

# Consolidated Statement of Comprehensive Income

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

	Note	2012 US\$'000	2011 US\$'000
Revenue	6	2,011,507	2,020,322
Cost of goods sold		(1,499,060)	(1,456,023)
Gross margin		512,447	564,299
Other income		3,097	3,215
General and administrative expenses		(258,107)	(263,607)
Selling and marketing expenses		(39,551)	(38,955)
Restructuring expenses and related impairments	10	(67,584)	(29)
Other expenses		(23,454)	(19,288)
Operating profit		126,848	245,635
Interest income	6	3,143	5,111
Finance costs	7	(30,065)	(23,936)
Profit before taxation		99,926	226,810
Income tax expense	9	(31,762)	(66,939)
<b>Profit for the year attributable to equity holders of the parent</b>		<b>68,164</b>	<b>159,871</b>
<b>Earnings per share:</b>			
Basic earnings per share	25	15.0 cents	35.1 cents
Diluted earnings per share	25	14.8 cents	34.8 cents
<b>Other comprehensive income</b>		<b>2012 US\$'000</b>	<b>2011 US\$'000</b>
Profit for the year attributable to equity holders of the parent		68,164	159,871
Gain on cash flow hedges recorded in equity		-	193
Transfer to profit or loss on cash flow hedges		-	137
Exchange differences on translation of foreign operations		6,324	(26,087)
Actuarial losses related to defined benefit plans		(19,448)	(27,782)
Income tax on income and expense recognised directly through equity		3,088	8,165
Other comprehensive loss for the year (net of tax)		(10,036)	(45,374)
<b>Total comprehensive income for the year attributed to equity holders of the parent</b>		<b>58,128</b>	<b>114,497</b>

# Consolidated Statement of Financial Position

As at 31 December 2012

BOART LONGYEAR LIMITED

	Note	2012 US\$'000	2011 US\$'000
<b>Current assets</b>			
Cash and cash equivalents	30a	89,628	82,286
Trade and other receivables	11	260,502	320,756
Inventories	12	533,690	400,439
Current tax receivable	9	39,331	29,993
Prepaid expenses and other assets		42,021	23,782
		<u>965,172</u>	<u>857,256</u>
Assets classified as held for sale	31	33,997	-
<b>Total current assets</b>		<u>999,169</u>	<u>857,256</u>
<b>Non-current assets</b>			
Property, plant and equipment	14	628,691	508,231
Goodwill	15	290,786	294,063
Other intangible assets	16	128,158	129,843
Deferred tax assets	9	192,352	144,587
Other assets		11,582	10,760
		<u>1,251,569</u>	<u>1,087,484</u>
<b>Total non-current assets</b>		<u>1,251,569</u>	<u>1,087,484</u>
<b>Total assets</b>		<u>2,250,738</u>	<u>1,944,740</u>
<b>Current liabilities</b>			
Trade and other payables	17	284,251	316,660
Provisions	19	36,271	22,286
Current tax payable	9	97,486	82,000
Loans and borrowings	18	189	2,518
		<u>418,197</u>	<u>423,464</u>
<b>Total current liabilities</b>		<u>418,197</u>	<u>423,464</u>
<b>Non-current liabilities</b>			
Loans and borrowings	18	601,733	310,343
Deferred tax liabilities	9	7,757	2,905
Provisions	19	87,634	73,588
		<u>697,124</u>	<u>386,836</u>
<b>Total non-current liabilities</b>		<u>697,124</u>	<u>386,836</u>
<b>Total liabilities</b>		<u>1,115,321</u>	<u>810,300</u>
<b>Net assets</b>		<u>1,135,417</u>	<u>1,134,440</u>
<b>Equity</b>			
Issued capital	21	1,122,189	1,128,923
Reserves	22	70,914	59,667
Other equity		(137,182)	(137,182)
Retained earnings	23	79,496	83,032
		<u>1,135,417</u>	<u>1,134,440</u>
<b>Total equity</b>		<u>1,135,417</u>	<u>1,134,440</u>

# Consolidated Statement of Changes in Equity

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

	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)/ retained earnings US\$'000	Total attributable to owners of the parent US\$'000
Balance at 1 January 2011	1,132,051	76,421	8,415	(259)	(137,182)	(19,477)	1,059,969
Profit for the period	-	-	-	-	-	159,871	159,871
Other comprehensive loss for the period	-	(26,087)	-	259	-	(19,546)	(45,374)
Payment of dividends	-	-	-	-	-	(37,816)	(37,816)
Vesting of LTIP rights, restricted shares	5,204	-	(5,204)	-	-	-	-
Purchase of shares for LTIP	(8,332)	-	-	-	-	-	(8,332)
Share-based compensation	-	-	6,122	-	-	-	6,122
<b>Balance at 31 December 2011</b>	<b>1,128,923</b>	<b>50,334</b>	<b>9,333</b>	<b>-</b>	<b>(137,182)</b>	<b>83,032</b>	<b>1,134,440</b>
Balance at 1 January 2012	1,128,923	50,334	9,333	-	(137,182)	83,032	1,134,440
Profit for the period	-	-	-	-	-	68,164	68,164
Other comprehensive loss for the period	-	6,324	-	-	-	(16,360)	(10,036)
Payment of dividends	-	-	-	-	-	(55,340)	(55,340)
Vesting of LTIP rights, restricted shares	2,435	-	(2,435)	-	-	-	-
Purchase of shares for LTIP	(9,169)	-	-	-	-	-	(9,169)
Share-based compensation	-	-	7,358	-	-	-	7,358
<b>Balance at 31 December 2012</b>	<b>1,122,189</b>	<b>56,658</b>	<b>14,256</b>	<b>-</b>	<b>(137,182)</b>	<b>79,496</b>	<b>1,135,417</b>

# Consolidated Statement of Cash Flows

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

	Note	2012 US\$'000	2011 US\$'000
<b>Cash flows from operating activities</b>			
Profit for the year		68,164	159,871
<i>Adjustments provided by operating activities:</i>			
Income tax expense recognised in profit		31,762	66,939
Finance costs recognised in profit	7	30,065	23,936
Depreciation and amortisation	8	127,443	110,623
Interest income recognised in profit	6	(3,143)	(5,111)
Loss (gain) on sale or disposal of non-current assets	8	900	(365)
Impairment of current and non-current assets		36,300	450
Non-cash foreign exchange loss		1,472	686
Share-based compensation	8, 32	7,304	5,854
Long-term compensation - cash rights	8	3,336	2,670
<i>Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses:</i>			
Decrease (increase) in assets:			
Trade and other receivables		45,906	(62,052)
Inventories		(140,276)	(126,305)
Other assets		(20,588)	11,286
Increase (decrease) in liabilities:			
Trade and other payables		(39,668)	58,844
Provisions		6,742	(3,801)
Cash generated from operations		155,719	243,525
Interest paid		(28,928)	(23,541)
Interest received	6	3,143	5,111
Income taxes paid		(65,722)	(27,394)
Net cash flows from operating activities		64,212	197,701

# Consolidated Statement of Cash Flows (continued)

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

	Note	2012 US\$'000	2011 US\$'000
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(247,653)	(179,655)
Proceeds from sale of property, plant and equipment		3,266	2,908
Intangible costs paid		(35,141)	(41,292)
Net cash flows used in investing activities		<b>(279,528)</b>	<b>(218,039)</b>
<b>Cash flows from financing activities</b>			
Payments for share purchases for LTIP		(9,169)	(8,332)
Payments for debt issuance costs		(490)	(7,627)
Proceeds from borrowings		418,444	752,237
Repayment of borrowings		(129,872)	(683,708)
Dividends paid	24	(55,340)	(37,816)
Net cash flows from financing activities		<b>223,573</b>	<b>14,754</b>
Net increase (decrease) in cash and cash equivalents		8,257	(5,584)
Cash and cash equivalents at the beginning of the year		82,286	94,944
Effects of exchange rate changes on the balance of cash held in foreign currencies		(915)	(7,074)
<b>Cash and cash equivalents at the end of the year</b>	30a	<b>89,628</b>	<b>82,286</b>

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 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

26 Butler Boulevard  
Burbridge Business Park  
Adelaide Airport, SA 5650  
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.

### 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.

#### 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; and
- 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 2015 subject to the AASB adopting the amendments to IFRS 9 (AASB effective date is currently 1 January 2013). Management has not yet assessed the impact of adoption of these amendments.

#### Consolidated financial statements

AASB 10 'Consolidated Financial Statements' introduces a single consolidation model for all entities based on control, irrespective of the nature of the investee. This standard will be adopted for the year ending 31 December 2013. Management does not believe that the adoption of this standard will have a significant impact on the Company's financial results or statement of financial position.

#### Fair value measurement

AASB 13 'Fair Value Measurement' defines fair value and provides guidance on how to determine fair value and requires disclosures about fair value measurement. This standard will be adopted for the year ending 31 December 2013. Management has not yet assessed the impact of the adoption of this standard.

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

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

### Employee benefits

Amendments to AASB 119 'Employee Benefits' require changes in the calculation of the net defined benefit liability and pension expense and provides changes to certain financial statement disclosures. These amendments will be adopted for the year ending 31 December 2013. The primary impact will be that beginning for 2013, the interest cost and expected return on assets will be combined into net financing cost. This will be determined as the interest on the net liability based on the assumed discount rate. The net impact will be an increase in the pension expense which will vary from country to country depending on the spread between the discount rate and the expected return on asset assumption used previously. Management does not believe that the adoption of this standard will have a significant impact on the Company's financial results or statement of financial position.

### Financial instruments

A revised version of AASB 9 'Financial Instruments' incorporates revised requirements for the classification and measurement of financial liabilities. This revised standard will be adopted for the year ending 31 December 2013. Management does not believe that the adoption of this standard will have a significant impact on the Company's financial results or statement of financial position.

### Disclosure of interests in other entities

AASB 12 'Disclosure of Interests in Other Entities' requires disclosure of information that enables financial statement users to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. This standard will be adopted for the year ending 31 December 2013. Management has not yet assessed the impact of the adoption of this standard.

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. CRITICAL ACCOUNTING POLICIES

In applying A-IFRS, management is required to make judgements, estimates and form assumptions that affect the application of accounting policies and reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements, and the reported revenue and expenses during the periods presented herein. On an ongoing basis, management evaluates its judgements and estimates in relation to asset, liabilities, contingent liabilities, revenues 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 judgements 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.

The key judgements, estimates and assumptions that have or could have the most significant effect on the amounts recognised in the financial statements relate to the following areas:

### (a) **Estimated Impairment of Goodwill**

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Company to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. These estimates are subject to risk and uncertainty; hence there is a possibility that changes in circumstances will alter these projections, which may impact the recoverable amount of the assets.

The carrying amount of goodwill at 31 December 2012 and 31 December 2011 was \$290,786,000 and \$294,063,000, respectively, after an impairment loss of \$6,839,000 was recognised during 2012. See Note 15.

## 3. CRITICAL ACCOUNTING POLICIES (CONTINUED)

### (b) Other Intangible Assets

The Company values identifiable other intangible assets acquired in a business combination based on a combination of independent valuations in some cases and management's estimate of the net present value of estimated future cash flows of the assets. Identifiable intangible assets are amortised over their estimated useful lives. Given the estimates involved, management reviews the carrying value of these assets annually for impairment.

The carrying amount of other intangible assets at 31 December 2012 and 31 December 2011 was \$128,158,000 and \$129,843,000, respectively, after impairment losses of \$15,554,000 and \$393,000 were recognised during 2012 and 2011, respectively. See Note 16.

### (c) Useful lives of Property, Plant and Equipment

The estimation of useful lives of assets has been based on historical experience. In addition, the condition of the assets is assessed at least annually and considered against the remaining useful life. Adjustments to useful lives are made when considered necessary.

### (d) Income Taxes

The Company is subject to income taxes in Australia and other jurisdictions around the world in which the Company operates. Significant judgement is required in determining the Company's current tax assets and liabilities. Judgement is also required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the balance sheet. Deferred tax assets, including those arising from unrecouped tax losses, capital losses, foreign tax credits and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits.

Assumptions about the generation of future taxable profits and repatriation of retained earnings depend on management's estimates of future cash flows. Judgements are also required about the application of income tax legislation and its interaction with income tax accounting principles. These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and tax liabilities recognised on the balance sheet. In such circumstances, some or all of the carrying amount of recognised deferred tax assets and tax liabilities may require adjustment, resulting in a corresponding credit or charge to the income statement.

### (e) Defined Benefit Pension Plans

The Company's accounting policy for defined benefit pension plans requires management to make annual estimates and assumptions about future returns on classes of assets, future remuneration changes, employee attrition rates, administration costs, changes in benefits, inflation rates, exchange rates, life expectancy and expected remaining periods of service of employees. In making these estimates and assumptions, management considers advice provided by external advisers, such as actuaries. Where actual experience differs to these estimates, actuarial gains and losses are recognised directly in equity.

## 4. 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 18 February 2013.



## 4. 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 per share information, as well as the number of shares and rights under the LTIP, option plan and restricted shares have been restated in this report using the consolidated share amounts.

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 2012 and the comparative information.

### (a) Presentation currency

Results of operating businesses are recorded in their functional currencies, which are generally their local currencies. The US dollar is the Company's predominant currency. Accordingly, management believes that reporting the Company's financial statements in the US dollar is most representative of the Company's financial results and position and therefore the consolidated financial information is presented in US dollars.

### (b) Cash and cash equivalents

Cash and cash equivalents primarily include deposits with financial institutions repayable upon demand. Cash overdrafts are included in current liabilities in the statement of financial position unless there is a legal right of offset.

### (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 may not be 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 accounts. Subsequent recoveries of amounts previously written off are recorded in other income in profit or loss.

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (d) Inventories

Inventories are measured at the lower of cost or net realisable value. The cost of most 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 overhead expenses (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.

Allowances are recorded for inventory considered to be excess or obsolete and damaged items are written down to the net realisable value.

### (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 and other costs directly attributable to bringing the assets to a working condition for the intended use. 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 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. Items in the course of construction or not yet in service are not depreciated.

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.

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (f) Goodwill and other intangible assets

#### Goodwill

Goodwill resulting from business combinations is recognised as an asset at the date that control is acquired. 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 previously held equity interest in the acquiree (if any) over the net amounts of the identifiable assets acquired and the liabilities assumed.

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 acquisition. 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. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Upon 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 three years. Such assets are tested for impairment at least annually or more frequently if events or circumstances indicate that the asset might be impaired.

#### 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 reliably measured. 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. Amortisation methods and useful lives are reassessed at each reporting date.

#### 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. Amortisation methods and useful lives are reassessed at each reporting date.

#### Research and development costs

Expenditures 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 costs are 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. Capitalised costs include the cost of materials, direct labour and overhead costs 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.

## 4. 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 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.

### 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.

### (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 at the reporting date, and any adjustment to tax payable in respect of previous years. Management periodically evaluates provisions taken in tax returns with respect to situations in which applicable tax regulation is open to interpretation. The Company establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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.

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.

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (h) Current and deferred taxation (continued)

#### 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 member 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).

#### 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 is highly effective in offsetting changes in fair values or cash flows of the hedged item.

#### 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.

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (i) Derivative financial instruments (continued)

#### 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.

### (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.

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.

#### 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.

### (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.

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (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 it manufactures. 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 claims; and 3) the amount of the claims 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.

### (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 costs such as workers' compensation insurance and payroll tax, when it is probable that settlement will be required and they are capable of being reliably measured.

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.

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (m) Employee benefits (continued)

#### 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 the terms of the Company's defined benefit obligations. 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.

#### 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. For stock options, 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.

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.

### (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. 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.



## 4. 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 arrangements.

#### 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 4(q).

### (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.

### (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 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 metres 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 subsidiaries have been translated into US dollars using the exchange rates at each balance sheet date for assets and liabilities and at an average exchange rates for revenue 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 or other expenses in profit or loss.

### (s) Contingencies

The recognition of provisions for legal disputes is subject to a significant degree of judgement. Provisions are established 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.

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (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 the 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 as incurred. Changes in the fair values of contingent consideration classified as equity are not recognised.

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

Revenue, 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 2012

BOART LONGYEAR LIMITED

## 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 – Drilling Services and Products. The 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 Products segment designs, manufactures and sells drilling equipment and performance tooling 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 revenue and results

	Segment revenue		Segment profit	
	2012 US\$'000	2011 US\$'000	2012 US\$'000	2011 US\$'000
Drilling Services	1,516,203	1,447,881	186,992	212,542
Products	495,304	572,441	93,177	119,765
	<u>2,011,507</u>	<u>2,020,322</u>	<u>280,169</u>	<u>332,307</u>
Unallocated <sup>1</sup>			(85,737)	(86,643)
Restructure expenses and related impairments			(67,584)	(29)
Finance costs			(30,065)	(23,936)
Interest income			3,143	5,111
Profit before taxation			<u>99,926</u>	<u>226,810</u>

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

### Other segment information

	Depreciation and amortisation of segment assets		Additions to non-current assets <sup>2</sup>	
	2012 US\$'000	2011 US\$'000	2012 US\$'000	2011 US\$'000
Drilling Services	102,610	89,448	241,524	138,538
Products	14,061	12,757	27,564	45,360
Total of all segments	<u>116,671</u>	<u>102,205</u>	<u>269,088</u>	<u>183,898</u>
Unallocated <sup>1</sup>	10,772	8,418	21,026	34,436
Total	<u>127,443</u>	<u>110,623</u>	<u>290,114</u>	<u>218,334</u>

- (1) Unallocated additions to non-current assets relate to the acquisition of general corporate assets such as software and hardware.  
 (2) Non-current assets excluding deferred tax assets.

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

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 5. SEGMENT REPORTING (CONTINUED)

### Geographic information

The Company's two business segments operate in five principal geographic areas – North America, Asia Pacific, Latin America, Africa, and Europe. 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 <sup>1</sup>	
	2012 US\$'000	2011 US\$'000	2012 US\$'000	2011 US\$'000
North America	752,886	780,381	378,804	378,472
Asia Pacific	534,687	534,915	393,101	360,376
Latin America	314,877	290,509	116,649	98,529
Africa	305,550	288,168	140,703	83,104
Europe	103,507	126,349	29,960	22,416
Total	2,011,507	2,020,322	1,059,217	942,897

(1) Non-current assets excluding deferred tax assets.

## 6. REVENUE

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

	2012 US\$'000	2011 US\$'000
Revenue from the rendering of services	1,516,202	1,447,881
Revenue from the sale of goods	495,305	572,441
	2,011,507	2,020,322
Interest income:		
Bank deposits	2,863	5,003
Other	280	108
	3,143	5,111
Total	2,014,650	2,025,433

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 7. FINANCE COSTS

	2012 US\$'000	2011 US\$'000
Interest on loans and bank overdrafts	28,965	21,252
Interest rate swap expense	-	347
Amortisation of debt issuance costs	951	1,179
Interest on obligations under finance leases	149	251
	<u>30,065</u>	<u>23,029</u>
Finance costs due to debt repayment:		
Interest rate swap expense	-	137
Write-off of debt issuance costs	-	770
	<u>-</u>	<u>907</u>
Total finance costs	<u>30,065</u>	<u>23,936</u>

## 8. PROFIT FOR THE YEAR

### (a) Gains and losses

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

	2012 US\$'000	2011 US\$'000
(Loss) gain on disposal of property, plant and equipment	(900)	365
Net foreign exchange losses	(5,949)	(3,381)
Net (expense) reversal of bad debt	(605)	(245)

### (b) Employee benefits expenses

	2012 US\$'000	2011 US\$'000
Salaries and wages	(592,371)	(591,464)
Post-employment benefits:		
Defined contribution plans	(23,863)	(21,175)
Defined benefit plans	(2,808)	(1,106)
Long-term incentive plans:		
Equity-settled share-based payments	(7,304)	(5,854)
Cash rights compensation	(3,336)	(2,670)
Termination benefits	(22,974)	(135)
Other employee benefits <sup>1</sup>	(166,771)	(154,794)
	<u>(819,427)</u>	<u>(777,198)</u>

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

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 8. PROFIT FOR THE YEAR (CONTINUED)

### (c) Other

	2012 US\$'000	2011 US\$'000
Depreciation of non-current assets	(110,991)	(95,096)
Amortisation of non-current assets	(16,452)	(15,527)
Impairment of property, plant, and equipment	(6,164)	(57)
Impairment of intangibles	(15,554)	(393)
Impairment of goodwill	(6,839)	-
Impairment of inventory	(7,743)	(568)
Operating lease rental expense	(32,276)	(37,686)

## 9. INCOME TAXES

Income tax expense is as follows:

	2012 US\$'000	2011 US\$'000
<b>Income tax expense:</b>		
Current tax expense	70,913	68,574
Adjustments recognised in the current year in relation to the current tax of prior years	2,262	(5,208)
Deferred tax (benefit) expense	(41,413)	3,573
	<u>31,762</u>	<u>66,939</u>

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

Profit before taxation	99,926	226,810
Income tax expense calculated at Australian rate of 30%	29,977	68,042
Impact of higher rate tax countries	4,903	5,196
Impact of lower rate tax countries	(646)	(20,473)
Net non-deductible/non-assessable items	3,024	(2,763)
Unrecognised tax losses	145	(826)
Profit/Losses subject to double taxation in the US	(2,468)	4,547
Unutilised foreign tax credits	7,055	16,908
Recognition of net deferred tax assets/liabilities arising in prior years	(16,827)	150
Deduction of foreign taxes	-	(5,594)
Other	4,337	6,960
	<u>29,500</u>	<u>72,147</u>
Under (over) provision from prior years	2,262	(5,208)
	<u>31,762</u>	<u>66,939</u>

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 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 year:

	2012 US\$'000	2011 US\$'000
Deferred tax:		
Actuarial movements on defined benefit plans	3,088	8,236
Cash flow hedges	-	(71)
	<u>3,088</u>	<u>8,165</u>

### (c) Current tax assets and liabilities

Current tax assets:

Income tax receivable attributable to:

Parent	(21,684)	(6,857)
Other entities in the tax consolidated group	26,069	14,282
Other entities	34,946	22,568
	<u>39,331</u>	<u>29,993</u>

Current tax liabilities:

Income tax payable attributable to:

Entities other than parent		
and entities in the consolidated group	97,486	82,000
	<u>97,486</u>	<u>82,000</u>

### (d) Deferred tax balances

Deferred tax comprises:

Temporary differences	118,801	99,055
Unused tax losses and credits	65,794	42,627
	<u>184,595</u>	<u>141,682</u>

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 9. INCOME TAXES (CONTINUED)

2012	Opening balance US\$'000	Credited to income US\$'000	FX differences US\$'000	Credited to equity US\$'000	Closing balance US\$'000
<b>Deferred tax assets (liabilities)</b>					
<b>temporary differences</b>					
Property, plant and equipment	(5,691)	1,408	19	-	(4,264)
Provisions	4,162	6,358	(106)	-	10,414
Doubtful debts	188	169	(5)	-	352
Intangibles	(9,079)	(380)	232	-	(9,227)
Share-issue expenses	4,935	(2,487)	-	-	2,448
Accrued liabilities	2,590	2,016	(66)	-	4,540
Pension	10,156	2,291	(260)	3,088	15,275
Debt and interest	25,562	(522)	(654)	-	24,386
Inventory	17,616	7,330	(450)	-	24,496
Investments in subsidiaries	(1,500)	-	-	-	(1,500)
Unrealised foreign exchange	38,455	3,814	-	-	42,269
Other	11,661	(1,751)	(298)	-	9,612
	<u>99,055</u>	<u>18,246</u>	<u>(1,588)</u>	<u>3,088</u>	<u>118,801</u>
<b>Unused tax losses and credits:</b>					
Tax losses	33,611	(11,482)	-	-	22,129
Foreign tax credits	9,016	34,649	-	-	43,665
	<u>141,682</u>	<u>41,413</u>	<u>(1,588)</u>	<u>3,088</u>	<u>184,595</u>

Presented in the statement of financial position as follows:

Deferred tax asset	192,352
Deferred tax liability	(7,757)
	<u>184,595</u>



# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 9. INCOME TAXES (CONTINUED)

	Opening balance US\$'000	Credited to income US\$'000	FX differences US\$'000	Credited to equity US\$'000	Closing balance US\$'000
<b>2011</b>					
<b>Deferred tax assets (liabilities)</b>					
<b>temporary differences</b>					
Property, plant and equipment	(8,842)	3,054	97	-	(5,691)
Provisions	2,429	1,687	46	-	4,162
Doubtful debts	403	(223)	8	-	188
Intangibles	(9,605)	709	(183)	-	(9,079)
Acquisitions and restructuring costs	3,176	(3,237)	61	-	-
Share-issue expenses	11,182	(6,247)	-	-	4,935
Accrued liabilities	2,075	475	40	-	2,590
Pension	9,015	(7,267)	172	8,236	10,156
Debt and interest	13,523	11,781	258	-	25,562
Hedge loss	2,774	(2,703)	-	(71)	-
Unearned revenues	19,090	(5,473)	364	-	13,981
Inventory	13,874	3,478	264	-	17,616
Investments in subsidiaries	(1,500)	-	-	-	(1,500)
Unrealised foreign exchange	15,905	8,569	-	-	24,474
Other	5,782	5,770	109	-	11,661
	<u>79,281</u>	<u>10,373</u>	<u>1,236</u>	<u>8,165</u>	<u>99,055</u>
<b>Unused tax losses and credits:</b>					
Tax losses	48,371	(14,760)	-	-	33,611
Foreign tax credits	8,202	814	-	-	9,016
	<u>56,573</u>	<u>(13,946)</u>	<u>-</u>	<u>-</u>	<u>42,627</u>
	<u>135,854</u>	<u>(3,573)</u>	<u>1,236</u>	<u>8,165</u>	<u>141,682</u>

Presented in the statement of financial position as follows:

Deferred tax asset	144,587
Deferred tax liability	(2,905)
	<u>141,682</u>

	2012 US\$'000	2011 US\$'000
Unrecognised deferred tax assets		
Tax losses - revenue	3,582	2,449
Unused tax credits	32,889	63,754
	<u>36,471</u>	<u>66,203</u>

The Parent Entity 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.

Entities within the Australian tax-consolidated group have entered into tax-funding arrangements with the head entity. Under the terms of the tax-funding arrangements, the tax-consolidated groups and each of the entities within the tax-consolidated group agrees 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 group.

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 9. INCOME TAXES (CONTINUED)

The Canada Revenue Agency ("CRA") has been reviewing the Company's tax returns for the years 2005 to 2009. The review has been broken down into two time periods, 2005 to 2006 and 2007 to 2009. The review of the first time period was completed in 2011, and assessments were received in 2011 and 2012. The review of the second time period currently is underway and is expected to be completed in 2013.

The majority of the taxes, interest and penalties assessed for the first time periods relate to profits which the CRA asserts should have been attributable to the Company's Canadian operations. These profits were assessed in other jurisdictions and taxes were paid in those jurisdictions, many of which have tax rates similar to Canada.

The Company disagrees with the CRA's conclusions and has filed a Notice of Objection for the 2005 to 2006 time periods. The Company is required to provide security while its appeal of the assessments is under consideration, and the Company is in discussions with the CRA as to its requirements for such security. Furthermore, the Company has requested relief for the assessments for the period through a process known as "competent authority," which allows interested jurisdictions to determine where the Company's income and costs should be reported. This process avoids double payment of taxes, but the Company would be exposed to penalties and interest on any underpayments. The Company will likely follow similar procedures for any assessments that may be received for the 2007 to 2009 review.

The Company believes it is appropriately reserved in respect of this matter.

## 10. RESTRUCTURING AND IMPAIRMENT CHARGES

During 2012, the Company initiated a significant effort to reduce operating costs through a series of restructuring activities. The Company's restructuring efforts 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; and
- the proposed sale of non-mining environmental and infrastructure businesses (see Note 31).

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 relocating certain manufacturing activities and resizing the business. Expenses related to executing the restructuring and cost reduction plan were as follows:

	2012 US\$'000	2011 US\$'000
Employee separation costs	22,974	166
Onerous leases	8,514	(142)
Impairment of inventory	7,743	-
Impairment of property, plant and equipment	5,960	-
Impairment of goodwill	6,839	-
Impairment of intangibles	3,491	-
Impairment of development asset	8,416	-
Impairment of software	3,647	5
	<u>67,584</u>	<u>29</u>
Net of tax	<u>46,102</u>	<u>20</u>

Of these expenses, approximately \$13 million relate to cash expenses that were incurred in 2012.

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 10. RESTRUCTURING AND IMPAIRMENT CHARGES (CONTINUED)

Restructuring expenses relate to the following expense categories:

	2012 US\$'000	2011 US\$'000
Cost of goods sold	25,383	-
General and administrative expenses	20,113	16
Selling and marketing expenses	3,326	13
Research and development	8,434	-
Other expense	10,328	-
	<u>67,584</u>	<u>29</u>
Net of Tax	<u>46,102</u>	<u>20</u>

## 11. TRADE AND OTHER RECEIVABLES

	2012 US\$'000	2011 US\$'000
Trade receivables	222,248	292,719
Allowance for doubtful accounts	(1,841)	(1,412)
Goods and services tax receivable	35,082	20,245
Other receivables	5,013	9,204
	<u>260,502</u>	<u>320,756</u>

The ageing of trade receivables is detailed below:

	2012 US\$'000	2011 US\$'000
Current	156,357	220,532
Past due 0 - 30 days	45,273	45,619
Past due 31 - 60 days	7,074	11,344
Past due 61-90 days	6,005	7,778
Past due 90 days	7,539	7,446
	<u>222,248</u>	<u>292,719</u>

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

	2012 US\$'000	2011 US\$'000
Opening balance	1,412	3,619
Additional provisions	1,583	500
Amounts used	(186)	(2,361)
Amounts reversed	(978)	(255)
Foreign currency exchange differences	10	(91)
Closing balance	<u>1,841</u>	<u>1,412</u>

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 11. TRADE AND OTHER RECEIVABLES (CONTINUED)

The average credit period on sales of goods as at 31 December 2012 is 53 days (2011: 52 days). No interest is 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.

## 12. INVENTORIES

	<b>2012</b>	<b>2011</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Raw materials	52,606	32,019
Work in progress	13,029	6,774
Finished products	468,055	361,646
	<u>533,690</u>	<u>400,439</u>

## 13. FINANCIAL INSTRUMENTS

### Capital risk management

The Company manages its capital to ensure that entities in the Company will be able to continue as going concerns 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 loans and borrowings disclosed in Note 18, cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued capital, reserves, and retained earnings as disclosed in Notes 21, 22, and 23, 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 4.

### Categories of financial instruments

<b>Financial assets</b>	<b>2012</b>	<b>2011</b>
	<b>US\$'000</b>	<b>US\$'000</b>
<i>Current</i>		
Cash and cash equivalents	89,628	82,286
Trade and other receivables	260,502	320,756
	<u>350,130</u>	<u>403,042</u>

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 13. FINANCIAL INSTRUMENTS (CONTINUED)

	2012 US\$'000	2011 US\$'000
<b>Financial liabilities</b>		
<i>Current</i>		
Amortised cost:		
Trade and other payables	284,251	316,660
Loans and borrowings	189	2,518
	<u>284,440</u>	<u>319,178</u>
<i>Non-current</i>		
Amortised cost:		
Loans and borrowings	601,733	310,343
	<u>601,733</u>	<u>310,343</u>

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 trade and other 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, 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 4(i)). The Company periodically enters into certain 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; and
- interest rate swaps to mitigate the risk of rising interest rates.

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 13. 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 (which include intercompany balances with other subsidiaries) that: (1) are denominated in currencies other than the functional currency of the respective Company subsidiary; and (2) cause foreign exchange rate exposure, at 31 December are as follows:

	Assets		Liabilities	
	2012 US\$'000	2011 US\$'000	2012 US\$'000	2011 US\$'000
Australian Dollar	543,182	402,240	39,895	7,972
Canadian Dollar	10,692	7,306	93,889	88,785
Euro	2,515	33,510	93,582	38,326
US Dollar	193,379	206,392	439,146	386,926

### Foreign currency sensitivity

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

The following tables reflect the Company's sensitivity to a 10% change in the exchange rate of each of the currencies listed above. This sensitivity analysis includes only outstanding monetary items denominated in currencies other than the respective subsidiaries' functional currencies and remeasures these at the respective year end to reflect a 10% decrease in the indicated currency against the respective subsidiaries' functional currencies. A positive number indicates an increase in net profit and/or net assets.

	10% change in AUD		10% change in CAD	
	2012 US\$'000	2011 US\$'000	2012 US\$'000	2011 US\$'000
Net profit	(1,913)	(586)	4,614	4,745
Net assets	(45,753)	(35,842)	7,563	7,407

  

	10% change in EUR		10% change in USD	
	2012 US\$'000	2011 US\$'000	2012 US\$'000	2011 US\$'000
Net profit	8,279	438	4,090	2,441
Net assets	8,279	438	22,342	16,412

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

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 13. FINANCIAL INSTRUMENTS (CONTINUED)

### Forward foreign exchange contracts

There were no open forward foreign currency contracts as of 31 December 2012 or 2011.

### 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, from time to time, by the use of interest rate swap contracts. There are no interest rate swaps as of 31 December 2012 (2011 : nil). Hedging activities are evaluated regularly to align with interest rate views and risk tolerance. 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.

During the year, 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 \$3,080,000 (2011: decrease/increase by \$170,000) all of which is attributable to the Company's exposure to interest rates on its variable-rate borrowings.

### Credit risk management

The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, when 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 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.

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. See Note 27.

	Maximum credit risk	
	2012	2011
Financial assets and other credit exposures	US\$'000	US\$'000
Performance guarantees provided, including letters of credit	32,459	21,849

### Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Company's Treasurer and Board, 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 forecasted and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in Note 18 is a list of undrawn facilities that the Company has at its disposal to further reduce liquidity risk.

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 13. FINANCIAL INSTRUMENTS (CONTINUED)

### Liquidity and interest risk tables

The following tables reflect the expected maturities of non-derivative financial liabilities. These are based on the undiscounted expected cash flows of financial liabilities at 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 on 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
<b>2012</b>								
Non-interest bearing payables		184,376	99,875	-	-	-	-	284,251
Finance lease liability	8.0%	17	35	157	67	-	(23)	253
Variable interest rate instruments	2.1%	538	1,075	4,839	321,770	-	(20,222)	308,000
Fixed interest rate instruments	7.0%	1,750	3,500	15,750	84,000	368,351	(173,351)	300,000
		<u>186,681</u>	<u>104,485</u>	<u>20,746</u>	<u>405,837</u>	<u>368,351</u>	<u>(193,596)</u>	<u>892,504</u>
<b>2011</b>								
Non-interest bearing payables		193,360	123,300	-	-	-	-	316,660
Finance lease liability	8.9%	40	80	360	121	-	(65)	536
Variable interest rate instruments	2.2%	32	63	286	18,363	-	(1,744)	17,000
Fixed interest rate instruments	7.0%	1,760	3,520	15,839	86,191	389,408	(194,527)	302,191
		<u>195,192</u>	<u>126,963</u>	<u>16,485</u>	<u>104,675</u>	<u>389,408</u>	<u>(196,336)</u>	<u>636,387</u>



# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 13. FINANCIAL INSTRUMENTS (CONTINUED)

### Liquidity and interest risk tables (continued)

The following tables reflect the expected maturities of non-derivative financial assets. These are based on the undiscounted expected cash flows of the financial assets.

	Less than 1 month US\$'000	1 to 3 months US\$'000	3 months to 1 year US\$'000	Total US\$'000
<b>2012</b>				
Non-interest bearing receivables	144,575	110,840	5,087	260,502
Cash	89,628	-	-	89,628
	<u>234,203</u>	<u>110,840</u>	<u>5,087</u>	<u>350,130</u>
<b>2011</b>				
Non-interest bearing receivables	170,920	125,340	24,496	320,756
Cash	82,286	-	-	82,286
	<u>253,206</u>	<u>125,340</u>	<u>24,496</u>	<u>403,042</u>

The liquidity and interest risk tables are based on the Company's intent to collect the assets or settle the liabilities in accordance with the contractual terms.

### 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 analyses 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 analyses using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

Management considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements materially approximate their fair values.

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 14. PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings US\$'000	Plant and Equipment US\$'000	Construction in Progress US\$'000	Total US\$'000
Balance at 1 January 2011	45,192	615,078	104,202	764,472
Additions	1,160	47,624	129,117	177,901
Disposal	(922)	(17,485)	-	(18,407)
Transfer to/from CIP	16,251	101,955	(118,206)	-
Currency movements	(405)	(25,678)	(4,228)	(30,311)
<b>Balance at 1 January 2012</b>	<b>61,276</b>	<b>721,494</b>	<b>110,885</b>	<b>893,655</b>
Additions	8,963	106,333	141,343	256,639
Disposal	(2,462)	(26,056)	-	(28,518)
Transfers to assets held for sale	(143)	(53,069)	(500)	(53,712)
Transfer to/from CIP	7,935	188,166	(196,101)	-
Transfer from intangible assets	-	1,179	-	1,179
Currency movements	(128)	11,101	178	11,151
<b>Balance at 31 December 2012</b>	<b>75,441</b>	<b>949,148</b>	<b>55,805</b>	<b>1,080,394</b>
<b>Accumulated depreciation and impairment:</b>				
Balance at 1 January 2011	(9,101)	(315,925)	-	(325,026)
Depreciation	(2,584)	(92,512)	-	(95,096)
Impairment	-	(57)	-	(57)
Disposal	494	15,370	-	15,864
Currency movements	93	18,798	-	18,891
<b>Balance at 1 January 2012</b>	<b>(11,098)</b>	<b>(374,326)</b>	<b>-</b>	<b>(385,424)</b>
Depreciation	(3,321)	(107,670)	-	(110,991)
Impairment	(1,867)	(4,297)	-	(6,164)
Disposal	2,222	22,130	-	24,352
Transfers to assets held for sale	76	34,477	-	34,553
Currency movements	(4)	(8,025)	-	(8,029)
<b>Balance at 31 December 2012</b>	<b>(13,992)</b>	<b>(437,711)</b>	<b>-</b>	<b>(451,703)</b>
<b>Net book value at 31 December 2011</b>	<b>50,178</b>	<b>347,168</b>	<b>110,885</b>	<b>508,231</b>
<b>Net book value at 31 December 2012</b>	<b>61,449</b>	<b>511,437</b>	<b>55,805</b>	<b>628,691</b>

The net book value of property, plant and equipment at 31 December 2012 and 2011 includes amounts of \$6,107,000 and \$1,770,000, respectively, related to assets held under finance leases.

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 15. GOODWILL

	US\$'000
<b>Gross carrying amount:</b>	
Balance at 1 January 2011	297,408
Currency movements	(3,345)
<b>Balance at 31 December 2011</b>	<b>294,063</b>
Balance at 1 January 2012	294,063
Impairment loss	(6,839)
Currency movements	3,562
<b>Balance at 31 December 2012</b>	<b>290,786</b>

### Goodwill by cash-generating units

For purposes of impairment testing, goodwill is included in cash-generating units that are significant individually or in aggregate. The carrying amount of goodwill included in cash-generating units, by geographic area, is as follows:

	2012 US\$'000	2011 US\$'000
Argentina	13,572	15,281
Australia	157,427	153,135
Canada	20,255	19,728
Chile	12,776	12,776
Mexico	-	4,710
New Zealand	1,644	1,542
United States of America	85,112	86,891
	<b>290,786</b>	<b>294,063</b>

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 nine-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 8.9% to 20.3%); and
- 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 include:

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

Based on the impairment testing performed, the Company has recognised an impairment loss on goodwill of \$5,060,000 due to the financial performance of a subsidiary.

In addition, goodwill of \$1,779,000 was impaired during the year as a result of the announcement to restructure and divest of the non-mining environmental and infrastructure business.

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 16. OTHER INTANGIBLE ASSETS

	Trademarks US\$'000	Patents US\$'000	Customer relationships and other US\$'000	Software US\$'000	Develop- ment assets US\$'000	Total US\$'000
<b>Gross carrying amount:</b>						
Balance at 1 January 2011	3,884	2,947	61,554	47,334	20,720	136,439
Additions	-	1,725	-	23,646	14,935	40,306
Currency movements	-	-	(691)	-	(567)	(1,258)
<b>Balance at 31 December 2011</b>	<b>3,884</b>	<b>4,672</b>	<b>60,863</b>	<b>70,980</b>	<b>35,088</b>	<b>175,487</b>
Balance at 1 January 2012	3,884	4,672	60,863	70,980	35,088	175,487
Additions	340	1,071	1,360	16,413	14,291	33,475
Disposals	(163)	-	(6,253)	(3,871)	-	(10,287)
Transfer to PP&E	-	-	-	-	(1,179)	(1,179)
Transfer to held for sale	-	-	-	-	(588)	(588)
Currency movements	(78)	200	1,267	(2,599)	(222)	(1,432)
<b>Balance at 31 December 2012</b>	<b>3,983</b>	<b>5,943</b>	<b>57,237</b>	<b>80,923</b>	<b>47,390</b>	<b>195,476</b>
<b>Accumulated amortisation:</b>						
Balance at 1 January 2011	(1,010)	(847)	(19,783)	(5,727)	(2,777)	(30,144)
Amortisation for the period	(423)	(267)	(6,165)	(7,940)	(732)	(15,527)
Impairment for the period	-	-	-	-	(393)	(393)
Currency movements	-	-	324	-	96	420
<b>Balance at 31 December 2011</b>	<b>(1,433)</b>	<b>(1,114)</b>	<b>(25,624)</b>	<b>(13,667)</b>	<b>(3,806)</b>	<b>(45,644)</b>
Balance at 1 January 2012	(1,433)	(1,114)	(25,624)	(13,667)	(3,806)	(45,644)
Amortisation for the period	-	(395)	(6,147)	(9,200)	(710)	(16,452)
Disposals	163	-	6,253	3,871	-	10,287
Transfer to held for sale	-	-	-	-	175	175
Impairment for the period	-	-	(3,446)	(3,647)	(8,461)	(15,554)
Currency movements	-	2	(1,096)	(213)	1,177	(130)
<b>Balance at 31 December 2012</b>	<b>(1,270)</b>	<b>(1,507)</b>	<b>(30,060)</b>	<b>(22,856)</b>	<b>(11,625)</b>	<b>(67,318)</b>
<b>Net book value at 31 December 2011</b>	<b>2,451</b>	<b>3,558</b>	<b>35,239</b>	<b>57,313</b>	<b>31,282</b>	<b>129,843</b>
<b>Net book value at 31 December 2012</b>	<b>2,713</b>	<b>4,436</b>	<b>27,177</b>	<b>58,067</b>	<b>35,765</b>	<b>128,158</b>

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 17. TRADE AND OTHER PAYABLES

	2012 US\$'000	2011 US\$'000
<b>Current</b>		
Trade payables	160,076	173,936
Accrued payroll and benefits	46,928	59,492
Goods and services tax payable	27,105	25,421
Accrued drilling costs	4,916	10,013
Accrued legal and environmental	7,468	6,202
Accrued interest	5,632	5,446
Professional fees	6,067	5,331
Other sundry payables and accruals	26,059	30,819
	<u>284,251</u>	<u>316,660</u>

The average credit period on purchases of certain goods is 43 days (2011: 42 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.

## 18. LOANS AND BORROWINGS

	2012 US\$'000	2011 US\$'000
<b>Unsecured - at amortised cost</b>		
<i>Current</i>		
Bank loans	-	2,191
<i>Non-current</i>		
Senior notes	300,000	300,000
Revolver bank loans	308,000	17,000
Debt issuance costs	(6,331)	(6,866)
<b>Secured - at amortised cost</b>		
<i>Current</i> - finance lease liabilities	189	327
<i>Non-current</i> - finance lease liabilities	64	209
	<u>601,922</u>	<u>312,861</u>
Disclosed in the financial statements as:		
Current borrowings	189	2,518
Non-current borrowings	601,733	310,343
	<u>601,922</u>	<u>312,861</u>
A summary of the maturity of the Company's borrowings is as follows:		
Less than 1 year	189	2,518
Between 1 and 2 years	64	197
Between 2 and 3 years	-	13
Between 3 and 4 years	306,470	-
More than 4 years	295,199	310,133
	<u>601,922</u>	<u>312,861</u>

## 18. LOANS AND BORROWINGS (CONTINUED)

### Senior notes

The Company has \$300,000,000 of senior unsecured notes at an interest rate of 7% with a scheduled maturity date of 1 April 2021. The Company may redeem all or a portion of the notes prior to maturity subject to certain conditions, including in certain cases the payment of premiums or make-whole amounts. Guarantors of the senior notes are the same as the \$350,000,000 revolver bank loan facility described below.

### Revolver bank loans

The bank facility includes a \$350,000,000 revolving bank loan which was increased on 31 July 2012 from an aggregate principal amount of \$250,000,000. As of 31 December 2012 and 2011 the amount drawn was \$308,000,000 and \$17,000,000 respectively. Interest rates on borrowings are based on a base rate plus an applicable margin. The base rate is generally based on either 30-day USD LIBOR or the prime rate as determined by Bank of America, while the margin is determined based on leverage according to a pricing grid. \$288,000,000 and \$15,000,000 of the borrowings as at 31 December 2012 and 2011, were based on 30-day LIBOR at the time of draws (between 0.210% and 0.215% for 31 December 2012 and between 0.27% and 0.30% for 31 December 2011) plus a margin of 1.75%, for a weighted average interest rate of 1.96% and 2.03% for 31 December 2012 and 2011, respectively. \$20,000,000 and \$2,000,000 of the borrowings as at 31 December 2012 and 2011 were based on the prime rate of 3.25% plus a margin of 0.75% for a total interest rate of 4.0%. The scheduled maturity date is 29 July 2016.

The revolving bank loan was increased by \$100,000,000, to an aggregate amount of \$450,000,000, on 15 February 2013. A required reduction of \$50 million of commitments will occur 18 months after the closing date of the amendment, 15 August 2014, bringing the total outstanding commitments at that time to \$400 million. All other material terms and conditions of the revolving credit agreement, including covenants, maturity and pricing, remain unchanged.

Outstanding letters of credit of \$2,305,000 as of 31 December 2012 and 2011, reduce the amount available to draw under the revolvers.

### Covenants – revolver bank loans and senior notes

The Company's revolver contains 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. This includes maintaining a gross debt to EBITDA ratio of not more than 3.5:1, and an EBITDA to interest ratio of not less than 3.0:1. The agreement also requires that borrowers and guarantors represent at least 60% of Company EBITDA and total tangible assets of the Company.

Prior to the Company engaging in certain activities, including incurring additional indebtedness, the Company is subject to specific covenants, which contain specified exceptions and qualifications.

See Note 27 for a list of subsidiary guarantors which guarantee one or more of the debt facilities. Testing of covenant compliance takes place twice-yearly for the trailing 12 month periods to 30 June and 31 December. Non-compliance 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 at 31 December 2012 and 2011 as well as 30 June 2012 and 2011.

The indenture governing the senior notes includes covenants that restrict the Company's ability to engage in certain activities, including incurring additional indebtedness and paying dividends, subject in each case to specified exceptions and qualifications. The senior notes also include certain provisions including those similar to the bank revolver, but do not include testing of financial ratios.

### 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 7.65% to 8.07%, with repayment periods not exceeding two years.

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 19. PROVISIONS

	2012 US\$'000	2011 US\$'000
<b>Current</b>		
Employee benefits	22,018	19,871
Restructuring and termination costs <sup>1</sup>	8,765	1,044
Warranty <sup>2</sup>	223	715
Onerous leases	5,265	656
	<u>36,271</u>	<u>22,286</u>
<b>Non-current</b>		
Employee benefits	3,753	4,510
Pension and post-retirement benefits (Note 20)	80,422	69,078
Onerous leases	3,459	-
	<u>87,634</u>	<u>73,588</u>
	<u>123,905</u>	<u>95,874</u>

The changes in the provisions for the year ended 31 December 2012 are as follows:

	Restructuring and termination costs <sup>1</sup> US\$'000	Warranty <sup>2</sup> US\$'000	Onerous lease costs <sup>3</sup> US\$'000
Balance at 1 January 2012	1,044	715	656
Additional provisions recognised	12,452	92	8,694
Reductions arising from payments	(4,322)	(88)	-
Reductions resulting from remeasurement	(349)	(486)	(626)
Foreign exchange	(60)	(10)	-
Balance at 31 December 2012	<u>8,765</u>	<u>223</u>	<u>8,724</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.
- (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.
- (3) Includes current and non-current.

## 20. 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 4(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. Most 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 2012, and 2011, there were no significant outstanding/prepaid contributions. Company contributions to these plans were \$23,863,000 and \$21,175,000 for the years ended 31 December 2012 and 2011, 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 2012 by qualified independent actuaries. The estimated market value of the assets of the funded pension plans was \$191,207,000 and \$173,776,000 at 31 December 2012, and 2011, 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 77% in both 2012 and 2011, 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 \$11,065,000 and \$9,612,000 in the years ended 31 December 2012 and 2011, respectively. Contributions in 2013 are expected to be \$9,012,000.



# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 20. 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):

	2012		2011		Southern Africa <sup>1</sup>
	North America	Europe	North America	Europe	
Discount rates	4.0%	3.4%	4.5%	4.8%	-
Expected average rate of increase in salaries	3.5%	4.0%	3.8%	4.0%	-
Expected average rate of increase of pensions in payment	-	1.5%	-	1.5%	-
Expected average long-term rate of return on plan assets <sup>2</sup>	-	-	7.1%	4.2%	-
Expected average increase in healthcare costs (initial)	7.4%	-	8.0%	-	-
Expected average increase in healthcare costs (ultimate)	5.0%	-	5.0%	-	-

- (1) The Southern Africa pension and post-retirement medical plans were settled with participants in 2008. The majority of the members elected to transfer to the Alexander Forbes Retirement Fund, leaving only one member in the plan. In December 2011, the Company received payment from the plan representing the net pension assets.
- (2) Under the revised AASB 119 'Employee Benefits' which is applicable for reporting periods starting on or after 1 January 2013, the return on asset will now be calculated using the same discount rate applied to liabilities rather than the expected investment return with the difference taken to Other Comprehensive Income.

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

	2012			2011		
	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	2,096	940	3,036	1,862	769	2,631
Interest cost on plan liabilities	10,199	843	11,042	11,081	803	11,884
Past service cost	(207)	-	(207)	-	-	-
Expected return on plan assets	(11,063)	-	(11,063)	(13,409)	-	(13,409)
Total charge (credit) to profit and loss account	1,025	1,783	2,808	(466)	1,572	1,106

For the financial years ended 31 December 2012 and 2011, charges of approximately \$2,608,000 and \$932,000, respectively, have been included in cost of goods sold and the remainder in general and administrative or sales and marketing expenses.

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

	2012			2011		
	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	15,864	496	16,360	18,456	1,090	19,546

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 20. PENSION AND POST-RETIREMENT BENEFITS (CONTINUED)

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

	2012			2011		
	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	246,789	-	246,789	221,041	-	221,041
Fair value of plan assets	(191,207)	-	(191,207)	(173,776)	-	(173,776)
	55,582	-	55,582	47,265	-	47,265
Present value of unfunded defined benefit obligations	5,742	19,098	24,840	4,575	17,238	21,813
Deficit	61,324	19,098	80,422	51,840	17,238	69,078
Net liability arising from defined benefit obligations	61,324	19,098	80,422	51,840	17,238	69,078

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

	2012			2011		
	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
Opening defined benefit obligation	225,616	17,238	242,854	209,750	14,879	224,629
Current service cost	2,096	940	3,036	1,862	769	2,631
Interest cost	10,199	843	11,042	11,081	803	11,884
Contributions from plan participants	-	423	423	-	434	434
Actuarial losses	23,264	799	24,063	17,510	1,752	19,262
Past service cost	(207)	-	(207)	-	-	-
Exchange differences on foreign plans	4,077	15	4,092	(4,414)	(12)	(4,426)
Benefits paid	(12,514)	(1,279)	(13,793)	(10,173)	(1,387)	(11,560)
Federal subsidy on benefits paid	-	119	119	-	-	-
Closing defined benefit obligation	252,531	19,098	271,629	225,616	17,238	242,854

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 20. PENSION AND POST-RETIREMENT BENEFITS (CONTINUED)

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

	2012			2011		
	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
Opening fair value plan of assets	173,776	-	173,776	194,620	-	194,620
Expected return on plan assets	11,063	-	11,063	13,409	-	13,409
Actuarial gains (losses)	4,615	-	4,615	(8,520)	-	(8,520)
Exchange differences on foreign plans	3,202	-	3,202	(5,155)	-	(5,155)
Contributions from the employer	11,065	856	11,921	9,612	953	10,565
Distribution of assets from settled plan	-	-	-	(20,017)	-	(20,017)
Contributions from plan participants	-	423	423	-	434	434
Benefits paid	(12,514)	(1,279)	(13,793)	(10,173)	(1,387)	(11,560)
Closing fair value of plan assets	191,207	-	191,207	173,776	-	173,776

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

	2012				
	North America		Europe		Total fair value
	Rate of return % <sup>1</sup>	Fair value US\$'000	Rate of return % <sup>1</sup>	Fair value US\$'000	
<b>At 31 December 2012</b>					
Equity	-	81,124	-	17,749	98,873
Bonds	-	55,782	-	30,116	85,898
Property	-	-	-	1,319	1,319
Cash	-	4,302	-	403	4,705
Other	-	338	-	74	412
		141,546		49,661	191,207

- (1) Under the revised AASB 119 'Employee Benefits' which is applicable for reporting periods starting on or after 1 January 2013, the return on asset will now be calculated using the same discount rate applied to liabilities rather than the expected investment return with the difference taken to Other Comprehensive Income.

	2011						
	North America		Europe		Southern Africa		Total fair value
	Rate of return %	Fair value US\$'000	Rate of return %	Fair value US\$'000	Rate of return %	Fair value US\$'000	
<b>At 31 December 2011</b>							
Equity	9.0%	59,418	6.8%	15,963	-	-	75,381
Bonds	4.6%	60,498	2.5%	25,187	-	-	85,685
Property	-	-	4.8%	1,544	-	-	1,544
Cash	3.4%	6,794	1.4%	215	-	2,017	9,026
Other	3.4%	2,140	-	-	-	-	2,140
	7.1%	128,850	4.2%	42,909	-	2,017	173,776

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 20. PENSION AND POST-RETIREMENT BENEFITS (CONTINUED)

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

	31 December 2012			31 December 2011			
	North America	Europe	Total	North America	Europe	Southern Africa	Total
Post-retirement medical plan deficit	19,098	-	19,098	17,238	-	-	17,238
Pension plan deficit	36,625	24,699	61,324	36,298	15,542	-	51,840
Total deficit	55,723	24,699	80,422	53,536	15,542	-	69,078

On 8 December 2003, the Medicare Prescription Drug Improvement and Modernisation Act of 2003 was signed into law in the US. 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 \$1,389,000 and \$930,000 at 31 December 2012 and 2011, respectively. The expense was reduced by approximately \$53,000 and \$49,000 at 31 December 2012 and 2011, respectively.

	2012			2011		
	Pension plan US\$'000	Post-retirement medical plan US\$'000	Total US\$'000	Pension plan US\$'000	Post-retirement medical plan US\$'000	Total US\$'000
Fair value of plan assets	191,207	-	191,207	173,776	-	173,776
Present value of defined benefit obligation	(252,531)	(19,098)	(271,629)	(225,616)	(17,238)	(242,854)
Deficit	(61,324)	(19,098)	(80,422)	(51,840)	(17,238)	(69,078)
Experience adjustments on plan liabilities	3,341	605	3,946	141	85	226
Experience adjustments on plan assets	4,615	-	4,615	(8,520)	-	(8,520)

  

	2010			2009		
	Pension plan US\$'000	Post-retirement medical plan US\$'000	Total US\$'000	Pension plan US\$'000	Post-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)	(14,501)	(10,488)	(24,989)
Experience adjustments on plan liabilities	(643)	106	(537)	(570)	(166)	(736)
Experience adjustments on plan assets	3,867	-	3,867	13,345	-	13,345

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 20. PENSION AND POST-RETIREMENT BENEFITS (CONTINUED)

	2008		
	Pension plan	Post-retirement medical plan	Total
	US\$'000	US\$'000	US\$'000
Fair value of plan assets	150,626	-	150,626
Present value of defined benefit obligation	(171,312)	(9,411)	(180,723)
Deficit	(20,686)	(9,411)	(30,097)
Experience adjustments on plan liabilities	(635)	63	(572)
Experience adjustments on plan assets	(49,714)	-	(49,714)

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:

	2012 US\$'000	2011 US\$'000
<i>One percentage point increase</i>		
Effect on the aggregate of the service cost and interest cost	254	211
Effect on accumulated post-employment benefit obligation	2,462	2,133
<i>One percentage point decrease</i>		
Effect on the aggregate of the service cost and interest cost	(216)	(180)
Effect on accumulated post-employment benefit obligation	(2,072)	(1,808)

## 21. ISSUED CAPITAL

	2012		2011	
	Shares '000	US\$'000	Shares '000	US\$'000
Share capital				
Ordinary shares, fully paid	454,710	1,122,189	455,755	1,128,923
Movements in ordinary shares				
Balance at beginning of year	455,755	1,128,923	457,129	1,132,051
Vesting of LTIP rights, restricted shares	1,597	2,435	322	5,204
Purchase of shares for LTIP	(2,642)	(9,169)	(1,696)	(8,332)
Balance at end of the year	454,710	1,122,189	455,755	1,128,923
Total shares outstanding	461,163	1,146,804	461,163	1,147,676
Shares held in trust	(6,453)	(24,615)	(5,408)	(18,753)
Balance at end of the year	454,710	1,122,189	455,755	1,128,923

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 22. RESERVES

	2012 US\$'000	2011 US\$'000
Foreign currency translation	56,658	50,334
Equity-settled employee benefits	14,256	9,333
	<u>70,914</u>	<u>59,667</u>

During the years ended 31 December 2012 and 2011, the changes in each of the respective reserve accounts were as follows:

	2012 US\$'000	2011 US\$'000
<b>Foreign currency translation</b>		
Balance at beginning of year	50,334	76,421
Exchange differences arising on translation of foreign operations	6,324	(26,087)
Balance at end of year	<u>56,658</u>	<u>50,334</u>

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

	2012 US\$'000	2011 US\$'000
<b>Equity-settled employee benefits</b>		
Balance at beginning of year	9,333	8,415
Share-based compensation	7,358	6,122
Vesting of LTIP rights	(2,435)	(5,204)
Balance at end of year	<u>14,256</u>	<u>9,333</u>

The equity-settled employee benefits reserve is recognised over the vesting period of restricted shares, LTIP rights and share options. Amounts are transferred out of the reserve and into issued capital when the shares are issued.

	2012 US\$'000	2011 US\$'000
<b>Unrealised losses related to hedging instruments</b>		
Balance at beginning of year	-	(259)
Unrealised gain on cash flow hedges	-	193
Transfer to profit or loss on cash flow hedges	-	137
Related income tax	-	(71)
Balance at end of year	<u>-</u>	<u>-</u>

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.

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 23. RETAINED EARNINGS

During the years ended 31 December 2012 and 2011, the changes in retained earnings consist of:

	2012 US\$'000	2011 US\$'000
Balance at beginning of year	83,032	(19,477)
Profit for the period attributable to equity holders of the Parent	68,164	159,871
Dividends paid	(55,340)	(37,816)
Actuarial losses on defined benefit plans (net of tax)	(16,360)	(19,546)
Balance at end of year	79,496	83,032

## 24. DIVIDENDS

Dividends declared and paid during the year ended 31 December 2012 are as follows:

	2012	
	US cents per share	Total US\$'000
<b>Fully paid ordinary shares</b>		
Final 2011 dividend 15% franked	5.6	25,826
Interim 2012 dividend 15% franked	6.4	29,514
	12.0	55,340

	2011	
	US cents per share	Total US\$'000
<b>Fully paid ordinary shares</b>		
Final 2010 dividend 35% franked	3.4	15,679
Interim 2011 dividend 35% franked	4.8	22,137
	8.2	37,816

On 18 February 2013, the Directors determined to pay a dividend of US 1.0 cent per share (for a total of approximately \$4,611,000) for the second half of 2012. The dividend is expected to be paid on 12 April 2013 to shareholders of record on 15 March 2013. The dividend will be 35% franked at the Australian corporate taxation rate of 30%. All of the unfranked portion of the dividend will be conduit foreign income. The dividend is not included as a liability in the 31 December 2012 financial statements. Franking credits available after payment of this dividend will be \$7,162,000.

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

	2012 US\$'000	2011 US\$'000
Adjusted combined franking balance	7,853	7,437

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 25. EARNINGS PER SHARE

	2012 US cents per share	2011 US cents per share
Basic earnings per share	15.0	35.1
Diluted earnings per share	14.8	34.8
<b>Basic earnings per share</b>		
The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:		
	2012 US\$'000	2011 US\$'000
Earnings used in the calculation of basic EPS	68,164	159,871
<b>Diluted earnings per share</b>		
The earnings used in the calculation of diluted earnings per share are as follows:		
	2012 US\$'000	2011 US\$'000
Earnings used in the calculation of diluted EPS	68,164	159,871
<b>Weighted average number of ordinary shares used in the calculation of basic EPS</b>		
	2012 '000	2011 '000
Weighted average number of ordinary shares for the purposes of basic earnings per share	454,862	456,117
<b>Shares deemed to be issued for no consideration in respect of:</b>		
LTIP share rights	4,917	2,856
Options	-	39
<b>Weighted average number of ordinary shares used in the calculation of diluted EPS</b>	<b>459,779</b>	<b>459,012</b>



# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 26. COMMITMENTS FOR EXPENDITURE

### Commitments

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

	2012 US\$'000	2011 US\$'000
<b>Capital commitments</b>		
Purchase commitments for capital expenditures	10,857	13,631

Non-cancellable future operating lease commitments as at 31 December 2012 and 2011 consist of the following:

	31 December 2012		31 December 2011	
	Land and buildings US\$'000	Plant and equipment US\$'000	Land and buildings US\$'000	Plant and equipment US\$'000
<b>Payments due within:</b>				
1 year	15,603	12,086	15,536	17,121
2 to 5 years	32,483	11,601	34,172	24,616
After 5 years	6,740	-	12,166	-
	<u>54,826</u>	<u>23,687</u>	<u>61,874</u>	<u>41,737</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 seven years
- 1 – 5 years for machinery and equipment with an average lease term of three years
- 1 – 7 years for all other property with an average lease term of three 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.

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 27. CONTINGENT LIABILITIES

### Letters of credit

Standby letters of credit primarily issued in support of commitments or other obligations as at 31 December 2012 are as follows:

- The Company's subsidiary in Zambia has a letter of credit in the amount of \$1,900,000 to support products inventory, which expires December 2013.
- The Company's subsidiary in the US has a letter of credit in the amount of \$405,000 to secure a worker's compensation program which expires January 2013.

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

	2012 US\$'000	2011 US\$'000
Less than 1 year	2,305	1,900
1 to 3 years	-	405
	<u>2,305</u>	<u>2,305</u>

### 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:

<u>Country</u>	<u>Entity</u>
Canada	Longyear Canada ULC Boart Longyear Canada
United States	Longyear Holdings, Inc. Longyear TM, Inc. Boart Longyear Company Boart Longyear Nevada
Australia	Boart Longyear Limited Boart Longyear Management Pty Limited Votraint No. 1609 Pty Limited Boart Longyear Australia Pty Limited
Switzerland	Votraint Switzerland SARL

### 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 unfavourable outcomes could have a material adverse impact.

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 27. CONTINGENT LIABILITIES (CONTINUED)

### Tax and Customs Audits

The Company is subject to certain tax and customs audits that arise in the normal course of its business. Management believes that the ultimate amount of liability, if any, for any pending assessments (either alone or combined) would not materially affect the Company's operations, liquidity, or financial position taken as a whole. However, the ultimate outcome of these audits are uncertain, and unfavourable outcomes could have a material adverse impact. See additional disclosure in Note 9.

### Other contingencies

Other contingent liabilities as at 31 December 2012 and 2011 consist of the following:

	2012 US\$'000	2011 US\$'000
<b>Contingent liabilities</b>		
Guarantees/counter-guarantees to outside parties	30,154	19,544

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 28. PARENT ENTITY DISCLOSURES

### Financial position

	2012 US\$'000	2011 US\$'000
<b>Assets</b>		
Current assets	821,946	802,449
Non-current assets	1,330,440	2,232,744
<b>Total assets</b>	<b>2,152,386</b>	<b>3,035,193</b>
<b>Liabilities</b>		
Current liabilities	149,574	111,154
Non-current liabilities	1,238	214
<b>Total liabilities</b>	<b>150,812</b>	<b>111,368</b>
<b>Net Assets</b>	<b>2,001,574</b>	<b>2,923,825</b>
<b>Equity</b>		
Issued capital	2,886,462	2,886,462
Reserves	464	7,643
(Accumulated losses) Retained earnings	(885,352)	29,720
<b>Total equity</b>	<b>2,001,574</b>	<b>2,923,825</b>

### Financial performance

	2012 US\$'000	2011 US\$'000
(Loss) Profit for the year	(859,732)	34,556
Other comprehensive income	-	-
<b>Total comprehensive (loss) income</b>	<b>(859,732)</b>	<b>34,556</b>

During the year, Boart Longyear Limited recorded a provision against intercompany accounts of \$900,000,000. This provision has no impact on the consolidated financial statements.

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

As of 31 December 2012 and 2011 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 27.

### Contingent liabilities

As of 31 December 2012 and 2011 Boart Longyear Limited did not have any contingent liabilities.

### Contractual obligations

As of 31 December 2012 and 2011 Boart Longyear Limited did not have any contractual obligations.

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 29. COMPANY SUBSIDIARIES

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

Subsidiaries	Country of incorporation	Business	31 Dec 2012	31 Dec 2011
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	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	100
BLY Sierra Leone Ltd.	Senegal	Drilling Services	100	100
Boart Longyear (Cambodia) Ltd.	Cambodia	Drilling Services	100	100
Boart Longyear (D.R.C.) SPRL	Dem. Rep. of Congo	Drilling Products and Services	100	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 and Services	100	100
Boart Longyear Chile Limitada	Chile	Drilling Products and Services	100	100
Boart Longyear Colombia S.A.S.	Colombia	Drilling Services	100	100
Boart Longyear Company	USA	Tools, Equipment and Drilling	100	100
Boart Longyear Cote d'Ivoire S.A.	Ivory Coast	Drilling Services	100	100
Boart Longyear Consolidated Holdings, Inc.	USA	Holding Company	100	100
Boart Longyear de Mexico, S.A. de C.V.	Mexico	Drilling Services	100	100
Boart Longyear Drilling and Products Mexico, S.A. de C.V.	Mexico	Drilling Products and Services	100	100
Boart Longyear Drilling Private Limited Company	Ethiopia	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 EMEA UK Holdings Ltd	United Kingdom	Holding Company	100	100
Boart Longyear Eritrea Ltd.	Eritrea	Drilling Services	100	100
Boart Longyear Financial Services SARL	Switzerland	Products	100	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 Guinea S.A. <sup>1</sup>	Guinea	Drilling Services	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
Boart Longyear Liberia Corporation	Liberia	Drilling Services	100	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

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 29. COMPANY SUBSIDIARIES (CONTINUED)

Subsidiaries	Country of incorporation	Business	31 Dec 2012	31 Dec 2011
Boart Longyear LLC	Russia Federation	Drilling Services	100	100
Boart Longyear Ltd	Ghana	Dormant	100	100
Boart Longyear Madagascar S.A.	Madagascar	Drilling Services	100	100
Boart Longyear Mali Products S.A. <sup>1</sup>	Mali	Products	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	Drilling Products	100	100
Boart Longyear RUS	Russia Federation	Drilling Services	100	100
		Tools, Equipment and Drilling		
Boart Longyear S.A.	Chile	Services	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 Saudi Arabia LLC <sup>1</sup>	Saudi Arabia	Drilling Services	100	-
Boart Longyear Vermögensverwaltung GmbH	Germany	Dormant	100	100
Boart Longyear Zambia Ltd.	Zambia	Drilling Services	100	100
Cooperatief Longyear Holdings UA	Netherlands	Holding Company	100	100
Drillcorp Pty Ltd	Australia	Drilling Services	100	100
Dongray Industrial Limited	United Kingdom	In Liquidation	100	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 Mining Services S.A.	Argentina	Drilling Services	100	100
Portezuelo S.A.	Paraguay	Drilling Services	100	100
Professional Sonic Drillers (Pty) Limited T/A Prosonic Africa	South Africa	Dormant	100	100
Prosonic Corporation	USA	Drilling Services	100	100
Prosonic International, Inc.	USA	Drilling Services	100	100
Votrant No. 1609 Pty Ltd	Australia	Drilling Services	100	100
Votrant Switzerland SARL	Switzerland	Holding Company	100	100

(1) This entity was formed in 2012.

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 30. 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.

	2012 US\$'000	2011 US\$'000
Cash and cash equivalents	89,628	82,286

### (b) Businesses acquired

During the financial years ended 31 December 2012 and 2011 there were no business acquisitions.

### (c) Businesses disposed

During the financial years ended 31 December 2012 and 2011 there were no business dispositions.

## 31. ASSETS CLASSIFIED AS HELD FOR SALE

The Company has classified certain assets related to non-mining environmental and infrastructure business as assets held for sale. The sale of these assets is anticipated to be completed early in the second quarter of 2013. On reclassification of these operations to assets held for sale, the Company has recognised an impairment loss of \$3,986,000. This business has been classified and accounted for at 31 December 2012 as a disposal group held for sale related to the drilling services business segment

The following assets were reclassified to assets held for sale at 31 December 2012:

	2012 US\$'000
Trade and other receivables	13,269
Inventories	722
Prepaid expenses and other assets	212
Property, plant and equipment	19,159
Other intangible assets	444
Other assets	191
	33,997

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 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-based 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 has set threshold and maximum targets for both the EPS and ROE performance awards during each three-year performance period and vesting will be determined by the Company's actual performance against the targets. 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 shares will be held in trust. For grants made prior to 2012, the participant will receive dividends paid on those shares from the time of acquisition until vesting. For grants made beginning in 2012, dividends paid on unvested share rights will be held in trust and paid when vesting occurs.

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 share rights, options and restricted shares have been restated in this report using the consolidated share amounts.

The total share-based expense associated with share rights granted under the LTIP for the years ended 31 December 2012 and 2011 was \$6,500,000 and \$5,107,000, respectively.

The Board has on certain occasions granted 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. The share-based expense associated with share options for the years ended 31 December 2012 and 2011 was \$804,000 and \$748,000, respectively. \$54,000 of share-based compensation was capitalised in the fiscal year ended 31 December 2012 (2011 - \$268,000).

### Share Rights

The following table reflects the share rights arrangements that were in existence at 31 December 2012:

Series - Share Rights	Number	Effective grant date	Vesting date	Fair value at grant date <sup>1</sup> US\$
1 - Issued 1 March 2010	1,613,481	1-Mar-10	1-Mar-13	2.78
2 - Issued 15 March 2010	104,600	15-Mar-10	15-Mar-13	2.93
3 - Issued 26 August 2010	10,844	26-Aug-10	26-Aug-13	3.29
4 - Issued 15 March 2011	1,564,816	15-Mar-11	15-Mar-14	4.36
5 - Issued 11 July 2011	26,750	11-Jul-11	11-Jul-14	4.27
6 - Issued 14 October 2011	110,000	14-Oct-11	14-Oct-14	3.05
7 - Issued 15 March 2012	1,849,899	15-Mar-12	15-Mar-15	4.50

(1) Because share rights have no market vesting conditions and participants are entitled to dividends, share rights are valued at the market price upon the grant date.

The following reconciles the outstanding share rights at the beginning and end of the year:



# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 32. SHARE-BASED PAYMENTS (CONTINUED)

	2012 Number of rights '000	2011 Number of rights '000
<b>Share rights</b>		
Balance at beginning of year	5,483	3,686
Granted	2,690	2,270
Forfeited	(1,296)	(151)
Vested	(1,597)	(322)
Balance at end of year	5,280	5,483

The following share rights vested during 2012:

Grant date	Date of vest	Number of shares '000	Fair value at date of vest A\$
14-Jan-09	14-Jan-12	1	3.09
25-Mar-09	25-Mar-12	1,170	4.16
2-Jul-09	2-Jul-12	5	2.96
1-Mar-10	31-Dec-12	101	1.95
1-Mar-10	5-Oct-12	47	1.74
1-Mar-10	1-Dec-12	33	1.50
26-Aug-10	26-Oct-12	11	1.64
15-Mar-11	31-Dec-12	70	1.95
15-Mar-11	26-Oct-12	11	1.64
15-Mar-11	1-Dec-12	11	1.50
15-Apr-11	1-Aug-12	65	2.34
14-Oct-11	19-Nov-12	5	1.45
15-Mar-12	31-Dec-12	56	1.95
15-Mar-12	26-Oct-12	6	1.64
15-Mar-12	1-Dec-12	5	1.50

## Options

The following table reflects the options arrangements that were in existence at 31 December 2012:

Series - Options	Number	Effective grant date	Vesting date	Fair value at grant date US\$
1 - Issued 28 April 2008	100,000	28-Apr-08	5-Oct-12	6.87
2 - Issued 1 January 2009 <sup>1</sup>	150,000	28-Apr-08	5-Oct-12	14.50
3 - Issued 18 June 2009	317,500	18-Jun-09	18-Jun-12	1.43
4 - Issued 15 March 2010	25,000	15-Mar-10	15-Mar-13	2.24

- (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 values of the options grants were determined using the Black-Scholes option pricing model using the following inputs:

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 32. SHARE-BASED PAYMENTS (CONTINUED)

	Grant date share price US\$	Expected volatility	Life of rights	Dividend yield	Risk-free interest rate
Series 1	16.30	49.86%	56 months	0.86%	5.58%
Series 2	16.30	49.86%	68 months	0.86%	5.58%
Series 3	1.90	97.29%	60 months	0.00%	5.59%
Series 4	2.93	92.14%	60 months	0.00%	5.25%

The following reconciles the outstanding options at the beginning and end of the year:

	2012		2011	
	Number of options '000	Weighted average exercise price US\$	Number of options '000	Weighted average exercise price US\$
<b>Options</b>				
Balance at beginning of year	592	4.88	592	4.88
Granted	-	-	-	-
Forfeited	-	-	-	-
Exercised	-	-	-	-
Balance at end of year	592	4.88	592	4.88
Exercisable at end of year	567	4.88	-	-

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 33. KEY MANAGEMENT PERSONNEL COMPENSATION

### Details of key management personnel

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

- David McLemore – Chair, non-executive Director, and, from 5 October 2012, interim Chief Executive Officer
- Bruce Brook - non-executive Director
- Roger Brown - non-executive Director
- Roy Franklin - non-executive Director
- Tanya Fratto - non-executive Director
- Barbara Jeremiah - non-executive Director
- Peter St. George - non-executive Director
- Craig Kipp – Chief Executive Officer and executive Director (resigned effective 3 October 2012)
- Joe 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, Drilling Services <sup>1</sup>
- Alan Sides – Vice President, Products

(1) Mr Birch's employment terminated on 31 January 2013.

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

	2012 US\$	2011 US\$
Short-term employee benefits	5,967,949	6,171,076
Post-employment benefits	116,009	110,012
Other long-term benefits	465,864	989,175
Termination benefits	1,044,640	-
Share-based payment	2,651,514	3,127,647
	<u>10,245,976</u>	<u>10,397,910</u>

## 34. RELATED PARTY TRANSACTIONS

### Transactions with key management personnel

- (i) Key management personnel compensation

Details of key management personnel compensation are disclosed in Note 33.

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

None.

- (iii) Key management personnel equity holdings

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 34. RELATED PARTY TRANSACTIONS (CONTINUED)

### Shares

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

	<b>Balance 1 January</b>	<b>Net change during year</b>	<b>Balance 31 December</b>	<b>Balance held nominally</b>
<b>2012</b>				
David McLemore	115,861	40,000	155,861	-
Bruce Brook	104,423	30,000	134,423	-
Roger Brown	30,000	-	30,000	-
Roy Franklin	-	45,000	45,000	-
Tanya Fratto	-	20,000	20,000	-
Barbara Jeremiah	30,000	20,000	50,000	-
Peter St. George	107,450	50,000	157,450	-
Craig Kipp	564,998	201,760	N/A <sup>1</sup>	-
Joe Ragan III	18,523	52,322	70,845	-
Fabrizio Rasetti	117,286	38,368	155,654	-
Brad Baker	8,967	38,370	47,337	-
Michael Birch	48,343	38,370	86,713	-

	<b>Balance 1 January</b>	<b>Net change during year</b>	<b>Balance 31 December</b>	<b>Balance held nominally</b>
<b>2011</b>				
David McLemore	115,861	-	115,861	-
Bruce Brook	104,423	-	104,423	-
Roger Brown	30,000	-	30,000	-
Roy Franklin	-	-	-	-
Tanya Fratto	-	-	-	-
Barbara Jeremiah	-	30,000	30,000	-
Peter St. George	107,450	-	107,450	-
Craig Kipp	521,463	43,535	564,998	-
Joe Ragan III	-	18,523	18,523	-
Fabrizio Rasetti	106,612	10,674	117,286	-
Brad Baker	-	8,967	8,967	-
Michael Birch	66,460	(18,117)	48,343	-

(1) Mr Kipp's 31 December 2012 share balance is not reported due to his termination as a related party effective 5 October 2012. His net change for the year is reflected through the termination date.

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 34. RELATED PARTY TRANSACTIONS (CONTINUED)

### Share rights and restricted shares

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

	Held at the beginning of the financial year	Granted as remun- eration	Vested and issued during the year	Forfeited during the year	Held at the end of the financial year
<b>2012</b>					
Craig Kipp	1,065,400	681,200	(227,475)	(829,747)	689,378
Joe Ragan III	258,000	90,000	(75,000)	-	273,000
Fabrizio Rasetti	207,578	90,000	(55,000)	-	242,578
Brad Baker	187,150	75,000	(55,000)	-	207,150
Michael Birch	217,900	90,000	(55,000)	-	252,900
Alan Sides	164,600	70,000	-	-	234,600

	Held at the beginning of the Financial year	Granted as remun- eration	Vested and issued during the year	Forfeited during the year	Held at the end of the financial year
<b>2011</b>					
Craig Kipp	659,291	455,580	(43,535)	(5,936)	1,065,400
Joe Ragan III	208,000	80,000	(26,400)	(3,600)	258,000
Fabrizio Rasetti	155,428	70,000	(15,708)	(2,142)	207,578
Brad Baker	142,150	60,000	(13,200)	(1,800)	187,150
Michael Birch	157,900	80,000	(17,600)	(2,400)	217,900
Alan Sides	104,600	60,000	-	-	164,600

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

### Cash rights

Details of the cash rights that have been granted under the LTIP program as compensation to key management personnel, and the activity during the financial year, are as follows:

	Held at the beginning of the financial year US\$	Granted as remun- eration US\$	Vested and issued during the year US\$	Forfeited during the year US\$	Held at the end of the financial year US\$
<b>2012</b>					
Craig Kipp	1,196,300	-	746,300	60,300	389,700
Joe Ragan III	375,000	-	275,000	-	100,000
Fabrizio Rasetti	305,000	-	225,000	-	80,000
Brad Baker	305,000	-	225,000	-	80,000
Michael Birch	305,000	-	225,000	-	80,000
Alan Sides	80,000	-	-	-	80,000

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 34. RELATED PARTY TRANSACTIONS (CONTINUED)

	Held at the beginning of the financial year US\$	Granted as remun- eration US\$ <sup>1</sup>	Vested and issued during the year US\$	Forfeited during the year US\$	Held at the end of the financial year US\$
<b>2011</b>					
Craig Kipp	1,196,300	-	-	-	1,196,300 <sup>2</sup>
Joe Ragan III	375,000	-	-	-	375,000
Fabrizio Rasetti	305,000	-	-	-	305,000
Brad Baker	305,000	-	-	-	305,000
Michael Birch	305,000	-	-	-	305,000
Alan Sides	80,000	-	-	-	80,000

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

(2) This amount was revised in this 2012 report to correct a reporting error from the prior years. Mr Kipp's total number of Cash Rights granted on 25 March 2009 was 746,300 but had been previously reported as 550,000.

The share and cash rights under the LTIP were provided at no cost to the recipient.

### Options

Details of the options that have been granted as compensation to key management personnel under the LTIP program, 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	Forfeited during the year	Held at the end of the financial year	Vested and exercisable as at 31 December 2012
<b>2012</b>						
Craig Kipp	340,000	-	340,000	-	-	340,000
Joe Ragan III	37,500	-	37,500	-	-	37,500
Fabrizio Rasetti	27,500	-	27,500	-	-	27,500
Brad Baker	27,500	-	27,500	-	-	27,500
Michael Birch	27,500	-	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 2011
<b>2011</b>						
Craig Kipp	340,000	-	-	-	340,000	-
Joe 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	-

During the years ended 31 December 2012 and 2011, no shares were issued on the exercise of options previously granted as compensation to the above individuals.

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 35. REMUNERATION OF AUDITORS

	2012 US\$	2011 US\$
<b>Company auditor's remuneration</b>		
Audit and review of the financial report:		
Auditor of the parent entity	1,465,000	1,369,000
Related practices of the parent entity auditor	1,434,000	1,173,000
	<u>2,899,000</u>	<u>2,542,000</u>
Non-audit services:		
Tax services	1,541,000	2,669,000
Review of tax returns	539,000	687,000
Due diligence and other non-audit services	61,000	359,000
	<u>2,141,000</u>	<u>3,715,000</u>
Total remuneration to Company auditor	<u>5,040,000</u>	<u>6,257,000</u>
<b>Remuneration to other accounting firms</b>		
Audit services	356,000	272,000
Non-audit services:		
Tax services	2,069,000	2,457,000
Internal audit	474,000	1,339,000
Global mobility	2,009,000	885,000
Accounting and payroll services	232,000	439,000
Other	208,000	430,000
Total remuneration to other accounting firms	<u>5,348,000</u>	<u>5,822,000</u>

The auditor of Boart Longyear Limited is Deloitte Touche Tohmatsu. The Company has employed Deloitte Touche Tohmatsu on assignments additional to their audit duties where their expertise and experience with the Company are important. These assignments principally have been related to tax advice and tax compliance services, the magnitude of which is impacted by the global reach of the Company.

The Company and its Audit, Compliance & Risk Committee ("Audit Committee") are committed to ensuring the independence of the external auditors. Accordingly, significant scrutiny is given to non-audit engagements of the external auditor. The Company has a formal pre-approval policy which requires the pre-approval of non-audit services by the Chair of the Audit Committee or the Audit Committee. Additionally, the total annual fees for such non-audit services cannot exceed the auditor's annual audit fees without the approval of the Audit Committee. The Audit Committee believes that the combination of these two approaches results in an effective procedure to pre-approve services performed by the external auditor.

Consistent with the approach outlined above, the Audit Committee approved Deloitte Touche Tohmatsu's services on a tax-related business improvement project for the years ended 31 December 2012 and 2011. It is expected that this project will conclude during the year ending 31 December 2013. The Company expects that the level of non-audit services will continue to be below the audit fee in subsequent years.

## 36. SUBSEQUENT EVENTS

On 15 February 2013, the Company amended its revolving bank debt facility to increase the aggregate principal amount available under the facility to \$450,000,000 from \$350,000,000. The increase was completed by the Company primarily to provide additional liquidity and flexibility as insurance against current market uncertainty. A required reduction of \$50,000,000 of commitments will occur 18 months after the closing date of the amendment, bringing the total outstanding commitments at that time to \$400,000,000. All other material terms and conditions of the revolving credit agreement, including covenants, maturity and pricing, remain unchanged.