation agreed to pay certain shareholders of Bertram International Corporation fixed amounts of compensation in lieu of any multiple to EBITDA. Bertram International Corporation offered oil sands coring, shot hole seismic, geothermal, diamond, and pipeline drilling services in the energy sector.

Acquisition of Bronco Drilling Co Inc by Chesapeake Energy Corporation

On 3 June 2011, Chesapeake Energy Corporation completed the acquisition of Bronco Drilling Co Inc. Under the terms of the transaction, Chesapeake Energy Corporation acquired the outstanding shares of Bronco Drilling Co Inc. for US$11 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. The company purely operated drilling rigs in the US. During CY10, the company generated US$124.4 million in revenue from its contract drilling division.

Acquisition of Stoneham Drilling Trust by Western Energy Services Corporation

On 10 June 2011, Western Energy Services Corporation completed the acquisition of Stoneham Drilling Trust for a consideration of approximately CAD190.0 million. Under the terms of the transaction, Stoneham Drilling Trust unit holders received at their election 61.538 Western common shares or CAD24.0 in cash, subject to a maximum of CAD115.0 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. As of 31 December 2010, Stoneham Drilling Trust generated CAD106.1 million in total revenue, with 88.0% of revenue being derived in Canada and the remaining 12.0% in the US.

Acquisition of Allis-Chalmers Energy Inc by Seawell Limited

On 23 February 2011, Seawell Limited completed the acquisition of Allis-Chalmers Energy Inc, through a definitive merger agreement in a transaction 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 2009, the company generated US$506.3 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.

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, particularly 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 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.

Various industry and economic commentators[18] have identified two key trends which significantly impact the level of demand for mining services, particularly drilling services, in Australia and globally:

- *downturn in commodity markets* – the global demand for most commodities remains strong and is still experiencing growth. However, prices have declined as a result of oversupply in commodity markets from the mining boom, as companies sought to capitalise on the demand from the ASPAC region in recent years. This trend is significantly impacting on the global mining sector, flowing through to contract mining service providers as resultant capital constraints on miners leading them to reduce mining and exploration activities
- *capital expenditure on mining projects* – declines in key commodity prices have impacted the margins of miners, incentivising a number of companies to shift from outsourcing mining operations to third party mining service providers, to an in-house mining model with an increased focus on reducing costs. Resource companies have also decreased production volumes at a number of mines due to downward pressure on margins and profitability. This market trend appears to suggest that the overall contract mining sector faces challenges in relation to growth and margins over the coming years.

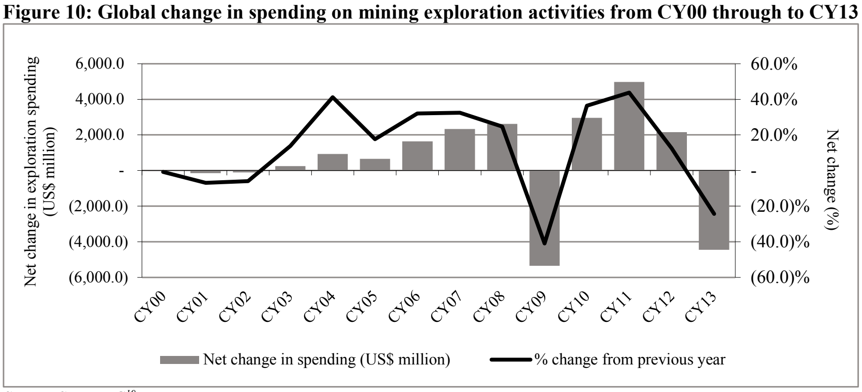
[18] IBISWorld, SNL MEG, Australian government Bureau of Resources and Energy Economics (**BREE**) and Economist Intelligence Unit (**EIU**)

Demand expectations for commodities

During the past decade, the global mining industry experienced a significant increase in investment with the rise in demand from the ASPAC region, particularly from China. During this period, miners focused on increasing exploration activities to expand existing production capacity and outsourced various mining operations (such as drilling and blasting) or entire mine operations, to third party contract mining services providers.

The change in global exploration expenditure from CY00 through to CY13 is illustrated in the graph below.

Figure 10: Global change in spending on mining exploration activities from CY00 through to CY13



Source: SNL MEG[19]

We note that gold, iron ore 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[20], 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.

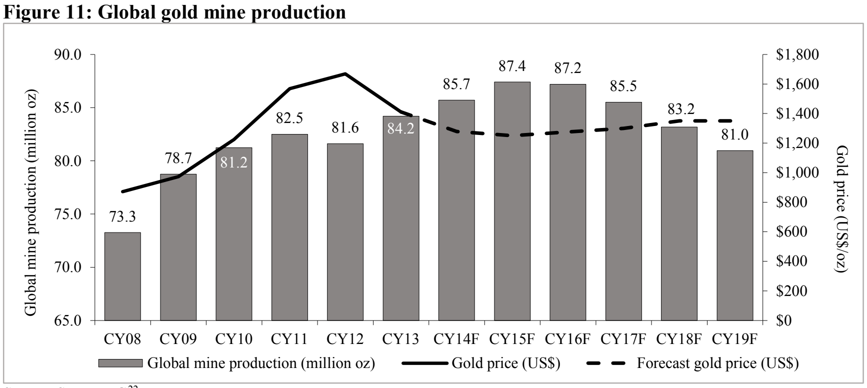
The effects of the GFC saw global gold mining production grow at a Compound Annual Growth Rate (**CAGR**) of approximately 2.3% from CY08 through to CY13. However the EIU expects global gold demand to recover during CY14 after demand slowed during CY13, primarily as a result of investment outflows from gold exchange-traded funds due to an improvement of economic conditions in developed

[19] SNL MEG, Industry Report – Corporate Exploration Strategies 2013, October 2013
[20] IBISWorld, Industry Report - Gold Ore Mining in Australia, August 2014

countries.[21] Various economic commentators expect improvements in global economic performance to place downward pressure on gold prices, resulting in forecasts for global gold mining production from CY13 through to CY19 to slow to a CAGR of -0.6%.

The graph below illustrates the historical and forecast global gold production volumes.

Figure 11: Global gold mine production



Source: SNL MEG[22]

The declining gold prices may lead global producers, some of which comprise of Boart Longyear's customer base (e.g. Barrick Gold Corporation and Newcrest Mining Limited), to scale down operations and undergo cost cutting measures to maintain project feasibility. This would potentially lead to a decrease in demand for contract mining services, particularly drilling services for exploration activities as mining companies further reduce investment in greenfield activities. However, future increases in gold prices may lead to an increased demand for drilling services, particularly coiling services, as gold producers increase production capacity in line with growing demand.

Demand expectations for iron ore

According to IBISWorld[23], global demand for iron ore is directly related to steel and the trends that influence the economic demand for steel production. Typically, the strengthening of economic performance in industries requiring high levels of steel (e.g. construction sector) will result in increased demand for iron ore, particularly in emerging countries where the use of scrap metal is not as common compared to developed nations.

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[21] EIU, Report – World commodity forecasts: industrial raw materials, September 2014

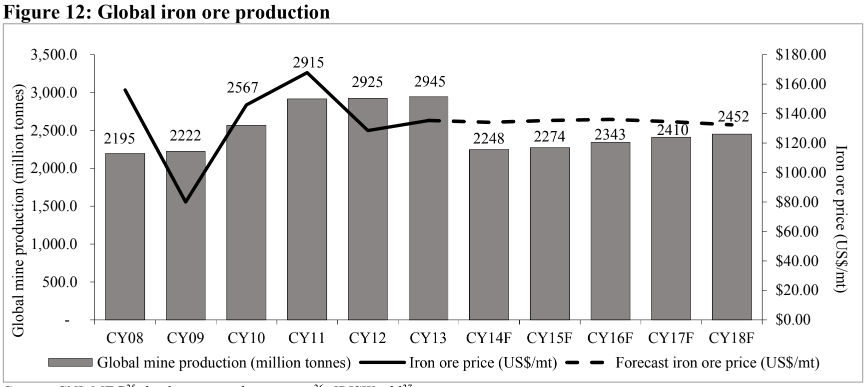
[22] SNL MEG, Report - Gold Production Pipeline Part 1: Mine Production 2004-19, June 2014

[23] IBISWorld, Industry Report - Iron Ore Mining in Australia, July 2014

Strong demand from the ASPAC region, particularly from emerging nations such as China and India, resulted in global iron ore production volumes growing at a CAGR of approximately 5.0% from CY08 through to CY13. Subsequently, an oversupply of iron ore inventory at Chinese ports in conjunction with enforced cutbacks in steel output led to a decline in iron ore prices during CY13[24]. In addition, the EIU and IBISWorld expect downward pressure on pricing to persist during CY14 as additional inventory comes into the market from new mining operations from Australia, Sierra Leone, Guinea, Brazil and Canada. In addition, production volumes from China are expected to increase as Chinese steel mills are seeking to source a greater proportion of raw materials locally. As a result of pricing pressure, global production volumes from CY13 through to CY18 are expected to decline at a CAGR of approximately 3.0%.

The graph below illustrates the historical and forecast global iron ore production volumes.

Figure 12: Global iron ore production



Source: SNL MEG[25], broker research estimates[26], IBISWorld[27]

The forecast increase in production volumes from the ASPAC region is expected to result in further declines in iron ore prices. Some of the largest global iron ore producers form part of Boart Longyear's

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[24] EIU, Report – World commodity forecasts: industrial raw materials, September 2014

[25] SNL MEG, Report – Iron Ore Supply Pipeline 2014, August 2014

[26] Sourced from broker research reports

[27] IBISWorld, Industry Report - Global Iron Ore Mining, May 2014. Iron ore prices are inflation adjusted CY14 dollars

existing customer base, such as Rio Tinto Ltd. and BHP Billiton Limited, which accounted for approximately 35.0% of global market share during CY12. Consequently, declines in iron ore prices may impact the economic viability of existing mines and lead to companies undergoing strategic cost reviews, which could potentially lead to lower production volumes or mine site closures.

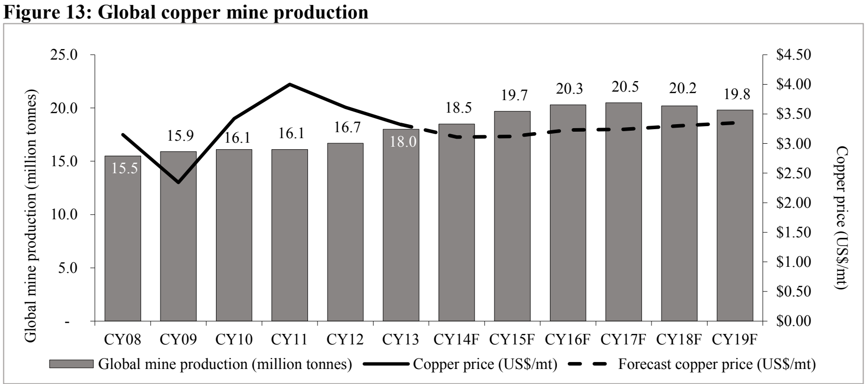
Demand expectation for copper

According to IBISWorld[28], 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, with strong demand being seen from emerging countries.[29]

The demand from China over the past decade has seen global copper production grow at a CAGR of approximately 2.5% in the six years through to CY13. China and Africa significantly expanded copper ore production during this period from new operations and mine expansions, which has resulted in forecast global copper production volumes from CY13 through to CY19 to increase at a CAGR of 1.4%. In addition, whilst EIU and IBISWorld expect global economic performance to improve, the oversupply of copper in the commodities market is likely to cause downward pressure on copper prices.[30] Accordingly, EIU expects the market to be in surplus into CY14 and CY15.

The graph below illustrates the global historical and forecast copper production.

Figure 13: Global copper mine production



Source: SNL MEG[31]

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[28] IBISWorld, Industry Report – Copper Ore Mining in Australia, September 2014
[29] Thomson Reuters, Report – GFMS Copper Survey 2014, April 2014
[30] Business Monitor International, Industry Report – Australia Mining Report, 2013
[31] SNL MEG, Copper Production Pipeline: Mine Development and Production, 2014

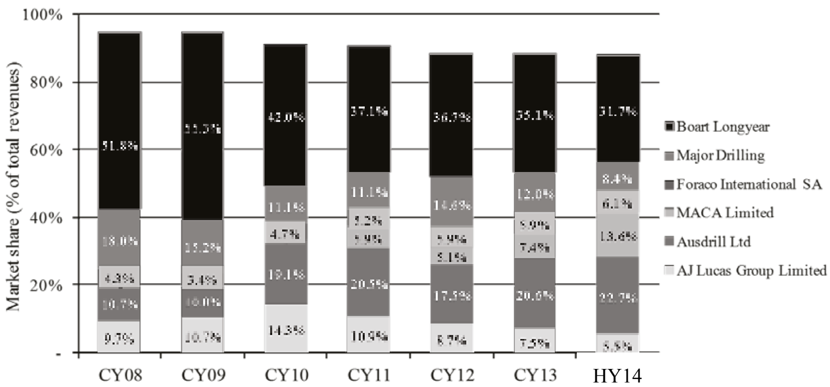
The current decline in copper prices has led to producers adopting various cost restructuring measures to remain competitive in the market, resulting in the implementation of stringent capital allocation, asset reviews and the reduction of capital expenditure by miners.

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. Notwithstanding the contraction in the mining and energy markets, Boart Longyear has mostly retained its market share in the drilling services and products division.

The graph below illustrates Boart Longyear's market share profile (based on revenues) compared to the top 5 revenue earners from our comparable company peer group. For further detail on the comparable companies, see Section 16.3.3.1[32].

Figure 14: Market share profile based on a percentage of total revenues[33]



Source: S&P Capital IQ and KPMG Corporate Finance Analysis

These companies operate in a variety of jurisdictions and markets besides mining and resources, which may have had a significant difference in impact on market share overtime compared to Boart Longyear, and hence may not be comparable on a like for like basis. In addition, fluctuations in foreign currency exchange fluctuations as well as acquisitions during the time period analysed have impacted the market share profile shown above.

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[32] Source: S&P Capital IQ downloaded as at 19 September 2014

[33]Total revenues have been calculated based on all 11 peers in the comparable company analysis in Section 16.3.3.1

According to IBISWorld[34], the mining services market in Australia is fragmented, with the top three players accounting for less than 20.0% of industry revenue. 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. Other key companies in Australia include Boart Longyear, Ausdrill Ltd and Layne Christensen, each holding a market share of less than 3.0% in the wider mining services market.

Due to the market contraction, the overall industry has become highly competitive and has caused profitability and margin pressures on larger players. 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.

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.

Various factors are responsible for the overall weakening of demand in drilling services, which is expected to continue to decline in the medium to long term. This forecast decline is mainly due to expected cutbacks in investment in the mining sector. Given the demand expectations are more positive in production mining, Boart Longyear (traditionally focusing on exploration drilling) may face increased competition in the medium to long term as demand becomes affected by fragile economies and a further slowdown in mining and energy markets.

We would expect the industry growth to be subdued in the medium to long term depending on commodity price levels not significantly changing, with any growth at the entity level due to increasing market share rather than growth in the market.

[34] IBISWorld, Industry Report – Mining Support Services in Australia, July 2014

Appendix 6 – Glossary

Abbreviation	Description
US$	United States dollars
AASB	Australian Accounting Standard Board
Announcement Date	23 October 2014
APESB	Accounting Professional & Ethical Standards Board
ASIC	Australian Securities and Investments Commission
ASPAC	Asia Pacific
ASX	Australian Securities Exchange
AUD	Australian Dollar
Australian Dollar Rights Price	Australian Dollar equivalent Proposal Value based on the prevailing Australian Dollar to US Dollar exchange rate on the business day prior to the launch of the rights issue
Authorised Representative	Authorised representative of KPMG Corporate Finance
Board	Board of Directors of Boart Longyear
Boart Longyear or the Company	Boart Longyear Limited
BREE	Bureau of Resources and Energy Economics
CAD	Canadian dollars
CAGR	Compound average growth rate
Centerbridge	Centerbridge, L.P.
CEO	Chief Executive Officer
CFO	Chief Financial Officer
COGS	Cost of Goods Sold
Corporations Act / the Act	Corporations Act 2001 (Cth)
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
EIU	Economist Intelligence Unit
EMEA	Middle East and Africa
FOS	Financial Ombudsman Service
FSG	Financial Services Guide
FYxx	Financial Year ending 30 June

Abbreviation	Description
GFC	Global Financial Crisis
HYxx	Half Year ended xx
IER	Independent Expert Report
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
NPAT	Net profit after tax
NPBT	Net profit before tax
NTM	Next twelve months (based upon broker forecasts)
PDS	Product Disclosure Statement
Preference Shares	Centerbridge will receive the portion of its equity above 49.9% in the form of preference shares which are convertible into common shares at the Proposal Value at any time
Products	Boart Longyear's global drilling products business division
Proposal Value	Based on the 30 day VWAP as at the Announcement Date
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"
Rights Issue	Rights issue at the Proposal Value, for which Centerbridge will act as underwriter
ROE	Return on Equity
S&P	Standard & Poor's
SG&A	General, administrative, sales and marketing expenses
Share Buy Back	A buy back offer for the shareholders of Boart Longyear at the Proposal Value, for which Centerbridge has the right to effectively be issued shares of an equivalent amount
Shareholders	Shareholders of Boart Longyear
SNL MEG	SNL Metals Economics Group
the Proposal	A conditional proposal from Centerbridge, L.P. to recapitalise the Company, in which Centerbridge will contribute both debt and equity, potentially

Abbreviation	Description
	acquiring up to 49.9% of Boart Longyear's ordinary shares and potentially acquire 857.2 million of Preference Shares
US	United States
VP	Vice President
VWAP	Volume weighted average price
WACC	Weighted average cost of capital
YTD	Year to date

PART TWO – FINANCIAL SERVICES GUIDE

Dated 14 November 2014

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.

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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 Proposal).

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.

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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 AUD225,000 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.

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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 AUD517,000 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:
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Listing
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