

ASX ANNOUNCEMENT (ASX:BLY)

24 August 2022

ASX Markets Announcement Officer
Exchange Centre
20 Bridge Street
Sydney NSW 2000

BY ELECTRONIC LODGEMENT

HALF YEAR 2022 FINANCIAL REPORT AND APPENDIX 4D

Please find attached for release to the market, Boart Longyear Group Limited's Half Year 2022 Financial Report and Appendix 4D.

Authorised for lodgement by:

Nicholas R. Nash
Company Secretary

About Boart Longyear

Established in 1890, Boart Longyear is in its 132nd year as the world's leading provider of drilling services, orebody-data-collection technology, and innovative, safe and productivity-driven drilling equipment. With its main focus in mining and exploration activities spanning a wide range of commodities, including copper, gold, nickel, zinc, uranium, and other metals and minerals, the company also holds a substantial presence in the energy, oil sands exploration, and environmental sectors.

The Global Drilling Services division operates for a diverse mining customer base with drilling methods including diamond coring exploration, reverse circulation, large diameter rotary, mine dewatering, water supply drilling, pump services, production, and sonic drilling services.

The Geological Data Services division utilises innovative scanning technology and down-hole instrumentation tools to capture detailed geological data from drilled core and chip samples. This valuable orebody knowledge gives mining companies the ability to make timely decisions for more efficient exploration activities.

The Global Products division offers sophisticated research and development and holds hundreds of patented designs to manufacture, market, and service reliable drill rigs, innovative drill string products, rugged performance tooling, durable drilling consumables, and quality parts for customers worldwide.

Boart Longyear is headquartered in Salt Lake City, Utah, USA, and listed on the Australian Securities Exchange in Sydney, Australia (ASX:BLY). More information about Boart Longyear can be found at www.boartlongyear.com. To get Boart Longyear news direct, follow us on [Twitter](#), [LinkedIn](#) and [Facebook](#).

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BOART LONGYEAR GROUP LTD.

A.R.B.N. 652 848 103

HALF-YEAR FINANCIAL REPORT

AND

APPENDIX 4D

FOR THE PERIOD ENDED 30 JUNE 2022

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Name of entity:	BOART LONGYEAR GROUP LTD.
ABN or equivalent company reference:	652 848 103
Half year ended ('current period'):	30 June 2022
Half year ended ('previous corresponding period'):	30 June 2021

RESULTS FOR ANNOUNCEMENT TO THE MARKET

	Half-year ended 30 June			
	2022 US\$'000	2021 US\$'000	\$ Change	% Change
Revenue from ordinary activities	527,585	447,063	80,522	18.0%
Net profit / (loss) after tax attributable to members	17,707	(37,785)	55,492	146.9%

Dividends per ordinary share paid or to be paid (US¢):

	30 June 2022	30 June 2021
Interim dividend	0 cents	0 cents
Franked amount	N/A	N/A

No dividend had been determined for either of the half-years ended 30 June 2022 or 2021.

Net tangible assets / (liabilities) per share:

Current period:	\$ 0.52
Previous corresponding period:	\$ (7.23)

DIRECTORS' REPORT

The Directors of the Company (the "Directors") present their report together with the financial report of Boart Longyear Group Ltd. (the "Parent") and its controlled entities (collectively, the "Company" or "Boart Longyear" or the "Group") for the half-year ended 30 June 2022 and the Independent Auditor's Review Report thereon.

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

DIRECTORS

The Directors in office during the half year and as at the date of this report are set out below:

<u>Directors</u>	<u>Position</u>
Rubin McDougal	Non-Executive Chairman
Tye Burt	Non-Executive Director
Lars Engström	Non-Executive Director
Shannon McCrae ¹	Non-Executive Director
Paul McDonnell	Non-Executive Director
Jeffrey Olsen	Executive Director
Thomas Schulz	Non-Executive Director
Conor Tochilin	Non-Executive Director
Bao Truong	Non-Executive Director

(1) Shannon McCrae joined the Board of Directors as a Non-Executive Director effective 1 August 2022.

PRINCIPAL ACTIVITIES

Boart Longyear is the world's leading integrated provider of drilling services, drilling equipment and performance tooling for mining and mineral drilling companies globally. The Company offers a comprehensive portfolio of technologically advanced and innovative drilling services and products. The Company operates through two divisions -- "Global Drilling Services" and "Global Products" -- and believes that its market-leading positions in the mineral drilling industry are driven by a variety of factors, including the performance, expertise, reliability and high safety standards of Global Drilling Services, the technological innovation, engineering excellence and global manufacturing capabilities of Global Products and the Company's vertically integrated business model. These factors, in combination with the Company's global footprint, have allowed the Company to establish and maintain long-standing relationships with a diverse and blue-chip customer base worldwide that includes many of the world's leading mining companies. With more than 130 years of drilling expertise, the Company believes its  insignia and brand represent the gold standard in the global mineral drilling industry.

REVIEW OF OPERATIONS ¹

1. Safety Performance, Market Conditions and Strategies

1.1 Overview

Boart Longyear is the world's leading integrated provider of drilling services, drilling equipment and performance tooling for mining and mineral drilling companies globally. We conduct our business activities through two segments, Global Drilling Services and Global Products, which includes our Geological Data Services.

We aim to create value for our customers through a comprehensive portfolio of technologically advanced and innovative drilling services and products. We believe that our market leading positions in the mineral drilling industry are driven by a variety of factors, including the performance, expertise and high safety standards of Global Drilling Services and the innovation, engineering excellence and global manufacturing capabilities of Global Products. We draw your attention to pages 15-16 of our 2021 full year financial report where we explain our 2021 outlook and priorities.

The global reach and full breadth of drilling discipline offerings of our Global Drilling Services division has made it a leading drilling partner for many of the world's major mining companies and junior explorers alike. We complement over 130 years of drilling experience with rigorous safety and training programs to ensure that we continue to develop and retain safe, knowledgeable, and productive drilling teams. Through ongoing investment in our fleet, we deliver results with modern, safe, productive rigs that are suited to the specific environments and geographies in which we operate. While we maintain a base of operations in the majority of the world's most prospective jurisdictions, we remain committed to supporting our customers as they pursue exploration opportunities in new areas.

The Global Products division continues to serve multiple drilling applications with its proven high quality tooling, drill rigs and services to support mining and construction drilling ranging from exploration to blast hole to sonic. For underground mining applications, Boart Longyear's DriftMaster™ drill rods and bits continue to grow in acceptance. In addition to current percussive tooling products, we have launched a line of Down the Hole tools to supplement our tooling line. In exploration drilling, the XQ™ coring rod offers its patented thread design and Boart Longyear's variable wall W-Wall™ rods give users the ability to use lighter weight rods to allow them to drill deeper and achieve other operational benefits. Longyear™ diamond bits also continue to grow in acceptance and Boart Longyear's Roller Latch™ in hole tooling offers users advantages in terms of speed and use. In addition to consumables, Boart Longyear offers a variety of drills covering exploration, sonic, and production drilling applications. The LF™ 160 rig continues to grow in acceptance and now has other features that, when coupled with the FL™ 262 Freedom™ Loader, makes this the rig of choice for many surface drilling applications. Boart Longyear has also added capability to its LS250 Sonic rig to provide increased power with its same small footprint and introduced enhancements to its LX6 multipurpose rig as well. Our engineering and product management teams continue to pursue new products and improve existing products to provide additional value to our customers.

In Geological Data Services, TruCore™ core orientation tools continue to expand geographically and are available globally. The TruShot™ magnetic survey instrument is the second offering in a future suite of tools and is expanding globally. We are using our TruScan™ geological sample field screening technology at several mine sites with several mining customers and the demand for this technology continues to grow as demand for digital technologies associated with logging and geochemistry grows from our mining customers. In 2021 we launched our TruSub™ drill rig performance monitoring technology. TruSub™ is a digital drill sub technology that fits between the drill head and drill rods. TruSub™ allows for direct digital measurement of key drilling parameters that can be viewed in real time at the drill site and in the cloud to drive drilling productivity for both the drilling contractor and the mining client. We are currently operating our TruSub™ technology at mine sites and will be further rolling out this technology with our Drilling Services division and third-party customers later this year. In the first half of 2022, we entered the gyro borehole survey space with our TruGyro technology. TruGyro offers significant advantages over other technologies in the market and should quickly gain market adoption in 2022. These instruments are part of our strategy to be the global technology leader in providing unified orebody knowledge to mining companies through our Geological Data Services business.

1.2 Safety Performance

Each year Boart Longyear strives to continuously improve safety performance. Health and Safety is a core company value at Boart Longyear along with Integrity, Customer Focus, and Teamwork which is not only expected from our employees, but also drives value for our customers and stakeholders. Through our company initiatives and robust safety programs, Boart Longyear builds trust with our employees, customers, and all stakeholders.

(1) The Review of Operations contains information sourced from our reviewed financial statements as well as additional supplemental information that has not been subject to audit or review.

For the half-year period ended 30 June 2022, the Company's world class performance on key indicators includes a Total Case Incident Rate ("TCIR") of 1.89 and Lost-Time Injury Rate ("LTIR") of 0.16. Both TCIR and LTIR rates are calculated based on 200,000 hours worked. During this half-year period, our employees experienced 61 injuries that required some medical treatment; five of those injuries resulted in lost work time. The 2022 focus has been on training new hires and leadership training for supervisors, critical control verifications and empowering employees to utilize our Environmental, Health, Safety and Training fundamentals, most importantly our Golden Rules.

1.3 Impact of Market Conditions

Following a rapid rebound in tenders and exploration activity in 2021, the first half of 2022 has seen a moderation in the pace of growth, particularly as inflation begins to sharpen the focus of our customers' exploration investment decisions. We expect continued inflation, driven by the significant amounts of government stimulus injected into the world economy over the past several years, to support elevated price levels for gold, which drives nearly 50% of Drilling Services revenue. In addition, the global transition to clean energy continues to sustain demand for copper, nickel, and other critical battery metals. These trends are in turn supportive of our focus on geographies and customers that are heavily weighted toward these key metals.

Throughout the first half of 2022, we have seen major auto manufacturers continue to make announcements of new or increased funding for electric vehicle ("EV") development and production, further confirming that this is an industry that is set to grow over the next several years. In parallel, there has been a race among these manufacturers to secure supply of EV key battery metals, such as lithium, nickel, and cobalt. We expect these trends to continue, and to support a sustained increase in exploration spend for many years to come.

During the second quarter of 2022, commodity prices began to ease off historical highs due to global inflation concerns, increasing interest rates, potential for recessions, geopolitical tensions, and continued COVID-19 lockdowns in Asia. Commodity price trends and outlook can drive exploration spending. As of the date of this report, the Company has not seen material changes in customer spending but is closely monitoring a variety of metrics to rapidly respond should there be a significant change.

Boart Longyear continues to actively manage through the risks associated with the COVID-19 pandemic, adjusting rosters, enforcing quarantine periods, accommodating sudden changes to travel schedules, and making other adjustments as needed to safeguard the health of our employees and the communities in which we work, while minimizing disruption to our customers' operations. While the potential disruptions from the pandemic are ongoing and largely unknowable in advance, we have become proficient at rapidly and responsibly responding to them in order to minimize missed shifts and maintain the continuity of operations.

Objectives and Strategies

In addition to our prime goal of returning our employees home safely each day, we continue to position the business to operate more efficiently across all phases of the mining cycle. Key elements of this strategy include focusing more on cash generation, achieving and maintaining sustainable EBITDA-to-revenue margins, improving returns on capital through disciplined variable and fixed cost management and capital spending programs, and maintaining a rigorous focus on working capital, particularly inventory and accounts receivable.

We are committed to driving long-term shareholder value by executing on several key initiatives to improve our commercial practices. In our Global Drilling Services division, we are committed to improving safety, productivity, and profitability through:

- Focusing on operational efficiencies and productivity across the organization, particularly at the drill rig level;
- Optimizing the commercial organization to drive value through the contracting and pricing processes;
- Leveraging the supply chain function across the business; and
- Controlling selling, general and administrative ("SG&A") and other overhead related costs.

In the Global Products division, we continue to maintain our market leadership with the recent commercialization of new products such as our LF™ 160 surface coring drill with its added capabilities in 2021 with the Freedom Loader, our patented Longyear™ diamond bits, DriftMaster™ drill rods and bits for blast-hole applications, other new products in our Production Tooling product line and our XQ™ thread and W-Wall™ coring rods for exploration drilling. These newer products complement the well-respected lines of existing products that customers have come to rely on from Boart Longyear. Boart Longyear operates multiple production plants globally supplying our customers with the products they need for their various drilling applications.

We are also pursuing market leadership in providing unified orebody knowledge to our mining customers in an integrated, real-time, and cost-effective manner through our Geological Data Services business.

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Ultimately, our goal is operational excellence to help us address the risks and challenges of the mining industry cycle while also preserving the significant upside that we may realize in our operations as market conditions change and our operating leverage improves as a result of our significantly improved cost structure and operating performance. We are also capitalizing on longer-term growth opportunities through investment in technologies that will broaden our customer offerings.

2. Financial and Operating Highlights

	For the half-year ended 30 June			
	2022	2021	\$ Change	% Change
	US\$ Millions	US\$ Millions		
Key financial data				
Revenue	527.6	447.1	80.5	18.0 %
Profit / (loss) for the period attributable to equity holders of the parent	17.7	(37.8)	55.5	146.8 %
EBITDA ¹	52.4	50.4	2.0	4.0 %
Adjusted EBITDA ^{1,2}	69.2	60.5	8.7	14.4 %
Operating profit	29.4	27.9	1.5	5.4 %
Cash provided by operations	33.8	36.6	(2.8)	(7.7)%
Net cash flows provided by operating activities	20.7	25.1	(4.4)	(17.5)%
Capital expenditures (accrual)	32.5	31.7	0.8	2.5 %
Capital expenditures (cash)	28.4	26.4	2.0	7.6 %
Weighted average number of ordinary shares	295.9	88.5	207.4	234.4 %
Earnings / (loss) per share (basic and diluted)	6.0 cents	(42.7) cents	48.7 cents	114.1 %
Average BLY rig utilization	49 %	48 %	1%	2.1 %
Average fleet size	657	642	15	2.3 %

(1) EBITDA and Adjusted EBITDA are non-AASB financial measures that management uses to assess our operating performance. See the section titled "Non-AASB Financial Measures" for information regarding our use of EBITDA and Adjusted EBITDA and a reconciliation of net profit (loss) to EBITDA and Adjusted EBITDA.

(2) Adjusted EBITDA at 30 June 2021 has been restated from the prior year figure to make it comparable to the current year calculation.

3. Discussion and Analysis of Operational Results and the Income Statement

3.1 Revenue

Revenue for the half-year period ended 30 June 2022 of \$527.6 million increased by 18.0%, or \$80.5 million, compared to revenue for the half-year period ended 30 June 2021 of \$447.1 million.

A majority of the revenue for both Global Drilling Services and Global Products is derived from providing drilling services and products to the mining industry and is dependent on mineral exploration, development and production activities. Those activities are driven by several factors, including anticipated future demand for commodities, the outlook for supply and mine productive capacity, the level of mining exploration and development capital and the availability of financing for, and the political and social risks around, mining development.

As exploration spend in the industry has continued to rise, the Company has witnessed very strong revenues in the first half of 2022. The Company has seen steady levels of exploration and increased bidding activities this year. That said, constraints on global supply chains as well as internal cash and capex limitations still exist and have the potential to impede various aspects of the business. In spite of these concerns, we remain confident in our projections and continue closely monitoring risks as we plan and bid for new contracts.

3.2 Non-AASB Financial Measures

In addition to our results determined in accordance with Australian Accounting Standards ("AASB"), we believe the following non-AASB financial measures are useful in evaluating our operating performance.

EBITDA and Adjusted EBITDA

We calculate EBITDA as net profit (loss) adjusted to exclude interest, income tax, depreciation, and amortization. We calculate Adjusted EBITDA as EBITDA adjusted to exclude: major recapitalisation and restructuring initiatives; impairments, mark to market adjustments on derivative financial instruments; other miscellaneous (income) expense, net; unrealized foreign exchange (gains) losses, net; certain litigation expenses, consisting of legal settlements and related fees for specific proceedings that arise outside the ordinary course of our business; (gains) losses on the disposal of property, plant and equipment; and consulting fees for strategic reviews that are non-recurring in nature.

We use EBITDA and Adjusted EBITDA as measures of operating performance. We believe that these non-AASB financial measures are useful to investors for period-to-period comparisons of our business and in understanding and evaluating our operating results for the following reasons:

- EBITDA and Adjusted EBITDA are widely used by investors to measure a company's operating performance without regard to items such as interest income and finance costs, depreciation and amortization, provisions for income taxes, and unrealized foreign exchange (gains) and losses that can vary substantially from company to company depending upon their financing, capital structures, organizational structures, and the method by which assets were acquired;
- Our management uses EBITDA and Adjusted EBITDA in conjunction with financial measures prepared in accordance with AASB for planning purposes, including the preparation of our annual operating budget, as a measure of our core operating results and the effectiveness of our business strategy, in evaluating our financial performance, and in establishing short-term incentive plan and long-term incentive plan performance benchmarks; and
- EBITDA and Adjusted EBITDA provide consistency and comparability with our past financial performance, facilitate period-to-period comparisons for our core operating results, and also facilitate comparisons with other peer companies, many of which use similar financial measures to supplement their results.
- We have recently completed recapitalisation and restructuring activities which resulted in operating expenses that would not have otherwise been incurred. Management has provided supplementary non-AASB financial measures, which exclude recapitalisation and restructuring related costs, to allow more accurate comparisons of the financial results to historical operations. Management considers these types of costs and adjustments to be unpredictable and dependent on a significant number of factors that are outside the Company's control. Furthermore, we do not consider these costs and adjustments to be related to the organic continuing operations of the business and are generally not relevant to assessing or estimating the long-term performance of the business.
- We believe it is useful to exclude expenses related to unrealized foreign exchange (gains) and losses; certain litigation expenses, consisting of legal settlements and/or related fees for specific proceedings; indirect tax reserves; and mark to market adjustments on derivatives because of the variable and unpredictable nature of these expenses which are not indicative of past or future operating performance. We believe that past and future periods are more comparable if we exclude those expenses.

Our use of EBITDA and Adjusted EBITDA have limitations as analytical tools, and you should not consider these measures in isolation or as substitutes for analysis of our financial results as reported under AASB. Some of these limitations are, or may in the future be, as follows:

- Although depreciation, amortization and impairment expenses are non-cash charges, the assets being depreciated, amortized or impaired may have to be replaced in the future, and EBITDA and Adjusted EBITDA do not reflect cash capital expenditure requirements for such replacements or for new capital expenditure requirements;

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- EBITDA and Adjusted EBITDA do not reflect: (1) changes in, or cash requirements for, our working capital needs; (2) interest expense, or the cash requirements necessary to service interest or principal payments on our debt, which reduces cash available to us; or (3) tax payments that may represent a reduction in cash available to us;
- Adjusted EBITDA excludes unrealized foreign exchange (gains) and losses that may result in actual cash outflows or inflows when foreign currency transactions are settled;
- Adjusted EBITDA does not reflect certain litigation expenses, consisting of legal settlements and/or related fees for specific proceedings;
- Adjusted EBITDA does not reflect costs related to recapitalisation or deemed restructuring activities;
- Adjusted EBITDA does not include indirect tax reserve adjustments for indirect tax receivables in certain jurisdictions, and the reserved receivables may never be collected;
- The expenses and other items that we exclude in our calculation of Adjusted EBITDA may differ from the expenses and other items, if any, that other companies may exclude from Adjusted EBITDA when they report their operating results and we may, in the future, exclude other significant, unusual, or non-recurring expenses or other items from these financial measures.

Because of these limitations, EBITDA and Adjusted EBITDA should be considered along with other operating and financial reporting measures presented in accordance with AASB.

The following table presents a reconciliation of EBITDA and Adjusted EBITDA to net profit (loss) of the Company, the most directly comparable financial measure prepared in accordance with AASB, for each of the periods indicated:

US\$ Millions	For the half-year ended 30 June	
	2022	2021
	US\$ Millions	US\$ Millions
Profit / (loss) for the period attributable to equity holders of the parent	17.7	(37.8)
Interest income and finance costs	8.8	57.5
Income tax expense	3.0	8.2
Depreciation and amortization	22.9	22.5
EBITDA	52.4	50.4
Restructuring charges		
Recapitalisation costs	0.8	11.2
Employee and related costs	1.1	—
Other restructuring expenses	0.6	0.3
Impairments		
Property, plant and equipment	1.1	—
Intangible assets	—	0.4
Fair value adjustment on warrant liabilities	(1.2)	—
Other miscellaneous income	—	(0.3)
Unrealized foreign exchange losses	7.8	0.4
Litigation and settlement expenses	0.9	—
Gain on disposal of property, plant and equipment	(2.1)	(1.9)
Non-recurring consulting fees	7.1	—
VAT receivable reserve	0.7	—
Total non-AASB adjustments	16.8	10.1
Adjusted EBITDA ¹	69.2	60.5

(1) Adjusted EBITDA at 30 June 2021 has been restated from the prior year figure to make it comparable to the current year calculation.

4. Discussion and Analysis of Cash Flow

	For the half-year ended 30 June			
	2022	2021	\$ Change	% Change
	US\$ Millions	US\$ Millions		
Cash provided by operations	33.8	36.6	(2.8)	(7.7%)
Net cash flows provided by operating activities	20.7	25.1	(4.4)	(17.5%)
Net cash flows used in investing activities	(26.2)	(23.7)	(2.5)	(10.5%)
Net cash flows provided by financing activities	20.3	6.1	14.2	232.8%

Cash flow from operating activities for the half-year period ended 30 June 2022 was \$20.7 million, a decrease of \$4.4 million from the prior year comparable period (2021: \$25.1 million). The decrease in the first half of 2022 was largely a result of a decrease in accrued finance costs and payables offset by increased profitability.

We have invested \$28.4 million in capital equipment to support existing operations during 2022, which is more than the comparable prior period (2021: \$26.4 million). Of the 2022 amount, \$8.3 million was spent on new rig purchases, \$14.0 million was spent on sustainment activities relating to refurbishing current rigs and other support equipment, and \$4.9 million was spent on product development activities, including Geological Data Services, engineering and patent maintenance. Capital expenditure in 2022 have been partially offset by proceeds from the sale of property, plant and equipment of \$2.2 million (2021: \$2.7 million). We continue to place significant rigor around our capital allocation and approval process in order to meet demand.

The increase in cash flows provided by financing activities is due to the \$15.0 million increase in the Company's borrowing base on the Asset-Based Loan ("ABL") facility.

5. Discussion of the Balance Sheet

The net assets of the Company increased by \$19.0 million to \$289.5 million as at 30 June 2022, compared to \$270.5 million as at 31 December 2021. The increase is due to higher cash and cash equivalents, trade receivables, and property plant and equipment balances along with the total comprehensive profit for the half year of \$13.5 million offset by increased loans and borrowings.

Total assets increased by \$66.5 million to \$775.0 million as at 30 June 2022, compared to \$708.6 million as at 31 December 2021. The increase is primarily due to increased cash, receivables and inventory.

Total liabilities increased by \$47.4 million to \$485.5 million. This is primarily driven by an increase of \$24.3 million in loans and borrowings obtained to provide additional working capital and increased accounts payable balances.

Net debt (i.e., loans and borrowings less cash and cash equivalents) at 30 June 2022 is \$175.8 million which has increased by \$12.0 million from 31 December 2021 net debt of \$163.9 million. The increase is primarily related to increased borrowings obtained to provide additional working capital to support the additional business generated by improved market conditions.

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Liquidity and Debt Facilities

The Company's debt is comprised of the following instruments:

Description	Principal outstanding as at 30 June 2022 US\$ Millions	Original issue discount	Interest rate	Scheduled maturity	Security
ABL ¹	\$66.8	Nil	Variable ²	12 May 2025	First lien on substantially all Working Capital Assets of the ABL borrower and guarantors. Second lien on substantially all Non-Working Capital Assets of the ABL borrower and guarantors.
Exit Term Loan	\$115.0	\$(3.3)	Variable ³	08 September 2026	First lien on the Working Capital Assets of the Term Loan guarantors that are not ABL guarantors, a second lien on the Working Capital Assets of the Term Loan issuer and the other Term Loan guarantors that are also ABL guarantors, and a second lien on substantially all of the Non-Working Capital Assets of the Term Loan issuer and guarantors, including equipment, intellectual property, the capital stock of subsidiaries and certain owned real property.

(1) Letters of credit of \$7.1 million were issued in addition to the \$66.8 million borrowings that were outstanding.

(2) Based on LIBOR + margin (grid-based margin is currently 2.75%) for existing LIBOR Borrowings. Future borrowings will be based on SOFR + Margin (grid-based margin is currently 2.75%).

(3) Based on LIBOR + margin (grid-based margin is currently 7.5%). Future borrowings will be based on SOFR + Margin (grid-based margin is currently 7.5%).

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6. Review of Segment Operations

The following table shows our third-party revenue and revenue from inter-segment sales by our Global Drilling Services and Global Products divisions. Segment profit represents earnings before interest, taxes and impairments.

	Segment Revenue		Segment Profit	
	Half-year ended 30 June		Half-year ended 30 June	
	2022	2021	2022	2021
	US\$ Millions	US\$ Millions	US\$ Millions	US\$ Millions
Global Drilling Services	365.4	301.2	53.7	33.6
Global Products revenue				
Global Products third party revenue	162.2	145.9		
Global Products inter-segment revenue ¹	45.5	31.4		
Total Global Products	207.7	177.3	14.4	28.6
Less Global Product sales to Global Drilling Services	(45.5)	(31.4)		
Total third party revenue	527.6	447.1		
Total segment profit			68.1	62.2
Unallocated costs ²			(35.9)	(33.9)
Global Drilling Services impairment charge			(2.2)	—
Global Products impairment charge ³			(0.5)	(0.4)
Finance costs			(8.8)	(57.4)
Interest income			—	—
Profit / (loss) before taxation			20.7	(29.5)

(1) Transactions between segments are carried out at arm's length and are eliminated on consolidation.

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

(3) Global Products impairment for the half-year ended 30 June 2022, represents \$0.7 million inventory obsolescence offset by \$0.2 million of other income. Global Products impairment for the half-year ended 30 June 2021, represents \$0.4 million impairment of intangible assets.

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The following table shows our Global Drilling Services and Global Products inter-segment eliminations for revenue and EBITDA.

	For the half-year ended 30 June	
	2022	2021
	US\$ Millions	US\$ Millions
Global Drilling Services		
Revenue prior to intercompany eliminations ¹	365.4	301.2
Less intercompany revenue	—	—
Total Global Drilling Services revenue	365.4	301.2
EBITDA prior to intercompany profit margin elimination	61.9	43.4
Plus intercompany profit margin ²	9.1	7.0
Total Global Drilling Services EBITDA ³	71.0	50.4
Global Products		
Revenue prior to intercompany eliminations ¹	207.7	177.3
Less intercompany revenue ⁴	(45.5)	(31.4)
Total Global Products revenue	162.2	145.9
EBITDA prior to intercompany profit margin elimination ³	27.7	39.0
Less intercompany profit margin ²	(9.1)	(7.0)
Total Global Products EBITDA ³	18.6	32.0
Total Global Drilling Services and Global Products EBITDA ³	89.6	82.4
Total Corporate EBITDA ³	(37.2)	(32.0)
Total Company EBITDA ³	52.4	50.4

- (1) Transaction between segments are carried out at arm's length and are eliminated on consolidation.
(2) Represents inter-segment profits for Drilling Products / costs to Drilling Services which are eliminated upon consolidation.
(3) EBITDA is a non-AASB financial measure that management uses to assess our operating performance. See the section titled "Non-AASB Financial Measures" for information regarding our use of EBITDA and a reconciliation of net profit (loss) to EBITDA.
(4) Represents inter-segment sales to Drilling Services which are eliminated upon consolidation.

6.1 Review of Segment Operations - Global Drilling Services

	For the half-year ended 30 June			
	2022 US\$ Millions	2021 US\$ Millions	\$ Change	% Change
Financial Information				
Third party revenue	365.4	301.2	64.2	21.3 %
COGS				
Materials / labor / overhead / other	281.6	240.9	40.7	16.9 %
Depreciation and amortization	16.3	16.2	0.1	0.6 %
Total COGS	297.9	257.1	40.8	15.9 %
COGS as a % of revenue	81.5 %	85.4 %	(3.9)%	(4.6)%
Segment profit \$	53.7	33.6	20.1	59.8 %
Segment profit %	14.7 %	11.2 %	3.5 %	31.3 %
Business unit SG&A	5.9	4.5	1.4	31.1 %
Allocated SG&A	6.8	6.3	0.5	7.9 %
EBITDA	71.0	50.4	20.6	40.9 %
Other Metrics				
Average # of operating drill rigs	321	306	15	4.9 %
Average # of drill rigs	657	642	15	2.3 %

Safety

The Global Drilling Services Total Case Incident Rate (“TCIR”) for the first half of 2022 was 2.27, compared to 1.39 for the comparable period in 2021. The Lost-Time Incident Rate (“LTIR”) for the first half of 2022 was 0.19 compared to 0.08 for the comparable period in 2021. We have seen an increase in safety incidents as volumes increase and new hires are onboarded. However, we remain committed to our key safety initiatives and have made a significant effort to reiterate the importance of safety and our golden rules as we progress into the second half of 2022.

Revenue

Global Drilling Services’ revenue in the first half of 2022 was \$365.4 million, up 21.3% from \$301.2 million in the first half of 2021. The year-over-year revenue increase was driven primarily by additional volumes in the United States, Canada, Argentina, and Chile. Price increases have also positively impacted revenue in all regions. Overall price increases for the six months ended 30 June 2022 are up \$26.2 million compared to the six months ended 30 June 2021. Foreign exchange rates decreased revenue \$6.2 million for the six months ended 30 June 2022 compared to the six months ended 30 June 2021 primarily due to movements in the Canadian and Australian dollars.

Approximately 89% of Global Drilling Services’ revenue for the first half of 2022 was derived from major mining companies. Our top 10 Global Drilling Services customers represent approximately 56% of the division’s revenue for the first half of 2022.

Profit

In the first half of 2022, Global Drilling Services achieved \$53.7 million of profit compared to \$33.6 million in the first half of 2021, an increase of 59.8%. The increase in profit is primarily attributable to price increases that have more than offset rising energy costs and wage inflation as well as volume increases that have leveraged existing fixed costs.

6.2 Review of Segment Operations - Global Products

	For the half-year ended 30 June			
	2022 US\$ Millions	2021 US\$ Millions	\$ Change	% Change
Financial Information				
Third party revenue	162.2	145.9	16.3	11.2 %
COGS				
Materials / labor / overhead / other	123.4	97.9	25.5	26.0 %
Inventory obsolescence	0.7	(0.7)	1.4	200.0 %
Depreciation and amortization	3.1	2.6	0.5	19.2 %
Total COGS	127.2	99.8	27.4	27.5 %
COGS as a % of revenue	78.4 %	68.4 %	10.0 %	14.6 %
Segment profit \$	14.4	28.6	(14.2)	(49.7)%
Segment profit %	8.9 %	19.6 %	(10.7)%	(54.6)%
Business unit SG&A	11.8	10.2	1.6	15.7 %
Allocated SG&A	9.0	7.4	1.6	21.6 %
EBITDA	18.6	32.0	(13.4)	(41.9)%
Other Metrics				
Manufacturing plants	6	6	—	0.0 %
Average backlog	59.5	61.1	(1.6)	(2.6)%
Inventories ¹	216.1	178.8	37.3	20.9 %

(1) Represents total company inventories including Global Drilling Service, Global Products, and Geological Data Services.

Safety

In first half 2022, the Total Case Incident Rate ("TCIR") for the Global Products, Geological Data Services ("GDS") and manufacturing was 0.00 recordable incidents per 200,000 hours worked and the Lost-Time Incident Rate ("LTIR") was 0.00. We continue to focus on programs to reinforce the Company's Environmental, Health, and Safety management system across all operations. Tracking and educating our employees on our proactive safety systems will drive continuous improvement.

Revenue

Revenue for the half-year 2022 was \$162.2 million, up 11.2% from \$145.9 million for the half year of 2021. Approximately 77% of the 2022 half-year revenue was comprised of performance tooling components and the remaining 23% was comprised of capital equipment and spares. Although price increases had a positive impact on Global Products revenue, these increases did not offset the increased raw materials and freight costs incurred during the period.

Profit

Global Products profit for the half-year ended 30 June 2022 was \$14.4 million, down \$14.2 million compared to the first half of 2021. The decrease in profit is primarily driven by cost inflation on raw materials and freight, reduced manufacturing production, and unfavorable foreign exchange impact.

Backlog

At 30 June 2022, Global Products had a backlog of product orders valued at \$54.4 million. This compares to \$68.1 million at 31 December 2021 and \$79.9 million at 30 June 2021. The decrease in our backlog – which we define as product orders we believe to be firm – was driven primarily by orders that were pulled forward to 2021 due to customer concerns over supply issues related to COVID shutdowns. It should be noted that an order shipped within the same month the order is received does not show up in our backlog. Also, there is no certainty that orders in our backlog will result in actual sales at the times or in the amounts ordered.

Intellectual Property

We rely on a combination of patents, trademarks, trade secrets and similar intellectual property rights to protect the proprietary technology and other intellectual property that are instrumental to our Global Products business. As at 30 June 2022, we had 459 issued patents, 403 registered trademarks, 127 pending patent applications and 20 pending trademark applications. We do not consider our Global Products business, or our business as a whole, to be materially dependent upon any particular patent, trademark, trade secret or other intellectual property.

Research and Development

Our Global Products division employs engineers and technicians to develop, design and test new and improved products. We work closely with our customers, our Global Drilling Services division, and our Geological Data Services business to identify opportunities and develop technical solutions for issues that arise on site. We believe that sharing best practices amongst our business accelerates innovation and increases safety and productivity in the field. This integrated business model provides Boart Longyear and our customers with an advantage in product development as we bring new technology to the market with speed and quality. Prior to their introduction, new exploration drilling products are subjected to extensive testing in various environments, again with assistance from our Global Drilling Services network. New product development efforts remain focused on product improvements and innovations that continue to drive increased safety and productivity, so customers see real added value regardless of the business environment.

Under our Geological Data Services business, TruCore™ core orientation tools continue to expand geographically and are available globally. The TruShot™ magnetic survey technology is the second offering in our suite of digital tools and is available globally and growing. In 2021 we launched our TruSub™ technology. TruSub™ is a digital drill sub technology that fits between the drill head and drill rods. TruSub™ allows for key drilling parameters to be digitally recorded directly and viewed in real time to drive drilling productivity. We are operating at mine sites with this technology and will be rolling this technology out further this year. We see value in this technology and will continue to develop in this space. We released our TruGyro borehole survey technology in the first half of 2022. This technology offers significant advantages over any technology in this space and should rapidly gain market adoption.

Our TruScan™ matrix calibrated XRF and photo sample scanning technology is currently being used at several locations globally with long term 24/7 utilization producing results that are being used for real time decision making by the mining client. TruScan™ continues to spread its footprint globally with additional units being deployed within Australia as well as North and South America. New features utilizing artificial intelligence and machine learning continue to be integrated into TruScan™ ensuring it is well differentiated in the market.

Inventories

We continue to carefully manage demand in our Supply Chain organization with ongoing efforts to maintain high service levels. Due to strong market and internal demand for our products, we have strategically invested \$8.1 million cash in inventory during the six months ended 30 June 2022.

AUDITOR'S INDEPENDENCE DECLARATION

The Auditor's independence declaration is on page 18 of this report.

SUBSEQUENT EVENTS

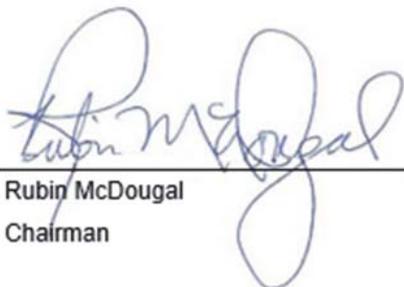
On 3 August 2022, the Company announced its strategic partner, Globaltech Corporation Pty Ltd, successfully defended its optical device patent in Australia.

ROUNDING OF AMOUNTS

Boart Longyear Group Ltd. is a company of the kind referred to in ASIC Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191, dated 24 March 2016, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the Directors' Report and half-year financial report. Amounts in the Directors' Report and the half-year financial report are presented in US dollars and have been rounded off to the nearest thousand dollars in accordance with that Corporations Instrument, unless otherwise indicated.

Signed in accordance with a resolution of the Directors made pursuant to section 306(3) of the *Corporations Act 2001*.

On behalf of the Directors



Rubin McDougal
Chairman

24 August 2022

The Directors
Boart Longyear Group Ltd.
333 Bay Street
Suite 2400
Toronto Ontario M5H 2T6
CANADA

24 August 2022

Dear Directors

Boart Longyear Group Ltd

I am pleased to provide the following declaration of independence to the directors of Boart Longyear Group Ltd. and its subsidiaries.

As lead audit partner for the review of the half-year financial report of Boart Longyear Group Ltd. for the half-year ended 30 June 2022, I declare that to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Australian Code of Ethics for Professional Accountants (including Independence Standards), issued by the Australian Professional and Ethical Standards Board (APES) in relation to the review.

Yours sincerely


DELOITTE TOUCHE TOHMATSU



D K Andrews
Partner
Chartered Accountants

Independent Auditor's Review Report to the members of Boart Longyear Group Ltd.

Conclusion

We have reviewed the half-year financial report of Boart Longyear Group Ltd. (the "Entity") and its subsidiaries (the "Group"), which comprises the condensed consolidated statement of financial position as at 30 June 2022, and the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration as set out on pages 21 to 43.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Group does not present fairly, in all material respects, the Group's financial position as at 30 June 2022 and its performance for the half-year ended on that date in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting*.

Basis for Conclusion

We conducted our review in accordance with Auditing Standards on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Half-year Financial Report* section of our report. We are independent of the Group in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards) (the Code) that are relevant to our review of the half-year financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's review report.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report in accordance with Australian Accounting Standards and for such internal control as the directors determine is necessary for the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Review of the Half-year Financial Report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report does not present fairly, in all material respects, the Group's financial position as at 30 June 2022 and its performance for the half-year ended on that date, in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting*.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU



D K Andrews
Partner
Chartered Accountants
Perth, 24 August 2022

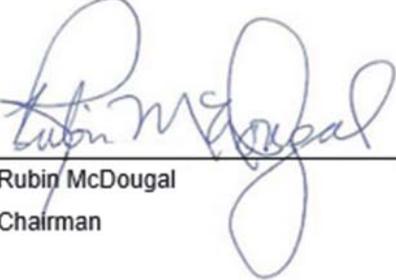
DIRECTORS' DECLARATION

The Directors declare that:

- (a) in the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- (b) in the Directors' opinion, the attached half-year financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards, and giving a true and fair view of the financial position and performance of the consolidated entity.

Signed in accordance with a resolution of the Directors made pursuant to section 303(5) of the *Corporations Act 2001*.

On behalf of the Directors



Ruben McDougal
Chairman

24 August 2022

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME**

For the half-year ended 30 June 2022

BOART LONGYEAR GROUP LTD.

	Note	Half-year ended 2022 US\$'000	Half-year ended 2021 US\$'000
Continuing operations			
Revenue	3	527,585	447,063
Cost of goods sold		(426,539)	(356,853)
Gross margin		101,046	90,210
Other income	4	4,650	2,534
General and administrative expenses		(52,881)	(49,061)
Sales and marketing expenses		(11,938)	(10,021)
Other expenses	4	(11,433)	(5,754)
Operating profit		29,444	27,908
Interest income		11	7
Finance costs	5	(8,757)	(57,455)
Profit / (loss) before taxation		20,698	(29,540)
Income tax expense	6	(2,991)	(8,245)
Profit / (loss) for the period attributable to equity holders of the parent		17,707	(37,785)
Earnings / (loss) per share			
Basic earnings / (loss) per share		6.0 cents	(42.7) cents
Diluted earnings / (loss) per share		6.0 cents	(42.7) cents
Other comprehensive income / (loss)			
Profit / (loss) for the period attributable to equity holders of the parent		17,707	(37,785)
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange differences arising on translation of foreign operations		(3,772)	2,058
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Actuarial (loss) / gains related to defined benefit plans		(1,800)	6,000
Income tax on income and expense recognized directly through equity		1,359	(636)
Other comprehensive (loss) / income for the period, net of tax		(4,213)	7,422
Total comprehensive profit / (loss) for the period attributable to equity holders of the parent		13,494	(30,363)

See accompanying notes to the Condensed Consolidated Financial Statements included on pages 27 to 43.

**CONDENSED CONSOLIDATED STATEMENT OF
FINANCIAL POSITION**

As at 30 June 2022

BOART LONGYEAR GROUP LTD.

	Note	30 Jun 2022 US\$'000	31 Dec 2021 US\$'000
Current assets			
Cash and cash equivalents	15	37,954	25,579
Trade and other receivables	8	166,317	137,900
Inventories		216,140	207,962
Current tax receivable		1,272	824
Prepaid expenses and other assets		18,668	15,641
		<u>440,351</u>	<u>387,906</u>
Assets classified as held for sale		197	161
Total current assets		<u>440,548</u>	<u>388,067</u>
Non-current assets			
Property, plant and equipment		172,096	168,635
Goodwill	9	104,687	104,916
Other intangible assets	9	32,030	30,959
Deferred tax assets		11,656	10,139
Non-current tax receivable		874	912
Other assets		13,153	3,832
Defined benefit plan asset		—	1,117
Total non-current assets		<u>334,496</u>	<u>320,510</u>
Total assets		<u>775,044</u>	<u>708,577</u>
Current liabilities			
Trade and other payables	10	162,601	137,996
Provisions	12	18,705	21,600
Current tax payable		2,766	1,506
Loans and borrowings	11	11,154	10,752
Total current liabilities		<u>195,226</u>	<u>171,854</u>
Non-current liabilities			
Loans and borrowings	11	202,632	178,694
Other financial liabilities		18,129	20,900
Deferred tax liabilities		24,504	21,115
Provisions	12	45,047	45,532
Total non-current liabilities		<u>290,312</u>	<u>266,241</u>
Total liabilities		<u>485,538</u>	<u>438,095</u>
Net assets		<u>289,506</u>	<u>270,482</u>
Equity			
Issued capital		673,955	673,955
Reserves		(121,962)	(123,720)
Other equity		1,463,247	1,463,247
Accumulated losses		(1,726,145)	(1,742,950)
Equity attributable to owners of the parent		<u>289,095</u>	<u>270,532</u>
Non-controlling interest		411	(50)
Total equity		<u>289,506</u>	<u>270,482</u>

See accompanying notes to the Condensed Consolidated Financial Statements included on pages 27 to 43.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the half-year ended 30 June 2022

BOART LONGYEAR GROUP LTD.

	Issued capital US\$'000	Foreign currency translation reserve US\$'000	Equity-settled compensation reserve US\$'000	Hedging reserve US\$'000	Other ¹ equity US\$'000	Accumulated losses US\$'000	Total attributable to owners of the parent US\$'000	Non- controlling interest US\$'000	Total equity US\$'000
Balance at 1 January 2021	1,469,393	(120,176)	2,616	—	(128,790)	(1,692,944)	(469,901)	505	(469,396)
Loss for the period	—	—	—	—	—	(37,785)	(37,785)	—	(37,785)
Other comprehensive income for the period - net of tax	—	2,058	—	—	—	5,364	7,422	—	7,422
Total other comprehensive gain / (loss)	—	2,058	—	—	—	(32,421)	(30,363)	—	(30,363)
Non-controlling interest	—	—	—	—	—	(637)	(637)	637	—
Balance at 30 June 2021	1,469,393	(118,118)	2,616	—	(128,790)	(1,726,002)	(500,901)	1,142	(499,759)
Balance at 1 January 2022	673,955	(124,788)	2,616	(1,548)	1,463,247	(1,742,950)	270,532	(50)	270,482
Profit for the period	—	—	—	—	—	17,707	17,707	—	17,707
Other comprehensive loss for the period - net of tax	—	(3,772)	—	—	—	(441)	(4,213)	—	(4,213)
Total other comprehensive gain / (loss)	—	(3,772)	—	—	—	17,266	13,494	—	13,494
Interest rate swap	—	—	—	5,530	—	—	5,530	—	5,530
Non-controlling interest	—	—	—	—	—	(461)	(461)	461	—
Balance at 30 June 2022	673,955	(128,560)	2,616	3,982	1,463,247	(1,726,145)	289,095	411	289,506

(1) Other equity represents the Company's reorganization reserve on creation of the Company in 2007, the expiration of unexercised equity-settled awards and the Company's reorganization reserve on the Recapitalisation and re-domiciliation of the Company in 2021.

See accompanying Notes to the Condensed Consolidated Financial Statements included on pages 27 to 43.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the half-year ended 30 June 2022

BOART LONGYER GROUP LTD.

	Note	Half-year ended 30 Jun 2022 US\$'000	Half-year ended 30 Jun 2021 US\$'000
Cash flows from operating activities			
Profit / (loss) for the period		17,707	(37,785)
<i>Adjustments provided by operating activities:</i>			
Income tax expense recognized in profit / (loss)		2,991	8,245
Finance costs recognized in profit / (loss)	5	8,757	57,455
Depreciation and amortization		22,911	22,491
Interest income recognized in profit / (loss)		(11)	(7)
Gain on sale or disposal of non-current assets		(2,082)	(1,850)
Other non-cash items		(5,580)	(8,162)
Impairment of current and non-current assets		1,064	364
Non-cash foreign exchange loss		7,822	368
<i>Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses:</i>			
<i>(Increase) / decrease in assets:</i>			
Trade and other receivables		(33,890)	(31,952)
Inventories		(8,104)	(11,509)
Other assets		(397)	(3,774)
<i>Increase / (decrease) in liabilities:</i>			
Trade and other payables		22,438	41,873
Provisions		205	821
Cash generated by operations		<u>33,831</u>	<u>36,578</u>
Interest paid		(7,862)	(4,966)
Interest received		11	7
Income taxes paid		(5,300)	(6,514)
Net cash flows provided by operating activities		<u>20,680</u>	<u>25,105</u>

See accompanying Notes to the Condensed Consolidated Financial Statements included on pages 27 to 43.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the half-year ended 30 June 2022

BOART LONGYER GROUP LTD.

	Half-year ended 30 Jun 2022 US\$'000	Half-year ended 30 Jun 2021 US\$'000
Cash flows from investing activities		
Purchase of property, plant and equipment	(25,207)	(21,500)
Proceeds from sale of property, plant and equipment	2,200	2,742
Intangible costs paid	(3,156)	(4,903)
Net cash flows used in investing activities	<u>(26,163)</u>	<u>(23,661)</u>
Cash flows from financing activities		
Payments for debt issuance costs	(282)	(100)
Proceeds from borrowings	68,749	88,891
Repayment of borrowings	(48,120)	(82,659)
Net cash flows provided by financing activities	<u>20,347</u>	<u>6,132</u>
Net increase in cash and cash equivalents	14,864	7,576
Cash and cash equivalents at the beginning of the period	25,579	23,513
Effects of exchange rate changes on the balance of cash held in foreign currencies	(2,489)	1,507
Cash and cash equivalents at the end of the period	<u>37,954</u>	<u>32,596</u>

See accompanying Notes to the Condensed Consolidated Financial Statements included on pages 27 to 43.

1. GENERAL INFORMATION AND BASIS OF PREPARATION

Boart Longyear Group Ltd. (the "Parent") is a public company listed on the ASX and is incorporated in Ontario, Canada. Boart Longyear Group Ltd. and its subsidiaries (collectively referred to as the "Company" or "Group") operate in four principal geographic areas – North America, Asia Pacific, Latin America and Europe, Middle East and Africa ("EMEA"). Boart Longyear Group Ltd. was inserted as the Parent entity in October 2021 as part of the Company's re-domiciliation to Canada. Boart Longyear Limited continues to be the ultimate controlling entity incorporated within Australia.

The Company is not subject to Chapters 6, 6A, 6B and 6C of the Australian Corporations Act 2001 (*Cth*) dealing with the acquisition of the Company's shares (including substantial holdings and takeovers).

Statement of compliance

The half-year financial report is a general-purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 'Interim Financial Reporting' ("AASB 134"). Compliance with AASB 134 ensures compliance with International Accounting Standard 34 'Interim Financial Reporting'. The half-year financial report does not include notes of the type normally included in an annual financial report, but additional notes have been included where such notes are deemed relevant to the understanding of the half-year financial report. The half-year financial report should be read in conjunction with the most recent annual financial report and ASX announcements.

Basis of preparation

The condensed consolidated half-year financial statements have 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. The financial report has also been prepared on the basis that the consolidated entity is a going concern, which assumes continuity of normal business activities and the realization of assets and the settlement of liabilities in the ordinary course of business.

The Company is a company of the kind referred to in ASIC Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the Directors' Report and the half-year financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

Except where indicated otherwise, all amounts are presented in United States dollars.

Going concern

The interim financial report has been prepared on the going concern basis which contemplates the realization of assets and the settlement of liabilities in the ordinary course of business. The Directors consider that current and expected liquidity from operating cash flow, cash on hand and available drawings under the Company's Asset Backed Revolver Bank Loan and Exit Term Loan will be adequate to enable the Company to meet its debts and obligations as and when they fall due for no less than twelve months from the date of issuance of this financial report.

Accounting policies

The accounting policies and methods of computation followed in the preparation of the half-year financial report are consistent with those followed and disclosed in the Company's 2021 Annual Financial Report for the financial year ended 31 December 2021, except for the impact of the standards, interpretations and amendments described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

The Company has adopted all of the new and revised standards and interpretations issued by the Australian Accounting Standards Board ("AASB") that are relevant to its operations and effective for the current annual reporting period. These standards and interpretations are set forth throughout the notes to the condensed consolidated financial statements. The adoption of each standard individually did not have a significant impact on the Company's condensed financial results or consolidated statement of financial position.

Impact of COVID-19

On March 11, 2020, the World Health Organization designated COVID-19 as a global pandemic. During the second quarter of 2020, the Company's business was significantly impacted by the COVID-19 pandemic due to government-imposed measures to prevent or reduce its spread. As a result, beginning in March 2020, the Company implemented its business continuity plan to protect the health and well-being of employees while ensuring ongoing operations sustainability; transitioning of corporate and regional office staff to work from home; and ceasing all non-essential international and domestic travel.

For the six months ended 30 June 2022 the Company has seen improvements to the business and a return to pre-COVID-19 activity. While the Company believes the worst of the impacts of COVID-19 on the business have been felt, there remains a level of uncertainty.

1. GENERAL INFORMATION AND BASIS OF PREPARATION (CONTINUED)

Standards and Interpretations issued, but not yet effective

At the date of authorization of the financial statements, the Company has not applied the following new and revised Australian Accounting Standards, Interpretations and amendments that have been issued, but are not yet effective.

The Company is currently evaluating the impact these new standards, interpretations and amendments will have on the consolidated financial statements.

Standard / Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 17 'Insurance Contracts'	1 January 2023	31 December 2023
AASB 2014-10 Amendments to Australian Accounting Standards - Sale or Contribution of Assets between an investor and its Associate or Joint Venture	1 January 2025	31 December 2025
AASB 2015-10 Amendments to Australian Accounting Standards - Effective Date of Amendments to AASB 10 & AASB 128	1 January 2025	31 December 2025
AASB 2017-5 Amendments to Australian Accounting Standards - Effective Date of Amendments to AASB 10 & AASB 128 and Editorial Corrections	1 January 2025	31 December 2025
AASB 2020-1 Amendments to Australian Accounting Standards - Classification of Liabilities as Current or Non-current	1 January 2023	31 December 2023
AASB 2021-2 Amendments to Australian Accounting Standards - Disclosure of Accounting Policies and Definition of Accounting Estimates	1 January 2023	31 December 2023
AASB 2021-5 Amendments to Australian Accounting Standards - Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023	31 December 2023
AASB 2022-1 Amendments to Australian Accounting Standards - Initial Application of AASB 17 and AASB 9 - Comparative Information	1 January 2023	31 December 2023

1. GENERAL INFORMATION AND BASIS OF PREPARATION (CONTINUED)

Standards and Interpretations issued and effective

The Company has adopted all the new and revised standards and interpretations issued by the AASB that are relevant to its operations and effective for an accounting period that begins on or after 01 January 2022.

These standards and interpretations are set forth throughout the notes to the financial statements. The adoption of each standard individually and in the aggregate did not have a material impact on the Company's financial statements.

New and revised Standards and amendments thereof and Interpretations effective for the current financial year, and which have been applied in the preparation of this half-year report, that are relevant to the Company include:

Standard / Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 2021-7 Amendments to Australian Accounting Standards - Effective Date of Amendments to AASB 10 & AASB 128 and Editorial Corrections	1 January 2022	31 December 2022
AASB 2020-3 Amendments to Australian Accounting Standards - Annual Improvements 2018-2020	1 January 2022	31 December 2022

Key Judgements and Estimates

In applying Australian Accounting Standards, management is required to make judgments, 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 judgments 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 judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized 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 judgments, estimates and assumptions that have or could have the most significant effect on the amounts recognized in the financial statements are found in the following notes:

Note 6	Income Taxes
Note 9	Goodwill and Other Intangible Assets
Note 12	Provisions
Note 13	Financial Instruments

2. SEGMENT REPORTING

Information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance is aggregated based on the Company's two general operating activities: Global Drilling Services and Global Products, which includes our Geological Data Services business. The Global Drilling Services segment provides a broad range of drilling services to companies in mining, energy and other industries. The Global Products segment 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 profit shown below is consistent with the income reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

	Segment revenue		Segment profit	
	Half-year ended		Half-year ended	
	30 June 2022	30 June 2021	2022	2021
	US\$'000	US\$'000	US\$'000	US\$'000
Global Drilling Services	365,379	301,213	53,684	33,612
Global Products revenue				
Global Products third-party revenue	162,206	145,850		
Global Products inter-segment revenue ¹	45,543	31,407		
Total Global Products	207,749	177,257	14,438	28,623
Less Global Products sales to Global Drilling Services	(45,543)	(31,407)		
Total third-party revenue	527,585	447,063		
Total segment profit			68,122	62,235
Unallocated costs ²			(35,915)	(33,874)
Global Drilling Services impairment			(2,228)	(29)
Global Products impairment ³			(535)	(424)
Finance costs			(8,757)	(57,455)
Interest income			11	7
Profit / (loss) before taxation			20,698	(29,540)

(1) Transactions between segments are carried out at arm's length and are eliminated on consolidation.

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

(3) Global Products impairment for the half-year ended 30 June 2022, represents \$0.7 million inventory obsolescence offset by \$0.2 million of other income. Global Products impairment for the half-year ended 30 June 2021, represents \$0.4 million impairment of intangible assets.

Geographic information

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

	Revenue from external customers		Non-current assets ¹	
	30 June 2022	30 June 2021	30 June 2022	31 December 2021
	US\$'000	US\$'000	US\$'000	US\$'000
North America	251,120	192,063	212,613	207,205
Asia Pacific	106,111	108,886	52,436	53,007
Latin America	74,824	50,831	14,006	12,147
EMEA	95,530	95,283	43,785	36,895
	527,585	447,063	322,840	309,254

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

3. REVENUE

Boart Longyear operates two different business units throughout various geographical locations – Global Drilling Services and Global Products.

Global Drilling Services

The Company performs various types of drilling services within the mining and minerals industry. Contracts can cover services which involve different processes and continuous drilling services activities in a sequential set of mobilization, drilling, and demobilization activities which are invoiced to the customer as those activities progress. These processes and activities are highly inter-related, and the Company provides a significant service of integration of such activities. Where this is the case, these activities and processes are accounted for as one performance obligation.

Revenue from services rendered is recognized in the statement of profit and loss and other comprehensive income over time. Boart Longyear has a contractual right to consideration from a customer for an amount that corresponds directly with the value to the customer of the performance completed to date (for example, number of meters drilled). As a result, Boart Longyear applies the practical expedient under AASB 15.B16 to recognize revenue at the amount which it has the right to invoice.

Customers are invoiced every two weeks and revenue is recognized in the accounting period in which the right to invoice is obtained. Payment is received following invoice according to standard payment terms, which are generally between 30 to 60 days. There are no significant financing components. Most drilling services contracts do not include variable payment terms. Where variable payment terms exist, these are usually in the form of penalties for late completion. Variable consideration is only recognized to the extent that it is considered highly probable that such amounts will not reverse in the future and is estimated using the expected value approach.

Global Products

The Company manufactures, distributes and sells equipment that is necessary for the mining and mineral industry. Sales orders are completed across multiple geographies for products, such as large drill rigs, and drilling components, such as bits and coring rods. Each product promised to the customer is distinct under the contract according to AASB 15.27 and gives rise to a separate performance obligation. Revenue is recognized when control of the products has transferred to the customer. Transfer of control generally happens at the point the products are delivered to the carrier for drilling rigs and components. The transaction price is allocated to each product on a stand-alone basis.

Payment is received following invoice according to standard payment terms, which are generally between 30 to 60 days. There are no significant financing components and there is no significant reversal of variable consideration expected at the point of revenue recognition.

For the half-year ended 30 June 2022 and 2021, the components of revenue are as follows:

	2022	2021
	US\$'000	US\$'000
Revenue from the rendering of services	365,379	301,213
Revenue from the sale of goods	162,206	145,850
	<u>527,585</u>	<u>447,063</u>

For the six months ended 30 June 2022, one customer accounted for 13% of the Company's total revenue (11.4% at 30 June 2021).

4. OTHER INCOME AND EXPENSES

For the half-year ended 30 June 2022 and 2021, other income and expenses consists of the following:

	2022	2021
	US\$'000	US\$'000
Other income		
Gain on disposal of property, plant and equipment	2,082	1,850
Fair value adjustment on warrant liabilities	1,224	—
Other	1,344	684
	<u>4,650</u>	<u>2,534</u>
Other expenses		
Impairment of property, plant and equipment	1,064	—
Loss on foreign currency exchange	8,894	4,575
Amortization of intangible assets	509	794
Other	966	385
	<u>11,433</u>	<u>5,754</u>

5. FINANCE COSTS

For the half-year ended 30 June 2022 and 2021, finance costs consist of the following:

	2022	2021
	US\$'000	US\$'000
Interest on loans and bank overdrafts	6,769	36,572
Debt modification ¹	—	9,528
Applicable premium	—	8,115
Interest on taxes	—	1,181
Amortization of debt issuance costs	463	268
Interest on lease liabilities	1,525	1,791
Total finance costs	<u>8,757</u>	<u>57,455</u>

(1) The debt modification costs were caused by a June 2021 amendment to our Senior Secured Notes. These notes were settled as part of the Company's Recapitalisation in September 2021.

6. INCOME TAXES

Reconciliation of the prima facie income tax expense on pre-tax accounting profit to income tax expense in the financial statements:

	2022	2021
	US\$'000	US\$'000
Profit / (loss) before taxation	20,698	(29,540)
Income tax expense (benefit) calculated at Canada rate of 26.5% ¹	5,487	(8,862)
Impact of non-Canada tax rates	(655)	(428)
Net nondeductible/non assessable items	597	9,687
Net unrecognized tax losses and tax credits for the current year ²	1,060	6,463
Recognition of deferred tax assets arising in prior years	(2,995)	(376)
Other	(477)	1,736
(Over) / under provision from prior years	(26)	25
Income tax expense per the Consolidated Statement of Profit or Loss and Other Comprehensive Income	2,991	8,245

(1) 2021 was an Australian tax rate of 30.0%

(2) Due to the group being in a tax loss position in many jurisdictions during the current period, the Company has not benefited from current period losses.

Canadian income tax audits

As previously disclosed by the Company, the Canada Revenue Agency ("CRA") has reassessed the Company's Canadian affiliates for tax years 2010 through 2016. These tax years remain in various stages of audit or appeal with the CRA. Tax years 2010-2014 are also proceeding under a mutual agreement procedure, which is a negotiation between Canada and Switzerland on the allocation of taxable profits between the countries. The unsettled tax, penalties and interest for 2010-2014 could result in a maximum remaining reassessment of C\$51.7 million, with a net cash payment after prior payments and credits of C\$33.0 million. The unsettled tax, penalties and interest for 2015-2016 could result in a maximum remaining reassessment of C\$13.6 million. The Company is vigorously disputing these reassessments. Due to the uncertainty surrounding these audits, a provision for the estimated outcome has been recognized as a non-current provision. Refer to Note 12.

7. EMPLOYEE LONG TERM INCENTIVE PAYMENTS

In 2020, BLY shareholders adopted a Long-Term Equity Incentive Plan ("LTIP"). The LTIP allows the Company's Remuneration Committee to grant incentive performance stock units to senior leaders, or others, as appropriate. The LTIP awards are tied to performance measures established by the Remuneration Committee that management and senior leaders have to achieve to receive their awards. The LTIP will terminate 10 years after the 30 July 2020 effective date.

Although no shares or performance stock units were awarded under the LTIP during the first six months of 2022, the Remuneration Committee approved and announced Cycle Two of the 2021 LTIP and the 2022 LTIP.

2021 LTIP

The 2021 LTIP is a two-year program that was phased in over two cycles. The details of the 2021 LTIP are outlined below:

- **Duration of 2021 LTIP:** 1 January 2021- 31 December 2022. Target Bonus: 35% of Base Pay
 - *Duration of Cycle One:* 1 January 2021 - 31 December 2021. Target Bonus: 17.5% of Base Pay
 - *Duration of Cycle Two:* 1 January 2022 - 31 December 2022. Target Bonus: 17.5% of Base Pay
- **Date of Performance Criteria Being Set:**
 - *Cycle One:* February 2021
 - *Cycle Two:* February 2022
- **Performance Criteria:**
 - *Cycle One:* Achievement of 2021 Adjusted EBITDA of \$98.0 million
 - *Cycle Two:* Achievement of 2022 Adjusted EBITDA of \$163.2 million (67% Achievement) and achievement of 2022 Cash Return on Investment ("CRI") of 16.6% (33% Achievement) where CRI is defined as Adjusted EBITDA divided by Gross Fixed Assets plus Net Working Capital
- **Payment Type:** Cash or shares at the discretion of the Remuneration Committee
- **Payment Curve:** Cycle One of the 2021 LTIP was awarded using a payment curve with the following thresholds for minimum and over-achievement targets:
 - Minimum Achievement of \$73.0 million Adjusted EBITDA in 2021 earns a 75% payout
 - Maximum Achievement of \$147.0 million Adjusted EBITDA in 2021 earns a 150% payoutCycle Two of the 2021 LTIP will be awarded using a payment curve with the following thresholds for minimum and over-achievement targets:
 - Adjusted EBITDA:
 - Minimum Achievement of \$122.4 million Adjusted EBITDA in 2022 earns a 75% payout
 - Maximum Achievement of \$244.8 million Adjusted EBITDA in 2022 earns a 150% payout
 - Cash Return on Investment:
 - Minimum Achievement of 12.5% Cash Return on Investment in 2022 earns a 75% payout
 - Maximum Achievement of 24.9% Cash Return on Investment in 2022 earns a 150% payout

The Company recognized the expense associated with Cycle One of the 2021 LTIP over a one-year service period from 1 January 2021 to 31 December 2021. At 31 December 2021, the Company had accrued \$2.0 million for Cycle One of the 2021 LTIP using the salaries of the employees eligible for the plan and a percentage achievement of 114%. Participants of Cycle One of the 2021 LTIP received their award in cash during the first quarter of 2022. Therefore, there is no accrual for Cycle One of the 2021 LTIP at 30 June 2022.

The expense for Cycle Two of the 2021 LTIP is being recognized over the one-year service period from 1 January 2022 to 31 December 2022 using a "most likely amount" approach based on the Company's estimate of year-to-date Adjusted EBITDA and Cash Return on Investment at 31 December 2022. As of 30 June 2022, the Company has recognized an expense for Cycle Two of the 2021 LTIP of \$1.0 million using the salaries of the employees eligible for the plan and an estimated percentage achievement of 100%. Cycle Two of the 2021 LTIP is scheduled to be distributed to eligible employees in March 2023 and has been accrued as a short-term employee benefit at 30 June 2022.

7. EMPLOYEE LONG TERM INCENTIVE PAYMENTS (CONTINUED)

2022 LTIP

The 2022 LTIP has a duration of two years. The details of the 2022 LTIP are outlined below:

- **Duration of 2022 LTIP:** 1 January 2022- 31 December 2023.
- **Target Bonus:** 35% of Base Pay
- **Date of Performance Criteria Being Set:** February 2022
- **Performance Criteria:** Achievement of Adjusted EBITDA in 2023 of \$232.9 million (50% Achievement), Achievement of Cash Return on Investment in 2023 of 21.7% (25% Achievement), and time vesting (25% Achievement)
- **Payment Type:** Cash or shares at the discretion of the Remuneration Committee
- **Payment Curve:** The 2022 LTIP will be awarded using a payment curve with the following thresholds for minimum and over-achievement targets:
 - Adjusted EBITDA:
 - Minimum Achievement of \$174.7 million Adjusted EBITDA in 2023 earns a 75% payout
 - Maximum Achievement of \$349.4 million Adjusted EBITDA in 2023 earns a 150% payout
 - Cash Return on Investment:
 - Minimum Achievement of 17.4% Cash Return on Investment in 2023 earns a 75% payout
 - Maximum Achievement of 32.6% Cash Return on Investment in 2023 earns a 150% payout

The expense for the 2022 LTIP is being recognized over the two-year service period from 1 January 2022 to 31 December 2023 using a "most likely amount" approach based on the Company's best estimate of Adjusted EBITDA and Cash Return on Investment at 31 December 2023.

As of 30 June 2022, the Company has recognized an expense for the 2022 LTIP of \$0.9 million calculated using the salaries of the employees eligible for the plan, a percentage achievement of 100%, and a forfeiture rate of 12%. The 2022 LTIP is scheduled to be distributed to eligible employees in March 2024 and has been accrued as a long-term employee benefit at 30 June 2022.

8. TRADE AND OTHER RECEIVABLES

	30 June 2022 US\$'000	31 December 2021 US\$'000
Trade receivables	157,636	121,844
Loss allowance	(1,197)	(822)
Goods and services tax receivable	10,499	15,540
Other receivables	(621)	1,338
	<u>166,317</u>	<u>137,900</u>

The aging of trade receivables is detailed below:

	30 June 2022 US\$'000	31 December 2021 US\$'000
Current	148,421	112,796
Past due 0 - 30 days	6,756	5,384
Past due 31 - 60 days	1,768	2,347
Past due 61-90 days	139	368
Past due 90 days	552	949
	<u>157,636</u>	<u>121,844</u>

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 aging analysis. The Company holds security for some trade receivables in the form of letters of credit, deposits, and advanced payments.

9. GOODWILL AND OTHER INTANGIBLE ASSETS

	30 June 2022 US\$'000	31 December 2021 US\$'000
Goodwill	104,687	104,916
Other intangible assets:		
Software	169	283
Customer relationships	1,215	1,683
Development assets	24,361	22,883
Patents	4,338	4,163
Trademarks	1,947	1,947
	<u>32,030</u>	<u>30,959</u>

Goodwill by cash-generating units

For purposes of impairment testing, goodwill is included in CGUs. The carrying amount of goodwill by geographic segment allocated to CGUs that are significant individually or in aggregate is as follows:

	30 June 2022 US\$'000	31 December 2021 US\$'000
Geological Data Services (GDS) ¹	3,874	4,047
North America Drilling Services	100,813	100,869
	<u>104,687</u>	<u>104,916</u>

(1) Geological Data Services is included in Global Products Segment.

The Company performed an impairment trigger assessment as at 30 June 2022. No impairment triggers were identified for the North America Drilling Services CGU; therefore, additional impairment testing over the North America Drilling Services CGU as at 30 June 2022 was deemed unnecessary. Due to lower than budgeted performance through the first half of 2022, the Company performed a goodwill impairment test as at 30 June 2022 over the Geological Data Services CGU using a value-in-use model. The recoverable amount of the Geological Data Services CGU exceeded its carrying amount; therefore, no goodwill impairment was recorded for the half-year ended 30 June 2022.

10. TRADE AND OTHER PAYABLES

	30 June 2022 US\$'000	31 December 2021 US\$'000
Current		
Trade payables	90,761	86,393
Accrued payroll and benefits	42,404	32,694
Goods and services tax payable	12,691	5,166
Accrued interest	671	239
Accrued legal and environmental costs	770	1,538
Accrued professional fees	3,531	3,747
Accrued drilling costs	5,500	3,210
Other sundry payables and accruals	6,273	5,009
	<u>162,601</u>	<u>137,996</u>

No interest is charged on trade payables for this period. Thereafter, various percentages of interest may be charged on the outstanding balance based on the terms of specific contracts. The Company has financial risk management policies in place to ensure that all payables are paid within the agreed upon terms.

11. LOANS AND BORROWINGS

	30 June 2022 US\$'000	31 December 2021 US\$'000
Secured - at amortized cost		
<i>Current</i>		
Bank loan	31	81
Lease liabilities	10,006	9,722
Equipment finance	1,117	949
<i>Non-current</i>		
Term loans	115,000	115,000
Bank loan	83	156
Revolver bank loans	66,800	40,001
Debt issuance cost	(1,260)	(1,156)
Original issue discount	(3,025)	(3,310)
Lease liabilities	23,365	26,401
Equipment finance	1,669	1,602
	<u>213,786</u>	<u>189,446</u>
Disclosed in the financial statements as:		
Current borrowings	11,154	10,752
Non-current borrowings	202,632	178,694
	<u>213,786</u>	<u>189,446</u>
A summary of the maturity of the Company's borrowings is as follows:		
Less than 1 year	11,154	10,752
Between 1 and 2 years	9,308	9,190
Between 2 and 3 years	73,457	7,193
Between 3 and 4 years	4,488	44,361
More than 4 years	119,664	122,416
	<u>218,071</u>	<u>193,912</u>
Original issue discount	(3,025)	(3,310)
Debt issuance cost	(1,260)	(1,156)
	<u>213,786</u>	<u>189,446</u>

11. LOANS AND BORROWINGS (CONTINUED)

Revolver Bank Loans

The Company has an asset-based revolver bank loan with an available facility of \$90.0 million. Of this revolving bank loan, \$66.8 million was drawn as at 30 June 2022 (\$40.0 million at 31 December 2021).

ABL	30 June 2022 US\$M	31 December 2021 US\$M
Available facility	90.0	90.0
Drawn	66.8	40.0
Letters of credit	7.1	8.2
Borrowing base adjustment	3.5	15.0
Minimum liquidity	6.5	5.6
Undrawn	6.1	21.2
	90.0	90.0

As at 30 June 2022, \$7.1 million (31 December 2021: \$8.2 million) of outstanding letters of credit were drawn under the facility. Interest on drawn amounts and letters of credit are based on a base rate plus margin (USD LIBOR plus 2.75%). Future Borrowings will be based on a SOFR base rate plus margin (USD SOFR plus 2.75%).

Borrowing on this facility is also limited to the lower of the Lender's commitment or the borrowing base that supports the Asset Based Loan. This "borrowing base" is made up of eligible receivables and inventory. As of 30 June 2022, the borrowing base was \$86.5 million.

The facility contains a "Springing Dominion"/Minimum liquidity covenant that requires the Company to maintain on the last day of any month a certain percent of the lesser of the "borrowing base" or "facility capacity" (\$6.5 million at 30 June 2022). If minimum availability at the end of each month is lower than this threshold, the agent can provide an activation notice that will allow them to access all funds deposited into "Blocked Bank Accounts." These funds will become the property of the agent and will be applied to outstanding advances.

At 31 December 2021, the facility had a temporary borrowing base of \$90 million. In June 2022, this facility was amended to permanently increase the available facility from \$75 million to \$90 million. This amendment also extended the temporarily reduced "Springing Dominion" from 12.5% (which has been effective from 1 October 2021) to 7.5% of the "borrowing base" through 30 September 2022. It will then increase to 10% through 31 December 2022, and revert back to 12.5% thereafter. This amendment also converted the interest rate pricing on future borrowings from LIBOR to SOFR.

The facility is secured by a first lien on the accounts receivable, inventories, deposit accounts and cash ("working capital assets") of the ABL borrower and guarantors, and a third lien over substantially all of the other tangible and intangible assets ("non-working capital assets") of the ABL borrower and guarantors, including equipment, intellectual property and the capital stock of subsidiaries (but excluding real property).

The scheduled maturity date of the facility is 12 May 2025. As at 30 June 2022, the Company was in compliance with all of its debt covenants.

Exit Term Loan

In September 2021, the Company entered into a new Exit Term Loan in the amount of \$115.0 million. The interest rate on this facility is based on LIBOR, inclusive of a 1.0% floor, plus a variable margin ranging between 7.25% and 7.75%, for an all in rate and effective interest rate as of 30 June 2022 of 9.7% and 11.0%, respectively. The exit term loan contains a maturity of 8 September 2026. It is secured by a first lien on the Working Capital Assets of the Term Loan guarantors that are not ABL guarantors, a second lien on the Working Capital Assets of the Term Loan issuer and the other Term Loan guarantors that are also ABL guarantors, and a second lien on substantially all of the Non-Working Capital Assets of the Term Loan issuer and guarantors, including equipment, intellectual property, the capital stock of subsidiaries and certain owned real property. As at 30 June 2022, the amount outstanding under this facility was \$115.0 million.

11. LOANS AND BORROWINGS (CONTINUED)

In June 2022, this facility was amended to convert the interest rate pricing on future borrowings from LIBOR to SOFR. The amendment also implemented a Leverage Ratio covenant of 4.00 to 1.00. The numerator of the test is the sum of outstanding advances under the ABL, capital leases and term loan outstanding minus up to \$20 million in unrestricted cash.

The Exit Term Loan contains a month end minimum liquidity covenant of \$25.0 million and a fixed charge coverage ratio of not less than 1.25 to 1.00 on the last day of each fiscal quarter. As at 30 June 2022, the Company was in compliance with all of its debt covenants.

The Company's Exit Term Loans and ABL require that obligors under the term loans must account for at least 60% of consolidated Group EBITDA and total Tangible Assets. This covenant is tested at each publicly released financial report.

The Group's position in relation to these metrics was as follows:

Metric	Target Range	30 June 2022	31 December 2021
% of consolidated EBITDA	Equal or more than 60%	175.3%	178.6%
% of consolidated tangible assets	Equal or more than 60%	66.7%	67.9%

12. PROVISIONS

	30 June 2022 US\$'000	31 December 2021 US\$'000
Current		
Employee benefits	12,632	13,165
Restructuring and termination costs ¹	1,711	1,320
Warranty ²	383	514
Onerous lease costs	150	—
Provision for tax contingencies	3,829	6,601
	18,705	21,600
Non-current		
Employee benefits	1,389	653
Provision for legal contingencies	5,087	5,196
Pension and post-retirement benefits ³	588	—
Provision for tax contingencies	37,983	39,683
	45,047	45,532
	63,752	67,132

(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) Full actuarial valuations of the defined benefit pension and post-retirement benefit plans are performed annually by qualified independent actuaries for the Company's 31 December year-end closing.

13. FINANCIAL INSTRUMENTS

Derivative Financial Instruments

The Company may enter into derivative financial instruments to manage its exposure to interest rate risks. Derivative instruments are recognized initially at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognized in profit or loss immediately 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.

Derivative instruments are classified as either hedges of the fair value of recognized assets or liabilities or of firm commitments ("fair value hedges"), hedges of highly probably forecasted transactions ("cash flow hedges") or non-hedge derivatives. Derivatives designated as either a fair value or cash flow hedge that are expected to be highly effective in achieving offsetting changes in the fair value or cash flows are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated. A derivative with a positive fair value is recognized as a financial asset whereas a derivative with a negative fair value is recognized as a financial liability. Derivative assets and derivative liabilities are shown separately unless there is a legal right to offset and intent to settle on a net basis.

Hedging Strategy

The Company may designate derivative instruments as hedging instruments in respect of interest rate risks in fair value hedges or cash flow hedges. At the inception of the hedge relationship, the Company documents the relationship between the hedging instrument and the hedged item, along with its risk management objective and its strategy for undertaking various hedge transactions. Further, 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 value or cash flows of the hedged item attributable to the hedged risk.

Fair Value Hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the consolidated statement of profit or loss, together with any changes in the fair value of the hedged asset or liability or firm commitment that is attributable to the hedged risk. The Company did not have any qualifying fair value hedges in 2022 or 2021.

Cash Flow Hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in equity. The gain or loss relating to the ineffective portion is recognized in the consolidated statements of profit and loss. Amounts accumulated in equity are transferred to the consolidated statements of profit and loss in the period when the forecasted transaction impacts earnings. When the forecasted 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 measurement of the initial carrying amount of the asset or liability.

When a derivative designated as a cash flow hedge expires or is sold and the forecasted transaction is still expected to occur, any cumulative gain or loss relating to the derivative that is recorded in equity at that time remains in equity and is recognized in the consolidated statements of profit and loss when the forecasted transaction occurs. When a forecasted transaction is no longer expected to occur, the cumulative gain or loss that was recorded in equity is immediately transferred to the Consolidated Statements of Profit or Loss.

The Company is exposed to variability in interest rate risk because the funds borrowed under the Exit Term Loan have a floating interest rate. The Company's hedge strategy is to manage its exposure to interest rate risk in line with the Company's risk strategy by using derivative contracts.

On 28 December 2021, the Company entered into an interest rate swap agreement with PNC Bank with a notional principal amount of \$86.3 million to pay an agreed upon fixed rate of interest of 1.905% in return for a floating rate of interest that matches the benchmark USD LIBOR rate on the Exit Term Loan. In August 2022, the Interest Rate Swap facility was amended to convert the future Interest rate pricing on future borrowings from LIBOR to 1-month Term SOFR, to match the amended benchmark rate of the Exit Term Loan, at a fixed interest rate of 1.92%. This interest rate swap becomes effective on 28 December 2022 and terminates on 8 September 2026. The initial payment on the interest rate swap will commence on 8 January 2023 and thereafter will reset monthly on the eighth day of each month.

The Company has designated the interest rate swap as a cash flow hedge and will settle the difference between the fixed and floating interest rate on a net basis.

13. FINANCIAL INSTRUMENTS (CONTINUED)

At 30 June 2022, the interest rate swap had a fair value of \$3.6 million classified within other financial assets in the Consolidated Statement of Financial Position. The hedge was not fully effective through 30 June 2022 which resulted in a loss of \$0.3 million on the ineffective portion which was recognized in other expense in the Statement of Profit or Loss. A gain of \$5.5 million (31 December 2021: \$1.5 million loss) on the effective portion was recognized in the cash flow hedge reserve in equity.

Fair Value

The following table combines information about:

- Classes of financial instruments based on their nature and characteristics
- The carrying amounts of financial instruments
- Fair values of financial instruments (except financial instruments when carrying amount approximates their fair value)
- Fair value hierarchy levels of financial liabilities for which fair value was disclosed

Fair value hierarchy levels 1 to 3 are based on the degree to which the fair value is observable:

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

	Level 1 US\$'000	Level 2 US\$'000	Level 3 US\$'000
Balance at 30 June 2022			
Warrant liabilities	—	(18,129)	—
Derivative financial assets	—	3,630	—
Total other financial liabilities	—	(14,499)	—
	Level 1 US\$'000	Level 2 US\$'000	Level 3 US\$'000
Balance at 31 December 2021			
Warrant liabilities	—	(19,352)	—
Derivative financial liabilities	—	(1,548)	—
Total other financial liabilities	—	(20,900)	—

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

Cash and cash equivalents, trade and other receivables, and trade and other payables are carried at amortized cost which materially approximates the fair value.

Interest Rate Benchmark Reform

The Company is exposed to USD LIBOR interest rate benchmarks within its asset-based revolver loan, Exit Term Loan, and interest rate swap agreement all of which are subject to interest rate benchmark reform. These financial instruments include detailed fallback clauses clearly referencing the alternative benchmark rate and the trigger event on which the clause is activated. In June 2022 the ABL facility and Exit Term Loan facility were amended to convert the future Interest rate pricing on future borrowings from LIBOR to 1-month Term SOFR. In August 2022 the Interest Rate Swap facility was amended to convert the future Interest rate pricing on future borrowings from LIBOR to 1-month Term SOFR at a fixed interest rate of 1.92%.

14. DIVIDENDS

No dividend has been determined for either of the half-years ended 30 June 2022 and 30 June 2021.

15. CASH AND CASH EQUIVALENTS

Included in the cash balance at 30 June 2022 is \$0.4 million of restricted cash. At 31 December 2021, \$0.5 million was considered restricted. The Company cannot access these cash balances until certain conditions are met. These conditions pertain to the Company's ABL facility as well as restrictions to secure facility leases.

16. COMMITMENTS AND CONTINGENT LIABILITIES

Legal contingencies

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

Tax audits

The Company is subject to certain tax 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 is uncertain and unfavorable outcomes could have a material adverse impact. See additional disclosure in Note 6.

17. SUBSEQUENT EVENTS

On 3 August 2022, the Company announced its strategic partner, Globaltech Corporation Pty Ltd, successfully defended its optical device patent in Australia.