DRILLTORQUE

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ABN: 14 009 271 461

Ms Shannon Hong
Advisor, Listings
ASX Compliance Pty Ltd
PO Box H224
Sydney...NSW 12315

30 July 2012

Dear Ms Hong

Re Queries relating to ASX Appendix 4C – June 2012 Quarter

Your letter 25 July 2012 Refers. We have reviewed your queries and respond accordingly.

1. We don't believe that the company will continue to expend cash at the rate shown in the June Quarter Appendix 4C. A review of the previous three quarters reveals operating cash surpluses of $0.881m for the September 2011 Quarter, $2.457m for the December 2011 Quarter and $1.548m for the March 2012 Quarter. Each quarter may vary for any number of reasons including inter alia prevailing weather conditions, completion or gaining of new contracts, lack or otherwise of skilled staff, breakdowns and economic conditions. With respect to the period under question we advise that there were a number of circumstances that impacted adversely on the company's quarterly financial performance. In our market update of the 29 May 2012 we also set out issues that were impacting on the business which were in part responsible for the adverse June 2012 Quarter result. A further explanation of the key issues is detailed below:-

<u>Inclement weather</u>.

- Many of the areas in which our rigs are operating were affected by unseasonal rain especially in Central Queensland. DTQ had recently negotiated 2 large contracts in Central Queensland and hired, trained and certified staff to work on these contracts however in both cases the start dates kept being postponed due to weather related circumstances. The labour costs involved placed pressure on our operating income as these staff were retained in anticipation of work starting.

- Once the Rigs were able to commence work further unfavourable weather conditions caused considerable disruption to our drilling operations which again placed pressure on operating income as staff were retained at significant cost including extra cost of travel and accommodation with staff having to move in and out of camps.

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Loss of long term contract

- As advised in our 29 May market update a very long standing client terminated a new 2 year contract (signed in December 2011) with little notice. The impact of this came at a significant cost to DTQ – not just in lost income but the cost to demobilise our substantial drilling operation at this client's mining sites. Costs were incurred in the areas of wages, transport, travel and accommodation. The cost of securing new work and remobilising were substantial. We believe that the termination was not in accordance with the contract terms and as a result this matter is now set down for mediation in late August 2012.

We believe that the circumstances surrounding the June quarter could be considered unusual and were largely outside our control and not only impacted on the June quarter result but will also have a cash flow effect in the September quarter. We now have in excess of 60% of our available rigs working with additional rigs to commence work over the next month. Our budget shows a further small operating cash deficit in the September Quarter returning to surplus in the December Quarter. Overall we are forecasting a cash operating surplus for the Financial Year ending 30 June 2013.

2. As mentioned we expect that in the current Quarter a small operating cash flow deficit will be incurred as a flow on effect from the 30 June 2012 Quarter however as set out above we expect that the company will achieve a cash operating surplus for the full financial year. We believe that unless further unforeseen circumstances arise, with the current work at hand, our existing bank overdraft limit of $2.5m adequately satisfies our ongoing operational requirements. Because of the adverse financial difficulties that the company has had to absorb due to the ongoing and unseasonal bad weather, the company has recently commenced strategic discussions with its advisors to establish standby lines of finance and or equity that would be available should the circumstances warrant it. Over recent months the company has pursued a diversification strategy such that more of our rigs are now contracted to clients in other Australian States which have not been affected by the unusual weather patterns. We further advise that for the year ended 30 June 2012 financial accounts are currently being audited. We anticipate the company will reveal a breakeven result before impairment. Our 2013 financial year management forecasts reveal revenue ranging between $52m and $55m with an EBITDA between $7.2m and $9m. These forecasts are of course subject to no unforeseen circumstances.

3. The company is continually reviewing all aspects of its operations to ensure all stakeholders' requirements are met.

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4. We believe that the company is operating within current listing rules. The directors and senior executives are cognisant of the continual disclosure requirements and take this aspect very seriously.

5. With respect to listing rule 12.2 we believe that DTQ's financial position justifies its continued listing supported by DTQ's balance sheet which as at 30 June 2012 (unaudited) shows a surplus of assets over liabilities of some $12.3m.

Yours sincerely

Bob Witty
Company Secretary

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25 July 2012

Bob Witty
Company Secretary
Drill Torque Limited
133 Crocodile Crescent St
Mount St John
QLD 4818

By Email: Bob.Witty@drilltorque.com.au

Dear Bob,

Drill Torque Limited (the "Company")

I refer to the Company's Quarterly Report in the form of Appendix 4C for the period ended 30 June 2012, released to ASX Limited ("ASX") on 24 July 2012 (the "Appendix 4C").

ASX notes that the Company has reported the following.

1. Receipts from customers of $7,907,000;
2. Negative net operating cash flows for the quarter of $1,028,000; and
3. Negative cash at end of quarter of $453,000.

In light of the information contained in the Appendix 4C, please respond to each of the following questions.

1. It is possible to conclude on the basis of the information provided that if the Company were to continue to expend cash at the rate for the quarter indicated by the Appendix 4C, the Company may only have sufficient cash to fund its activities for less than 2 quarters. Is this the case, or are there other factors that should be taken into account in assessing the Company's position?

2. Does the Company expect that in the future it will have negative operating cash flows similar to that reported in the Appendix 4C for the quarter and, if so, what steps has it taken to ensure that it has sufficient funds in order to continue its operations at that rate?

3. What steps has the Company taken, or what steps does it propose to take, to enable it to continue to meet its business objectives Company?

4. Can the Company confirm that it is in compliance with the listing rules, and in particular, listing rule 3.1?

5. Please comment on the Company's compliance with listing rule 12.2, with reference to the matters discussed in the note to the rule.

Listing rule 3.1

Listing rule 3.1 requires an entity to give ASX immediately any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities. The exceptions to this requirement are set out in the rule.

In responding to this letter you should consult listing rule 3.1 and the guidance note titled "Continuous disclosure: listing rule 3.1".

If the information requested by this letter is information required to be given to ASX under listing rule 3.1 your obligation is to disclose the information immediately.

Your responsibility under listing rule 3.1 is not confined to, or necessarily satisfied by, answering the questions set out in this letter.

Under listing rule 18.7A, a copy of this query and your response may be released to the market, so your response should be in a suitable form and separately address each of the questions asked. If you have any concerns about your response being released, please contact me immediately. Your response should be sent to me by email at shannon.hong@asx.com.au or on facsimile number (02) 9241 7620. It should not be sent to the Company Announcements Office.

Unless the information is required immediately under listing rule 3.1, a response is requested as soon as possible and, in any event, not later than half an hour before the start of trading (i.e. before 9.30 a.m. E.S.T.) on Tuesday, 31 July 2012.

If you are unable to respond by the time requested you should consider a request for a trading halt in the Company's securities.

Yours sincerely

(Sent electronically without signature)

Shannon Hong
Adviser, Listings