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FINANCIAL REPORT

Annual Financial Report

31 DECEMBER 2010

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DIRECTORS' REPORT

The directors present their report together with the financial report of Boart Longyear Limited (the "Parent") and its controlled entities (collectively the "Company") for the financial year ended 31 December 2010 ("financial year") and the Independent Auditor's Report thereon.

Financial results and information contained herein are presented in United States ("US") dollars unless otherwise noted.

DIRECTORS

The directors of the Company in office during the financial year and as of the date of this report are set out below.

- Bruce Brook Appointed 21 February 2007
- Roger Brown Appointed 1 July 2010
- Roy Franklin Appointed 15 October 2010
- David Grzelak Appointed 13 November 2008
- Craig Kipp Appointed 28 June 2008
- David McLemore Appointed 21 February 2007
- Peter St George Appointed 21 February 2007

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

- Graham Bradley Appointed 21 February 2007; resigned 23 August 2010

A summary of the directors' work experience and qualifications is found on pages 18-19.

DIRECTORS' MEETINGS

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

	Board of Directors		Remuneration & Nominations Committee		Audit, Compliance & Risk Committee		Environment, Health & Safety Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Graham Bradley ¹	4	4	2	2				
Bruce Brook	6	6			4	4	4	4
Roger Brown ²	3	3	2	2			2	2
Roy Franklin ³	2	2						
David Grzelak	6	5			4	4	4	4
Craig Kipp	6	6						
David McLemore	6	6	4	4			3	3
Peter St. George	6	6	4	4	4	4		

(1) Mr. Bradley resigned from the Board effective 23 August 2010

(2) Mr. Brown was appointed to the Board on 1 July 2010

(3) Mr. Franklin was appointed to the Board on 15 October 2010

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

COMPANY SECRETARIES

Fabrizio Rasetti was appointed Company Secretary on 26 February 2007. A summary of his work experience and qualifications is found on page 20.

Paul Blewett was appointed Company Secretary on 21 October 2008. Prior to joining Boart Longyear he was General Counsel and Company Secretary for Hills Industries Limited (ASX:HIL). Prior to Hills Industries, he held a number of positions with other Australian Securities Exchange listed companies, following private legal practice for 8 years with the Lynch Meyer law firm in Adelaide, South Australia. Mr. Blewett received his LLB from the University of Adelaide in 1983.

PRINCIPAL ACTIVITIES

The Company is a leading integrated provider of drilling services, capital equipment and consumable products for customers in the mining and minerals exploration, environmental and infrastructure, and energy industries. The Company conducts these activities through two operating divisions, known as the Global Drilling Services and Global Products divisions.

The Global Drilling Services division operates in over 40 countries. It provides services to a diverse customer base and offers a broad range of drilling technologies, including, but not limited to, diamond core, underground, reverse circulation, rotary and sonic drilling.

The Global Products division manufactures and sells capital equipment and consumables primarily to customers in the drilling services and mining industries globally. These products include rigs and products such as bits, rods and in-hole tools for exploration drilling, rock drilling and environmental, infrastructure and construction applications.

Financial performance

Financial performance across all business lines and geographic regions significantly improved over the previous year.

Total revenue for the year ended 31 December 2010 was \$1,476 million, an increase of 51% compared to \$978 million for the prior year. Of the \$498 million increase in revenue during 2010, \$343 million was attributable to an increase in revenues in the Global Drilling Services division and \$155 million was due to the Global Products division. Revenues were higher in each of the five geographic regions.

In 2010, the Global Drilling Services division generated revenue of \$1,080 million, an increase of 47% from the prior year. The increase is primarily attributable to improved drill rig utilisation and improved pricing.

In 2010, the Global Products division generated revenue of \$395 million, an increase of 64% from the prior year. The increase was driven by higher sales volume related to higher activity in the mining industry.

In 2010, the Company initiated a restructuring plan to reduce or eliminate certain operations. Additionally, the Company continued the initiative begun in 2008 to reduce operating costs through a series of restructuring activities. During the year ended 31 December 2010, the Company incurred costs of \$5 million related to employee separation, contract termination and other restructuring initiatives. During the year ended 31 December 2009, the Company incurred costs of \$13 million related to employee separation, occupancy reductions and other restructuring initiatives.

Net profit after tax for the year ended 31 December 2010 was \$85 million compared to a net loss of (\$15) million in the year ended 31 December 2009. The 2010 profit includes restructuring expenses of \$5 million (\$3 million net of tax benefit). The 2009 losses include restructuring expenses of \$13 million and \$17 million (\$9 million and \$12 million net of tax benefit, respectively) in one-time expenses (primarily non-cash) related to the capital raising program undertaken during the financial year.

Tax expense for the year ended 31 December 2010 was \$39 million, or 31% of profit before tax, compared to a tax benefit of \$8 million, or 34% of loss before tax, for the year ended 31 December 2009. The tax expense and benefit takes into account the tax weighting of the corporate structure.

Earnings per share in 2010 were 18.5 cents per share on a basic basis and 18.4 cents per share on a diluted basis, compared to a loss per share on a basic and diluted basis of (6.1) cents for the prior year.

DIVIDENDS

On 23 August 2010, the directors of the Company declared a dividend of US 2.1 cents per share for the half-year ended 30 June 2010. The dividend was paid on 14 October 2010 and was 35% franked at the Australian corporate taxation rate of 30%. 100% of the unfranked portion of the dividend was conduit foreign income.

On 23 February 2011, the directors of the Company determined to pay a dividend of US 3.4 cents (total of approximately \$16,000,000) on each of the issued ordinary shares of the Company. The dividend is payable on 15 April 2011 to shareholders of record on 18 March 2011. The dividend will be 35% franked at the Australian corporate taxation rate of 30%. 100% of the unfranked portion of the dividend was conduit foreign income. The dividend was not included as a liability in the 31 December 2010 financial statements.

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SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Enterprise Resource Planning System Implementation

The Company is in process of implementing a new Enterprise Resource Planning ("ERP") system. The ERP system will be an integral element of the Company's management, reporting and control systems. The Company converted its North American operations to the ERP system in January 2011. The Company plans to transition its remaining entities in a series of conversions scheduled to occur in 2011 and 2012.

EVENTS SUBSEQUENT TO REPORTING DATE

In the opinion of the directors, there has not arisen in the interval between the end of the financial year and the date of the report any matter or circumstance that has significantly affected, or may significantly affect, the Company's operations, results or state of affairs in future financial years.

FUTURE DEVELOPMENTS

The Company intends to continue its principal activities related to providing drilling services and selling drilling capital equipment and consumable products while focusing on operating improvements, product development, cost management and cash generation. The Company may also elect to expand its product or service offerings through organic growth initiatives or strategic acquisitions.

Further information about likely developments in the operations of the Company in future years, expected results of those operations, and strategies of the Company and its prospects for future financial years has been omitted from this report because disclosure of the information would likely result in unreasonable prejudice to the Company.

CORPORATE GOVERNANCE STATEMENT

The Board believes that high standards of corporate governance are an essential prerequisite for creating sustainable value for shareholders. This statement summarises the main corporate governance policies and practices in place within the Company. Unless otherwise noted, the Company has followed the best practice recommendations set out in the ASX Corporate Governance Council's Principles and Recommendations (the "ASX Guidelines").

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

Role of the Board

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

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

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

Composition of the Board

At the date of this report, the Company has one executive director and six non-executive directors.

Boart Longyear recognises that the ability of its Board to fulfill its role properly requires that the directors collectively have an appropriate range of skills, experience and expertise, including experience in accounting and financial reporting, operational expertise and experience in the markets the Company serves. The Company also recognises that a majority of the directors should be independent. In assessing the independence of non-executive directors, the Board has considered the criteria detailed in the Board charter, including, whether a director:

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

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

The Board meets the requirements of the charter and the recommendations of the ASX Guidelines as a majority of the Board is comprised of non-executive directors and all non-executive directors, including the Chairman, meet the

independence criteria listed above. In particular, none of the non-executive directors, including the Chairman, has been an employee of the Company or any of its significant investors prior to the Company's initial public offering.

Board Processes

The Board meets at least six times a year and convenes additional meetings as required. The agenda for Board meetings is prepared by the Chief Executive Officer and other senior management in conjunction with the Chairman and, along with supporting papers, is distributed to directors prior to each meeting. Certain senior executives participate in Board and committee meetings to provide the directors with access to key operating, financial and compliance personnel on a regular basis. In addition, the directors have access to other Company employees in Board and committee meetings and in other settings. The Board endeavors to schedule at least one meeting annually at one of the Company's significant operating locations and, among other things, meets with the locations' management during each visit.

Board Committees

The Board is comprised of the following three permanent committees to assist it in discharging its responsibilities:

- Audit, Compliance & Risk Committee;
- Remuneration & Nominations Committee; and
- Environment, Health & Safety Committee.

The committees have written charters that are reviewed annually. All non-executive directors may attend any committee meeting. The Chairman of each committee reports on committee proceedings at the next Board meeting, and minutes of committee meetings are circulated to directors in the Board papers.

Audit, Compliance & Risk Committee

The Audit, Compliance & Risk Committee assists the Board to fulfill its governance and disclosure responsibilities in relation to the quality and integrity of the Company's financial reports, internal controls, risk management framework and external audits. The committee also monitors compliance with laws and regulations. The committee makes recommendations to the Board regarding the appointment, performance and independence of the external auditor and must approve all non-audit services performed by the external auditor.

The committee is comprised of three non-executive directors, all of whom are independent directors and at least one of whom has relevant accounting qualifications or experience. The members of the committee during and since the financial year are:

- Bruce Brook – Chairman
- Peter St George
- David Grzelak

Remuneration & Nominations Committee

The Remuneration & Nominations Committee supports the Board by overseeing matters related to executive and director remuneration and the composition and performance of the Board. The committee's responsibilities include:

- developing and reviewing remuneration plans, including annual bonus plans and long term incentive plans, including equity-based incentive plans;
- developing performance objectives for the Chief Executive Officer and his direct reports and reviewing performance against those objectives;
- overseeing policies for recruitment, retention and succession planning for directors and key executive positions; and
- reviewing the composition of the Board and monitoring the performance of the Board and the directors.

The committee consists of the following three non-executive directors:

- David McLemore – Chairman
- Peter St George
- Roger Brown

Mr. St George resigned as committee Chairman on 22 March 2010, at which time Mr. McLemore assumed the chairmanship.

Environment, Health & Safety Committee

Boart Longyear places a high priority on safety, management of operational risks and compliance with environmental laws and regulations. The Environment, Health & Safety Committee assists the Board in the effective discharge of its responsibilities in relation to these matters and has authority to investigate any matter within the scope of the committee's charter.

Among its responsibilities, the committee:

- ensures that the Company has effective systems and processes for monitoring and mitigating operational risks;
- reviews and assesses the Company's policies and practices to ensure compliance with environmental and operational regulatory requirements, including through internal and external audits; and
- reviews the results of investigations of any major health, safety or environmental incidents occurring in the Company's operations.

The committee consists of the following three non-executive directors:

- Dave Grzelak – Chairman
- Bruce Brook
- Roger Brown

Mr. McLemore was a member and Chairman of the committee until 19 August 2010. Mr. Grzelak assumed the committee chairmanship upon Mr. McLemore's resignation. Mr. Brown was appointed to the committee on 1 July 2010.

Board and Director Performance

The Board has a formal annual assessment process that includes performance assessments of the Board committees and individual directors. As part of the assessment process, each director completes a questionnaire on the operation of the Board and its committees and the performance and contributions of the directors. The results of the questionnaires are compiled by the Chairman and discussed with each director individually. The Chairman also holds a further discussion about the Board's effectiveness with the Board as a whole. The last Board effectiveness evaluation was completed in December 2009. The Chairman currently is coordinating a Board performance assessment to be conducted in the first quarter of 2011 with the assistance of an external consultant.

New directors undergo an induction process to inform them of the nature of the Company's business, strategies, risks and issues, and expectations about director performance, including awareness of continuous disclosure principles. The terms of a non-executive director's appointment are set out in a letter to the director from the Company. The letter details the director's obligations, including to:

- act in the best interests of the Company at all times;
- submit to re-election from time to time as required by the Company's constitution;
- notify the Chairman of any change in circumstances that might prevent the director from being regarded as independent;
- comply with the Company's constitution, governance policies and all applicable legal requirements, including the Company's Securities Trading Policy;
- devote sufficient time to prepare for and attend Board meetings and otherwise to discharge the director's duties;
- keep confidential, and not use for the benefit of any person or party other than the Company, any confidential information of the Company; and
- disclose any directorships, business interests or circumstances that might represent conflicts of interests or reasonably be perceived to interfere with the exercise of the director's independent judgment, or have an adverse impact on the Company's reputation or public profile.

The appointment letter also confers certain benefits and rights upon the director, including indemnities and insurance coverage for liabilities arising out of the discharge of the director's duties and unfettered access to papers, information and employees of the Company. In addition, directors may, with the approval of the Chairman, consult with professional advisors.

Executive Performance

The Company employs a structured performance evaluation process to ensure that senior executives are motivated to deliver shareholder value and are accountable to the Board at all times. The process commences early each financial year when the Board establishes and approves corporate performance objectives as well as individual performance objectives for senior managers of the Company. As detailed more fully in the Remuneration Report, performance against those objectives determines the potential incentive the executive may receive under the Company's annual bonus plan. The Chief Executive Officer and other senior managers of the Company participate in an annual short-term

incentive plan which is based on the achievement of the annual corporate operating margin, safety and revenue growth performance objectives as well as certain individual strategic initiatives approved by the Board. Individuals are advised annually of their target bonuses, which in 2010 ranged from 50% to an additional 100% of base pay for the senior executives. Exceptional individual and corporate performance can increase these target bonuses by up to 100%. The Company's executive performance assessment process for 2010 and goal-setting process for 2011 commenced in January 2011 and will be completed in March 2011.

Risk Management

The Board recognises that risk management and internal controls are fundamental to good corporate governance, and the Board and senior management accept their responsibility to identify and manage risk on an ongoing basis. The Company's risk management framework consists of a number of controls, including:

- documented systems, procedures, authorities and delegations for the orderly management of the Company;
- policies and ethical standards, and ensuring that employees understand such obligations;
- risk-based internal audits to test the Company's controls and assist management with the enforcement of Company policies;
- certifications from management and process owners throughout the Company regarding the design and operation of risk management systems, internal controls and compliance; and
- a formal risk management system, overseen by the Director of Risk Management, based on a written risk management policy and the findings of Company audits and investigations.

The Board is assisted and advised in its oversight of the Company's risk management system by two of its committees: the Environment, Health & Safety Committee with respect to operational risks generally and the Audit, Compliance & Risk Committee with respect to financial, compliance and other risks. Those committees review the annual audit plan of the Company's internal audit function and Environment, Health & Safety group, and, along with senior management, consider the findings of those audits. The Audit, Compliance & Risk Committee also monitors compliance programs managed by the Company's legal function and reviews the significant findings of any compliance reviews or investigations.

The Company also implemented a scenario planning process in December 2010 to identify early signs of, and plan for, significant events and contingencies.

Integrity of Financial Reporting

In accordance with the ASX Guidelines, the Chief Executive Officer and Chief Financial Officer have certified the following (among other detailed certifications) to the Board in writing:

- 1) in their opinion, after having made appropriate enquiries, with regard to the integrity of the financial statements of the Company for the year ended 31 December 2010:
 - (i) the financial statements for the financial year comply with Accounting Standards and have been properly maintained in accordance with section 286 of the Corporations Act 2001;
 - (ii) the financial reports, and notes thereto, present a true and fair view, in all material respects, of the financial position and performance of the Company in accordance with section 297 of the Corporations Act 2001; and
 - (iii) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- 2) to the best of their knowledge and belief after having made appropriate enquiries, with regard to risk management and internal control systems of the Company for the year ended 31 December 2010:
 - (i) the statements made in (1) above regarding the integrity of the financial statements are founded on a sound system of risk management and internal compliance which, in all material respects, implements the policies adopted by the Board of Directors;
 - (ii) the risk management and internal compliance system, to the extent it relates to financial reporting, is operating effectively in all material respects based on the risk management model adopted by the Company; and
 - (iii) nothing has come to management's attention since 31 December 2010 that would indicate any material change to the statements made in 2(i) and 2(ii) above.

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

Code of Business Conduct and Ethical Standards

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

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

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

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

Environmental Performance

Boart Longyear is committed to achieving a high standard of environmental performance. The Company's operations are subject to various environmental laws and regulations in the many jurisdictions in which it operates, including regulations under both Commonwealth and state legislation in Australia. The Board, with the assistance of the Environment, Health & Safety Committee, monitors environmental performance against relevant legislation and Company objectives and monitors remedial action when required.

The directors are not aware of any business unit operating in breach of environmental regulations during the financial year and, to the date of this report, under any applicable law of the Commonwealth or of a State or Territory.

Continuous Disclosure

The Board aims to ensure that all of its shareholders and the market in general are kept fully and promptly informed of all major developments and changes that are likely to materially affect the Company's operations, financial results and business prospects. The Company's External Communications Policy specifies how the Company will meet its continuous disclosure obligations under ASX Listing Rule 3.1 and sets out procedures for Company employees to report potentially price-sensitive information to management and the Board.

The Company produces financial statements for its shareholders and other interested parties twice per year. Shareholders have the right to attend the Annual General Meeting in May and are provided with an explanatory memorandum on the resolutions proposed through the Notice of Meeting. The Company also has an investor relations function to manage and assure prompt and relevant communications with shareholders and the market generally, and the Company posts material information for its shareholders, such as ASX announcements and financial results, on its website at www.boartlongyear.com.

Donations

Boart Longyear contributes to the communities in which it works with donations, sponsorship and practical support. The Company does not make political donations.

DIRECTORS' SHAREHOLDINGS

The following table sets out each director's relevant interest in shares, debentures, and rights or options over shares or debentures of the Company or a related body corporate as at the date of this report.

	Fully paid ordinary shares	Restricted shares, rights and options ¹	Total
Bruce Brook	104,422	-	104,422
Roger Brown	30,000	-	30,000
Roy Franklin	-	-	-
David Grzelak	1,000	-	1,000
Craig Kipp	521,463	999,291	1,520,754
David McLemore	115,861	-	115,861
Peter St. George	107,449	-	107,449

- (1) Certain of the restricted shares and options listed for Mr. Kipp are performance share rights granted under the Long-Term Incentive Plan and thus are subject to a performance condition as well as a service condition

GRANTS OF SHARES, RIGHTS OVER SHARES AND OPTIONS GRANTED TO DIRECTORS AND EXECUTIVES

The shares or rights over shares of the Company that have been granted to directors or executives of the Company are included in the Remuneration Report. Options over unissued shares of the Company have been granted to the Chief Executive Officer, Mr. Kipp, and certain other executives, as detailed in the Remuneration Report. No shares or interests have been issued during or since the end of the financial year as a result of exercise of options.

DIRECTORS' AND OFFICERS' INTERESTS IN CONTRACTS

Except as noted herein, no contracts involving directors' or officers' interests existed during, or were entered into since the end of the financial year other than the transactions detailed in Note 34 to the financial statements.

PROCEEDINGS ON BEHALF OF COMPANY

No person has applied for leave of court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the financial year.

REMUNERATION REPORT

INTRODUCTION

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

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

- the overall objective of attracting, retaining and motivating management in order to achieve the highest levels of performance from them for the benefit of all shareholders;
- high standards of fairness, transparency and sound corporate governance principles;
- the particular business environment in which Boart Longyear operates recognising that:
 - o the Company's business is global and consequently the senior executive team is based primarily outside of Australia and is recruited internationally;
 - o the markets in which the company operates can have strong cyclical characteristics which place equal performance pressures on management in an upswing as in down cycles, and
 - o importantly the Company is incorporated and listed in Australia and must comply with local corporate regulatory requirements and practices.

During 2010 the Board undertook a comprehensive review of the Company's remuneration practices and policies. In conducting this review, the Board paid particular attention to the specific concerns that were raised by shareholders in the vote on the 2009 remuneration report.

The goal in this year's Remuneration Report is to provide clear and transparent disclosure on all relevant remuneration matters. In doing so, greater detail has been provided than is required either by legislation or best practice principles. Where appropriate, certain recommendations made in the final report by the Australian Productivity Commission, *Executive Remuneration*, issued in late 2010, have been adopted early. The intention in doing this is to give shareholders confidence that the Board has responsibly aligned the need to adequately remunerate our executives while appropriately meeting the legitimate expectations of shareholders in terms of executive remuneration.

Report Structure

The Remuneration Report (the “Report”) is presented in six sections, as follows.

Section		Description of content
1	2010 remuneration overview	<ul style="list-style-type: none"> • Outlines the Company’s remuneration practices and the key influences on the Company’s remuneration arrangements during the year ended 31 December 2010. • Explains how executive remuneration is structured to support the Company’s strategic objectives. • Sets out the directors and senior executives who are covered by this Report. • Details the actual remuneration earned by the CEO and other senior executives during the year ended 31 December 2010.
2	Remuneration framework and strategy	<ul style="list-style-type: none"> • Sets out the Company’s remuneration governance framework and explains how the Board and Remuneration & Nominations Committee make remuneration decisions, including the use of external remuneration consultants. • Outlines the Company’s remuneration strategy.
3	Components of executive remuneration	<ul style="list-style-type: none"> • Provides a breakdown of the various components of executive remuneration. • Details the components of executive remuneration that are fixed and therefore not at-risk. • Outlines the key features of the short-term incentive plan that applies to the Company’s executives. • Outlines the key features of the long-term incentive plan and option plan that apply to the Company’s executives.
4	Performance and risk alignment	<ul style="list-style-type: none"> • Explains how executive remuneration is aligned with performance and outlines short-term and long-term performance indicators and outcomes. • Explains how executive remuneration is structured to encourage behaviour that supports long-term financial soundness and the Company’s risk management framework.
5	Executive remuneration in detail	<ul style="list-style-type: none"> • Sets out the total remuneration provided to executives (calculated pursuant to the accounting standards) during the years ended 31 December 2010 and 2009. • Provides details of the Rights granted to executives during the year ended 31 December 2010 under the long-term incentive plan. • Summarises the key terms of executive service contracts (including termination entitlements).
6	Non-executive Director arrangements	<ul style="list-style-type: none"> • Explains the Non-executive Directors’ remuneration structure including the basis on which Non-executive Director remuneration is set and the components. • Outlines key features of the Non-executive Director Share Acquisition Plan. • Sets out the Non-executive Directors’ remuneration during the years ended 31 December 2010 and 2009.

1. REMUNERATION OVERVIEW

This section provides:

- an overview of the company's executive remuneration strategy and linkages between the strategy and the design of the components of executive remuneration;
- a summary of the review that was undertaken of the Company's remuneration strategy and procedures during 2010 and the outcomes of that review;
- details of the directors and senior executives covered by this Report; and
- details of the actual remuneration outcomes for senior executives.

At the Company's annual general meeting on 11 May 2010, shareholders approved a 10 for 1 share consolidation. Trading in the consolidated shares commenced 13 May 2010. Where relevant, amounts have been restated in this Report using the consolidated share amounts.

1.1. EXECUTIVE REMUNERATION STRATEGY

The diagram below illustrates the significant objectives of the Company's executive remuneration strategy and how the components of overall remuneration have been designed to support these objectives:



Attract, Retain and Reward Top Talented Executives	Alignment between Total Compensation and Delivered Performance	Appropriate Mix of Fixed and "At Risk" Remuneration	Total Remuneration is reasonable and aligned with Shareholder Interests
<ul style="list-style-type: none"> • Remuneration levels are competitive with similar roles in markets in which the Company competes for talent. • Incentive-based compensation provides for upside potential with superior performance. • Long-term incentive compensation provides for a meaningful retention. 	<ul style="list-style-type: none"> • Incentive-based compensation is designed to reward executives for delivered performance against important company financial and strategic objectives. • Incentive plans utilise an appropriate mix of challenging performance measures designed to only deliver value to executives if target performance is achieved over both the short and long terms. 	<ul style="list-style-type: none"> • There is a significant amount of total executive remuneration which is at risk and dependent upon achieving challenging performance metrics. • Fixed remuneration is appropriately market competitive and consistently higher performing executives are rewarded through higher base compensation. 	<ul style="list-style-type: none"> • The Remuneration Committee regularly performs executive compensation benchmarking utilising independent compensation consultants. • The long-term incentive component of remuneration is primarily delivered through equity share rights linked to the Company's ordinary shares. • Executives and Directors cannot hedge equity share rights that are unvested or subject to restrictions.

1.2. REVIEW OF REMUNERATION STRATEGY AND PRACTICES

During 2010, the Board reviewed the Company's executive remuneration arrangements. The key objectives of this review were to further enhance the linkage between performance-based compensation and actual business performance, and to establish a set of key performance metrics that would remain consistent through business cycles. At the same time it was recognised that the principle of a fair relationship between remuneration outcomes and performance delivered to shareholders was fundamental to any executive incentive scheme being proposed as a result of the review. The Board engaged Mercer Consulting as lead external consultants to assist in this review.

Following this review, the Company implemented several remuneration initiatives consistent with the goals of the review. These included:

- amending the terms of the short-term incentive ("STI") provided to executives under the Corporate Bonus Plan ("CBP") to include a broader range of performance measures, including operating, strategic, safety and individual performance measures, and to include stretch targets to reward exceptional performance. Details of the terms of this plan are set out in section 3.3 below;
- re-designing the terms of the long-term incentive ("LTI") plan for executives applicable to performance-based awards beginning 1 January 2010. This revised plan measures performance in relation to Return on Equity ("ROE"). This measure is considered a more appropriate measure of performance than the previous single measure of average earnings per share ("EPS") as it captures several of the key performance drivers of the business and reflects the importance to the Company of effective capital management. The revised plan also incorporates stretch targets to reward outstanding performance. Details of the 2010 Long Term Incentive Plan are set out in section 3.4 below, and;
- establishing formulae and key performance metrics for both the CBP and the LTI plan which can be consistently applied through all aspects of the business cycle so as to provide certainty and clarity for executives and shareholders (the Board has, however, retained discretion to modify the plans should circumstances require).

All components of executive remuneration, including base pay, target short-term and target long-term incentive pay were reviewed for market competitiveness against companies of similar size and/or a composite peer group including companies with complementary talent pools and having similar value standards.

1.3. DIRECTORS AND SENIOR EXECUTIVES

This Report sets out the remuneration arrangements in place for the key management personnel ("KMP") of the Company for the purposes of the Corporations Act and the Accounting Standards, being those persons who have authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including the non-executive directors. The KMP include the five highest remunerated executives of the Company for the year ended 31 December 2010 and are listed in Table 1.3 below:

Table 1.3: Directors and senior executives who were KMP during the year ended 31 December 2010

Non-Executive Directors	Position
David McLemore	Chairman, Non-executive director (elected Chairman 23 August 2010)
Graham Bradley	Chairman, Non-executive director (resigned from the Board 23 August 2010)
Bruce Brook	Non-executive director
Roger Brown	Non-executive director (appointed 1 July 2010)
Roy Franklin	Non-executive director (appointed 15 October 2010)
David Grzelak	Non-executive director
Peter St. George	Non-executive director
Senior Executives	Position
Craig Kipp	Chief Executive Officer and Executive Director
Joe Ragan III	Chief Financial Officer
Fabrizio Rasetti	Senior Vice President, General Counsel and Secretary
Brad Baker	Senior Vice President, Human Resources
Michael Birch	Vice President, Global Drilling Services
Alan Sides	Vice President, Global Products (employment commenced on 15 March 2010)

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

1.4. REMUNERATION OUTCOMES

Actual remuneration

Details of the CEO and other senior executive remuneration for the year ended 31 December 2010, prepared in accordance with statutory obligations and accounting standards, are contained in Table 5.1 of this Report.

Table 1.4 below provides details of the cash and other benefits that were actually paid to the CEO and other senior executives who were KMP. It illustrates how the Company's remuneration strategy for senior executives translates into practice.

Table 1.4: Actual remuneration received by senior executives during the year ended 31 December 2010

	Base Salary US\$	STI (cash) ¹ US\$	LTI (cash and equity) ² US\$	Other ³ US\$	Total US\$
Craig Kipp	1,003,846	1,000,000	-	34,514	2,038,360
Joe Ragan III	416,923	280,000	-	36,768	733,691
Fabrizio Rasetti	363,750	146,250	-	34,878	544,878
Brad Baker	297,058	142,500	-	35,807	475,365
Michael Birch	426,154	200,000	-	29,280	655,434
Alan Sides ⁴	258,461	-	-	238,415	496,876

- (1) Represents the cash paid in respect of the executive's STI award earned under the CBP. For further details of the CBP, see section 3.3 of this Report.
- (2) Represents the value of share rights, cash rights and options vested during the year. No awards vested for any of the senior executives during 2010. Share rights and cash rights granted under the Company's LTI Plan and options granted under the Company's Option Plan[s] during the year ended 31 December 2010 and other grant years that are still in progress do not appear in this table, as they are not eligible for vesting until the conclusion of the performance period and/or continued service requirement. For further details of the LTI Plan and Option Plans, see section 3.4 of this Report.
- (3) Represents benefits such as special one-time bonuses (if any), US 401(k) retirement plan Company matching and/or profit sharing contributions, relocation benefits, car allowance, and tax preparation service reimbursements if applicable.
- (4) Mr. Sides' employment commenced on 15 March 2010. In addition to the items in (3) above, the amount listed as "Other" includes a one-time signing bonus of \$50,000 and the value of his taxable relocation benefits of \$164,120 associated with joining the Company.

2. REMUNERATION FRAMEWORK AND STRATEGY

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

2.1. HOW REMUNERATION DECISIONS ARE MADE

Board responsibility

The Board is responsible for the Company's remuneration arrangements and ensuring that they are equitable and aligned with the long-term interests of the Company and its shareholders. In performing this function and making decisions about executive remuneration, the Board is fully informed and acts independently of management. To assist in making decisions relating to remuneration, the Board has established a Remuneration & Nominations Committee.

Remuneration & Nominations Committee

The Remuneration & Nominations Committee ("Remuneration Committee") has been established to assist the Board with remuneration issues and is responsible for ensuring that the Company compensates appropriately and consistently with market practices. It also seeks to ensure that the Company's remuneration programs and strategies will attract and retain high-calibre directors, executives and employees and will motivate them to maximise the Company's long-term business, create value for shareholders and support the Company's goals and values.

The Remuneration Committee's responsibilities include:

- developing and reviewing remuneration plans, including annual bonus plans and long-term incentive plans, including equity-based incentive plans;
- developing performance objectives for the CEO and his direct reports and reviewing performance against those objectives;
- overseeing strategies for recruitment, retention and succession planning for directors and key executive positions; and
- reviewing the composition of the Board and monitoring the performance of the Board and the directors.

The Charter of the Remuneration Committee is set out in full on the Company's website (ref: www.boartlongyear.com).

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

Use of remuneration consultants

Where appropriate, the Board seeks and considers advice from independent remuneration consultants. Remuneration consultants are engaged by, and report directly to, the Remuneration Committee and support the Committee in assessing market practice and movements to ensure that base salary and targeted short-term and long-term compensation are in line with comparable roles. When remuneration consultants are engaged, the Committee establishes with the consultants the appropriate level of independence from the Company's management that is required depending upon the circumstances of the assignment or advice being sought. Thus the Committee may determine that complete independence from management is required or that the consultants may be directed to work with Company management to obtain relevant information or input in order to formulate advice or recommendations to the Committee. The table below sets out details of the remuneration consultants engaged and a summary of the services provided during the year ended 31 December 2010.

Table 2.1: Remuneration consultant arrangements

Remuneration consultant	Nature of services provided
Mercer Consulting	Independent market-based compensation benchmarking analysis for establishing executive remuneration. During 2009 and continuing into 2010, Mercer also consulted, advised and recommended changes to the designs of both the Corporate Bonus Plan and the long-term incentive plans as discussed in section 2.2 and detailed in sections 3.1 through 3.4 respectively.
Blake Dawson	Provided regular independent advice and counsel on various legal and governance standards related to executive remuneration.

2.2. REMUNERATION POLICY AND STRATEGY

The Company's remuneration program has been designed to ensure that the structure, mix of fixed and "at-risk" remuneration and quantum of senior executive remuneration all meet the Company's specific business needs and objectives and are consistent with good market practice.

Accordingly, the Company's senior executive remuneration program has been structured so that it:

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

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

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

Fixed Remuneration	Short-term Incentive (Corporate Bonus Plan)	Long-term Incentive
<ul style="list-style-type: none"> • Provides a predictable base level of compensation commensurate with the executive's position, value and contribution to the Company. • Generally targeted to be near the median of the competitive talent market using external benchmarking data. Since the majority of the Company's executives (and all of the KMP) are located in the US, the competitive talent market is determined to be the US market. • Variability around the median is based on the experience, performance, skills, position, business unit size and/or complexity and unique market considerations where necessary. 	<ul style="list-style-type: none"> • This component of compensation is "at-risk" and earned only if challenging performance metrics are achieved. • Key performance metrics include operating margin, safety performance, revenue growth and individual strategic goals. • The plan is designed to weight performance on operating margins, safety and revenue growth to overall Company performance in order to promote collaboration and to align with shareholder results. • Individual strategic goals can include financial or strategic targets for a business unit or function. Examples can include; business unit growth, cost control goals, cash flow generation, geographic expansion, productivity programs, etc. 	<ul style="list-style-type: none"> • This component of compensation is "at-risk" and earned only if challenging performance metrics are achieved and/or continued service requirement are met over a three-year performance period. • The Board has determined to use three-year average ROE as the key measure for performance-based long-term incentive awards. • The ROE targets include a minimum threshold performance, below which no value is achieved. The range of performance payouts was established based on an historical return analysis of the Company as well as against stated analyst and shareholder expectations. • ROE provides a strong link to shareholders as it is a measure of the profitability of the equity employed in the business. It also provides a basis to evaluate the Company's performance relative to other companies and can provide a direct comparison with alternative investments available to shareholders.

3. COMPONENTS OF EXECUTIVE REMUNERATION

3.1. REMUNERATION MIX

Total remuneration for the CEO and senior executives is made up of fixed remuneration (consisting primarily of base salary and superannuation payments) and variable “at-risk” remuneration. The variable remuneration has two “at-risk” components:

- STI – being an annual bonus granted under the Company’s CBP; and
- LTI – being equity or cash grants tied to vesting conditions, such as continued employment and performance hurdles.

The relevant proportions of fixed to “at-risk” components for senior executive remuneration are:

Table 3.1 Remuneration mix

	Fixed Remuneration	At-Risk Remuneration	
		STI²	LTI³
CEO	28%	27%	45%
KMPs (Excl. CEO) ¹	41% - 47%	17% - 25%	32% - 37%

- (1) Percentages vary between individuals. This is a range for the group.
- (2) Assuming performance metrics are achieved such that 100% of target bonus is earned.
- (3) Represents fair value at date of grant, assuming 100% performance and vesting requirements are achieved.

3.2. FIXED REMUNERATION

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

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

3.3. SHORT-TERM INCENTIVE

Table 3.3: Summary of STI program

What is the STI program?	<p>The Corporate Bonus Plan (“CBP”) provides certain employees with the potential to receive an annual bonus if they satisfy specific annual objectives and targets that are pre-determined by the Board.</p> <p>Potential incentives available to be earned under the CBP range between 10% and 200% of an employee’s base salary depending on the employee’s role and actual performance achieved. The actual bonus that an employee will receive under the CBP (if any) will vary depending on the Company’s and the individual’s performance against the relevant objectives and targets, as detailed more fully below.</p>
Who participates in the STI program?	Senior executives (including the CEO) and other employees on a discretionary basis.

<p>Why does the Board consider the STI program an appropriate incentive?</p>	<p>The CBP and the performance conditions set under the CBP have been designed to:</p> <ul style="list-style-type: none"> • focus eligible employees on maximising company performance in key financial, safety and operational targets; • align individual efforts with Company and shareholder interests ; and • reward superior individual and Company performance. <p>By putting a significant proportion of senior executive remuneration “at risk” under the CBP against challenging targets, the CBP aligns executive interests with the Company’s financial and safety performance and with the operational and/ or functional objectives of their relevant business unit or function.</p>																														
<p>What are the performance conditions?</p>	<p>There are four key performance components to the 2010 CBP. Each component has a threshold performance below which no bonus is earned for that component; a target level of performance where 100% of the bonus can be earned; and a maximum stretch level of performance whereby superior results can earn up to 150% of that component of the bonus.</p> <p>The four performance components and their relative weightings are:</p> <ol style="list-style-type: none"> 1) <u>Operating Margin</u> - 60% of an employee’s CBP opportunity is linked to the Company’s overall financial operating margin performance. 2) <u>Strategic Objectives</u> – 30% of an employee’s CBP opportunity is dependent upon performance against strategic objectives relevant to the employee’s business unit or functional responsibility. Examples of strategic objectives may include business unit or functional cost targets, geographic or targeted market segment growth, new product introductions, specific project or initiative progress, etc. 3) <u>Safety</u> - 10% of an employee’s CBP opportunity is dependent upon the Company’s overall safety performance. 4) <u>Revenue</u> - a multiplier based on year-over-year increases in revenue is applied to any amounts earned for meeting or exceeding the Operating Margin, Strategic Objectives and Safety performance goals, thereby capturing overall business growth as a key objective. <p>The Company’s annual financial target for the purposes of the CBP is set by the Remuneration Committee and in 2010 both threshold and stretch targets were set to further incentivise executives. The Remuneration Committee’s philosophy in setting financial targets is to establish threshold targets that represent the desired minimum outcome for each goal (below which no bonus is payable) and stretch targets that can only be met by the achievement of excellent outcomes for each goal.</p> <p>For 2010, the Remuneration Committee specifically approved the following performance payout matrices for corporate Operating Margin and Revenue Multipliers:</p> <div style="display: flex; justify-content: space-around; margin-top: 20px;"> <table border="1" data-bbox="439 1445 761 1748"> <thead> <tr> <th>Op. Margin Performance</th><th>Payout (% of Target for Financial Component)</th></tr> </thead> <tbody> <tr><td>20.0%</td><td>150%</td></tr> <tr><td>17.5%</td><td>120%</td></tr> <tr><td>15.0%</td><td>90%</td></tr> <tr><td>12.5%</td><td>70%</td></tr> <tr><td>10.0%</td><td>50%</td></tr> <tr><td>7.5%</td><td>40%</td></tr> <tr><td>5.0%</td><td>30%</td></tr> </tbody> </table> <table border="1" data-bbox="886 1445 1146 1748"> <thead> <tr> <th>Rev. Growth</th><th>Multiplier</th></tr> </thead> <tbody> <tr><td>50%</td><td>1.33x</td></tr> <tr><td>40%</td><td>1.27x</td></tr> <tr><td>30%</td><td>1.20x</td></tr> <tr><td>20%</td><td>1.13x</td></tr> <tr><td>10%</td><td>1.07x</td></tr> <tr><td>0%</td><td>1.00x</td></tr> </tbody> </table> </div>	Op. Margin Performance	Payout (% of Target for Financial Component)	20.0%	150%	17.5%	120%	15.0%	90%	12.5%	70%	10.0%	50%	7.5%	40%	5.0%	30%	Rev. Growth	Multiplier	50%	1.33x	40%	1.27x	30%	1.20x	20%	1.13x	10%	1.07x	0%	1.00x
Op. Margin Performance	Payout (% of Target for Financial Component)																														
20.0%	150%																														
17.5%	120%																														
15.0%	90%																														
12.5%	70%																														
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Rev. Growth	Multiplier																														
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0%	1.00x																														

	<p>While these metrics are specific to 2010 and will be reviewed annually, they have been established with the intent of remaining consistent through the business cycle. The Remuneration Committee also reviews and approves the non-financial targets for senior executives (including the CEO).</p> <p>Additionally, certain conditions may apply to an employee's CBP opportunity that reduces (but not increases) the bonus that they receive under the CBP. For example, if an employee fails to adhere to corporate leadership values, such as legal compliance, this may reduce total bonus payable to them under the CBP by up to 100%.</p>								
How are the performance conditions measured?	<p>Performance is assessed against the relevant targets annually. The final determination of the Company's financial performance is determined after reviewing the Company's audited financial results for the relevant period. Financial targets are assessed quantitatively against the pre-determined targets. Where possible, non-financial targets are also assessed quantitatively and otherwise they are assessed by periodic qualitative performance appraisal.</p>								
Sample calculation	<p>Following is an example of how a bonus would be calculated assuming the following:</p> <ul style="list-style-type: none"> • Employee earns \$150,000 with a 40% target bonus amount • Corporate Operating Margin of 12.5% • Safety and Strategic Objectives achievement each at target performance • Revenue Growth of 10% <p>Corporate Operating Margin of 12.5% = 70% component payout (per table above) Safety performance at target = 100% component payout Strategic Objectives at target = 100% component payout Revenue Growth of 10% = Revenue Multiplier of 1.07 (per table above)</p> <p>Calculation:</p> <p>Step 1: Determine Component subtotal</p> <table> <tr> <td>Operating Margin = (70% x 60% weighting)</td> <td>= 42%</td> </tr> <tr> <td>+ Safety Performance = (100% x 10% weighting)</td> <td>= 10%</td> </tr> <tr> <td>+ Strategic Objectives = (100% x 30% weighting)</td> <td>= 30%</td> </tr> <tr> <td>= Subtotal Achievement</td> <td>= 82%</td> </tr> </table> <p>Step 2: Multiply Subtotal by achieved Revenue Multiplier to obtain Total Bonus Percentage 82% x 1.07 = 88%</p> <p>Step 3: Calculate Bonus \$150,000 x 40% Target Bonus x 88% Bonus achievement = \$52,800 Bonus</p>	Operating Margin = (70% x 60% weighting)	= 42%	+ Safety Performance = (100% x 10% weighting)	= 10%	+ Strategic Objectives = (100% x 30% weighting)	= 30%	= Subtotal Achievement	= 82%
Operating Margin = (70% x 60% weighting)	= 42%								
+ Safety Performance = (100% x 10% weighting)	= 10%								
+ Strategic Objectives = (100% x 30% weighting)	= 30%								
= Subtotal Achievement	= 82%								
In what form is the STI delivered?	<p>All bonuses awarded under the CBP are delivered as a cash bonus.</p>								
What STI awards did senior executives earn in 2010?	<p>Bonuses paid under the CBP during the year ended 31 December 2010 are set out in Table 4.3 in section 4.1 of this Report. The bonuses will be paid in March 2011 after Board approval.</p>								

3.4. LONG-TERM INCENTIVES

Long-term Incentive Plan ("LTIP")

Table 3.4: Summary of the LTIP

What is the purpose of the LTIP?	<p>The Company established the LTIP to:</p> <ul style="list-style-type: none"> • align senior executive reward with shareholder value; • assist in retaining key executives; • encourage superior performance on a sustained basis; and • provide executives with an opportunity to share in the growth and value of the Company <p>By tying the LTI component of senior executive remuneration to the achievement of performance conditions and time-based service conditions.</p>
Who participates in the LTIP?	<p>The executives eligible to participate in the LTIP are senior divisional, regional and corporate executives. The target value of annual LTIP grants varies depending on the participant's position. The target amounts are based on market averages for comparable roles at similarly-sized companies. The Company made grants to approximately 100 participants during the year ended 31 December 2010.</p>
What proportion of total remuneration does the LTIP program represent?	<p>Senior executives are offered grants that represent approximately 32% - 37% (45% for the CEO) of their total remuneration (on an annualised basis). However, participating senior executives derive no actual value from their LTI grants under LTIP unless the performance hurdles and/or service conditions are satisfied.</p>
How is reward delivered under the LTIP?	<p>The incentive provided under the LTIP is a grant of rights ("Rights"). Rights can be granted in the form of shares ("Share Rights"), cash ("Cash Rights") or a combination of the two. A Share Right is an entitlement to receive a fully-paid ordinary share in the Company and a Cash Right is an entitlement to receive a cash bonus up to a set maximum.</p> <p>Rights are granted on terms and conditions determined by the Board, including vesting conditions linked to service and performance over a specified period (usually 3 years).</p>
Do participants pay for the Share Rights?	<p>Rights are offered at no cost to the senior executives.</p>
What rights are attached to the Share Rights?	<p>Share Rights do not carry voting rights, however shares allocated upon vesting of Share Rights will carry the same rights as other ordinary shares.</p> <p>The Company may acquire shares underlying the Share Rights that it has granted under the LTIP, and the price paid by the Company will be the prevailing market price of the shares at the time of acquisition. The acquired shares will be held on trust, and, even though the Share Rights have not yet vested, the participant will receive dividends attributed to the shares that underlie their Share Rights when they are received by the Trustee from the time of acquisition until vesting.</p> <p>Senior executives are not entitled to trade or hedge their unvested Rights.</p>

What are the vesting conditions?

For Rights granted during the year ended 31 December 2010, the vesting conditions were as follows:

Tranche	Percentage of grant	Vesting condition	Partial vesting
Performance Share Rights or Performance Cash Rights	100% for the CEO 50% for executives other than the CEO	Achievement of average ROE targets over a three-year period set by the Board. The targets include a threshold average ROE target and a stretch average ROE target for the three year performance period. plus Continuation of employment during the three-year performance period.	Vesting occurs on a pro-rata basis if the minimum three-year average ROE threshold is surpassed. At the minimum three-year average ROE threshold, 50% of Performance Share and/or Performance Cash Rights will vest. Full vesting occurs only if the Company's three-year average ROE meets or exceeds the stretch target for the performance period.
Retention Share Rights or Retention Cash Rights	0% for the CEO 50% for executives other than the CEO	Continuation of employment during the three-year continued service period.	No

For Rights granted prior to 2010, the vesting conditions were as follows:

Tranche	Percentage of grant	Vesting condition	Partial vesting
Performance Share Rights or Performance Cash Rights	50% for executives (including the CEO)	Vesting conditions are the same as for the Performance Share Rights described above, except that the performance measure is cumulative three-year earnings per share targets.	Partial vesting conditions are the same as for the Performance Share Rights described above.
Retention Share Rights or Retention Cash Rights	50% for executives (including the CEO)	Continuation of employment during the three-year continued service period.	No

How is the ROE hurdle measured?	<p>Vesting of the Performance Share Rights or Performance Cash Rights that were granted during the year ended 31 December 2010 will be determined by the Company's performance against average ROE targets for the three-year performance period. ROE is defined as annual net profit after tax ("NPAT") attributable to equity shareholders divided by average total equity.</p> <p>The following table shows the 3-year average ROE threshold, target and maximum performance requirements:</p> <table><tr><th>Average ROE Performance</th><th>3-year average ROE</th><th>% of award earned</th></tr><tr><td>Maximum Award</td><td>Greater than 13.0%</td><td>150%</td></tr><tr><td></td><td>Greater than 11.0% and less than or equal to 13.0%</td><td>125%</td></tr><tr><td>Target Award</td><td>Greater than 9.0% and less than or equal to 11.0%</td><td>100%</td></tr><tr><td></td><td>Greater than 7.0% and less than or equal to 9.0%</td><td>75%</td></tr><tr><td>Threshold Award</td><td>Greater than or equal to 6.0% and less than or equal to 7.0%</td><td>50%</td></tr><tr><td>Less than Threshold</td><td>Less than 6.0%</td><td>0%</td></tr></table>	Average ROE Performance	3-year average ROE	% of award earned	Maximum Award	Greater than 13.0%	150%		Greater than 11.0% and less than or equal to 13.0%	125%	Target Award	Greater than 9.0% and less than or equal to 11.0%	100%		Greater than 7.0% and less than or equal to 9.0%	75%	Threshold Award	Greater than or equal to 6.0% and less than or equal to 7.0%	50%	Less than Threshold	Less than 6.0%	0%
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Threshold Award	Greater than or equal to 6.0% and less than or equal to 7.0%	50%																				
Less than Threshold	Less than 6.0%	0%																				
How is the EPS hurdle measured?	<p>Vesting of the Performance Share Rights or Performance Cash Rights that were granted prior to 2010 will be determined by the Company's performance against cumulative EPS targets for the three-year performance period. At the beginning of each year the Board establishes a threshold and maximum EPS metric for that year. At the end of the three-year performance period actual cumulative performance over the period will be measured against the cumulative threshold and maximum performance to determine the amount of the Performance Rights that will vest. Once the actual cumulative performance has exceeded the threshold, participants have the potential to earn any percentage of the target award between 50% to 100%.</p> <p>The Performance Share Rights or Performance Cash Rights granted in 2008 which have completed the performance period will vest in accordance with the following table:</p> <table><tr><th>Cumulative EPS performance</th><th>2010 cumulative EPS metric</th><th>% of award earned</th></tr><tr><td>Maximum Award</td><td>64.5 cents</td><td>100%</td></tr><tr><td>Threshold Award</td><td>43.8 cents</td><td>50%</td></tr><tr><td>Less than Threshold</td><td></td><td>0%</td></tr></table> <p>In 2009, the Board introduced a one-off provision allowing for a fourth year retesting of the 2008 awards to address issues arising from the highly uncertain position the Company found itself in as a consequence of the global financial crisis. The Board stipulated however, that in the event actual cumulative EPS performance would exceed the threshold EPS performance, resulting in partial vesting of the 2008 awards, then this retesting provision would become redundant. The actual cumulative EPS performance for the 2008 awards has exceeded the threshold and therefore this provision will not be invoked. Retesting would be inconsistent with the current LTIP design and the Company does not envisage permitting such a retesting exception in the future.</p> <p>The number of Performance Share Rights or Performance Cash Rights granted in 2009 that will vest will be determined following the actual EPS performance outcome for 2011 and any earned rights will vest in 2012.</p>	Cumulative EPS performance	2010 cumulative EPS metric	% of award earned	Maximum Award	64.5 cents	100%	Threshold Award	43.8 cents	50%	Less than Threshold		0%									
Cumulative EPS performance	2010 cumulative EPS metric	% of award earned																				
Maximum Award	64.5 cents	100%																				
Threshold Award	43.8 cents	50%																				
Less than Threshold		0%																				

<p>Why have the performance hurdles been chosen?</p>	<p>ROE measures the Company's profitability by revealing how much profit the Company generates with the money shareholders have invested.</p> <p>The Board chose to move to an ROE performance hurdle for Performance Share Rights and Performance Cash Rights in place of the EPS hurdle used in previous years. The average ROE hurdle is more appropriate as it accommodates the inherently cyclical nature of the Company's business by providing performance ranges (with the threshold being set at a minimum level of acceptable shareholder returns) rather than annual dollar EPS targets. The ROE hurdle therefore provides a greater alignment between the incentive provided to senior executives and their ability to influence the Company's performance.</p>
<p>What if a senior executive ceases employment?</p>	<p>A senior executive's unvested Rights will generally lapse on the date that they cease employment, unless the Board determines otherwise. However, where a senior executive's employment ceases due to their death or total and permanent disability, all of their unvested Rights will vest. Also, unless the Board determines otherwise, where a senior executive's employment ceases by reason of "Special Circumstances" (which includes redundancy, retirement or other circumstances which are considered by the Board to be extraordinary):</p> <ul style="list-style-type: none"> • where there is no performance condition attached to a Right (i.e., it is a Retention Share Right or Retention Cash Right), any applicable time-based condition will be waived and the number of Retention Share Rights and/ or Retention Cash Rights that vest will be pro-rated according to the extent of the retention period actually worked; and • where there is a performance condition attached to a Right (i.e., it is a Performance Share Right or Performance Cash Right), there will be no accelerated vesting of the Performance Rights and instead, the Performance Rights will remain "on foot" and be tested in the ordinary course and against the applicable performance condition. However, the number of Rights that vest will be prorated over the period of time actually worked during the continued service period.
<p>What happens in the event of a change of control?</p>	<p>In the event of a takeover or change of control of the Company, any unvested Rights may vest at the Board's discretion.</p>
<p>What Rights were granted in 2010?</p>	<p>Rights granted during the year ended 31 December 2010 are set out in Table 5.2 of this Report. The Rights were granted on 1 March 2010.</p>

Option Plan

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

Options, with an exercise price set at a premium of 22.5% of the prevailing market price for the Company's shares on the date of the grant, were granted to the senior executives on 18 June 2009 and will vest in full and become exercisable on 18 June 2012 if the senior executive remains continuously employed with the Company until that date. Unexercised options will expire on 18 June 2014. On 15 March 2010, 25,000 options were granted at an exercise price of A\$3.20, which will vest in full and become exercisable on 15 March 2013 and will expire on 15 March 2015.

In 2008, the Board approved the establishment of the 2008 Option Plan on Mr. Kipp's appointment to the position of CEO in order to award Mr. Kipp a total of 2,500,000 (later adjusted to 250,000 in light of the 10:1 consolidation of the Company's shares in 2010) shares under two separate grants, both of which are still yet to vest and become exercisable, on his appointment to the position of CEO. No other senior executive received a grant under the 2008 Option Plan.

Details of options that have been granted to senior executives under the Option Plans can be found in Table 4.7.

4. PERFORMANCE AND RISK ALIGNMENT

4.1. PERFORMANCE ALIGNMENT

While senior executive remuneration is structured to attract and retain talented employees, the amount of remuneration received by an individual is dependent on the achievement of superior performance and generating value for shareholders.

The Company has only been a listed public company since 11 April 2007 and therefore does not have a five-year history to present.

Table 4.1 below summarises the Company's performance over the past 4 years in respect of the financial and non-financial indicators identified by the Board to assess the Company's performance and future prospects.

Table 4.1: Year-on-year performance

Financial Year	Share Performance			Earnings Performance				
	Closing Share Price	Dividend p/share	EPS % ¹	Revenue	EBITDA	NPAT	ROE ²	Operating Margin
	A\$	US\$		US\$ millions	US\$ millions	US\$ millions		
2010	4.56	0.02	4%	1,476	222	85	8%	9%
2009	3.52	-	(2%)	978	111	(15)	(2%)	2%
2008	1.99	0.38	52%	1,838	356	157	18%	15%
2007	23.33	0.15	2%	1,576	297	81	N/A	15%

(1) Calculated as EPS divided by closing share price. EPS is pro forma for 10:1 share consolidation completed in May 2010

(2) 2008 ROE is calculated on a pro forma basis allowing for the \$700,000,000 equity raising completed in November 2009

The Board determined to perform a detailed review of the Company's incentive plans for senior executives in 2010. This review took into account the experience of the relationship between executive compensation and outcomes for shareholders over the four years since becoming a public listed company. As a result (and detailed earlier in this Report), the Board modified the incentive plans for senior executives with the aim to further strengthen the relationship between shareholder value and executive compensation. In particular, the Board believes incentivising and rewarding management for sustaining higher levels of operating margin (via cash bonuses under the CBP) and ROE (via performance-based LTIP rights) will more consistently yield desirable shareholder returns over time. The Board will continue to monitor this relationship and make further modifications as it deems appropriate.

Short-term performance indicators and outcomes

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

Table 4.2: Average proportion of STI awarded, 2007-2010

	2007	2008	2009	2010
% of target STI awarded ¹	76%	84%	99%	88%

(1) Weighted average for senior executives

Table 4.3: STI earned during the year ended 31 December 2010

	STI earned US\$	Target STI ¹ US\$	STI earned as % of target STI	% of target STI forfeited	STI as % of maximum STI ²	% of maximum STI forfeited ²
Craig Kipp	865,000	1,000,000	87%	13%	87%	13%
Joe Ragan III	276,360	294,000	94%	6%	94%	6%
Fabrizio Rasetti	180,334	186,875	97%	3%	97%	3%
Brad Baker	134,663	149,625	90%	10%	90%	10%
Michael Birch	177,336	216,000	82%	17%	82%	17%
Alan Sides	139,200	160,000	87%	13%	44%	57%

- (1) The target potential value of the 2010 STI awards for the CEO and senior executives (who receive STI awards wholly in cash) is the amount disclosed. A minimum level of performance must be achieved before any STI is awarded. Therefore, the minimum potential value of the STI for all participants in 2010 was nil.
- (2) The maximum potential award assuming superior performance against all CBP metrics is 200% of target STI for most participants. The maximum potential STI Messrs. Kipp, Ragan, Rasetti, Baker and Birch could have earned in 2010 was capped under the terms of their employment contracts at 100% of their target STI. The Board intends to seek shareholder approval at the Company's 2011 Annual General Meeting of a resolution which would lead to the modification of the terms of these KMPs' employment contracts to permit their participation in the CBP on the same terms as other participants to allow them to achieve an annual STI up to 200% of their target.

Long-term performance indicators and outcomes

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

2010 was the final year that performance was measured against the cumulative EPS targets for performance-based LTIP awards granted in 2008. Table 4.4 shows the cumulative EPS performance required for these grants to vest as well as the actual EPS performance achieved during the same period. Based on the actual performance over the period, 76% of the award will be eligible to vest once the executive satisfies the continued service requirement, which in all cases will not occur prior to April 2011. The vesting dates for all outstanding awards are shown in Table 4.5 below

Table 4.4: Cumulative performance

	Cumulative 3-year Performance
Maximum EPS	64.5 cents (US)
Threshold EPS	43.8 cents (US)
Actual EPS ¹	54.5 cents (US)
% of Maximum Award Vesting	76%

- (1) Earnings adjusted to exclude impact of restructuring, recapitalization and related charges, as well as gains/losses related to the sale of businesses.

No Share Rights, Cash Rights or options either vested, were forfeited or lapsed for Senior Executives during the year ended 31 December 2010.

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Table 4.5: Movement in Share Rights during the year ended 31 December 2010

Name	Grant Date	Vesting Date	LTIP Shares (Total)	Number of Share Rights vested	Value of Share Rights vested US\$	Number of Share Rights forfeited / lapsed	Value of Share Rights forfeited / lapsed US\$
Craig Kipp	11-Apr-08	11-Apr-11	49,471	-	-	-	-
	25-Mar-09	25-Mar-12	180,000	-	-	-	-
	1-Mar-10	1-Mar-13	429,820	-	-	-	-
Joe Ragan III	23-Oct-08	23-Oct-11	30,000	-	-	-	-
	25-Mar-09	25-Mar-12	75,000	-	-	-	-
	1-Mar-10	1-Mar-13	103,000	-	-	-	-
Brad Baker	11-Apr-08	11-Apr-11	15,000	-	-	-	-
	25-Mar-09	25-Mar-12	55,000	-	-	-	-
	1-Mar-10	1-Mar-13	72,150	-	-	-	-
Michael Birch	26-Jun-08	11-Apr-11	8,950	-	-	-	-
	11-Apr-08	11-Apr-11	11,050	-	-	-	-
	25-Mar-09	25-Mar-12	55,000	-	-	-	-
Fabrizio Rasetti	1-Mar-10	1-Mar-13	82,900	-	-	-	-
	11-Apr-08	11-Apr-11	17,850	-	-	-	-
	25-Mar-09	25-Mar-12	55,000	-	-	-	-
Alan Sides	1-Mar-10	1-Mar-13	82,578	-	-	-	-
	15-Mar-10	15-Mar-13	104,600	-	-	-	-

Table 4.6: Movement in Cash Rights during the year ended 31 December 2010

Name	Grant Date	Vesting Date	Cash (Total) US\$	Number of Cash Rights vested	Value of Cash Rights vested US\$	Number of Cash Rights forfeited / lapsed	Value of Cash Rights forfeited / lapsed US\$
Craig Kipp	25-Mar-09	25-Mar-12	550,000	-	-	-	-
	1-Mar-10	1-Mar-13	450,000	-	-	-	-
Joe Ragan III	25-Mar-09	25-Mar-12	275,000	-	-	-	-
	1-Mar-10	1-Mar-13	100,000	-	-	-	-
Brad Baker	25-Mar-09	25-Mar-12	225,000	-	-	-	-
	1-Mar-10	1-Mar-13	80,000	-	-	-	-
Michael Birch	25-Mar-09	25-Mar-12	225,000	-	-	-	-
	1-Mar-10	1-Mar-13	80,000	-	-	-	-
Fabrizio Rasetti	25-Mar-09	25-Mar-12	225,000	-	-	-	-
	1-Mar-10	1-Mar-13	80,000	-	-	-	-
Alan Sides	15-Mar-10	15-Mar-13	80,000	-	-	-	-

Table 4.7: Movement in options during the year ended 31 December 2010

Name	Effective Grant Date	Vesting Date	Options (Total)	Number of Options vested	Value of Options vested US\$	Option Price AU\$	Number of Options forfeited / lapsed	Value of Options forfeited / lapsed US\$
Craig Kipp	28-Apr-08	1-Jan-13	100,000	-	-	18.95	-	-
	28-Apr-08 ¹	1-Jan-14	150,000	-	-	1.55	-	-
	18-Jun-09	18-Jun-12	90,000	-	-	2.45	-	-
Joe Ragan III	18-Jun-09	18-Jun-12	37,500	-	-	2.45	-	-
Brad Baker	18-Jun-09	18-Jun-12	27,500	-	-	2.45	-	-
Michael Birch	18-Jun-09	18-Jun-12	27,500	-	-	2.45	-	-
Fabrizio Rasetti	18-Jun-09	18-Jun-12	27,500	-	-	2.45	-	-
Alan Sides	15-Mar-10	15-Mar-13	25,000	-	-	3.20	-	-

(1) The second grant of options Mr. Kipp received in conjunction with his appointment as CEO was issued as of 1 January 2009. For purposes of compliance with Australian Accounting Standards, the effective grant date was determined to be 28 April 2008.

Adjustments made to existing Share Rights and options following share consolidation

In light of the 10:1 share consolidation, all unvested Share Rights and options held by executives prior to the consolidation were adjusted by dividing the number of Share Rights and/ or options held by 10. The exercise price applicable to the options was also adjusted by multiplying it by 10 so that the exercise price per option became A\$2.45 for options granted to all executives on 11 April 2009; A\$3.20 for options granted to Mr. Sides on 15 March 2010; and A\$18.95 and A\$1.55 for options granted to the CEO on 28 April 2008 and 1 January 2009 respectively. As the adjustments were made purely to address the impact of the share consolidation, the adjustments did not affect the fair value of the adjusted Share Rights and options.

4.2. RISK ALIGNMENT

Employee and Director Trading in Company Securities

Under the Company's Securities Trading Policy, Directors and employees (including senior executives) are prohibited from entering into transactions that limit the economic risk of holding unvested Rights or options that have been received as part of their remuneration. The Company treats compliance with this policy as a serious issue and takes appropriate measures to ensure the policy is adhered to, including imposing appropriate sanctions where an employee is found to have breached the policy.

Further restrictions also apply to directors and Senior Executives with respect to their dealing in the Company's shares and other securities under the Securities Trading Policy and further details of the policy are set out in the Corporate Governance Statement on page 25 of this Annual Report

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5. EXECUTIVE REMUNERATION IN DETAIL

This section provides details of total remuneration and service contract terms for the CEO and other senior executives.

5.1. TOTAL REMUNERATION

Details of each senior executive's remuneration during the years ended 31 December 2010 and 2009 (calculated in accordance with applicable accounting standards) are set out in Table 5.1.

Table 5.1: Senior executive remuneration

	Short term benefits ⁹			Cash-based compensation				Non-cash-based compensation ^{6,7}			
	Cash Salary \$US	Annual Bonus ^{1,2} \$US	Other ³ \$US	Post-employment benefits ¹⁰		Retention Cash Rights \$US	Performance Cash Rights \$US	Option \$US	Rights \$US	Share-based %	Total \$US
				Super-annuation benefits ⁴ \$US	Other ⁵ \$US						
Craig Kipp											
2010	1,003,846	865,000	22,068	5,096	7,350	91,583	171,847	725,587	547,846	37.0%	3,440,223
2009	856,254	1,000,000	22,068	5,292	6,900	70,506	61,693	562,912	295,249	29.8%	2,880,874
Joseph Ragan III											
2010	416,923	276,360	22,068	7,350	7,350	59,706	51,834	17,855	118,956	14.0%	978,402
2009	366,668	571,578	46,568	7,350	5,342	35,253	30,847	9,588	50,811	5.4%	1,124,005
Fabrizio Rasetti											
2010	363,750	180,334	20,178	7,350	7,350	48,597	42,231	13,094	144,692	19.1%	827,576
2009	297,918	438,008	17,916	7,350	6,900	28,844	25,238	7,031	108,495	12.3%	937,700
Brad Baker											
2010	297,058	134,663	21,107	7,350	7,350	48,597	42,231	13,094	125,656	19.9%	697,106
2009	262,563	142,500	33,429	7,350	6,900	28,844	25,239	7,031	92,730	16.4%	606,586
Michael Birch											
2010	426,154	177,336	14,580	7,350	7,350	48,597	42,231	13,094	166,337	19.9%	903,029
2009	367,756	200,000	14,580	7,350	6,900	28,844	25,238	7,031	133,997	17.8%	791,696
Alan Sides ⁸											
2010	258,461	139,200	225,896	5,169	7,350	11,131	7,434	14,288	75,500	12.1%	744,429

- (1) The 2010 amount represents cash STI payments earned by the executive during the year ended 31 December 2010, which are expected to be paid in March 2011 after the Company's financials have been audited and the Board approves the amounts and other short-term cash compensation.
- (2) In 2009, Mr. Ragan and Mr. Rasetti each received a one-time cash bonus of \$291,758 in recognition of their exceptional efforts executing the Company's 2009 capital raising program.
- (3) Includes automotive allowances, reimbursements of financial and taxing assistance, and, for Mr. Sides, also includes relocation expenses and sign-on bonus.
- (4) Includes 401(k) plan matching contributions made by the employing entity in the United States.
- (5) Includes 401(k) profit sharing contributions made by the employing entity in the United States. No post-employment benefits were paid during 2010.
- (6) In accordance with the requirements of the Australian Accounting Standards Board, remuneration includes a proportion of the historical fair value of equity compensation recognised over the respective vesting period (i.e. Rights awarded under the LTIP and options awarded under the Option Plan(s) that remained unvested at 31 December 2010). The fair value of equity instruments is determined as at the grant date and is recognised over the vesting period. The amount included as remuneration is not related to or indicative of the benefit (if any) that senior executives may ultimately realise should the equity instruments vest. The fair value of Rights and options at the date of their grant has been determined in accordance with AASB 2 applying a Black-Scholes valuation method. The assumptions underpinning these valuations are set out in Note 32 to the financial statements.
- (7) As discussed in section 4.1 above, following the 10:1 consolidation of the Company's share capital that took place in May 2010, all unvested Share Rights and options that were held by senior executives prior to the consolidation taking place were adjusted to reflect the Company's reduced share capital.
- (8) Mr. Sides' employment commenced 15 March 2010.
- (9) There were no non-monetary benefits provided during 2010.
- (10) No termination benefits were paid in 2010.

5.2. Rights and options granted

Table 5.2: Rights granted during the year ended 31 December 2010

Name	Share Rights				Cash Rights			
	Number of Rights granted ¹	Future years payable ²	Fair value per Right ³ US\$	Maximum value of grant ⁴ US\$	Number of Rights granted ¹	Future years payable ²	Fair value per Right ³ US\$	Maximum value of grant ⁴ US\$
Craig Kipp	429,820	3 yrs	2.78	1,716,152	450,000	3 yrs	1.00	675,000
Joe Ragan III	103,000	3 yrs	2.78	345,415	100,000	3 yrs	1.00	125,000
Brad Baker	72,150	3 yrs	2.78	242,277	80,000	3 yrs	1.00	100,000
Michael Birch	82,900	3 yrs	2.78	279,112	80,000	3 yrs	1.00	100,000
Fabrizio Rasetti	82,578	3 yrs	2.78	278,217	80,000	3 yrs	1.00	100,000
Alan Sides	104,600	3 yrs	2.93	343,103	80,000	3 yrs	1.00	100,000

- (1) The grants made to senior executives constituted their full LTI entitlement for 2010 and were made on 1 March 2010 (15 March 2010 for Mr. Sides) on the terms summarised above. Any Rights that do not vest on the vesting date will be forfeited.
- (2) Rights vest on 1 March 2013 (15 March 2013 for Mr. Sides) subject to performance over the period from 1 January 2010 to 31 December 2012 and/or continued service until the vesting date.
- (3) The fair value was calculated as at the grant date of 1 March 2010 (15 March 2010 for Mr. Sides). An explanation of the pricing model used to calculate these values is set out in Note 32 to the financial statements.
- (4) The maximum fair value of the grant is based on the fair value per instrument and full achievement of the stretch targets. The minimum total value of the grant, if the applicable performance conditions are not met, is nil.

Table 5.3: Options granted during the year ended 31 December 2010

Name	Number of options granted	Future years payable	Exercise price per option A\$	Fair value per option ¹ US\$	Maximum value of grant ² US\$
Alan Sides	25,000	3 yrs	3.20	2.24	56,000

- (1) The fair value was calculated as at the grant date of 15 March 2010. An explanation of the pricing model used to calculate these values is set out in Note 32 to the financial statements.
- (2) The maximum fair value of the grant is based on the fair value per instrument and full vesting.

5.4 Service contracts and termination provisions

Name and position held at the end of Financial Year	Duration of contract	Notice Period by Company	Notice Period by Executive	Termination payments (where these are in addition to statutory entitlements)
Craig Kipp Chief Executive Officer President	No fixed term	None required	180 Days	For termination with cause, statutory entitlements only For termination without cause <ul style="list-style-type: none"> • 12 months' salary • Pro-rata bonus to termination date • Waiver of medical insurance premiums for 12 months • Up to \$100,000 relocation expense reimbursement • Tax gross-up payment should any termination or other contractual payment be deemed subject to an excise tax under the US tax code
Joseph Ragan, III Chief Financial Officer	No fixed term	None required	90 days	For termination with cause, statutory entitlements only For termination without cause <ul style="list-style-type: none"> • 12 months' salary • Pro-rata bonus to termination date • Waiver of medical insurance premiums for 12 months
Fabrizio Rasetti Senior Vice President, General Counsel and Secretary	No fixed term	None required	90 days	For termination with cause, statutory entitlements only For termination without cause <ul style="list-style-type: none"> • 12 months' salary • Pro-rata bonus to termination date • Waiver of medical insurance premiums for 12 months
Brad Baker Senior Vice President, Human Resources	No fixed term	None required	90 days	For termination with cause, statutory entitlements only For termination without cause <ul style="list-style-type: none"> • 12 months' salary • Pro-rata bonus to termination date • Waiver of medical insurance premiums for 12 months

Michael Birch Vice President, Minerals and Energy	No fixed term	None required	90 days	For termination with cause, statutory entitlement only For termination without cause <ul style="list-style-type: none"> • 12 months' salary • Pro-rata bonus to termination date • Waiver of medical insurance premiums for 12 months
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Mr. Sides does not have an employment contract. Accordingly, he is neither bound by a notice period to the Company nor contractually entitled to termination payments in excess of statutory entitlements.

6. NON-EXECUTIVE DIRECTOR ARRANGEMENTS

This section explains the remuneration structure and outcomes for Non-executive Directors. Details of the Non-executive Directors for 2010 are set out in section 1.3 of this Report.

6.1. Non-executive Directors' fee structure

Non-executive Directors are remunerated by a fixed annual base fee with additional fees paid for serving on Board Committees. The fees are determined within a maximum aggregate fee pool that is approved by shareholders in general meeting. The current approved fee pool limit is A\$2 million. During the financial year, \$800,950 of the pool was utilised for non-executive director fees, being approximately 40% of the fee pool limit.

Table 6.1: Components of Non-Executive Director Remuneration

<u>Component</u>	<u>Explanation</u>
Board fees	Current base fees per annum are: <ul style="list-style-type: none"> • US\$100,000 for Board members; and • US\$300,000 for the Chairman of the Board
Committee fees	Current committee fees for Non-executive Directors (other than the Chairman) are: <ul style="list-style-type: none"> • 10% of the base fee for committee members; and • 20% of the base fee for committee chairs. Where the Chairman of the Board sits on a committee, he does not receive any additional fee.
Other fees/benefits	Non-executive Directors are entitled to be reimbursed for all reasonable out-of-pocket expenses incurred in carrying out their duties, including travel costs and office and secretarial support. Non-executive Directors may also, with the approval of the Board, be paid additional fees for extra services or special exertions for the benefit of the Company Non-executive Directors are not entitled to receive any performance-related remuneration, such as STI or LTI.
Post-employment benefits	Compulsory superannuation contributions for Australian-resident non-executive directors are included in the base fee and additional committee fees set out above. Non-executive Directors do not receive any retirement benefits other than statutory superannuation contributions.

6.2. NON-EXECUTIVE DIRECTOR SHARE ACQUISITION PLAN

In February 2008, the Remuneration Committee recommended, and the Board approved, the establishment of a Non-executive Director Share Acquisition Plan ("NEDSAP") as foreshadowed in the Company's prospectus.

The NEDSAP is a fee sacrifice plan in which only Non-executive Directors may participate. Participation in the NEDSAP is voluntary and Non-executive Directors may elect to sacrifice up to 100% of their pre-tax base and committee fees to acquire ordinary shares at the prevailing market price.

Shares acquired under the NEDSAP will be subject to a holding lock for up to ten years, during which they are unable to deal with their shares. The holding lock may be removed in certain circumstances, including a cessation of directorship.

No shares were purchased under this plan during the year ended 31 December 2010.

6.3. DETAILS OF REMUNERATION PAID TO NON-EXECUTIVE DIRECTORS

Details of Non-executive Directors' remuneration for the year ended 31 December 2010 and 2009 are set out in the table below.

Table 6.3: Non-executive Director Remuneration

	Fees (incl. committee fees) ¹ US\$	Superannuation Contributions ² US\$	Shares ³ US\$	Total US\$
Graham Bradley ⁴				
2010	177,231	15,951	85,466	278,648
2009	252,294	25,329	250,636	528,259
David McLemore ⁵				
2010	190,779	-	-	190,779
2009	119,167	-	-	119,167
Bruce Brook				
2010	119,266	10,734	8,066	138,066
2009	109,327	10,734	23,411	143,472
Roger Brown ⁶				
2010	60,000	-	-	60,000
Roy Franklin ⁷				
2010	20,833	-	-	20,833
David Grzelak				
2010	113,575	-	-	113,575
2009	110,000	-	-	110,000
Peter St. George				
2010	119,266	10,734	12,668	142,668
2009	109,327	10,734	37,182	157,243

(1) Refer to Table 6.1 above for details of the annual Non-executive Director base fees and committee fees.

(2) Includes compulsory superannuation guarantee payments to Australian directors and an equivalent cash amount to non-Australian Directors.

(3) On the Company's listing in April 2007 restricted shares were awarded to certain non-executive directors in respect of work performed prior to the Company's listing. Full details of the awards were provided in the Company's prospectus for the initial public offering. These shares vested in April 2010. The amount in this table is the accounting expense recognised in the year through amortisation of the cost over the service condition.

(4) Mr. Bradley resigned from the Board on 23 August 2010.

(5) Mr. McLemore was elected Chairman on 23 August 2010.

(6) Mr. Brown was appointed a director on 1 July 2010.

(7) Mr. Franklin was appointed a director on 15 October 2010.

NON-AUDIT SERVICES

Details of amounts paid or payable for non-audit services provided during the year by the auditor are outlined in Note 35 to the financial statements.

The directors are satisfied that the provision of non-audit services, during the year, by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services, as disclosed in Note 35 to the financial statements, do not compromise the external auditor's independence, based on advice received from the Audit, Compliance & Risk Committee, for the following reasons:

- all non-audit services have been reviewed and approved by the Audit, Compliance & Risk Committee to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional & Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as an advocate for the Company or jointly sharing economic risks and rewards.

INDEMNIFICATION OF DIRECTORS AND OFFICERS AND AUDITORS

The directors and officers of the Company are indemnified by the Company to the maximum extent permitted by law against liabilities incurred in their respective capacities as directors or officers. In addition, during the financial year the Company paid premiums in respect of contracts insuring directors and officers of the Company and any related body corporate against liabilities incurred by them to the extent permitted by the Corporations Act 2001. The insurance contracts prohibit disclosure of the nature of the liability and the amount of the premium.

The Company has not paid any premiums in respect of any contract insuring Deloitte Touche Tohmatsu against a liability incurred in the role as an auditor of the Company.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is included on page 56 of the annual financial report.

ROUNDING OF AMOUNTS

Boart Longyear Limited is a company of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the directors' report and financial report. Amounts in the directors' report and the financial report are presented in US dollars and have been rounded off to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

Signed in accordance with a resolution of the directors.

On behalf of the Directors



Dave McLemore
Chairman

Sydney, 23 February 2011



Craig Kipp
Chief Executive Officer

Sydney, 23 February 2011

The Board of Directors
Boart Longyear Limited
919-929 Marion Road
Mitchell Park SA 5043
Australia

Deloitte Touche Tohmatsu
A.B.N. 74 490 121 060

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225 George Street
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Sydney NSW 1220 Australia

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www.deloitte.com.au

23 February 2011

Dear Directors

Boart Longyear Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Boart Longyear Limited.

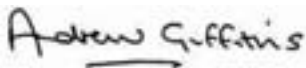
As lead audit partner for the audit of the financial statements of Boart Longyear Limited for the financial year ended 31 December 2010, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



A V Griffiths
Partner
Chartered Accountants

Deloitte Touche Tohmatsu
A.B.N. 74 490 121 060

Grosvenor Place
225 George Street
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PO Box N250 Grosvenor Place
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Independent Auditor's Report to the members of Boart Longyear Limited

Report on the Financial Report

We have audited the accompanying financial report of Boart Longyear Limited, which comprises the statement of financial position as at 31 December 2010, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 59 to 131.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 3, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the entity's preparation of the financial report that gives a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

Opinion

In our opinion:

- (a) the financial report of Boart Longyear Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 31 December 2010 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial statements also comply with International Financial Reporting Standards as disclosed in Note 3.

Report on the Remuneration Report

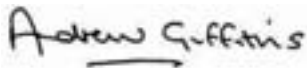
We have audited the Remuneration Report included in pages 31 to 54 of the directors' report for the year ended 31 December 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion the Remuneration Report of Boart Longyear Limited for the year ended 31 December 2010, complies with section 300A of the *Corporations Act 2001*.



DELOITTE TOUCHE TOHMATSU



A V Griffiths
 Partner
 Chartered Accountants
 Sydney, 23 February 2011

DIRECTORS' DECLARATION

The directors declare that:

- (a) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;
- (b) in the directors' opinion, the attached financial statements are in compliance with International Financial Reporting Standards, as stated in Note 3 to the financial statements;
- (c) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity; and
- (d) the directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of the directors made pursuant to section 295(5) of the Corporations Act 2001.



Dave McLemore
Chairman

Sydney, 23 February 2011



Craig Kipp
Chief Executive Officer

Sydney, 23 February 2011

Consolidated Statement of Comprehensive Income (Loss)

For the financial year ended 31 December 2010

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	Note	2010 US\$'000	2009 US\$'000
Revenue	6	1,475,945	978,177
Cost of goods sold		(1,103,636)	(747,303)
Gross margin		372,309	230,874
Other income		4,183	4,365
General and administrative expenses		(186,723)	(143,329)
Selling and marketing expenses		(35,800)	(41,847)
Restructuring expenses and related impairments	10	(5,077)	(12,643)
Other expenses		(20,454)	(14,890)
Operating profit		128,438	22,530
Interest income	6	3,570	1,616
Finance costs	7	(8,733)	(46,752)
Profit (loss) before taxation		123,275	(22,606)
Income tax (expense) benefit	9	(38,762)	7,723
Profit (loss) for the year attributable to equity holders of the parent		84,513	(14,883)
Earnings (loss) per share:			
Basic earnings (loss) per share	26	18.5 cents	(6.1) cents
Diluted earnings (loss) per share		18.4 cents	(6.1) cents
Other comprehensive income (loss)		2010 US\$'000	2009 US\$'000
Profit (loss) for the year attributable to equity holders of the parent		84,513	(14,883)
Gains (losses) on cash flow hedges recorded in equity		(190)	(2,007)
Transfer to profit or loss on cash flow hedges		741	12,976
Interest rate swap expense - ineffective hedge		-	15,242
		551	26,211
Exchange differences on translation of foreign operations		58,791	121,179
Actuarial losses related to defined benefit plans		(14,558)	(3,113)
Income tax on income and expense recognised directly through equity		4,224	(9,805)
Other comprehensive income for the year (net of tax)		49,008	134,472
Total comprehensive income for the year attributed to equity holders of the parent		133,521	119,589

Consolidated Statement of Financial Position

As at 31 December 2010

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	Note	2010 US\$'000	2009 US\$'000
Current assets			
Cash and cash equivalents	31a	94,944	87,557
Trade and other receivables	12	276,836	198,598
Inventories	13	283,115	159,460
Current tax receivable	9	21,705	21,215
Prepaid expenses and other assets		17,965	15,393
Total current assets		694,565	482,223
Non-current assets			
Property, plant and equipment	15	439,446	380,515
Goodwill	16	297,408	276,956
Other intangible assets	17	106,295	84,287
Deferred tax assets	9	147,322	122,100
Other assets		1,918	1,799
Defined benefit plan asset	21	20,335	17,958
Total non-current assets		1,012,724	883,615
Total assets		1,707,289	1,365,838
Current liabilities			
Trade and other payables	18	260,038	170,118
Provisions	20	18,398	13,973
Other financial liabilities	14	7,272	11,835
Current tax payable	9	46,338	41,221
Loans and borrowings	19	979	3,133
Total current liabilities		333,025	240,280
Non-current liabilities			
Loans and borrowings	19	247,490	132,486
Other financial liabilities	14	-	4,822
Deferred tax liabilities	9	11,468	5,323
Provisions	20	55,337	44,890
Total non-current liabilities		314,295	187,521
Total liabilities		647,320	427,801
Net assets		1,059,969	938,037
Equity			
Issued capital	22	1,132,051	1,136,347
Reserves	23	84,577	23,038
Other equity		(137,182)	(137,182)
Accumulated losses	24	(19,477)	(84,166)
Total equity		1,059,969	938,037

Consolidated Statement of Changes in Equity

For the financial year ended 31 December 2010

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	Issued Capital US\$'000	Foreign Currency Translation Reserve US\$'000	Equity Settled Compensation Reserve US\$'000	Hedging Reserve US\$'000	Other Equity US\$'000	Accumulated Losses US\$'000	Total Attributable to Owners of the Parent US\$'000
Balance at 1 January 2009	478,036	(103,549)	2,592	(17,362)	(141,539)	(65,830)	152,348
Loss for the period	-	-	-	-	-	(14,883)	(14,883)
Other comprehensive income for the period	-	121,179	-	16,746	-	(3,453)	134,472
Issued under Capital Raising Program	662,297	-	-	-	-	-	662,297
Purchase of shares for LTIP	(3,986)	-	-	-	-	-	(3,986)
Share-based compensation expense	-	-	3,432	-	-	-	3,432
Capitalised transaction costs - GST refund *	-	-	-	-	4,357	-	4,357
Balance at 31 December 2009	1,136,347	17,630	6,024	(616)	(137,182)	(84,166)	938,037
Balance at 1 January 2010	1,136,347	17,630	6,024	(616)	(137,182)	(84,166)	938,037
Profit for the period	-	-	-	-	-	84,513	84,513
Other comprehensive income for the period	-	58,791	-	357	-	(10,140)	49,008
Payment of dividends	-	-	-	-	-	(9,684)	(9,684)
Vesting of LTIP rights, restricted shares	1,472	-	(1,472)	-	-	-	-
Purchase of shares for LTIP	(5,768)	-	-	-	-	-	(5,768)
Share-based compensation expense	-	-	3,863	-	-	-	3,863
Balance at 31 December 2010	1,132,051	76,421	8,415	(259)	(137,182)	(19,477)	1,059,969

* During the period, a GST refund was received relating to the IPO transaction costs that were capitalised in 2007.

Consolidated Statement of Cash Flows

For the financial year ended 31 December 2010

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	Note	2010 US\$'000	2009 US\$'000
Cash flows from operating activities			
Profit (loss) for the year		84,513	(14,883)
<i>Adjustments provided by operating activities:</i>			
Income tax expense (benefit) recognised in profit		38,762	(7,723)
Finance costs recognised in profit	7	8,733	46,752
Depreciation and amortisation	8	93,350	88,507
Investment revenue recognised in profit	6	(3,570)	(1,616)
Loss on sale or disposal of non-current assets	8	1,827	49
Loss on disposal of businesses	8	-	4,130
Impairment of current and non-current assets		1,695	1,318
Foreign exchange gain (loss)		916	(1,712)
Share-based compensation	23	3,863	3,432
Long term compensation - cash rights		1,954	690
<i>Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses:</i>			
(Increase) decrease in assets:			
Trade and other receivables		(66,726)	58,163
Inventories		(110,739)	56,114
Other assets		(1,784)	608
Increase (decrease) in liabilities:			
Trade and other payables		59,652	(35,882)
Provisions		132	(16,233)
Cash generated from operations		<u>112,578</u>	<u>181,714</u>
Interest paid		(17,143)	(28,396)
Interest received	6	3,570	1,616
Income taxes paid		<u>(47,227)</u>	<u>(37,781)</u>
Net cash flows from operating activities		<u>51,778</u>	<u>117,153</u>

Consolidated Statement of Cash Flows (continued)

For the financial year ended 31 December 2010

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	Note	2010 US\$'000	2009 US\$'000
Cash flows from investing activities			
Purchase of property, plant and equipment		(112,659)	(30,850)
Purchase of rods and casings		(6,234)	(5,979)
Proceeds from sale of property, plant and equipment		5,801	6,350
Development costs paid		(2,561)	(5,064)
Software costs paid		(18,771)	(10,294)
Payments for acquisitions of businesses	31b	-	(403)
Proceeds on disposal of subsidiary, net of cash disposed	31c	-	5,126
Payments for investments		-	-
Net cash flows used in investing activities		<u>(134,424)</u>	<u>(41,114)</u>
Cash flows from financing activities			
Proceeds from issuance of shares		-	697,702
Payments for share issuance costs		-	(49,549)
Payments for share buy-back for LTIP		(5,768)	(3,986)
Payments for debt issuance costs		(610)	(503)
Proceeds from borrowings		247,500	29,229
Repayment of borrowings		(134,558)	(710,861)
Dividends paid	25	(9,684)	-
GST refund on capitalized IPO costs		-	4,357
Net cash flows (used in) from financing activities		<u>96,880</u>	<u>(33,611)</u>
Net increase in cash and cash equivalents		14,234	42,428
Cash and cash equivalents at the beginning of the year		87,557	50,603
Effects of exchange rate changes on the balance of cash held in foreign currencies		<u>(6,847)</u>	<u>(5,474)</u>
Cash and cash equivalents at the end of the year	31a	<u>94,944</u>	<u>87,557</u>

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010

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1. GENERAL INFORMATION

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

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

Registered office

919-929 Marion Road
Mitchell Park South Australia 5043
Australia
Tel: +61 (8) 8375 8375

Principal place of business

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

2. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

The Company has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period. Details of the impact of these new accounting standards are set out in the individual accounting policy notes set out below. These Standards and Interpretations include:

Amendments to Australian Accounting Standards arising from the Annual Improvement Process

AASB 2009-4 'Amendments to Australian Accounting Standards arising from the Annual Improvement Process' introduced amendments into Accounting Standards that are equivalent to those made by the IASB under its program of annual improvements to its standards. A number of the amendments are technical changes to other pronouncements as the result of AASB 3 'Business Combinations' (2008), to align the scope of the pronouncements or to implement other consequential amendments. The adoption of this amendment did not have a significant impact on the Company's financial results or statement of financial position.

AASB 2009-5 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Process' introduced amendments into Accounting Standards that are equivalent to those made by the IASB under its program of annual improvements to its standards. A number of the amendments are largely technical, clarifying particular items, or eliminating unintended consequences. Other changes are more substantial, such as the amendment of AASB 8 'Operating Segments,' which now requires the disclosure of total assets by reportable segment only if such amount is regularly provided to the chief operating decision maker. As a result of this amendment, the Company revised Note 5 Segment Reporting to eliminate the disclosure of total assets by reportable segment.

Group cash-settled share-based payments

AASB 2009-8 'Amendments to Australian Accounting Standards – Group Cash-Settled Share-based Payment Transactions' amends AASB 2 'Share-based Payment' to clarify the accounting for group cash-settled share-based payment transactions. An entity receiving goods or services in a share-based payment arrangement must account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash. The adoption of this amendment did not have a significant impact on the Company's financial results or statement of financial position.

Standards and Interpretations issued not yet effective

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

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010

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2. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS (CONTINUED)

Financial instruments

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

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

These amendments will be adopted for the year ending 31 December, 2013. Management has not yet assessed the impact of adoption of these amendments.

Related party disclosures

AASB 2009-12 'Amendments to Australian Accounting Standards – Related Party Disclosures' amends the requirements of the previous version of AASB 124 'Related Party Disclosures' to clarify the definition of a related party and includes an explicit requirement to disclose commitments involving related parties. These amendments will be adopted for the year ending 31 December 2011. Management does not believe that the adoption of these amendments will have a significant impact on the Company's financial results or statement of financial position.

Prepayments of a Minimum Funding Requirement

AASB 2009-14 'Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement' makes limited-application amendments to Interpretation 14 'AASB 119 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.' The amendments apply when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements, permitting the benefit of such an early payment to be recognised as an asset. These amendments will be adopted for the year ending 31 December 2011. Management has not yet assessed the impact of adoption of these amendments.

Additional amendments of Australian Accounting Standards have been issued, the adoption of which management does not believe will have a significant impact on the Company's financial results or statement of financial position.

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

This financial report is a general purpose financial report which has been prepared in accordance with the requirements of applicable Accounting Standards including Australian Interpretations and the Corporations Act 2001. The financial report includes the consolidated financial statements of the Company.

Accounting Standards include Australian equivalents to International Financial Reporting Standards ("A-IFRS"). Compliance with A-IFRS ensures that the financial statements and notes of the Company comply with IFRS.

The financial report is presented in United States dollars which is Boart Longyear Limited's functional and presentation currency. The financial statements were authorised for issue by the directors on 23 February 2011.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of preparation

The financial report has been prepared on a historical cost basis, except for the revaluation of certain financial instruments that are stated at fair value. Cost is based on fair values of the consideration given in exchange for assets.

At the Company's annual general meeting on 11 May 2010, shareholders approved a 10 for 1 share consolidation. Trading in the consolidated shares commenced 13 May 2010. The Company's earnings (loss) per share information, as well as the number of shares and rights under the LTIP and restricted shares have been restated in this report using the consolidated share amounts.

In applying A-IFRS, management is required to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the respective periods in which they are revised if only those periods are affected, or in the respective periods of the revisions as well as future periods if the revision affects both current and future periods.

Judgments made by management in the application of A-IFRS that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported. These accounting policies have been consistently applied by each entity in the Company.

The consolidated financial statements are prepared by combining the financial statements of all of the entities that comprise the consolidated entity, Boart Longyear Limited and subsidiaries as defined in AASB 127 'Consolidated and Separate Financial Statements'. Consistent accounting policies are applied by each entity and in the preparation and presentation of the consolidated financial statements.

Subsidiaries are all entities for which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Company until such time as the Company ceases to control such entity. Where necessary, adjustments are made to the financial statements of subsidiaries to make their accounting policies consistent with Company accounting policies.

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

The accounting policies and methods of computation are the same as those in the prior annual financial report. Comparative figures have been adjusted to conform to the changes in presentation in the current reporting period, where necessary.

The significant accounting policies set out below have been applied in the preparation and presentation of the financial report for the year ended 31 December 2010 and the comparative information.

(a) Presentation currency

Results of the major operating businesses are recorded in their functional currencies, which are generally their local currencies. The Company's US dollar-denominated revenue represents the predominant currency. Accordingly, under A-IFRS, management believes that US dollar reporting represents the best indicator of the results of the Company and therefore the consolidated financial information is presented in US dollars.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and deposits repayable on demand with a financial institution. Cash balances and overdrafts in the balance sheet are stated at gross amounts within current assets and current liabilities, unless there is a legal right of offset at the bank. The cash and cash equivalents balance primarily consists of demand deposits, money market funds and bank term deposits with original maturity at time of purchase of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(c) Trade and other receivables

Trade receivables are recorded at amortised cost. The Company reviews collectability of trade receivables on an ongoing basis and provides allowances for credit losses when there is evidence that trade receivables are not collectible. These losses are recognised in the income statement within operating expenses. When a trade receivable is determined to be uncollectible, it is written off against the allowance account for doubtful debts. Subsequent recoveries of amounts previously written off are recorded in other income in profit or loss.

(d) Inventories

Products

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

Drilling Services

The Company maintains inventories of core drilling rods and casings and certain consumables for use in the rendering of services. Inventory items are measured at the lower of cost or net realisable value. Core drilling rods and casings are initially recognised at cost and are expensed as utilised.

A regular and ongoing review is performed to establish whether any items are obsolete or damaged, and if so the carrying amounts are written down to the net realisable value. Allowances are recorded for inventory considered to be excess or obsolete.

(e) Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Costs include expenditures that are directly attributable to the acquisition of the assets, including the costs of materials and direct labour, other costs directly attributable to bringing the assets to a working condition for the intended use, and the present value at acquisition of the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate assets.

Subsequent costs related to previously capitalised assets are capitalised only when it is probable that they will result in commensurate future economic benefit and the costs can be reliably measured. All other costs, including repairs and maintenance, are recognised in profit or loss as expenses as incurred.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Property, plant and equipment (continued)

The following useful lives are used in the calculation of depreciation:

Buildings	20-40	years
Plant and machinery	5-10	years
Drilling rigs	5-12	years
Other drilling equipment	1-5	years
Office equipment	5-10	years
Computer equipment:		
Hardware	3-5	years
Software	1-7	years

Depreciation methods, useful lives and residual values are reassessed at each reporting date.

(f) Goodwill and other intangible assets

Goodwill

Goodwill resulting from business combinations is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, the Company's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in the statement of comprehensive income (loss) as a bargain purchase gain.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Company's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the carrying value of the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Trademarks and trade names

Trademarks and trade names recognised by the Company that are considered to have indefinite useful lives are not amortised. Each period, the useful life of each of these assets is reviewed to determine whether events and circumstances continue to support an indefinite useful life assessment for the asset. Trademarks and trade names that are considered to have a finite useful life are carried at cost less accumulated amortisation and accumulated impairment losses and have an average useful life of 3 years. Such assets are tested for impairment at least annually or more frequently if events or circumstances indicate that the asset might be impaired.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Goodwill and other intangible assets (continued)

Contractual customer relationships

Contractual customer relationships acquired in business combinations are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. Contractual customer relationships have finite useful lives and are carried at cost less accumulated amortisation and accumulated impairment losses.

Contractual customer relationships are amortised over 10 – 15 years on a straight-line basis. The estimated useful lives and amortisation methods are reviewed at the end of each annual reporting period, with any changes being recognised as a change in accounting estimate.

Patents

Patents are measured at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight line basis over estimated useful lives of 10 - 20 years. The estimated useful lives and amortisation method is reviewed at the end of each annual reporting period, with any changes being recognised as a change in accounting estimate.

Research and development costs

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

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

Capitalised development costs are measured at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over the estimated useful lives, which on average is 15 years.

Subsequent costs related to previously capitalised assets are capitalised only when it is probable that they will result in commensurate future economic benefit and the costs can be reliably measured. All other expenditures, including expenditures on internally generated goodwill and brands, are expensed as incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Leased assets

Leases are classified as finance leases when the terms of the leases transfer substantially all the risks and rewards incidental to ownership of the leased assets to the Company. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised at fair value or, if lower, at amounts equal to the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Finance lease payments are apportioned between finance charges and reductions of the lease obligations so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are expensed, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Company's general policy on borrowing costs. Refer to Note 3(n).

Finance leased assets are amortised on a straight-line basis over the shorter of the lease terms or the estimated useful lives of the assets.

Operating lease payments are recognised as expenses on a straight-line basis over the lease terms, except when another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Contingent rentals are expensed as incurred.

Lease incentives

In the event that lease incentives are received at the inception of operating leases, such incentives are recognised as liabilities. The aggregate benefits of incentives are recognised as reductions of rental expense on a straight-line basis over the lease terms, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

(h) Current and deferred taxation

Income tax expense includes current and deferred tax expense (benefit). Income tax expense (benefit) is recognised in profit or loss except to the extent that amounts relate to items recognised directly in equity, in which case the income tax expense (benefit) is also recognised in equity, or amounts that relate to a business combination, in which case the income tax expense (benefit) is recognised in goodwill.

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

Deferred tax is recognised using the balance sheet method, in respect of all temporary differences for which transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred but have not reversed at the balance sheet date. Temporary differences are differences between the Company's taxable income and its profit before taxation, as reflected in profit or loss, that arise from the inclusion of profits and losses in tax assessments in periods different from those in which they are recognised in profit or loss.

Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they likely will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Current and deferred taxation (continued)

A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying temporary differences can be deducted. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised concurrently with the liability to pay the related dividend.

Tax consolidation

The Company includes tax consolidated groups for the entities incorporated in Australia and the United States. Tax expense/benefit and deferred tax assets/liabilities arising from temporary differences of the members of each tax-consolidated group are recognised in the separate financial statements of the members of that tax-consolidated group using the 'separate taxpayer within group' approach by reference to the carrying amounts in the separate financial statements of each entity. Tax credits of each members of the tax-consolidated group are recognised by the head entity in that tax-consolidated group.

Entities within the various tax-consolidated groups will enter into tax funding arrangements and tax-sharing agreements with the head entities. Under the terms of the tax funding arrangements, the relevant head entity and each of the entities in that tax-consolidated group will agree to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the entity.

(i) Derivative financial instruments

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

Derivatives are initially recognised at fair value at the date a derivative contract is executed and are subsequently remeasured to fair value at each reporting date. The resulting gain or loss is recognised in profit or loss unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

The Company designates certain derivatives as either hedges of the fair value of recognised assets, liabilities or firm commitments (fair value hedges), or hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges).

The fair values of hedging derivatives are classified as non-current assets/liabilities if the remaining maturities of the hedge relationships are more than 12 months and as current assets/liabilities if the remaining maturities of the hedge relationships are less than 12 months.

Derivatives not designated into an effective hedge relationship are classified as current assets/liabilities regardless of their remaining maturities.

Hedge accounting

The Company designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges or cash flow hedges. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the Company documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions.

Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Derivative financial instruments (continued)

Fair value hedge

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

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

Cash flow hedge

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

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

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

Embedded derivatives

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

(j) Impairment

Non-financial assets

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Impairment (continued)

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

Financial assets

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

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss is not recognised directly for trade receivables because the carrying amount is reduced through the use of an allowance account.

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

All impairment losses are recognised in profit or loss. An impairment loss is reversed if the reversal is related to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in profit or loss.

(k) Trade and other payables

Trade payables and other payables are carried at amortised cost. They represent unsecured liabilities for goods and services provided to the Company prior to the end of the financial period that are unpaid and arise when the Company becomes obligated to make future payments.

(l) Provisions

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

Warranties

The Company maintains warranty reserves for products manufactured by its various companies. A provision is recognised when the following conditions are met: 1) the Company has an obligation as a result of an implied or contractual warranty; 2) it is probable that an outflow of resources will be required to settle the warranty claim; and 3) the amount of the claim can be reliably estimated.

Restructuring

A provision for restructuring is recognised when the Company has approved a detailed and formal restructuring plan, and the Company starts to implement the restructuring plan or announces the main features of the restructuring plan to those affected by the plan in a sufficiently specific manner to raise a valid expectation of those affected that the restructuring will be carried out. The Company's restructuring accruals include only the direct expenditures arising from the restructuring, which are those that are both necessarily incurred by the restructuring and not associated with the ongoing activities.

Onerous contracts

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Employee benefits

Liabilities for employee benefits for wages, salaries, annual leave, long service leave, and sick leave represent present obligations resulting from employees' services provided and are calculated at discounted amounts based on rates that the Company expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax, when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Company in respect of services provided by employees up to reporting date.

Non-accumulating non-monetary benefits, such as medical care, housing, cars and free or subsidised goods and services, are expensed based on the net marginal cost to the Company as the benefits are provided to the employees.

Provisions are recognised for amounts expected to be paid under short-term cash bonus or profit-sharing plans if the Company has present legal or constructive obligations to pay these amounts as a result of past service provided by employees and the obligations can be reliably estimated.

Defined contribution pension plans and post-retirement benefits

A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The Company has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The amount recognised as an expense in profit or loss in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the statement of financial position.

Defined benefit pension plans

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

The discount rate is the yield at the balance sheet date on high quality corporate bonds that have maturity dates approximating to the terms of the Company's defined benefit obligations. Where there is no deep market in such bonds, the market yields at the reporting date on government bonds are used. The calculation is performed by a qualified actuary using the projected unit credit method. Actuarial gains and losses arising from experience adjustments and related changes in actuarial assumptions are charged or credited to retained earnings.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Employee benefits (continued)

Share-based payment transactions

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

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

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

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

When determining expense related to long-term incentive plans, the Company considers the probability of shares vesting due to the achievement of performance metrics established by the Board of Directors related to long-term incentives that includes performance vesting conditions. The Company also estimates the portion of share and cash rights that will ultimately be forfeited. A forfeiture rate over the vesting period has been estimated, based upon extrapolation of historic forfeiture rates.

Earn-out and bonus agreements

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

(n) Loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. Debt issuance costs are amortised using the effective interest rate method over the life of the borrowing. For refinancing or restructuring of liabilities which are not considered a substantial modification, all costs incurred related to the refinancing or restructuring are amortised to profit and loss over the remaining period of the borrowing. For refinancing or restructuring of liabilities which are considered a substantial modification, a gain (loss) is recognised and the initial issue costs are written off, while any issuance costs related to the refinancing are recorded against the liabilities.

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

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Financial instruments

Debt and equity instruments

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at their fair values and subsequently at the higher of the amount recognised as a provision or the amount initially recognised less cumulative amortisation in accordance with the revenue recognition policies described in Note 3(q).

Financial assets

Investments are recognised and derecognised on trade dates where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs except for those financial assets classified as fair value through profit or loss which are initially measured at fair value.

Subsequent to initial recognition, investments in subsidiaries are measured at cost in the Parent financial statements. Subsequent to initial recognition, investments in associates are accounted for under the equity method in the consolidated financial statements and the cost method in the Parent financial statements.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Non-current loans and receivables are measured at amortised cost using the effective interest rate method less impairment. Interest is recognised by applying the effective interest rate. Current trade receivables are recorded at the invoiced amount and do not bear interest.

Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

Financial liabilities at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability. Fair value is determined in the manner described in Note 14.

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs, and subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

(p) Transaction costs on the issue of equity instruments

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Revenue recognition

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts, volume rebates and sales tax. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

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

Revenue from services rendered is recognised in the statement of comprehensive income (loss) in proportion to the stage of completion of the transaction at the reporting date. The stage of completion of the contract is determined as follows:

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

(r) Foreign currency

The financial statements of the Company and its international subsidiaries have been translated into US dollars using the exchange rate at each balance sheet date for assets and liabilities of foreign operations and at an average exchange rate for revenues and expenses throughout the period. The effects of exchange rate fluctuations on the translation of assets and liabilities are recorded as movements in the foreign currency translation reserve ("FCTR").

The Company's presentation currency is the US dollar. The Company determines the functional currency of its subsidiaries based on the currency used in their primary economic environment, and, as such, foreign currency translation adjustments are recorded in the FCTR for those subsidiaries with a functional currency different from the US dollar.

Transaction gains and losses, and unrealised translation gains and losses on short-term inter-company and operating receivables and payables denominated in a currency other than the functional currency, are included in other income in profit or loss.

(s) Contingencies

The recognition of accruals for legal disputes is subject to a significant degree of judgment. Accruals are made for loss contingencies when management determines that an adverse outcome is probable and the amount of the loss can be reasonably estimated. Accruals are recognised when (a) the Company has a present legal or constructive obligation as a result of past events, (b) it is more likely than not that an outflow of resources will be required to settle the obligation, and (c) the amount of that outflow has been reliably estimated.

(t) Business combinations

Business combinations are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Where applicable, consideration for acquisitions includes assets or liabilities resulting from contingent consideration arrangements, measured at acquisition-date fair value. Subsequent changes in such fair values are adjusted against the costs of the acquisitions where they qualify as measurement period adjustments (see below). All other subsequent changes in the fair values of contingent consideration classified as assets or liabilities are recognised in the statement of comprehensive income (loss) as incurred. Changes in the fair values of contingent consideration classified as equity are not recognised.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) **Business combinations (continued)**

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under AASB 3(2008) are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with AASB 112 Income Taxes and AASB 119 Employee Benefits, respectively;
- liabilities or equity instruments related to the replacement by the Company of an acquiree's share-based payment awards are measured in accordance with AASB 2 Share-based Payment; and
- assets (or disposal groups) that are classified as held for sale in accordance with AASB 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

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

(u) **Goods and services tax**

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010

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4. PARENT ENTITY DISCLOSURES

Financial position

	2010 US\$'000	2009 US\$'000
Assets		
Current assets	731,168	661,868
Non-current assets	2,237,753	2,244,039
Total assets	2,968,921	2,905,907
Liabilities		
Current liabilities	38,419	1,041
Non-current liabilities	2,646	690
Total liabilities	41,065	1,731
Equity		
Issued capital	2,886,462	2,890,807
Reserves	8,415	6,024
Retained earnings	32,979	7,345
Total equity	2,927,856	2,904,176

Financial performance

	2010 US\$'000	2009 US\$'000
Profit for the year	35,318	6,853
Other comprehensive income	-	-
Total comprehensive income	35,318	6,853

Guarantees entered into by the parent entity in relation to debts of its subsidiaries

As of 31 December 2010 and 2009 Boart Longyear Limited has not entered into any deed of cross guarantee with any of its wholly-owned subsidiaries, other than as described in Note 28.

Contingent liabilities

As of 31 December 2010 and 2009 Boart Longyear Limited did not have any contingent liabilities.

Contractual obligations

As of 31 December 2010 and 2009 Boart Longyear Limited did not have any contractual obligations.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010

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5. SEGMENT REPORTING

Information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance is aggregated based on the Company's two general operating activities – Global Drilling Services and Global Products. The Global Drilling Services segment provides a broad range of drilling services to mining companies, energy companies, water utilities, environmental and geotechnical engineering firms, government agencies and other mining services companies. The Global Products segment manufactures and sells capital equipment and consumables to customers in the drilling services and mining industries.

Information regarding these segments is presented below. The accounting policies of the reportable segments are the same as the Company's accounting policies.

Segment revenues and results

	Segment revenue		Segment profit	
	2010 US\$'000	2009 US\$'000	2010 US\$'000	2009 US\$'000
Global Drilling Services	1,080,460	737,180	117,876	72,383
Global Products	395,485	240,997	85,034	16,232
	<u>1,475,945</u>	<u>978,177</u>	<u>202,910</u>	<u>88,615</u>
Unallocated ¹			(74,472)	(66,085)
Finance costs			(8,733)	(46,752)
Interest income			3,570	1,616
Profit (loss) before taxation			<u>123,275</u>	<u>(22,606)</u>

- (1) Unallocated costs include corporate general and administrative costs as well as other expense items such as restructuring costs and foreign exchange gains or losses.

Other segment information

	Depreciation and amortisation of segment assets		Additions to non-current assets ²	
	31 Dec 2010 US\$'000	31 Dec 2009 US\$'000	31 Dec 2010 US\$'000	31 Dec 2009 US\$'000
Global Drilling Services	73,591	69,450	115,712	38,145
Global Products	10,374	10,204	21,161	10,031
Total of all segments	<u>83,965</u>	<u>79,654</u>	<u>136,873</u>	<u>48,176</u>
Unallocated ¹	9,385	8,853	25,191	7,922
Total	<u>93,350</u>	<u>88,507</u>	<u>162,064</u>	<u>56,098</u>

- (1) Unallocated additions to non-current assets relate to the acquisition of general corporate assets such as software.

- (2) Non-current assets exclude deferred tax assets, post-employment assets and other financial assets.

The Company has no single external customer that provided more than 10% of the Company's revenues.

Notes to the Consolidated Financial Statements

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5. SEGMENT REPORTING (CONTINUED)

Geographic Information

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

	Revenue from external customers		Non-current assets ¹	
	2010 US\$'000	2009 US\$'000	2010 US\$'000	2009 US\$'000
North America	621,092	463,085	347,222	311,259
Asia Pacific	403,230	275,856	340,023	307,577
Latin America	186,177	112,080	89,008	74,028
Africa	192,920	82,156	55,169	39,677
Europe	72,526	45,000	13,645	11,016
Total	1,475,945	978,177	845,067	743,557

(1) Non-current assets excluding deferred tax assets, post-employment assets and other financial assets.

6. REVENUE

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

	2010 US\$'000	2009 US\$'000
Revenue from the rendering of services	1,080,460	737,180
Revenue from the sale of goods	395,485	240,997
	1,475,945	978,177
Interest income:		
Bank deposits	3,306	1,314
Other loans and receivables	151	113
Other	113	189
	3,570	1,616
Total	1,479,515	979,793

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7. FINANCE COSTS

	2010 US\$'000	2009 US\$'000
Interest on loans and bank overdrafts	4,370	11,752
Interest rate swap expense	3,730	15,556
Amortisation of debt issuance costs	420	2,352
Interest on obligations under finance leases	213	430
	<u>8,733</u>	<u>30,090</u>
Finance costs due to debt repayment		
Interest rate swap expense	-	15,242
Bank refinancing fee	-	1,050
Write-off of debt issuance costs	-	370
	<u>-</u>	<u>16,662</u>
Loss arising on derivatives in a designated fair value hedge accounting relationship	-	694
Gain arising on adjustment to hedged item in a designated fair value hedge accounting relationship	-	(694)
	<u>-</u>	<u>-</u>
Total finance costs	<u>8,733</u>	<u>46,752</u>

8. PROFIT FOR THE YEAR

(a) Gains and losses

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

	2010 US\$'000	2009 US\$'000
Loss on disposal of property, plant and equipment	(1,827)	(49)
Loss on disposal of businesses	-	(4,130)
Net foreign exchange losses	(7,159)	(2,512)
Change in fair value of financial assets carried at fair value through profit or loss	(1,076)	1,389
Impairment of non-current assets	(1,695)	(1,318)

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8. PROFIT FOR THE YEAR (CONTINUED)

(b) Income and expenses relating to financial instruments

Profit for the year includes the following income and expenses arising from movements in the carrying amounts of financial instruments (other than derivative instruments in an effective hedge relationship).

	2010 US\$'000	2009 US\$'000
Loans and receivables:		
Interest income	3,457	1,427
Reversal of allowance for doubtful accounts	1,002	91
	<u>4,459</u>	<u>1,518</u>
Financial liabilities at amortised cost:		
Interest expense	(4,370)	(11,752)
Interest rate swap expense	(3,730)	(15,556)
Amortisation of debt issuance costs	(420)	(2,352)
Finance costs due to debt repayment	-	(16,662)
Exchange loss	(19)	(74)
Interest on obligations under finance leases	(213)	(430)
	<u>(8,752)</u>	<u>(46,826)</u>

(c) Employee benefits expenses:

	2010 US\$'000	2009 US\$'000
Salaries and Wages	(423,098)	(294,343)
Post employment benefits:		
Defined contribution plans	(15,049)	(12,025)
Defined benefit plans	(1,666)	(632)
Long-term incentive plans:		
Equity-settled share-based payments	(3,863)	(3,432)
Cash rights compensation	(1,954)	(690)
Termination benefits (non-restructuring)	(493)	(416)
Termination benefits (restructuring)	(2,297)	(8,234)
Other employee benefits ¹	(75,392)	(52,666)
	<u>(523,812)</u>	<u>(372,438)</u>

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

Notes to the Consolidated Financial Statements

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8. PROFIT FOR THE YEAR (CONTINUED)

(d) Other:

	2010 US\$'000	2009 US\$'000
Depreciation of non-current assets	(84,222)	(79,865)
Amortisation of non-current assets	(9,128)	(8,642)
Operating lease rental expense	(35,910)	(34,440)
Impairment of inventory	(611)	(563)
Recovery of inventory previously impaired	-	1,706

9. INCOME TAXES

Income tax expense (benefit) is as follows:

	2010 US\$'000	2009 US\$'000
Income tax expense (benefit):		
Current tax expense	51,601	35,264
Adjustments recognised in the current year in relation to the current tax of prior years	2,402	1,762
Deferred tax benefit	(15,241)	(44,749)
	<u>38,762</u>	<u>(7,723)</u>

(a) The prima facie income tax expense (benefit) on pre-tax accounting profit reconciles to the income tax expense (benefit) in the financial statements as follows:

Profit (loss) before taxation	123,275	(22,606)
Income tax (benefit) expense calculated at Australian rate of 30%	36,982	(6,782)
Impact of higher rate tax countries	2,701	(7,796)
Impact of lower rate tax countries	(6,334)	(1,487)
Net nondeductible/nonassessable items	(1,108)	(6,560)
Unrecognised tax losses	1,231	1,148
Income subject to double taxation in the U.S.	(1,653)	2,607
Unutilised foreign tax credits	6,634	4,978
Recognition of deferred tax assets arising in prior years	(132)	(638)
Deduction of foreign taxes	(1,005)	(1,304)
Other	(957)	6,349
	<u>36,359</u>	<u>(9,485)</u>
Under provision	2,403	1,762
	<u>38,762</u>	<u>(7,723)</u>

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For the financial year ended 31 December 2010

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9. INCOME TAXES (CONTINUED)

(b) Income tax recognised directly in equity during the period

The following current and deferred amounts were charged (credited) directly to equity during the period:

	2010 US\$'000	2009 US\$'000
Deferred tax:		
Actuarial movements on defined benefit plans	4,418	(340)
Share issue costs	-	12,437
Cash flow hedges	(194)	(9,465)
	<u>4,224</u>	<u>2,632</u>
(c) Current tax assets and liabilities		
Current tax assets:		
Income tax receivable attributable to:		
Parent	23,164	19,060
Other entities in the tax consolidated group	(15,373)	(8,042)
Other entities	13,914	10,197
	<u>21,705</u>	<u>21,215</u>
Current tax liabilities:		
Income tax payable attributable to:		
Parent	-	-
Other entities in the tax consolidated group	-	-
Other entities	46,338	41,221
	<u>46,338</u>	<u>41,221</u>
(d) Deferred tax balances		
Deferred tax comprises:		
Temporary differences	87,483	72,147
Tax losses	48,371	44,630
	<u>135,854</u>	<u>116,777</u>

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010

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9. INCOME TAXES (CONTINUED)

	Opening balance US\$'000	Credited to income US\$'000	FX Differences US\$'000	Acquired/ disposed US\$'000	Adj. to PY acquisitions US\$'000	Credited to equity US\$'000	Closing balance US\$'000
2010							
Deferred tax assets (liabilities)							
Property, plant and equipment	(14,067)	5,276	(51)	-	-	-	(8,842)
Provisions	4,549	(2,097)	(23)	-	-	-	2,429
Doubtful debts	630	(224)	(3)	-	-	-	403
Intangibles	(9,302)	(351)	48	-	-	-	(9,605)
Acquisitions and restructuring costs	7,463	(4,249)	(38)	-	-	-	3,176
Share-issue expenses	17,678	(6,496)	-	-	-	-	11,182
Accrued liabilities	9,470	(7,346)	(49)	-	-	-	2,075
Pension	5,146	(522)	(27)	-	-	4,418	9,015
Debt and interest	8,816	4,782	(75)	-	-	-	13,523
Hedge loss	6,323	(3,355)	-	-	-	(194)	2,774
Unearned revenues	23,488	(4,275)	(123)	-	-	-	19,090
Inventory	6,782	7,127	(35)	-	-	-	13,874
Investments in subsidiaries	(597)	(903)	-	-	-	-	(1,500)
Foreign tax credit carryforward	6,723	1,479	-	-	-	-	8,202
Unrealised foreign exchange	(3,519)	19,424	-	-	-	-	15,905
Other	2,564	3,229	(11)	-	-	-	5,782
	<u>72,147</u>	<u>11,499</u>	<u>(387)</u>	<u>-</u>	<u>-</u>	<u>4,224</u>	<u>87,483</u>
Unused tax losses and credits:							
Tax losses	44,630	3,741	-	-	-	-	48,371
	<u>116,777</u>	<u>15,240</u>	<u>(387)</u>	<u>-</u>	<u>-</u>	<u>4,224</u>	<u>135,854</u>

Presented in the statement of financial position as follows:

Deferred tax liability	(11,468)
Deferred tax asset	147,322
	<u>135,854</u>

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010

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9. INCOME TAXES (CONTINUED)

	Opening balance US\$'000	Credited to income US\$'000	FX Differences US\$'000	Acquired/ disposed US\$'000	Adj. to PY acquisitions US\$'000	Credited to equity US\$'000	Closing balance US\$'000
2009							
Deferred tax assets (liabilities)							
Property, plant and equipment	(21,165)	7,067	31	-	-	-	(14,067)
Provisions	5,891	(1,794)	452	-	-	-	4,549
Doubtful debts	577	9	44	-	-	-	630
Intangibles	(7,429)	(1,303)	(570)	-	-	-	(9,302)
Acquisitions and restructuring costs	8,092	(1,250)	621	-	-	-	7,463
Share-issue expenses	11,737	(6,496)	-	-	-	12,437	17,678
Accrued liabilities	9,716	(991)	745	-	-	-	9,470
Pension	6,839	(1,878)	525	-	-	(340)	5,146
Debt and interest	2,764	5,870	182	-	-	-	8,816
Hedge loss	9,834	5,954	-	-	-	(9,465)	6,323
Unearned revenues	-	23,488	-	-	-	-	23,488
Inventory	7,415	(1,202)	569	-	-	-	6,782
Investments in subsidiaries	(597)	-	-	-	-	-	(597)
Foreign tax credit carryforward	6,723	-	-	-	-	-	6,723
Unrealised foreign exchange	20,960	(24,479)	-	-	-	-	(3,519)
Other	5,050	(2,876)	390	-	-	-	2,564
	66,407	119	2,989	-	-	2,632	72,147
Unused tax losses and credits:							
Tax losses	-	44,630	-	-	-	-	44,630
	66,407	44,749	2,989	-	-	2,632	116,777

Presented in the statement of financial position as follows:

Deferred tax liability	(5,323)
Deferred tax asset	122,100
	116,777

	2010 US\$'000	2009 US\$'000
Unrecognised deferred tax assets		
Tax losses - revenue	3,151	2,789
Unused tax credits	61,829	48,951
	64,980	51,740

The Parent and its wholly-owned Australian resident entities became part of the same tax-consolidated group with effect from 12 April 2007 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Boart Longyear Limited. Companies within the US group also form a tax-consolidated group within the United States. Certain companies within the Dutch group have also formed a tax-consolidated group within the Netherlands.

Entities within the tax-consolidated groups have entered into tax-funding arrangements with the head entities. Under the terms of the tax-funding arrangements, the tax-consolidated groups and each of the entities within those tax-consolidated groups agree to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the entity. Such amounts are reflected in amounts receivable or payable to other entities in the tax-consolidated groups.

Notes to the Consolidated Financial Statements

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10. RESTRUCTURING

The Company initiated a restructuring plan in 2010 to reduce or eliminate certain operations. These activities include:

- reduction of drilling services staff levels in certain locations;
- exiting unprofitable contracts
- discontinuing certain retail drilling supply sales operations

In 2008 the Company initiated a restructuring and cost reduction plan for related activities that continued through 2009 and 2010. These activities include:

- reduction of drilling services and manufacturing operating and administrative staff levels;
- reduction of sales, general and administrative staff levels;
- consolidation of drilling services, manufacturing and administrative facilities;
- relocation of certain manufacturing activities to lower cost facilities;
- outsourcing certain operational and administrative activities;
- discontinuing certain businesses and product lines; and
- the sale of non-core businesses (see Note 30).

The Company incurred costs related to executing the restructuring and cost reduction plans, including costs associated with employee separations, leased facilities, and impairments of inventory and capital equipment related to discontinued businesses and product lines. Expenses related to executing the restructuring and cost reduction plan were as follows:

	2010 US\$'000	2009 US\$'000
Employee separation costs	2,297	8,234
Contract termination costs	1,570	-
Occupancy	424	3,436
Impairment of inventory	611	563
Impairment of property, plant and equipment	67	1,318
Recovery of inventory previously impaired	-	(1,706)
Other	108	798
	<u>5,077</u>	<u>12,643</u>

Restructuring expenses relate to the following expense categories:

	2010 US\$'000	2009 US\$'000
Cost of goods sold	290	3,541
General and administrative expenses	3,186	5,162
Selling and marketing expenses	1,601	3,940
	<u>5,077</u>	<u>12,643</u>

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11. RECLASSIFICATION

For 2010, the Company performed a review of selling and marketing expenses and general and administrative expenses and determined that certain costs would be more appropriately classified as general and administrative expenses or costs of goods sold. As a result, the accounts were reclassified. In order to present comparable financial results, the related accounts for the year ended 31 December 2009 have been reclassified as follows:

	2009 Selling and marketing US\$'000	2009 Cost of goods sold US\$'000	2009 General and administrative US\$'000
Amounts originally reported	(70,549)	(744,670)	(117,260)
Reclassification	28,702	(2,633)	(26,069)
Restated amounts	<u>(41,847)</u>	<u>(747,303)</u>	<u>(143,329)</u>

Additionally, certain other amounts have been reclassified in the 2009 statement of financial position and consolidated statement of cash flows to conform to 2010 presentation.

12. TRADE AND OTHER RECEIVABLES

	2010 US\$'000	2009 US\$'000
Trade receivables	245,842	177,442
Allowance for doubtful accounts	(3,619)	(5,940)
Goods and services tax receivable	23,978	14,901
Other receivables	10,635	12,195
	<u>276,836</u>	<u>198,598</u>

The ageing of trade receivables is detailed below:

	2010 US\$'000	2009 US\$'000
Current	172,930	128,700
Past due 0 - 30 days	43,050	32,235
Past due 31 - 60 days	13,710	6,771
Past due 61-90 days	6,302	3,086
Past due 90 days	9,850	6,650
	<u>245,842</u>	<u>177,442</u>

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12. TRADE AND OTHER RECEIVABLES (CONTINUED)

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

	2010 US\$'000	2009 US\$'000
Opening Balance	5,940	8,100
Additional provisions	2,651	4,989
Amounts used	(1,271)	(2,664)
Amounts reversed	(3,653)	(5,080)
Foreign currency exchange differences	(48)	595
Closing balance	3,619	5,940

The average credit period on sales of goods is 54 days (2009: 60 days). No interest is presently charged on trade receivables.

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

The Company has used the following basis to assess the allowance loss for trade receivables and as a result is unable to specifically allocate the allowance to the ageing categories shown above:

- the general economic conditions in specific geographical regions;
- an individual account by account specific risk assessment based on past credit history; and
- any prior knowledge of debtor insolvency or other credit risk.

13. INVENTORIES

	2010 US\$'000	2009 US\$'000
Raw materials	31,631	16,327
Work in progress	3,437	5,194
Finished products	248,047	137,939
	283,115	159,460

14. FINANCIAL INSTRUMENTS

Capital risk management

The Company manages its capital to ensure that entities in the Company will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balances.

The capital structure of the Company consists of debt, which includes the borrowings disclosed in Note 19, cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued capital, reserves, and accumulated losses as disclosed in Notes 22, 23, and 24 respectively.

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 3 to the financial statements.

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14. FINANCIAL INSTRUMENTS (CONTINUED)

Categories of financial instruments

	2010 US\$'000	2009 US\$'000
Financial Assets		
<i>Current</i>		
Cash and cash equivalents	94,944	87,557
Trade and other receivables	276,836	198,598
Other financial assets	362	1,818
	<u>372,142</u>	<u>287,973</u>
Financial Liabilities		
<i>Current</i>		
Amortised cost:		
Trade and other payables	260,038	170,118
Restructuring Provisions	4,462	2,256
Loans and borrowings	979	3,133
	<u>265,479</u>	<u>175,507</u>
Other financial liabilities - Derivative instruments	7,272	11,835
<i>Non-current</i>		
Amortised cost:		
Loans and borrowings	247,490	132,486
	<u>247,490</u>	<u>132,486</u>
Other financial liabilities - Derivative instruments	-	4,822

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

Financial risk management objectives

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

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

Market risk

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates (Note 3(i)). The Company periodically enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency risk, including:

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

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14. FINANCIAL INSTRUMENTS (CONTINUED)

Foreign currency risk management

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

The most significant carrying amounts of monetary assets and monetary liabilities that: (1) are denominated in currencies other than the functional currency of the respective Company subsidiary; (2) cause foreign exchange rate exposure; and (3) may include intercompany balances with other subsidiaries, at the reporting dates is as follows:

	Assets		Liabilities	
	2010 US\$'000	2009 US\$'000	2010 US\$'000	2009 US\$'000
Australian Dollar	421,867	429,090	12,094	77,391
Canadian Dollar	10,629	79,700	62,556	42,631
Euro	5,715	35,944	18,915	118,378
US Dollar	296,142	346,502	397,356	368,349

Foreign currency sensitivity

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

The following tables detail the Company's sensitivity to a 10% change in each of the Company's subsidiaries functional currency against the relevant foreign currencies. The percentages disclosed below are the sensitivity rates used when reporting foreign currency risk internally to key management personnel. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a given percentage change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Company where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number indicates an increase in net profit and net assets where the subsidiaries functional currency strengthens against the respective currency. For a weakening of the subsidiaries functional currency against the respective currency there would be an equal and opposite impact on the profit and net assets.

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14. FINANCIAL INSTRUMENTS (CONTINUED)

	AUD Impact		CAD Impact	
	2010 US\$'000	2009 US\$'000	2010 US\$'000	2009 US\$'000
Net profit	384	(24)	(2,505)	6,165
Net assets	(37,252)	(31,973)	4,721	(3,370)
Change in currency	10%	10%	10%	10%

	EUR Impact		USD Impact	
	2010 US\$'000	2009 US\$'000	2010 US\$'000	2009 US\$'000
Net profit	(1,204)	97	12,520	15,737
Net assets	1,204	7,494	9,201	1,986
Change in currency	10%	10%	10%	10%

The Company's sensitivity to certain foreign currency denominated loans has decreased during the current period mainly due to the retirement of these instruments and due to current hedging activity.

In management's opinion, the sensitivity analysis is not fully representative of the inherent foreign exchange risk as the year end exposure does not necessarily reflect the exposure during the course of the year.

Forward foreign exchange contracts

There were no open forward foreign currency contracts as of 31 December 2010 or 2009.

During the year ended 31 December 2009, the Company entered into contracts to hedge the foreign currency exposure it has on United States dollar denominated loans in Canada. The Company periodically enters into forward foreign exchange contracts (for terms not exceeding 9 months) to hedge the exchange rate risk arising from these anticipated future transactions, which are designated as fair value hedges.

Interest rate risk management

The Company is exposed to interest rate risk as entities within the Company borrow funds at both fixed and floating interest rates. The risk is managed by the Company by maintaining an appropriate mix between fixed and floating rate borrowings and by the use of interest rate swap contracts. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite. The Parent's and the Company's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

Interest rate sensitivity

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

Notes to the Consolidated Financial Statements

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14. FINANCIAL INSTRUMENTS (CONTINUED)

At the reporting date, if interest rates had been 100 basis points higher or lower and all other variables were held constant, the Company's:

- profit before tax would increase/decrease by \$854,000 (2009: decrease/increase by \$2,774,000). \$2,362,000 of the increase/decrease is attributable to the Company's exposure to interest rates on its variable rate borrowings. An offsetting \$1,508,000 is attributable to the fair value change in the ineffective portion of the Company's interest rate swap contract.
- In addition, other equity reserves would increase/decrease by \$95,000 (2009: increase/decrease by \$247,000) mainly as a result of the Company's exposure to interest rates on its interest rate swap contracts that are in a cash flow hedge relationship.

Interest rate swap contracts

Under interest rate swap contracts, the Company agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Company to mitigate the risk of changing interest rates on the cash flow exposures on the issued variable rate debt held. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using the LIBOR curve at reporting date and the credit risk inherent in the contract, and are disclosed below. The average interest rate is based on the outstanding balances at the start of the financial year.

The following tables detail the notional principal amounts and the remaining terms of interest rate swap contracts outstanding as at the reporting dates.

Outstanding floating for fixed contracts	Average contracted fixed interest rate		Notional principal amount		Fair value	
	2010	2009	2010	2009	2010	2009
	%	%	US\$'000	US\$'000	US\$'000	US\$'000
1 year	5.1825%	5.1825%	200,000	275,000	(7,272)	(16,657)

The interest rate swaps settle on a quarterly basis. The floating rate on the interest rate swaps is 90-day USD LIBOR. The Company settles the difference between the fixed and floating interest rate on a net basis.

The effective portion of the interest rate swap contracts that exchange floating rate interest amounts for fixed rate interest amounts are designated as cash flow hedges in order to reduce the Company's cash flow exposure resulting from variable rates on borrowings. The interest rate swaps and the interest payments on the loan occur simultaneously and the amount deferred in equity is recognised in profit or loss over the period of the loan.

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable. The Company holds security for a number of trade receivables in the form of letters of credit, deposits, and advanced payments.

The Company does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

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14. FINANCIAL INSTRUMENTS (CONTINUED)

Except as detailed in the following table, the carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Company's maximum exposure to credit risk without taking account of the value of any collateral obtained.

Financial assets and other credit exposures	Maximum credit risk	
	2010	2009
	US\$'000	US\$'000
Performance guarantees provided, including letters of credit	20,350	28,557

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Treasurer and board of directors, who have built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements.

The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in Note 19 is a listing of additional undrawn facilities that the Company has at its disposal to further reduce liquidity risk.

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14. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity and interest risk tables

The following tables detail the Company's remaining contractual maturity for its non-derivative financial liabilities. The tables have been presented based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company may be required to pay. The table includes both interest and principal cash flows. The adjustment column represents the possible future cash flows attributable to the instrument included in the maturity analysis which are not included in the carrying amount of the balance sheet.

	Weighted average effective interest rate %	Less than 1 month US\$'000	1 to 3 months US\$'000	3 months to 1 year US\$'000	1 - 5 years US\$'000	5+ years US\$'000	Adjust- ment US\$'000	Total US\$'000
2010								
Non-interest bearing payables	-	133,308	126,730	-	-	-	-	260,038
Restructuring provision	-	372	743	3,347	-	-	-	4,462
Finance lease liability	8.9%	115	230	1,032	320	-	(184)	1,513
Variable interest rate instruments	1.0%	199	398	1,790	248,651	-	(3,038)	248,000
		133,994	128,101	6,169	248,971	-	(3,222)	514,013
2009								
Non-interest bearing payables	-	109,326	60,792	-	-	-	-	170,118
Restructuring provision	-	188	376	1,692	-	-	-	2,256
Finance lease liability	8.4%	274	548	2,464	570	-	(381)	3,475
Variable interest rate instruments	1.3%	146	293	1,317	134,240	-	(3,996)	132,000
Fixed interest rate instruments	3.1%	1,000	-	-	-	-	-	1,000
		110,934	62,009	5,473	134,810	-	(4,377)	308,849

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14. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity and interest risk tables (continued)

The following table details the Company's expected maturity for its non-derivative financial assets. The tables below have been presented based on the undiscounted contractual maturities of the financial assets.

	Less than 1 month US\$'000	1 to 3 months US\$'000	3 months to 1 year US\$'000	1 - 5 years US\$'000	5+ years US\$'000	Total US\$'000
2010						
Non-interest bearing receivables	135,550	108,440	32,846	-	-	276,836
Cash	94,944	-	-	-	-	94,944
	<u>230,494</u>	<u>108,440</u>	<u>32,846</u>	<u>-</u>	<u>-</u>	<u>371,780</u>
2009						
Non-interest bearing receivables	86,348	86,348	25,902	-	-	198,598
Cash	87,557	-	-	-	-	87,557
	<u>173,905</u>	<u>86,348</u>	<u>25,902</u>	<u>-</u>	<u>-</u>	<u>286,155</u>

The liquidity and interest risk tables have been prepared based on the Company's intent to collect the assets or settle the liabilities in accordance with their contractual terms. If the group were to collect or settle the balances early, the liquidity disclosure would be different than what is reported.

The following table details the Company's liquidity analysis for its derivative financial instruments. The table has been presented based on the undiscounted net cash inflows (outflows) on the derivative instrument that settle on a net basis and the undiscounted net inflows (outflows) on those derivatives. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the reporting date.

	Less than 1 month US\$'000	1 to 3 months US\$'000	3 months to 1 year US\$'000	1 - 5 years US\$'000	5+ years US\$'000	Total US\$'000
2010						
Interest rate swaps	-	(2,469)	(4,803)	-	-	(7,272)
2009						
Interest rate swaps	-	(3,418)	(8,417)	(4,822)	-	(16,657)

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14. FINANCIAL INSTRUMENTS (CONTINUED)

Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions
- the fair value of derivative instruments are calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 US\$'000	Level 2 US\$'000	Level 3 US\$'000	Total US\$'000
2010				
Financial liabilities at fair value				
Derivative instruments	-	7,272	-	7,272
2009				
Financial assets at fair value				
Held for trading	1,494	-	-	1,494
Financial liabilities at fair value				
Derivative instruments	-	16,657	-	16,657

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15. PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings US\$'000	Plant and Equipment US\$'000	Total US\$'000
Balance at 1 January 2009	47,092	502,158	549,250
Additions	12	34,243	34,255
Adjustments to business combinations accounted for on a provisional basis in 2008	-	(6,554)	(6,554)
Disposal of assets	(9,363)	(19,093)	(28,456)
Transfer from intangible assets		655	655
Currency movements	3,431	80,709	84,140
Balance at 1 January 2010	41,172	592,118	633,290
Additions	2,964	133,566	136,530
Disposal of assets	(62)	(41,915)	(41,977)
Transfer from intangible assets	-	802	802
Currency movements	1,118	34,709	35,827
Balance at 31 December 2010	45,192	719,280	764,472
Accumulated depreciation and impairment:			
Balance at 1 January 2009	(4,556)	(141,001)	(145,557)
Depreciation for the year	(1,622)	(78,243)	(79,865)
Impairment of non-current assets	-	(1,318)	(1,318)
Disposal of assets	1,377	15,226	16,603
Currency movements	(1,803)	(40,835)	(42,638)
Balance at 1 January 2010	(6,604)	(246,171)	(252,775)
Depreciation for the year	(1,860)	(82,362)	(84,222)
Impairment of non-current assets	-	(867)	(867)
Disposal of assets	38	34,311	34,349
Currency movements	(675)	(20,836)	(21,511)
Balance at 31 December 2010	(9,101)	(315,925)	(325,026)
Net book value at 31 December 2009	34,568	345,947	380,515
Net book value at 31 December 2010	36,091	403,355	439,446

Tangible property, plant and equipment includes machinery equipment, office equipment, furniture and fixtures, and vehicles, which are substantially freehold. The net book value of property, plant and equipment at 31 December 2010 and 2009 includes an amount of \$2,740,000 and \$3,424,000 respectively, related to assets held under finance leases.

During 2009, the Company sold its Sub Saharan manufacturing operations. This sale included net book value of property, plant and equipment of \$5,487,000.

Notes to the Consolidated Financial Statements

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16. GOODWILL

	<u>US\$'000</u>
Gross carrying amount:	
Balance at 1 January 2009	234,571
Adjustments to business combinations accounted for on a provisional basis in 2008	7,947
Currency movements	34,438
Balance at 31 December 2009	<u>276,956</u>
Balance at 1 January 2010	276,956
Currency movements	20,452
Balance at 31 December 2010	<u>297,408</u>

Allocation of goodwill to cash-generating units

Goodwill has been allocated for impairment testing purposes to individual cash generating units. The carrying amount of goodwill by geographic segment allocated to cash-generating units that are significant individually or in aggregate is as follows:

	<u>2010 US\$'000</u>	<u>2009 US\$'000</u>
Asia Pacific	155,731	136,943
Latin America	34,602	33,884
North America	107,075	106,129
	<u>297,408</u>	<u>276,956</u>

The carrying amount of goodwill is tested for impairment annually at 31 October and whenever there is an indicator that the asset may be impaired. If an asset is impaired, it is written down to its recoverable amount.

In its impairment assessment, the Company assumes the recoverable amount based on a value-in-use calculation using cash flow projections based on the Company's three year strategic plan and financial forecasts over a 9-year period, which approximates the length of a typical business cycle based on historical industry experience, with a terminal value. Key assumptions used for impairment testing include:

- a global discount rate of 11.5% adjusted on a case by case basis for regional variations in the required equity rate of return based on independent data (the adjusted rates ranged from 9.2% to 19.8%)
- expected future profits and future annual growth rates consistent with internal forecasts and expected performance of the specific business line being tested for impairment over the cycle. The growth rates do not exceed forecasts for the long term industry averages.

Sensitivity analyses were performed to determine whether the carrying value is supported by different assumptions. The key variables of the sensitivity analysis included:

- applicable discount rates;
- terminal growth rates; and
- inflation assumptions.

Based on the impairment testing performed, the recoverable amount from each cash generating unit exceeded the goodwill carrying amount. Consequently, no impairments were recorded in 2010.

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17. OTHER INTANGIBLE ASSETS

	Trademarks US\$'000	Patents US\$'000	Customer relationships US\$'000	Software US\$'000	Develop- ment assets US\$'000	Total US\$'000
Gross carrying amount:						
Balance at 1 January 2009	3,258	1,090	51,973	15,890	9,709	81,920
Adjustments to business combinations accounted for on a provisional basis in 2008	-	-	(990)	-	-	(990)
Additions	505	607	-	7,065	5,719	13,896
Disposals	-	-	-	-	(363)	(363)
Transfer to PP&E	-	-	-	-	(655)	(655)
Currency movements	-	-	6,745	-	2,459	9,204
Balance at 31 December 2009	3,763	1,697	57,728	22,955	16,869	103,012
Balance at 1 January 2010	3,763	1,697	57,728	22,955	16,869	103,012
Additions	121	1,250	-	20,799	3,364	25,534
Disposals	-	-	-	-	-	-
Transfer to PP&E	-	-	-	-	(802)	(802)
Currency movements	-	-	3,826	3,580	1,289	8,695
Balance at 31 December 2010	3,884	2,947	61,554	47,334	20,720	136,439
Accumulated amortisation:						
Balance at 1 January 2009	(164)	(457)	(5,606)	(1,340)	(897)	(8,464)
Amortisation for the period	(423)	(190)	(5,398)	(2,187)	(444)	(8,642)
Currency movements	-	-	(1,559)	-	(60)	(1,619)
Balance at 31 December 2009	(587)	(647)	(12,563)	(3,527)	(1,401)	(18,725)
Balance at 1 January 2010	(587)	(647)	(12,563)	(3,527)	(1,401)	(18,725)
Amortisation for the period	(423)	(200)	(5,757)	(2,200)	(548)	(9,128)
Impairment for the period	-	-	-	-	(828)	(828)
Currency movements	-	-	(1,463)	-	-	(1,463)
Balance at 31 December 2010	(1,010)	(847)	(19,783)	(5,727)	(2,777)	(30,144)
Net book value at 31 December 2009	3,176	1,050	45,165	19,428	15,468	84,287
Net book value at 31 December 2010	2,874	2,100	41,771	41,607	17,943	106,295

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18. TRADE AND OTHER PAYABLES

	2010 US\$'000	2009 US\$'000
<i>Current</i>		
Trade payables	169,697	86,391
Accrued payroll and benefits	47,157	40,226
Goods and services tax payable	17,675	19,530
Professional fees	4,420	3,992
Other sundry payables and accruals	21,089	19,979
	<u>260,038</u>	<u>170,118</u>

The average credit period on purchases of certain goods is 51 days (2009: 37 days). No interest is charged on the trade payables for this period. Thereafter, various percentages of interest may be charged on the outstanding balance based on the terms of the specific contracts. The Company has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

19. BORROWINGS

	2010 US\$'000	2009 US\$'000
Unsecured - at amortised cost		
<i>Current</i>		
Term bank loans	-	1,000
Debt issuance costs	-	(381)
<i>Non-current</i>		
Term bank loans	65,000	65,000
Revolver bank loans	183,000	67,000
Debt issuance costs	(1,044)	(475)
Secured - at amortised cost		
<i>Current</i> - finance lease liabilities	979	2,514
<i>Non-current</i> - finance lease liabilities	534	961
	<u>248,469</u>	<u>135,619</u>
Disclosed in the financial statements as:		
Current borrowings	979	3,133
Non-current borrowings	247,490	132,486
	<u>248,469</u>	<u>135,619</u>
A summary of the maturity of the Group's borrowings is as follows:		
Less than 1 year	979	3,133
Between 1 and 2 years	247,289	458
Between 2 and 3 years	194	132,028
Between 3 and 4 years	7	-
	<u>248,469</u>	<u>135,619</u>

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19. BORROWINGS (CONTINUED)

Term Bank Loans

At 31 December 2010 and 2009, outstanding bank term loans consist primarily of a \$65,000,000 variable rate loan with a scheduled maturity date of 10 April 2012. The interest rates on the loans are based on a base rate plus applicable margin. The base rate is generally based upon USD LIBOR rates, while the margin is determined based upon leverage according to a pricing grid. At 31 December 2010, the rates were based upon USD LIBOR + 0.65%, which totaled 0.9625%. At 31 December 2009, the rates were based upon USD LIBOR + 1.05%, which totaled 1.36%.

During the year ended 31 December 2009, the Company repaid \$585,000,000 of its bank term loans. The loans had an original, scheduled maturity date of 10 April 2010. The bank term loans were repaid with proceeds from the 2009 capital raising program.

The Company hedges its exposure to floating rates under the loans via interest rate swaps, exchanging variable rate interest payments for fixed rate interest payments. The interest swap contracts were largely entered into in 2006 and reflect notional amounts and maturities assuming (a) a portion of the variable interest loans would be hedged and (b) that bank term loans would be repaid largely according to original, scheduled maturity dates. As of 31 December 2010, the notional amount of interest rate swap contracts was \$200,000,000, which exceeded outstanding bank term loans. At 31 December 2010 and 2009, interest rate swap contracts with notional value of \$16,250,000 are deemed effective and are accounted for as cash flow hedges. At 31 December 2010 and 2009, \$183,750,000 and \$258,750,000, respectively, of the notional value of the interest rate swap contracts are deemed ineffective as cash flow hedges due to the repayment of the \$585,000,000 bank term loan in late 2009.

As of 31 December 2010, the \$200,000,000 of interest rate swap contracts outstanding swapped variable rates (as noted above) to fixed at a base rate 5.18%. As of 31 December 2009, \$275,000,000 notional amount of floating rate interest rates were swapped to fixed at a base rate of 5.18%.

Revolver Bank Loans

Bank facilities include two revolving loans. A \$200,000,000 facility has \$183,000,000 drawn as of 31 December 2010 with interest rates of 0.9625% and has a scheduled maturity date of 10 April 2012. \$67,000,000 is drawn as of 31 December 2009 with interest rates of 1.30%. Outstanding letters of credit of \$2,205,000 and \$11,405,000 as of 31 December 2010 and 2009, respectively, reduce the amount available to draw under the revolver.

In December 2010, the Company executed an \$85,000,000 facility with a scheduled maturity date of 10 February 2012, which is undrawn as of 31 December 2010.

The interest rates on the revolver loans are based on a base rate plus applicable margin. The base rate is generally based upon USD LIBOR rates, while the margin is determined based upon leverage according to a pricing grid.

Loan Covenants - Term and Revolver Bank Loans

The Company's borrowings contain covenants and restrictions requiring the Company to meet certain financial ratios and reporting requirements, as well as minimum levels of subsidiaries that are guarantors of the borrowings. These covenants include maintaining a debt to EBITDA ratio of not more than 3.75:1 for the facility that comprises the \$200,000,000 revolver and \$65,000,000 term bank loan and 3.50:1 for the \$85,000,000 revolver facility. An EBITDA to interest ratio of not less than 3.0:1 is required for both facilities. The agreement for the \$200,000,000 revolver and \$65,000,000 term bank loan also requires that borrowers and guarantors represent at least 75% of Company EBITDA and total tangible assets of the Company. The \$85,000,000 term bank loan facility requires that borrowers and guarantors represent at least 70% of Company EBITDA and has no tangible asset covenant. See Note 28 for a list of subsidiary guarantors which guarantee one or more of the facilities. Testing of covenant compliance takes place twice-yearly for the trailing 12 month periods to 30 June and 31 December. Noncompliance with one or more of the covenants and restrictions could result in the full or partial principal balance of the associated debt becoming immediately due and payable. The Company is in compliance with the debt covenants as of 31 December 2010 and 2009 as well as 30 June 2010 and 2009.

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19. BORROWINGS (CONTINUED)

Finance Leases

The finance lease liabilities were assumed largely as part of acquiring certain businesses prior to 2008. The leases are secured by the assets leased. The borrowings have interest rates ranging from 7.10% to 13.08%, with repayment periods not exceeding 4 years.

20. PROVISIONS

	2010 US\$'000	2009 US\$'000
Current		
Employee benefits	13,323	11,103
Restructuring and termination costs ¹	4,462	2,256
Warranty ²	613	614
	<u>18,398</u>	<u>13,973</u>
Non-current		
Employee benefits	4,993	1,942
Pension and post-retirement benefits (Note 21)	50,344	42,948
	<u>55,337</u>	<u>44,890</u>
	<u>73,735</u>	<u>58,863</u>

The changes in the provisions for the year ended 31 December 2010 are as follows:

	Restructuring and termination costs ¹ US\$'000	Warranty ² US\$'000
Balance at 1 January 2010	2,256	614
Additional provisions recognised	3,140	585
Reductions arising from payments/other sacrifices of future economic benefits	(966)	(427)
Increase (reductions) resulting from remeasurement or settlement without cost	76	(212)
Foreign exchange	(44)	53
Balance at 31 December 2010	<u>4,462</u>	<u>613</u>

- (1) The provision for restructuring and termination costs represents the present value of management's best estimate of the costs directly and necessarily caused by the restructuring that are not associated with the ongoing activities of the entity, including termination benefits and onerous leases.
- (2) The provision for warranty claims represents the present value of management's best estimate of the future outflow of economic benefits that will be required under the Company's warranty program.

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21. PENSION AND POST-RETIREMENT BENEFITS

Pension and Post-retirement Medical Commitments

The Company operates defined contribution and defined benefit pension plans for the majority of its employees. It also operates post-retirement medical arrangements in North America. The policy for accounting for pensions and post-retirement benefits is included in Note 3(m).

The assets of the defined contribution plans are held separately in independently administered funds. The charge in respect of these plans is calculated on the basis of contributions payable by the Company during the fiscal year.

The majority of the defined benefit pension plans are funded in accordance with minimum funding requirements by local regulators. The assets of these plans are held separately from those of the Company, in independently administered funds, in accordance with statutory requirements or local practice throughout the world.

The post-retirement medical arrangements provide health benefits to retired employees and certain dependants. Eligibility for coverage is dependent upon certain criteria. The majority of these plans are unfunded and have been provided for by the Company.

Defined Contribution Plans

Pension costs represent actual contributions paid or payable by the Company to the various plans. At 31 December 2010, and 2009, there were no significant outstanding/prepaid contributions. Company contributions to these plans were \$15,049,000 and \$12,025,000 for the years ended 31 December 2010 and 2009, respectively.

The Company's operations in the Netherlands participate in an industry-wide pension scheme for the mechanical and electrical engineering industries, known as the PME Fund. Although it is a defined benefit pension plan, the participating employers have no obligation other than to pay set contributions based on benefits accrued by the employees every period. The employers are not obligated to make additional payments to fund deficits, nor have they any right to repayments in the event of surpluses. The Company treats the PME scheme as a defined contribution plan.

Defined Benefit Pension Plans

Full actuarial valuations of the defined benefit pension plans were performed as of various dates and updated to 31 December 2010 by qualified independent actuaries. The estimated market value of the assets of the funded pension plans was \$194,620,000 and \$178,854,000 at 31 December 2010, and 2009, respectively. The market value of assets was used to determine the funding level of the plans. The market value of the assets of the funded plans was sufficient to cover 93% in both 2010 and 2009, of the benefits that had accrued to participants after allowing for expected increases in future earnings and pensions. Entities within the Company are paying contributions as required by statutory requirements and in accordance with local actuarial advice.

As the majority of the defined benefit pension plans are closed to new participants, it is expected that under the projected unit credit method, service cost will increase as the participants age.

Company contributions to these plans were \$7,115,000 and \$5,310,000 in the years ended 31 December 2010 and 2009, respectively. Contributions in 2011 are expected to be \$9,046,000.

During the year ended 31 December 2009 the pension plan in the United States of America was frozen with respect to all beneficiaries. This resulted in a curtailment and resulted in a gain of \$2,510,000, which was recognised in profit and loss in 2009.

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21. PENSION AND POST-RETIREMENT BENEFITS (CONTINUED)

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

	2010			2009		
	Southern Africa ¹	The Americas	Europe	Southern Africa	The Americas	Europe
Discount rates	8.8%	5.3%	5.3%	9.5%	5.9%	5.5%
Expected average rate of increase in salaries	-	3.8%	4.0%	6.8%	4.0%	4.0%
Expected average rate of increase of pensions in payment	-	-	1.5%	5.8%	-	1.5%
Expected average long term rate of return on plan assets	7.3%	7.4%	5.3%	7.5%	7.4%	6.4%
Expected average increase in healthcare costs (initial)	-	7.8%	-	7.8%	7.5%	-
Expected average increase in healthcare costs (ultimate)	-	5.0%	-	7.8%	5.0%	-

(1) The Southern Africa pension and post-retirement medical plans were settled with participants in 2009.

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

	2010			2009		
	Pension Plan	Post-retirement medical Plan	Total	Pension Plan	Post-retirement medical Plan	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Current service cost	1,443	581	2,024	2,126	509	2,635
Interest cost on plan liabilities	10,859	646	11,505	11,145	636	11,781
Past service cost	759	-	759	122	-	122
Expected return on plan assets	(12,622)	-	(12,622)	(11,396)	-	(11,396)
Effects of settlement and curtailment gains	-	-	-	(2,510)	-	(2,510)
Total charge (credit) to profit and loss account	439	1,227	1,666	(513)	1,145	632

For the financial years ended 31 December 2010 and 2009, charges of \$1,180 and \$412,000, respectively, have been included primarily in cost of goods sold and the remainder in general and administrative or sales and marketing expenses.

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21. PENSION AND POST-RETIREMENT BENEFITS (CONTINUED)

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

	2010			2009		
	Pension Plan	Post-retirement Medical Plan	Total	Pension Plan	Post-retirement Medical Plan	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Actuarial losses during the year, net of taxes	(7,787)	(2,353)	(10,140)	(2,786)	(667)	(3,453)

In 2001, legislation in South Africa was passed which restricts pension surpluses where they are not expected to give rise to future contribution reductions or refunds because of local restrictions over their use. During 2007, the South African Regulators approved the subsidiary's proposal in respect of the apportionment of the surplus from the plans. The majority of the members elected to transfer to the Alexander Forbes Retirement Fund effective 28 February 2008, leaving only one member in the fund. The liability with respect to the transfer was settled on 19 December 2008. The net asset recorded has certain restrictions on how the surplus can be used.

The amount included in the balance sheet arising from the Company's obligations in respect of defined benefit plans is as follows:

	2010			2009		
	Pension Plan	Post-retirement Medical Plan	Total	Pension Plan	Post-retirement Medical Plan	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Present value of funded defined benefit obligations	205,183	-	205,183	188,455	-	188,455
Fair value of plan assets	(194,620)	-	(194,620)	(178,854)	-	(178,854)
	10,563	-	10,563	9,601	-	9,601
Present value of unfunded defined benefit obligations	4,567	14,879	19,446	4,901	10,488	15,389
Deficit	15,130	14,879	30,009	14,502	10,488	24,990
Net liability arising from defined benefit obligations	15,130	14,879	30,009	14,502	10,488	24,990

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21. PENSION AND POST-RETIREMENT BENEFITS (CONTINUED)

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

	2010			2009		
	Post-			Post-		
	Pension	retirement	Total	Pension	retirement	Total
	Plan	Medical Plan		Plan	Medical Plan	
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Opening defined benefit obligation	193,355	10,488	203,843	171,312	9,411	180,723
Current service cost	1,443	581	2,024	2,126	509	2,635
Interest cost	10,859	646	11,505	11,145	636	11,781
Contributions from plan participants	-	353	353	2	299	301
Actuarial losses	14,632	3,793	18,425	15,857	601	16,458
Past service cost	759	-	759	122	-	122
Gains on curtailments	-	-	-	(2,510)	-	(2,510)
Liabilities extinguished on settlements	-	-	-	(1,185)	(266)	(1,451)
Exchange differences on foreign plans	(574)	27	(547)	12,167	103	12,270
Benefits paid	(10,724)	(1,009)	(11,733)	(15,681)	(805)	(16,486)
Closing defined benefit obligation	209,750	14,879	224,629	193,355	10,488	203,843

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

	2010			2009		
	Post-			Post-		
	Pension	retirement	Total	Pension	retirement	Total
	Plan	Medical Plan		Plan	Medical Plan	
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Opening fair value plan of assets	178,854	-	178,854	150,626	-	150,626
Expected return on plan assets	12,622	-	12,622	11,396	-	11,396
Actuarial gains	3,867	-	3,867	13,345	-	13,345
Assets distributed on settlements	-	-	-	(1,185)	(266)	(1,451)
Exchange differences on foreign plans	2,886	-	2,886	15,041	-	15,041
Contributions from the employer	7,115	656	7,771	5,310	830	6,140
Contributions from plan participants	-	353	353	2	299	301
Benefits paid	(10,724)	(1,009)	(11,733)	(15,681)	(863)	(16,544)
Closing fair value of plan assets	194,620	-	194,620	178,854	-	178,854

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21. PENSION AND POST-RETIREMENT BENEFITS (CONTINUED)

The analysis of the plan assets and the expected rate of return at the balance sheet date are as follows:

At 31 December 2010	2010						Total Fair Value US\$'000
	Southern Africa		The Americas		Europe		
	Rate of Return	Fair Value	Rate of Return	Fair Value	Rate of Return	Fair Value	
	%	US\$'000	%	US\$'000	%	US\$'000	
Equity	-	-	9.3%	62,679	7.0%	26,599	89,278
Bonds	8.8%	11,470	4.6%	56,547	3.3%	12,198	80,215
Property	-	-	-	-	5.5%	2,028	2,028
Cash	7.8%	11,096	3.7%	9,499	2.0%	223	20,818
Other	-	-	3.9%	2,281	-	-	2,281
Total market value	7.3%	22,566	7.4%	131,006	5.3%	41,048	194,620

At 31 December 2009	2009						Total Fair Value US\$'000
	Southern Africa		The Americas		Europe		
	Rate of	Fair	Rate of	Fair	Rate of	Fair	
	Return	Value	Return	Value	Return	Value	
	%	US\$'000	%	US\$'000	%	US\$'000	
Equity	-	-	9.3%	57,752	7.8%	24,654	82,406
Bonds	9.5%	9,876	4.6%	53,039	3.8%	12,933	75,848
Property	-	-	-	-	6.3%	2,425	2,425
Cash	7.5%	10,700	3.7%	4,714	2.0%	404	15,818
Other	-	-	3.7%	2,357	-	-	2,357
Total market value	7.5%	20,576	7.4%	117,862	6.4%	40,416	178,854

The pension and post-retirement (surplus) deficit by geographic region are as follows:

	31 December 2010				31 December 2009			
	Southern Africa	The Americas	Europe	Total	Southern Africa	The Americas	Europe	Total
Postretirement medical plan deficit	-	14,879	-	14,879	-	10,488	-	10,488
Pension plan (surplus) deficit	(20,335)	19,202	16,263	15,130	(17,958)	14,275	18,185	14,502
Total (surplus) deficit	(20,335)	34,081	16,263	30,009	(17,958)	24,763	18,185	24,990

On 8 December 2003, the Medicare Prescription Drug Improvement and Modernisation Act of 2003 was signed into law in the U.S. The Act introduced a prescription drug benefit beginning 2006 under Medicare ("Medicare Part D") as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. Based on an actuarial analysis of the levels of benefits provided under the Company's Post-retirement Welfare Plan, the plan's actuary has concluded that beneficiaries receive drug coverage at least actuarially equivalent to Medicare Part D. The federal subsidy was reflected in costs, reducing the accumulated post-retirement benefit obligation by approximately \$773,000 and \$905,000 at 31 December 2010 and 2009, respectively. The expense was reduced by approximately \$66,000 and \$29,000 at 31 December 2010 and 2009, respectively.

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21. PENSION AND POST-RETIREMENT BENEFITS (CONTINUED)

	2010			2009		
	Post-			Post-		
	Pension Plan US\$'000	retirement Medical Plan US\$'000	Total US\$'000	Pension Plan US\$'000	retirement Medical Plan US\$'000	Total US\$'000
Fair value of plan assets	194,620	-	194,620	178,854	-	178,854
Present value of defined benefit obligation	(209,750)	(14,879)	(224,629)	(193,355)	(10,488)	(203,843)
Deficit	(15,130)	(14,879)	(30,009)	(14,502)	(10,488)	(24,990)
Experience adjustments on plan liabilities	(643)	106	(537)	(570)	(166)	(736)
Experience adjustments on plan assets	3,867	-	3,867	13,345	-	13,345

	2008			2007		
	Post-			Post-		
	Pension Plan US\$'000	retirement Medical Plan US\$'000	Total US\$'000	Pension Plan US\$'000	retirement Medical Plan US\$'000	Total US\$'000
Fair value of plan assets	150,626	-	150,626	257,362	-	257,362
Present value of defined benefit obligation	(171,312)	(9,411)	(180,723)	(246,669)	(11,481)	(258,150)
Deficit	(20,686)	(9,411)	(30,097)	10,693	(11,481)	(788)
Experience adjustments on plan liabilities	(635)	63	(572)	(36,668)	2,688	(33,980)
Experience adjustments on plan assets	(49,714)	-	(49,714)	8,974	-	8,974

Assumed healthcare cost trend rates have a significant effect on the amounts recognised in profit or loss. A one percentage point change in assumed healthcare cost trend rates would have the following effects:

	2010 US\$'000	2009 US\$'000
<i>One percentage point increase</i>		
Effect on the aggregate of the service cost and interest cost	184	168
Effect on accumulated post-employment benefit obligation	1,790	1,362
<i>One percentage point decrease</i>		
Effect on the aggregate of the service cost and interest cost	(156)	(142)
Effect on accumulated post-employment benefit obligation	(1,521)	(1,160)

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22. ISSUED CAPITAL

	2010		2009	
	Shares '000 ¹	US\$'000	Shares '000 ¹	US\$'000
Share Capital				
Ordinary shares, fully paid	456,360	1,132,051	458,594	1,136,347
Movements in ordinary shares				
Balance at beginning of year	458,594	1,136,347	149,762	478,036
Issued under capital raising program	-	-	310,873	697,702
Share issuance costs	-	-	-	(49,549)
GST receivable on share issuance costs	-	-	-	1,707
Deferred tax on share issuance costs	-	-	-	12,437
Vesting of LTIP rights, restricted shares	26	1,472	-	-
Purchase of shares for LTIP	(2,260)	(5,768)	(2,041)	(3,986)
Balance at end of the year	456,360	1,132,051	458,594	1,136,347

(1) The number of shares is adjusted for the 13 May 2010 share consolidation (see Note 3).

During 2009, the Company executed a capital raising program which raised \$697,702,000. Proceeds from the capital raising were used to repay \$585,000,000 of the Company's Term Loan A facility, to repay approximately \$62,000,000 of amounts previously drawn on its existing revolver facility, and to pay \$49,549,000 of costs directly related to the capital raising.

23. RESERVES

	2010 US\$'000	2009 US\$'000
Foreign currency translation	76,421	17,630
Equity-settled employee benefits	8,415	6,024
Unrealised losses related to hedging instruments	(259)	(616)
	84,577	23,038

During the years ended 31 December 2010 and 2009 the changes in each of the respective reserve accounts were as follows:

	2010 US\$'000	2009 US\$'000
Foreign currency translation		
Balance at beginning of year	17,630	(103,549)
Exchange differences arising on translation of foreign operations	58,791	121,179
Balance at end of the year	76,421	17,630

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23. RESERVES (CONTINUED)

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

	2010 US\$'000	2009 US\$'000
Equity-settled employee benefits		
Balance at beginning of year	6,024	2,592
Share-based compensation expense	3,863	3,432
Vesting of LTIP rights, restricted shares	(1,472)	-
Balance at end of the year	8,415	6,024

The equity-settled employee benefits reserve arises on the grant of restricted shares, LTIP rights and share options. Amounts are transferred out of the reserve and into issued capital when the share is issued.

	2010 US\$'000	2009 US\$'000
Unrealised losses related to hedging instruments		
Balance at beginning of year	(616)	(17,362)
Unrealised gain (loss) on cash flow hedges	(190)	(2,007)
Transfer to profit or loss on cash flow hedges	741	12,976
Interest rate swap expense	-	15,242
Related income tax	(194)	(9,465)
Balance at end of the year	(259)	(616)

The hedging reserve represents hedging gains and losses recognised on the effective portion of cash flow hedges. The cumulative deferred gain or loss on the hedge is recognised in profit or loss when the hedged transaction impacts the profit or loss, or is included as a basis adjustment to the non-financial hedged item, consistent with the applicable accounting policy. During the 2009 financial year, the Company executed a capital raising program which raised approximately \$697,702,000. Proceeds from the capital raising were used to repay loans that were being hedged thus making a portion of the hedge ineffective. As a result, the mark to market balance of \$15,242,000 associated with the ineffective portion of the hedge was transferred to profit or loss.

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24. ACCUMULATED LOSSES

During the years ended 31 December 2010 and 2009, the changes in accumulated losses consisted of:

	2010 US\$'000	2009 US\$'000
Balance at beginning of year	(84,166)	(65,830)
Profit (loss) for the period attributable to equity holders of the parent	84,513	(14,883)
Dividends paid	(9,684)	-
Actuarial losses on defined benefit plans (net of tax)	(10,140)	(3,453)
Balance at end of the year	(19,477)	(84,166)

25. DIVIDENDS

Dividends declared and paid during the year ended 31 December 2010 are as follows:

	2010 US cents per share	Total US\$'000
Fully paid ordinary shares		
Dividend 35% franked	2.1	9,684

On 23 February 2011, the directors determined to pay a dividend of US 3.4 cents (total of approximately \$16,000,000) on each of the issued ordinary shares of the Company. The dividend is payable on 15 April 2011 to shareholders of record on 18 March 2011. The dividend will be 35% franked at the Australian corporate taxation rate of 30%. The dividend was not included as a liability in the 31 December 2010 financial statements. Franking credits available after payment of this dividend will be \$12,822,000.

There were no dividends declared or paid for the year ended 31 December 2009.

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

	2010 US\$'000	2009 US\$'000
Adjusted combined franking balance	15,149	7,995

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26. EARNINGS (LOSS) PER SHARE

	2010 US cents per share	2009 US cents per share
Basic earnings (loss) per share	18.5	(6.1)
Diluted earnings (loss) per share	18.4	(6.1)

Basic earnings (loss) per share

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

	2010 US\$'000	2009 US\$'000
Earnings (loss) used in the calculation of basic EPS	84,513	(14,883)
Weighted average number of ordinary shares for the purposes of basic earnings per share	457,397	243,680

Diluted earnings per share

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

	2010 US\$'000	2009 US\$'000
Earnings used in the calculation of diluted EPS	84,513	(14,883)
Weighted average number of ordinary shares used in the calculation of basic EPS	457,397	243,680
Shares deemed to be issued for no consideration in respect of: LTIP share rights	1,553	726
Weighted average number of ordinary shares used in the calculation of diluted EPS	458,950	244,406

Instruments which have not been included in the calculation of diluted earnings per share because they are not dilutive include non-executive restricted shares, certain LTIP share rights and share options.

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27. COMMITMENTS FOR EXPENDITURE

Commitments

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

	2010 US\$'000	2009 US\$'000
Capital Commitments		
Purchase commitments for capital expenditures	9,786	3,930

Operating leases

Non-cancellable future operating lease commitments as at 31 December 2010 and 2009 consist of the following:

	31 December 2010		31 December 2009	
	Land and Buildings US\$'000	Plant and Equipment US\$'000	Land and Buildings US\$'000	Plant and Equipment US\$'000
Payments due within:				
One year	10,153	19,313	8,876	20,402
Two to five years	29,280	40,134	19,922	43,618
After five years	10,159	146	9,462	2,655
	<u>49,592</u>	<u>59,593</u>	<u>38,260</u>	<u>66,675</u>

Description of operating leases

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

- 1 – 30 years for land and buildings with an average lease term of 7 years
- 1 – 5 years for machinery and equipment with an average lease term of 3 years
- 1 – 7 years for all other property with an average lease term of 3 years

The Company's property operating leases generally contain escalation clauses, which are fixed increases generally between 3% and 9%, or increase subject to a national index. The Company does not have any significant purchase options.

Contingent rental payments exist for certain pieces of equipment and are not significant compared with total rental payments. These are based on excess wear and tear and excess use.

The Company has no significant operating leases that are considered onerous other than those included in the restructuring provision in the amounts of \$1,238,000 and \$1,933,000 as of 31 December 2010 and 2009, respectively.

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28. CONTINGENT LIABILITIES

Letters of credit

Standby letters of credit primarily issued in support of commitments or other obligations as of 31 December 2010 are as follows.

- The Company's subsidiary in Zambia has a letter of credit in the amount of \$1,800,000 to support products inventory, which expires December 2011.
- The Company's subsidiary in the U.S. has a letter of credit in the amount of \$405,000 to secure a Workers Compensation program which expires January 2012.

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

	2010	2009
	US\$'000	US\$'000
Less than one year	1,800	11,405
One to three years	405	-
	2,205	11,405

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28. CONTINGENT LIABILITIES (CONTINUED)

Guarantees

The subsidiaries of the Company provide guarantees within the normal course of business which includes payment guarantees to cover import duties, taxes, performance and completion of contracts. In addition, the Parent and certain subsidiaries are guarantors on the Company's loans and borrowings.

A summary of the Company's subsidiaries which are guarantors of the Company's long-term debt is as follows:

Country	Entity
Canada	Longyear Canada ULC Boart Longyear Alberta Limited Boart Longyear Canada
United States	Longyear Holdings, Inc. Longyear TM, Inc. Boart Longyear Company Boart Longyear Consolidated Holdings Inc Boart Longyear International Holdings Inc Longyear Global Holdings, Inc. Resources Services Holdco, Inc. Boart Longyear Global Holdco, Inc. Prosonic Corporation Boart Longyear Nevada
Australia	Boart Longyear Limited Boart Longyear Management Pty Limited Boart Longyear Investments Pty Limited Votrait No. 1609 Pty Limited North West Drilling Pty Limited Drillcorp Pty Limited Grimwood Davies Pty Limited Boart Longyear Australia Pty Limited Boart Longyear Australia Holdings Pty Limited A.C.N. 066 301 531 Pty Limited Aqua Drilling & Grouting Pty Ltd.
New Zealand	Boart Longyear (NZ) Limited
Netherlands	Cooperatief Longyear Holdings Longyear Calulo Holdings BV Boart Longyear International BV Boart Longyear BV
Germany	Boart Longyear GmbH & Co Kg
Switzerland	Votrait Switzerland SARL
South Africa	Longyear South Africa (Pty) Limited
Chile	Boart Longyear S.A. Boart Longyear Chile Limitada
Peru	Boart Longyear SAC

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28. CONTINGENT LIABILITIES (CONTINUED)

Legal Contingencies

The Company is subject to certain routine legal proceedings that arise in the normal course of its business. Management believes that the ultimate amount of liability, if any, for any pending claims of any type (either alone or combined) will not materially affect the Company's operations, liquidity, or financial position taken as a whole. However, the ultimate outcome of any litigation is uncertain, and unfavorable outcomes could have a material adverse impact.

Other Contingencies

Other contingent liabilities as at 31 December 2010 and 2009 consist of the following:

	2010 US\$'000	2009 US\$'000
Contingent Liabilities		
Guarantees/counter-guarantees issued to outside parties	18,145	17,152

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29. COMPANY SUBSIDIARIES

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

Subsidiaries	Country of Incorporation	Business	31 Dec 2010	31 Dec 2009
A.C.N. 066 301 531 Pty Ltd	Australia	Tools and Equipment	100	100
Aqua Drilling & Grouting Pty Ltd.	Australia	Drilling Services	100	100
BLI Zambia Ltd.	Zambia	Drilling Services	100	100
BLY Gabon S.A.	Gabon	Drilling Services	100	-
BLY Ghana Limited	Ghana	Drilling Services	100	100
BLY Mali S.A.	Mali	Drilling Services	100	100
BLY Mexico Servicios S.A. de C.V.	Mexico	Drilling Services	100	100
BLY Senegal S.A.	Senegal	Drilling Services	100	-
BLY Sierra Leone Ltd.	Sierra Leone	Drilling Services	100	-
Boart Longyear (Cambodia) Ltd.	Cambodia	Drilling Services	100	100
Boart Longyear (D.R.C.) SPRL	Dem. Rep. of Congo	Drilling Products & Services	100	100
Boart Longyear (Germany) GmbH ¹	Germany	Tools and Equipment	-	100
Boart Longyear (Holdings) Ltd.	United Kingdom	Holding Company	100	100
Boart Longyear (Hong Kong) Limited	Hong Kong	Drilling Services	100	100
Boart Longyear (Investments) Ltd.	United Kingdom	Dormant	100	100
Boart Longyear (NZ) Limited	New Zealand	Drilling Services	100	100
Boart Longyear (Pty) Ltd	Botswana	Drilling Products	100	100
Boart Longyear (Vic) No. 1 Pty Ltd (Australia)	Australia	Holding Company	100	100
Boart Longyear (Vic) No. 2 Pty Ltd (Australia)	Australia	Holding Company	100	100
Boart Longyear Alberta Limited	Canada	Holding Company	100	100
Boart Longyear Argentina S.A.	Argentina	Drilling Services	100	100
Boart Longyear Australia Holdings Pty Limited	Australia	Holding Company	100	100
Boart Longyear Australia Pty Ltd	Australia	Drilling Services	100	100
Boart Longyear Bermuda Limited	Bermuda	Holding Company	100	100
Boart Longyear Burkina Faso Sarl	Burkina Faso	Drilling Services	100	100
Boart Longyear BV	Netherlands	Drilling Products	100	100
Boart Longyear Canada	Canada	Drilling Products & Services	100	100
Boart Longyear Chile Limitada ²	Chile	Drilling Products & Services	100	100
Boart Longyear Company	USA	Tools, Equipment and Drilling	100	100
Boart Longyear Consolidated Holdings, Inc.	USA	Holding Company	100	100
Boart Longyear de Mexico, S.A. de C.V. ³	Mexico	Drilling Services	100	100
Boart Longyear Drilling Products Company (Wuxi) Ltd.	China	Drilling Products and Services	100	100
Boart Longyear Drilling Services KZ LLP	Kazakhstan	Drilling Services	100	100
Boart Longyear EMEA Cooperatief U.A.	Netherlands	Holding Company	100	100
Boart Longyear Eritrea Ltd.	Eritrea	Drilling Services	100	-
Boart Longyear Global Holdco, Inc	USA	Holding Company	100	100
Boart Longyear GmbH & Co Kg	Germany	Drilling Products and Services	100	100
Boart Longyear Holdings (Thailand) Co., Ltd.	Thailand	Drilling Services	100	100
Boart Longyear India Private Ltd	India	Tools and Equipment	100	100
Boart Longyear International BV	Netherlands	Holding Company	100	100
Boart Longyear International Holdings, Inc.	USA	Holding Company	100	100
Boart Longyear Investments Pty Ltd	Australia	Holding Company	100	100

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29. COMPANY SUBSIDIARIES (CONTINUED)

Subsidiaries	Country of Incorporation	Business	31 Dec 2010	31 Dec 2009
Boart Longyear Liberia Corporation	Liberia	Drilling Services	100	-
Boart Longyear Limitada	Brazil	Drilling Products	100	100
Boart Longyear Limited	Ireland	Drilling Products	100	100
Boart Longyear Limited	Laos	Drilling Services	100	100
Boart Longyear Limited	Thailand	Drilling Services	100	100
Boart Longyear LLC	Russia Federation	Drilling Services	100	100
Boart Longyear Ltd	Ghana	Dormant	100	100
Boart Longyear Management Pty Ltd	Australia	Holding Company	100	100
Boart Longyear Netherlands BV	Netherlands	Holding Company	100	100
Boart Longyear Nevada	USA	Drilling Services	100	100
Boart Longyear Poland Spolka Z.o.o.	Poland	Drilling Products and Services	100	100
Boart Longyear Products KZ LLP	Kazakhstan	Drillings Products	100	100
Boart Longyear RUS	Russia Federation	Drilling Services	100	100
Boart Longyear S.A.	Chile	Tools, Equipment and Drilling	100	100
Boart Longyear S.a.r.l.	France	Holding Company	100	100
Boart Longyear SAC	Peru	Drilling Products and Services	100	100
Boart Longyear Vermögensverwaltung GmbH	Germany	Dormant	100	100
Boart Longyear Zambia Ltd.	Zambia	Drilling Services	100	100
Connors SA ⁴	Chile	Drilling Services	100	100
Cooperatief Longyear Holdings UA	Netherlands	Holding Company	100	100
Drillcorp Pty Ltd	Australia	Drilling Services	100	100
Dongray Industrial Limited ⁶	United Kingdom	In Liquidation	100	-
Geoserv Pesquisas Geologicas S.A.	Brazil	Drilling Services	100	100
Grimwood Davies Pty Ltd	Australia	Drilling Services	100	100
Inavel S.A.	Uruguay	Drilling Services	100	100
J&T Servicios, S.C.	Mexico	Drilling Services	100	100
Longyear Calulo Holdings BV	Netherlands	Drilling Services	100	100
Longyear Canada, ULC	Canada	Tools and Equipment Services	100	100
Longyear Global Holdings, Inc.	USA	Holding Company	100	100
Longyear Holdings New Zealand, Ltd.	New Zealand	Holding Company	100	100
Longyear Holdings, Inc.	USA	Holding Company	100	100
Longyear South Africa (Pty) Ltd	South Africa	Drilling Products and Services	100	100
Longyear TM, Inc.	USA	Holding Company	100	100
North West Drilling Pty Limited	Australia	Drilling Services	100	100
P.T. Boart Longyear	Indonesia	Drilling Services	100	100
Patagonia Drill Inversiones Mineras S.A. ⁵	Chile	Drilling Services	-	100
Patagonia Drill Mining Services S.A.	Argentina	Drilling Services	100	100
Portezuelo S.A.	Paraguay	Dormant	100	100
Professional Sonic Drillers (Pty) Limited				
T/A Prosonic Africa	South Africa	Dormat	100	100
Prosonic Corporation	USA	Drilling Services	100	100

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29. COMPANY SUBSIDIARIES (CONTINUED)

Subsidiaries	Country of Incorporation	Business	31 Dec 2010	31 Dec 2009
Prosonic International, Inc.	USA	Drilling Services	100	100
Rentas de Exploracion I Limitada	Chile	Holding Company	100	100
Rentas de Exploracion II Limitada	Chile	Holding Company	100	100
Resources Services Holdco, Inc	USA	Holding Company	100	100
Votraint No. 1609 Pty Ltd	Australia	Drilling Services	100	100
Votraint Switzerland SARL	Switzerland	Holding Company	100	100

(1) Boart Longyear Germany GmbH merged into Boart Longyear GmbH & Co. KG in 2010

(2) This entity changed its name from Rentas de Exploracion III Limitada

(3) This entity changed its name from Britton Hermanos Perforaciones de Mexico, S.A., C.V.

(4) Connors SA has been dissolved by operation of law as of Nov 30 2010. All of its rights and obligations are succeeded by Boart Longyear Chile Limitada (formerly Rentas III)

(5) Dissolved on 11 February 2010

(6) Dissolved in 2008. Restored on 26 October 2010 in an "in liquidation" status to collect a debt.

30. DISPOSAL OF OPERATIONS

On 30 June 2009, the Company announced the sale of its Sub Saharan manufacturing operations and the exclusive right to sell certain of the Company's percussive rock drills and hard rock tools in Sub Saharan Africa for \$7,803,000. The disposal is consistent with the Company's on-going strategy to divest select non-core assets. The assets that were sold were not considered a core business and earned lower returns than the core business lines.

The net assets disposed of are as follows:

Book value of net assets sold	US\$'000
Assets	7,017
Liabilities	(444)
Foreign currency translation reserve	2,683
Net assets disposed	9,256
Working capital adjustment	1,388
Disposal costs	1,069
Loss on disposal	(3,910)
Total proceeds	7,803
Cash paid - closing costs and working capital adjustment	(2,457)
Net cash inflow from disposal of subsidiaries	5,346

During the year ended 31 December 2009 the Company also paid \$220,000 related to the settlement of the disposal of its diamond wire business in South Africa, which was sold on 2 September 2008.

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31. NOTES TO THE CASH FLOW STATEMENT

(a) Reconciliation of cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts.

	2010 US\$'000	2009 US\$'000
Cash and cash equivalents	94,944	87,557

(b) Businesses acquired

During the financial years ended 31 December 2010 and 2009 there were no acquisitions. In 2009, the Company paid additional cash of \$403,000 for the Eklund and Westrod acquisitions.

(c) Businesses disposed

During the financial year ended 31 December 2009 the Company disposed of its Sub Saharan manufacturing operation. Details of the disposition are as follows:

	2009 US\$'000
Book value of net assets sold	
Inventories	539
Property, plant and equipment	5,487
Intangible assets	363
Prepays and other assets	628
Trade and other payables	(444)
Foreign currency translation reserve	2,683
Net assets disposed	9,256
Working capital adjustment	1,388
Disposal costs	1,069
Gain (loss) on disposal	(3,910)
Total proceeds	7,803
Cash paid - closing costs and working capital adjustment	(2,457)
Net cash inflow on disposal	5,346

During the year ended 31 December 2009 the Company also paid \$220,000 related to the settlement of the disposal of its diamond wire business in South Africa, which was sold on 2 September 2008.

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32. SHARE-BASED PAYMENTS

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

Under the terms of the LTIP, the performance share rights vest upon the achievement of performance targets set by the Board. For awards granted prior to 2010, the performance targets were based on cumulative EPS over a three-year performance period. Awards granted beginning in 2010 have performance targets based on three-year average ROE targets. The Board will set threshold and maximum targets for both the EPS and ROE performance awards during the respective three-year performance periods. Vesting will be determined by the Company's actual performance against targets for the relevant three-year period. Partial vesting occurs on a pro-rata basis if the three-year threshold target is surpassed. Full vesting occurs only if the Company's actual performance meets or exceeds the maximum target for the three-year period. Participants must also remain continuously employed with the Company during the performance period. The retention share rights vest upon continuous employment with the Company from the grant date until the third anniversary of the grant date. The Company may acquire shares underlying the grants which will be held in trust. The participant will receive dividends paid on those shares from the time of acquisition until vesting.

At the Company's annual general meeting on 11 May 2010, shareholders approved a 10 for 1 share consolidation. Trading in the consolidated shares commenced 13 May 2010. The number of shares and rights under the LTIP and restricted shares has been restated in this report using the consolidated share amounts.

During the years ended 31 December 2010 and 2009, there were several grants of share rights made under the Long-Term Incentive Plan ("LTIP"). The total share-based expense associated with share rights for the years ended 31 December 2010 and 2009 was \$2,976,000 and \$2,460,000, respectively.

The Company grants share options to certain senior management in order to attract, retain and properly incentivise those individuals. During 2010, the Company granted 25,000 share options to an employee with an exercise price of A\$3.20 per share. During 2009, the Company granted 345,000 share options to employees. The share-based expense associated with share options for the years ended 31 December 2010 and 2009 was \$778,000 and \$661,000 respectively.

In addition, prior to the IPO, there were 64,324 restricted shares granted to Board members in consideration of services performed. The share-based expense recorded relating to the restricted shares during the years ended 31 December 2010 and 2009 was \$109,000 and \$311,000, respectively.

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32. SHARE-BASED PAYMENTS (CONTINUED)

The following table shows the share-based payment arrangements that were in existence at 31 December 2010:

Series	Number	Effective Grant Date	Vesting Date	Fair Value at Grant Date US\$
(1) Issued 11 April 2008	273,475	11-Apr-08	11-Apr-11	17.70
(2) Issued 28 April 2008	100,000	28-Apr-08	1-Jan-13	6.87
(3) Issued 1 January 2009 ¹	150,000	28-Apr-08	1-Jan-14	14.50
(4) Issued 26 June 2008	36,897	26-Jun-08	11-Apr-11	21.00
(5) Issued 23 July 2008	1,400	23-Jul-08	23-Jul-11	20.50
(6) Issued 23 October 2008	48,750	23-Oct-08	23-Oct-11	4.00
(7) Issued 14 January 2009	1,250	14-Jan-09	14-Jan-12	1.78
(8) Issued 25 March 2009	1,202,500	25-Mar-09	25-Mar-12	0.74
(9) Issued 18 June 2009	317,500	18-Jun-09	18-Jun-12	1.43
(10) Issued 2 July 2009	5,000	2-Jul-09	2-Jul-12	3.41
(11) Issued 1 March 2010	1,981,763	1-Mar-10	1-Mar-13	2.78
(12) Issued 15 March 2010	104,600	15-Mar-10	15-Mar-13	2.93
(13) Issued 15 March 2010	25,000	15-Mar-10	15-Mar-13	2.24
(14) Issued 26 August 2010	30,000	26-Aug-10	26-Aug-13	3.29

- (1) The second grant of options Mr. Kipp received in conjunction with his appointment as CEO was issued as of 1 January 2009. For purposes of compliance with Australian Accounting Standards, the effective grant date was determined to be 28 April 2008.

The fair value of the rights was determined using the Black-Scholes option pricing model using the following inputs:

	Grant date share price US\$	Expected volatility	Life of rights	Dividend yield	Risk-free interest rate
Series 1	17.70	49.62%	36 months	0.00%	5.43%
Series 2 *	16.30	49.86%	56 months	0.86%	5.58%
Series 3 *	16.30	49.86%	68 months	0.86%	5.58%
Series 4	21.00	50.34%	34 months	0.00%	5.67%
Series 5	20.50	50.62%	36 months	0.00%	5.81%
Series 6	4.00	56.68%	36 months	0.00%	6.11%
Series 7	1.80	73.10%	36 months	0.00%	4.84%
Series 8	0.70	86.74%	36 months	0.00%	5.55%
Series 9 *	1.90	97.29%	60 months	0.00%	5.59%
Series 10	3.41	98.23%	36 months	0.00%	5.40%
Series 11	2.78	92.72%	36 months	0.00%	5.22%
Series 12	2.93	92.14%	36 months	0.00%	5.25%
Series 13	2.93	92.14%	60 months	0.00%	5.25%
Series 14	3.29	88.91%	36 months	0.00%	4.24%

- * Subsequent to the original grant date, the Company's Board of Directors modified the share option exercise price to reflect the dilution impact resulting from the Company's 2009 capital raising program and the related issuance of additional shares subsequent to the original grant date, as follows:

	Original exercise price	Modified exercise price
Series 2	A\$19.50	A\$18.95
Series 3	A\$ 2.10	A\$ 1.55
Series 9	A\$ 3.00	A\$ 2.45

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32. SHARE-BASED PAYMENTS (CONTINUED)

The following reconciles the outstanding restricted shares, LTIP rights and share options at the beginning and end of the financial year:

	2010		2009	
	Number of restricted shares, rights and options '000	Weighted average exercise price US\$	Number of restricted shares, rights and options '000	Weighted average exercise price US\$
Balance at beginning of financial year	2,451	1.10	829	2.50
Granted during the financial year	2,309	0.03	1,818	0.50
Forfeited during the financial year	(394)	0.00	(196)	(0.30)
Exercised during the financial year	(88)	0.00	-	0.00
Balance at end of the financial year	4,278	0.60	2,451	1.10
Exercisable at end of the financial year	-	-	-	-

The following rights were exercised during 2010:

Grant date	Date of exercise	Number of shares '000	Fair Value at date of exercise US\$
12-Apr-07	12-Apr-10	61	3.60
17-Sep-07	1-Jul-10	22	2.88
11-Apr-08	1-Jul-10	5	2.88

33. KEY MANAGEMENT PERSONNEL COMPENSATION

Details of key management personnel

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

- David McLemore – Chairman, non-executive director (appointed Chairman effective 23 August 2010)
- Graham Bradley - Chairman, non-executive director (resigned 23 August 2010)
- Bruce Brook - Non-executive director
- Roger Brown - Non-executive director
- Roy Franklin - Non-executive director
- David Grzelak - Non-executive director
- Peter St George - Non-executive director
- Craig Kipp - Chief Executive Officer and Executive Director
- Joseph Ragan III - Chief Financial Officer
- Fabrizio Rasetti - Senior Vice President, General Counsel and Company Secretary
- Brad Baker - Senior Vice President, Human Resources
- Michael Birch - Vice President, Global Drilling Services (formerly Vice President, Global Products)
- Alan Sides – Vice President, Global Products (employment commenced 15 March 2010)

Notes to the Consolidated Financial Statements

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33. KEY MANAGEMENT PERSONNEL COMPENSATION (CONTINUED)

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

	2010 US\$	2009 US\$
Short-term employee benefits	5,665,932	5,752,835
Post-employment benefits	121,184	128,681
Other long-term benefits	666,019	360,545
Termination benefits	-	324,487
Share-based payment	2,082,199	1,549,832
	<u>8,535,334</u>	<u>8,116,380</u>

34. RELATED PARTY TRANSACTIONS

(a) Transactions with key management personnel

(i) Key management personnel compensation

Details of key management personnel compensation are disclosed in Note 33 to the financial statements.

(ii) Other transactions with key management personnel of the Company.

Details of other transactions with key management personnel are disclosed in Note 32 of the financial statements.

(iii) Key management personnel equity holdings

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

	Balance 1 January	Net change during year	Balance 31 December	Balance held nominally
2010				
David McLemore	115,861	-	115,861	-
Bruce Brook	104,422	-	104,422	-
Roger Brown	-	30,000	30,000	-
David Grzelak	1,000	-	1,000	-
Peter St. George	107,449	-	107,449	-
Craig Kipp	521,463	-	521,463	-
Fabrizio Rasetti	106,612	-	106,612	-
Michael Birch	66,460	-	66,460	-

	Balance 1 January	Net change during year	Balance 31 December	Balance held nominally
2009				
Graham Bradley	261,026	243,378	504,404	-
Bruce Brook	50,405	54,017	104,422	-
David McLemore	115,861	-	115,861	-
David Grzelak	1,000	-	1,000	-
Peter St. George	51,919	55,530	107,449	-
Craig Kipp	521,463	-	521,463	-
Scott Alexander	58,892	-	58,892	-
Fabrizio Rasetti	106,612	-	106,612	-
Michael Birch	66,460	-	66,460	-

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34. RELATED PARTY TRANSACTIONS (CONTINUED)

Rights, Options and Shares Granted as Compensation to Key Management Personnel

Share Rights and Shares

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

	Held at the beginning of the Financial Year	Granted as Remun- eration	Vested during the year ¹	Forfeited during the year	Held at the end of the Financial Year	Vested and Exercisable as at 31 December 2010
2010						
Graham Bradley	49,189	-	(49,189)	-	-	-
Bruce Brook	4,595	-	(4,595)	-	-	-
Peter St George	7,297	-	(7,297)	-	-	-
Craig Kipp	229,471	429,820	-	-	659,291	-
Joseph Ragan III	105,000	103,000	-	-	208,000	-
Fabrizio Rasetti	72,850	82,578	-	-	155,428	-
Brad Baker	70,000	72,150	-	-	142,150	-
Michael Birch	75,000	82,900	-	-	157,900	-
Alan Sides	-	104,600	-	-	104,600	-

(1) Restricted shares vested in 2010 were awarded on the Company's initial public offering in April 2007 in respect of work performed prior to the Company's listing.

	Held at the beginning of the Financial Year	Granted as Remun- eration	Vested during the year	Forfeited during the year	Held at the end of the Financial Year	Vested and Exercisable as at 31 December 2009
2009						
Graham Bradley	49,189	-	-	-	49,189	-
Bruce Brook	4,595	-	-	-	4,595	-
Peter St George	7,297	-	-	-	7,297	-
Craig Kipp	49,471	180,000	-	-	229,471	-
Joseph Ragan III	30,000	75,000	-	-	105,000	-
Fabrizio Rasetti	17,850	55,000	-	-	72,850	-
Scott Alexander	8,500	55,000	-	(63,500)	-	-
Brad Baker	15,000	55,000	-	-	70,000	-
Michael Birch	20,000	55,000	-	-	75,000	-

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34. RELATED PARTY TRANSACTIONS (CONTINUED)

Cash Rights

Details of the cash rights that have been granted as compensation to the KMP, and the activity during the financial year are as follows:

	Held at the beginning of the Financial Year US\$	Granted as Remun- eration US\$ ¹	Vested during the year US\$	Forfeited during the year US\$	Held at the end of the Financial Year US\$	Vested and Exercisable as at 31 December 2010 US\$
2010						
Craig Kipp	550,000	450,000	-	-	1,000,000	-
Joseph Ragan III	275,000	100,000	-	-	375,000	-
Fabrizio Rasetti	225,000	80,000	-	-	305,000	-
Brad Baker	225,000	80,000	-	-	305,000	-
Michael Birch	225,000	80,000	-	-	305,000	-
Alan Sides	-	80,000	-	-	80,000	-

	Held at the beginning of the Financial Year US\$	Granted as Remun- eration US\$ ¹	Vested during the year US\$	Forfeited during the year US\$	Held at the end of the Financial Year US\$	Vested and Exercisable as at 31 December 2009 US\$
2009						
Craig Kipp	-	550,000	-	-	550,000	-
Joseph Ragan III	-	275,000	-	-	275,000	-
Fabrizio Rasetti	-	225,000	-	-	225,000	-
Scott Alexander	-	225,000	-	(225,000)	-	-
Brad Baker	-	225,000	-	-	225,000	-
Michael Birch	-	225,000	-	-	225,000	-

- (1) The cash rights vest over a three-year period from the grant date, with 50% subject to certain performance conditions.

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34. RELATED PARTY TRANSACTIONS (CONTINUED)

The rights under the LTIP and the restricted shares were provided at no cost to the recipient.

Options

	Held at the beginning of the Financial Year	Granted as Remun- eration	Vested during the year	Forfeited during the year	Held at the end of the Financial Year	Vested and Exercisable as at 31 December 2010
2010						
Craig Kipp	340,000	-	-	-	340,000	-
Joseph Ragan III	37,500	-	-	-	37,500	-
Fabrizio Rasetti	27,500	-	-	-	27,500	-
Brad Baker	27,500	-	-	-	27,500	-
Michael Birch	27,500	-	-	-	27,500	-
Alan Sides	-	25,000	-	-	25,000	-
	Held at the beginning of the Financial Year	Granted as Remun- eration	Vested during the year	Forfeited during the year	Held at the end of the Financial Year	Vested and Exercisable as at 31 December 2009
2009						
Craig Kipp	250,000	90,000	-	-	340,000	-
Joseph Ragan III	-	37,500	-	-	37,500	-
Fabrizio Rasetti	-	27,500	-	-	27,500	-
Brad Baker	-	27,500	-	-	27,500	-
Michael Birch	-	27,500	-	-	27,500	-

During the year ended 31 December 2010, the Board awarded Mr. Sides 25,000 stock options. The stock options granted in 2010 will vest in full and become exercisable on 15 June 2015 if the executive remains continuously employed with the Company until that date. At the date of grant, the options had an original exercise price of A\$3.20 per option and a fair market value of US\$2.24 per option.

Except as described above, no options or other rights over shares in the Company have been granted to KMP during or since the end of the financial year.

During the reporting period, no shares were issued on the exercise of options or rights previously granted as compensation to the above individuals.

Analysis of Movements in Rights, Options and Shares

The movement during the reporting period, by value of the relevant rights, options and shares in the Company held by KMP is detailed below:

Name	Value granted in year			Value forfeited in year		
	Entitlement to share rights	Entitlement to cash rights	Share options	Entitlement to share rights	Entitlement to cash rights	Share options
	US\$	US\$	US\$	US\$	US\$	US\$
Craig Kipp	1,192,878	450,000	-	-	-	-
Joseph Ragan III	285,855	100,000	-	-	-	-
Fabrizio Rasetti	229,178	80,000	-	-	-	-
Brad Baker	200,237	80,000	-	-	-	-
Michael Birch	230,072	80,000	-	-	-	-
Alan Sides	306,323	80,000	-	-	-	-

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34. RELATED PARTY TRANSACTIONS (CONTINUED)

The value (based upon the fair value at the time of issuance) of outstanding rights, options and shares in the Company held by KMP as at 31 December 2010 is detailed below:

Name	Share rights value as of period end US\$	Cash rights value as of period end US\$	Options value as of period end US\$	Total rights and option value as of period end US\$
Craig Kipp	2,201,409	1,000,000	2,990,983	6,192,392
Joseph Ragan III	461,235	375,000	53,615	889,850
Fabrizio Rasetti	585,735	305,000	39,317	930,052
Brad Baker	506,349	305,000	39,317	850,666
Michael Birch	654,218	305,000	39,317	998,535
Alan Sides	306,323	80,000	53,813	440,136

35. REMUNERATION OF AUDITORS

	2010 US\$	2009 US\$
Audit or review of the financial report		
Auditor of the parent entity	1,217,000	1,139,000
Related practice of the parent entity auditor	1,020,000	1,254,000
Other auditors	196,000	-
	<u>2,433,000</u>	<u>2,393,000</u>
Non-audit services		
Tax services	2,493,000	826,000
Review of tax returns	681,000	415,000
Capital raising	-	420,000
Due diligence and other non-audit services	11,000	13,000
	<u>3,185,000</u>	<u>1,674,000</u>

The auditor of Boart Longyear Limited is Deloitte Touche Tohmatsu.

36. SUBSEQUENT EVENTS

The directors have not become aware of any matter or circumstance that has arisen since 31 December 2010 that has affected or may affect the operations of the consolidated entity, the results of those operations, or the state of the consolidated entity in subsequent years.

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SUPPLEMENTARY INFORMATION

Additional stock exchange information as at 8 March 2011

Substantial shareholders

The names of substantial holders, and the number of equity securities held by those holders as disclosed in substantial holding notices given to the Company since the 2009 Annual Report, are as follows:

Date of notice	Name of substantial holder	Number of securities
11 March 2011	FMR LLC and FIL Limited	23,208,586 ordinary shares
16 August 2010	Concord Capital Limited	23,225,549 ordinary shares

Number of holders of equity securities

(a) Ordinary share capital

461,163,412 fully paid ordinary shares are held by 21,162 individual shareholders.

Each ordinary shareholder present at a general meeting (whether in person or by proxy or representative) is entitled to one vote on a show of hands or, on a poll, one vote for each fully paid ordinary share held.

(b) Share rights and share options

592,500 share options are held by 11 individual option holders. Options do not carry rights to vote.

Distribution of holders of equity securities

	Fully paid ordinary shares	Share options
1-1000	9,006	-
1,001-5000	8,111	-
5,001-10,000	2,458	-
10,001-100,000	1,497	10
100,001 and over	90	1
	<u>21,162</u>	<u>11</u>

There are 1,531 investors holding less than a marketable parcel and they hold 54,291 fully paid ordinary shares.

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SUPPLEMENTARY INFORMATION (CONTINUED)

Top 20 holders

Ordinary shareholders	Fully paid ordinary shares	Percent of Issued Capital
	Number	Percent
HSBC Custody Nominees (Australia) Limited	114,494,601	24.4%
J P Morgan Nominees Australia Limited	83,121,735	18.0%
National Nominees Limited	63,924,454	13.9%
Citicorp Nominees Pty Limited	39,697,332	8.6%
Cogent Nominees Pty Limited	11,844,735	2.6%
J P Morgan Nominees Australia Limited Cash Income A/C	8,531,784	1.9%
USB Nominees Pty Limited	7,130,113	1.6%
Amp Life Limited	6,511,176	1.4%
HSBC Custody Nominees (Australia) Limited-A/C 2	4,080,969	0.9%
Queensland Investment Corporation	3,904,285	0.9%
RBC Dexia Investor Services Australia Nominees Pty Limited	3,842,325	0.8%
Cogent Nominees Pty Limited - SMP Accounts	3,689,950	0.8%
Band and Company	3,548,026	0.8%
HSBC Custody Nominees (Australia) Limited - GSCO ECA	2,993,974	0.7%
RBC Dexia Investor Services Australia Nominees Pty Limited-PIPOOLED A/C	2,029,850	0.4%
Bond Street Custodians Limited-Macquarie Alpha Opport A/C	2,002,506	0.4%
Citicorp Nominees Pty Limited	1,459,021	0.3%
Australian Reward Investment Alliance	1,332,238	0.3%
Bond Street Custodians Limited-Macquarie Smaller Co's A/C	1,136,346	0.3%
Bond Street Custodians Limited-Macq High Conv Fund A/C	990,698	0.2%
	366,266,118	79.2%