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19 September 2012

Australian Stock Exchange
Market Announcements

BY ELECTRONIC LODGEMENT

Drill Torque Limited (ASX – DTQ)

2012 Directors' Annual Report
and Company Financial Statements

Please find attached Directors' Annual Report and Financial Statements for Drill Torque Limited for immediate release to the market.

We anticipate distributing notice of annual general meeting together with relevant attachments mid October 2012.

Drill Torque Limited will hold its Annual General Meeting on Friday 23 November 2012 at 10AM (EST) at the Townsville RSL Club, 139 Charters Towers Road, Hermit Park Qld.

Bob Witty



Company Secretary

DRILL TORQUE LTD
ACN 149 206 333

ANNUAL REPORT

30 JUNE 2012

DRILL TORQUE LTD

CONTENTS

	Page
Chairman and Managing Director's Joint Report	1
Directors' Report	3
Corporate Governance Statement	11
Auditor's Independence Declaration	17
Consolidated Statement of Comprehensive Income	18
Consolidated Balance Sheet	19
Consolidated Statement of Changes in Equity	20
Consolidated Statement of Cash Flows	21
Notes to the Financial Statements	22
Directors' Declaration	48
Independent Auditor's Report	49
Additional Australian Stock Exchange Information	51
Corporate Directory	55

DRILL TORQUE LTD

CHAIRMAN AND MANAGING DIRECTOR'S JOINT REPORT FOR THE YEAR ENDED 30 JUNE 2012

For Drill Torque Ltd (DTQ) the 2011/2012 financial year commenced with much enthusiasm and great expectations as follows:

- On 8 July 2011 DTQ issued a prospectus inviting applications for the public issue of shares;
- DTQ was admitted to the official list of the Australian Stock Exchange Ltd (ASX) on 29 July 2011;
- Trading of DTQ shares and options commenced on 2 August 2011;
- The mining boom was in full swing and DTQ's order books were initially 84% contracted; and
- The purchase of three new drill rigs from the USA which were expected to be in work by the end of 2011.

While the foregoing was most encouraging, circumstances arose in September/October 2011 which caused considerable concern to the company. By mid-November 2011 the ability to recruit skilled drillers, shift supervisors and safety officers emerged as a major problem for the company. As a result, DTQ recruited several experienced staff on 457 visas and conducted an extensive recruiting advertising campaign. In addition, there were several unseasonal weather events in western Queensland during the period October to December 2011 that severely impacted DTQ's access to sites.

Notwithstanding the foregoing, DTQ delivered an EBITDA of \$3.407m (2010 - \$2.690m) on sales revenue of \$20.691m (2010 - \$12.145m) for the six months ended 31 December 2011. On the surface while this result for the first six months may appear satisfactory Directors and senior management were disappointed with this result and the on-going problems with inclement weather and the chronic shortage of skilled labour.

Unfortunately the unseasonal rain experienced in the first half of the financial year continued into the second half (especially in central and northern Queensland) and at times virtually closed down our total operation. This unseasonal rain continued to place enormous pressure on operating income as staff were retained on call at significant cost. This human resource strategy had been implemented as a means to ensure the availability of adequate labour resources when the prevailing weather conditions allowed drilling to recommence at the various drilling locations.

In addition to the foregoing problems we were also advised (announced to ASX on 29 May 2012) by a long standing client that a new contract (signed in December 2011) was to be terminated. DTQ disputed the basis for the termination and the matter was set down for mediation on 30 August 2012. DTQ attended mediation with the client and the matter has been settled with the financial and other terms of the settlement confidential.

The majority of circumstances affecting DTQ's second half to 30 June 2012 not only impacted the financials for the year ended 30 June 2012 but also DTQ's cash flow going forward. As a result, for the year ended 30 June 2012 DTQ reported an EBITDA of \$3.609m (2011 - \$3.953m) and NPAT of \$68,425 (2011 - loss of \$72,777) on revenue of \$37.091m (2011 - \$25.288m). The foregoing results are most disappointing and while we are experiencing tightness in our cash flow situation we are budgeting to return to a surplus cash flow in the December 2012 quarter.

DRILL TORQUE LTD

CHAIRMAN AND MANAGING DIRECTOR'S JOINT REPORT FOR THE YEAR ENDED 30 JUNE 2012

Outlook

Given the events that have plagued DTQ during the 2011/2012 financial year it has been necessary to be more circumspect but also more diligent in assessing the company's operational risk profile in our forecasting for the 2012/2013 financial year. We now have in excess of 60% of available rigs working with additional rigs to commence work over the next month or so. Thus subject to no unforeseen circumstances, DTQ's 2012/2013 forecasts reveal revenue ranging between \$52m to \$55m with EBITDA between \$7m and \$9m. Unaudited management accounts for the 2 months to 31 August 2012 reveal the following:

2 months to 31-8-2012

Total Income	\$6,350,862
EBITDA	\$1,920,631
NPBT	\$1,330,185

In conclusion DTQ Directors and Management wish to thank all shareholders for their continued support especially through the prolonged period of inclement weather.



David John Fairfull
Chairman



Peter Richard Miller
Managing Director

DRILL TORQUE LTD

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2012

The directors of Drill Torque Ltd submit herewith the annual report of the company for the financial year ended 30 June 2012. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

DIRECTORS

The names and particulars of the directors of the company during or since the end of the financial year are:

David John Fairfull B.Com, ACIS, CPA, ASIA, MAICD (*Non-Executive Chairman*)

Mr Fairfull was appointed as director on 8 February 2011 and continues in office at the date of this report. Mr Fairfull has over forty years of experience in finance and investment banking including previous roles as Managing Director of Kleinwort Benson Australia, Executive Director of Kleinwort Benson UK and a Joint Managing Director of Pitt Capital Partners Limited. He is currently Chairman of Shinewing Hall Chadwick National Association and Heritage Brands Limited and a Non-Executive Director of Washington H. Soul Pattinson and Company Limited, Souls Private Equity Limited, New Hope Corporation Limited, Northern Energy Corporation Limited and Specialist Services Group.

At the date of this report, Mr Fairfull does not hold shares in the company but has relevant interests in 2,700,000 shares and 270,000 options.

David Charles Williamson B.Com, FCA, MAICD (*Non-Executive Deputy Chairman*)

Mr Williamson was appointed as director on 22 May 2011 and ceased to be a director upon his death on 11 July 2012. Mr Williamson was registered as a Chartered Accountant for approximately 30 years and was principal of his own firm, Williamson Chaseling Pty Ltd. He had gained a wide range of experience in business management, finance, general accounting, taxation and audit assignments.

Mr Williamson was formerly a Non-Executive Director of Arrow Energy Limited. He was also a Non-Executive Director of Dart Energy Limited (including member of the Audit Committee and Chairman of the Risk Committee), New Hope Corporation Limited (including Chairman of the Audit Committee), Northern Energy Corporation Limited (including Chairman of the Audit Committee) and Australian Health and Nutrition Association Limited (Sanitarium Health Food Co) (including Chairman of the Finance and Business Committee).

At the date of this report, the estate of Mr Williamson holds 100,000 shares in the company and 10,000 options. The estate also has a relevant interest in a further 400,000 shares and 40,000 options.

Ralph Howard Craven BE PhD FIEAust FIPENZ FAICD CPEng (*Non-Executive Director*)

Dr Craven was appointed as director on 27 May 2011 and continues in office at the date of this report. Dr Craven has a professional background in the energy and resources sector having previously been CEO to the predecessor to Ergon Energy and the New Zealand government owned Transpower which owns and manages the National Grid. Dr Craven held senior executive positions with Shell Coal Pty Ltd and NRG Asia Pacific Limited. Dr Craven is currently Non-Executive Director of Senex Energy Limited, Invion Limited and Windlab Systems Pty Ltd. Dr Craven was previously Chairman of Ergon Energy Corporation Limited, Australian Electricity Systems Pty Ltd, Tully Sugar Limited and Deputy Chairman of Arrow Energy Limited.

At the date of this report, Dr Craven does not hold shares in the company but has a relevant interest in 200,000 shares and 10,000 options.

Peter Richard Miller (*Managing Director*)

Mr Miller was appointed as director on 8 February 2011 and continues in office at the date of this report. Mr Miller founded Drill Torque in 1992 with 1 drill rig which grew to 29 rigs prior to the acquisition of Well Drilled Pty Ltd. Mr Miller has been involved in all aspects of the drilling industry for the past 29 years. His experience encompasses working with all types of drilling rigs, building rigs and managing drilling companies.

Having worked in most exploration areas in Australia he is intimately familiar with drilling conditions, equipment requirements and pricing structure to maximise fleet productivity. Mr Miller is widely known and well regarded in the industry.

At the date of this report, Mr Miller holds 19,816,809 shares in the company and 1,981,681 options.

DRILL TORQUE LTD

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2012

Mr Miller has a relevant interest in a further 2,800,000 shares, 245,000 options and 4,583,250 management options. Mr Millers' wife, Sonya Margaret Miller, holds 19,816,810 shares in the company and 1,981,681 options.

Guy Hamish Drummond B.Econ, CA (*Executive Director - General Manager Business Development*)

Mr Drummond was appointed as director on 8 February 2011 and continues in office at the date of this report. Mr Drummond started his working career in 1988 with Coopers and Lybrand in Sydney. He qualified as a Chartered Accountant in 1991 with experience in corporate taxation, business recovery and insolvency management. In 1992, Mr Drummond co-founded Clover Corporation with his father, listing the company on the ASX in 1998. He was a director of Clover Corporation until November 2009.

In 2007, Mr Drummond established Well Drilled Pty Ltd with 1 drill rig which he scaled up to 4 rigs prior to being acquired by the Drill Torque Ltd Group in February 2011. Mr Drummond has invaluable experience in marketing and business development on both a national and international level.

At the date of this report, Mr Drummond does not hold shares in the company but has a relevant interest in 7,752,000 shares, 762,000 options and 666,750 management options.

COMPANY SECRETARY

Robert Ian Witty was appointed to the position of company secretary on 8 February 2011. Mr Witty also holds the position of chief financial officer for the Group.

Mr Witty joined Notch Holdings Pty Ltd during 2009, prior to its acquisition by Drill Torque Ltd, after 38 years' experience in retail and business banking and 2 years' experience as a senior manager with Pricewaterhouse Coopers.

Mr Witty has an Associate Diploma of Business (Accounting) and a Graduate Certificate in Management and is a Fellow of the Institute of Public Accountants, is currently Chairman of the Townsville Diocesan Development Fund (Catholic Diocese of Townsville) and has been a Non-Executive Director of Standard White Cabs Limited since 2008.

PRINCIPAL ACTIVITIES

The consolidated entity's principal activities during the course of the financial year were the provision of exploration and mine site drilling services to the mining industry.

The consolidated entity also undertakes servicing and maintenance of drill rigs and equipment at its purpose built facility in Townsville.

There were no significant changes in the nature of the activities of the consolidated entity during the year.

REVIEW OF OPERATIONS

The consolidated entity's operating result after income tax for the year ended 30 June 2012 was a profit of \$68,425 (2011: \$72,777 loss).

Further detailed comments on operations up to the date of this report are included separately in this annual report in the Chairman and Managing Director's Joint Report.

CHANGES IN STATE OF AFFAIRS

The company issued a Prospectus dated 8 July 2011 inviting applications for the public issue of shares and options in the company. Pursuant to the prospectus, on 27 July 2011, 65,000,000 shares were issued, resulting in total issued shares of 125,000,005. Attaching to the shares of the company are options. Options were allotted on 28 July 2011, one for every 10 shares held in the company as at the date of allotment.

The company was admitted to the Official List of the Australian Stock Exchange Limited on 29 July 2011 and shares and options were officially quoted by the Australian Stock Exchange Limited from commencement of trading on 2 August 2011.

DRILL TORQUE LTD

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2012

SUBSEQUENT EVENTS

On 29 May 2012 a longstanding client terminated a drilling contract. The consolidated entity disputed the basis of the termination and the matter was set down for mediation on 30 August 2012. The consolidated entity attended mediation with this client. The matter has been settled with the financial and other terms of the settlement confidential.

There have been no further matters or circumstances occurring subsequent to the end of the financial year that have significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

FUTURE DEVELOPMENTS

The consolidated entity will continue to pursue its principal activities during the next financial year. The consolidated entity's operations continue to benefit from favourable conditions and sentiment in mining and exploration. The consolidated entity is increasing its focus on the provision of drilling services to the rapidly growing coal and coal seam gas sectors with several contracts for coal drilling having been entered into and tenders lodged to assist major CSG companies.

Further information regarding likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations may result in unreasonable prejudice to the consolidated entity. Accordingly, this information has not been disclosed in this report.

ENVIRONMENTAL REGULATIONS

The consolidated entity's operations are not subject to any particular and significant environmental regulation under a law of the Commonwealth or of a State or Territory. However, the consolidated entity does provide services to entities that are licensed or otherwise subject to conditions for the purposes of environmental legislation or regulation. In these instances, the consolidated entity undertakes its compliance duties in accordance with the contractor regime implemented by the licensed or regulated entity.

DIVIDENDS

In respect of the year ended 30 June 2012, an interim dividend of 0.5 cents per share franked to 100% at 30% corporate income tax rate was paid to the holders of fully paid ordinary shares on 20 April 2012. The directors have determined that there will be no final dividend payment for the year ended 30 June 2012.

SHARES UNDER OPTION

Details of unissued shares or interests under option as at the date of this report are:

Grant Date	Date of Expiry	Exercise Price	Number under Option
27 July 2011	2 August 2016	\$0.30	5,750,000
28 July 2011	2 August 2016	\$0.30	12,500,000
			18,250,000

Option holders do not have any rights to participate in any issues of shares or other interests in the company or any other entity.

There have been no unissued shares or interests under option of any controlled entity within the Group during or since the end of the reporting period. No person entitled to exercise an option had or has any right by virtue of the option to participate in any share issue of any other body corporate.

During the year ended 30 June 2012, there were no shares in Drill Torque Ltd issued on the exercise of options granted.

DRILL TORQUE LTD

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2012

During the financial year, an aggregate of 6,000,000 options (since reduced to 5,750,000 following the cessation of employment of Ian Milne on 14 February 2012) were granted to directors and key management personnel as part of their remuneration package as follows:

Peter Miller	4,583,250
Guy Drummond	666,750
Robert Witty	500,000
Ian Milne	250,000

INDEMNIFICATION OF OFFICERS AND AUDITORS

During the financial year, the company has given an indemnity or entered into an agreement to indemnify, or paid or agreed to pay insurance premiums as follows:

The company has paid premiums to insure each of the directors and company officers against liabilities for costs and expenses incurred by them in defending legal proceedings arising from their conduct while acting in the capacity of director or officer of the company other than conduct involving a wilful breach of duty in relation to the company. The total premiums paid in this regard amounted to \$29,940.

The company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified, or agreed to indemnify, an officer or auditor of the company against a liability incurred as such an officer or auditor.

DIRECTORS' MEETINGS

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member). During the financial year, 17 board meetings, 2 remuneration and nomination committee meetings and 4 audit and risk committee meetings were held.

Directors	Board of directors		Remuneration and nomination committee		Audit and risk committee	
	Held	Attended	Held	Attended	Held	Attended
D.J. Fairfull	17	17	2	2	4	4
D.C. Williamson	17	17	2	2	4	4
R.H. Craven	17	15	2	2	4	4
P.R. Miller	17	16	-	-	-	-
G.H. Drummond	17	15	-	-	-	-

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of Court under section 237 of the Corporations Act 2001 to bring proceedings on behalf of the company or to intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings. No proceedings have been brought or intervened in on behalf of the company with leave of the Court under section 237 of the Corporations Act 2001.

NON-AUDIT SERVICES

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in note 24 to the financial statements.

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

DRILL TORQUE LTD

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2012

The directors are of the opinion that the services as disclosed in note 24 to the financial statements do not compromise the external auditor's independence, based on advice received from the Audit and Risk Committee, for the following reasons:

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

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is included on page 17 of the annual report.

REMUNERATION REPORT

This remuneration report, which forms part of the directors' report, sets out information about the remuneration of Drill Torque Ltd's key management personnel for the financial year ended 30 June 2012. The term "key management personnel" refers to those persons having authority and responsibility for planning, directing and controlling the activities of the consolidated entity, directly or indirectly, including any director (whether executive or otherwise) of the consolidated entity.

Key management personnel

The directors and other key management personnel of the consolidated entity during or since the end of the financial year were:

Peter Richard Miller (Managing Director)
Guy Hamish Drummond (General Manager Business Development, Executive Director)
David John Fairfull (Chairman, Non-executive Director)
David Charles Williamson (Non-executive Director – deceased 11 July 2012)
Ralph Howard Craven (Non-executive Director)
Robert Ian Witty (Chief Financial Officer and Company Secretary)
William Arthur Fisher (Operations Manager Coal and Energy)
Simon Morrell Morgan (Operations Manager Minerals)
Ian James Milne (General Manager Operations – ceased employment 14 February 2012)

Except as noted, the named persons held their current position for the whole of the financial year and since the end of the financial year.

Remuneration Policy

The remuneration policy of Drill Torque Ltd has been designed to align key management personnel objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the consolidated entity's financial results. The board of Drill Torque Ltd believes the remuneration policy to be appropriate and effective in its ability to attract and retain the high quality key management personnel to run and manage the consolidated entity, as well as create goal congruence between directors, executives and shareholders.

The board's policy for determining the nature and amount of remuneration for key management personnel of the consolidated entity is as follows:

- The remuneration policy is to be developed by the Remuneration and Nomination Committee and approved by the board. Professional advice may be sought from independent external consultants if required;
- All key management personnel receive a base salary (which is based on factors such as length of service and experience), superannuation, and may receive fringe benefits, options and performance incentives;

**DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2012**

- Any performance incentives will generally only be paid once predetermined key performance indicators have been met;
- Incentives paid in the form of options or rights are intended to align the interests of the directors and company with those of the shareholders. In this regard, key management personnel are prohibited from limiting risk attached to those instruments by use of derivatives or other means;
- The Remuneration and Nomination Committee reviews key management personnel packages annually by reference to the consolidated entity's performance, executive performance and comparable information from industry sectors.

The performance of key management personnel is measured against criteria agreed annually with each executive and is based predominantly on the forecast growth of the consolidated entity's profits and shareholders' value.

Any bonuses and incentives must be linked to predetermined performance criteria. The board may, however, exercise its discretion in relation to approving incentives, bonuses and options, and can recommend changes to the Remuneration and Nomination Committee's recommendations. Any change must be justified by reference to measurable performance criteria. The policy is designed to attract the highest calibre of executives and reward them for performance results leading to long-term growth in shareholder wealth.

Key management personnel receive a superannuation guarantee contribution required by the government, which is currently 9% (to a maximum of \$25,000 per annum) of the individual's average weekly ordinary times earnings, and do not receive any other retirement benefits. Some individuals, however, have chosen to sacrifice part of their salary to increase payments towards superannuation.

Upon retirement, key management personnel are paid employee benefit entitlements accrued to the date of retirement. Key management personnel will receive redundancy benefits if applicable. Any options not exercised before or on the date of termination will lapse.

All remuneration paid to key management personnel is valued at the cost to the consolidated entity and expensed.

The board's policy is to remunerate non-executive directors at market rates for time, commitment and responsibilities. The Remuneration and Nomination Committee determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting.

Key management personnel participate in the employee share and option arrangements to align directors' and management's interests with shareholders' interests.

Options granted under the arrangement do not carry dividend or voting rights. Each option is entitled to be converted into ordinary shares once the attaching conditions are satisfied.

Key management personnel or closely related parties are prohibited from entering into hedge arrangements that would have the effect of limiting the risk exposure relating to their remuneration.

Performance-based remuneration

The board has not implemented performance based incentives.

Relationship between the remuneration policy and company performance

The remuneration policy has been tailored to increase goal congruence between shareholders, directors and executives. To achieve this aim, options have been issued to specific executive directors and executives to encourage the alignment of personal and shareholder interests. The consolidated entity believes this policy will be effective in increasing shareholder wealth in forthcoming years.

DRILL TORQUE LTD

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2012

Employment details of members of key management personnel

The employment terms and conditions of key management personnel are formalised in contracts of employment. Terms of employment require that the relevant group entity provide an executive contracted person with a minimum of 3 months' notice prior to termination of contract. The group entity may make payment in lieu of part or all of the notice period calculated on the executive's base salary. A contracted person deemed employed on a permanent basis may terminate their employment by providing at least one month's notice. If the executive does not provide the required period of notice in writing or the executive leaves employment during the period of notice, the group entity is entitled to withhold (to the fullest extent permitted by law) from any monies owing to the executive an amount representing the base salary the executive would have earned for the number of months, weeks or days of the notice period that the executive did not work. Termination payments are not payable on resignation or under the circumstances of unsatisfactory performance.

Remuneration of key management personnel

The compensation of each member of the key management personnel of the consolidated entity is set out below:

Fixed remuneration paid:	2012			2011	
	Short-term employee benefits Salary \$	Post-employment benefits Superannuation \$	Termination benefits \$	Short-term employee benefits Salary \$	Post-employment benefits Superannuation \$
Peter Richard Miller <i>Managing Director</i>	449,100	25,519	-	150,000	13,500
Sonya Margaret Miller <i>Former Executive Director Notch Holdings (ceased employment 30 June 2011)</i>	-	-	-	150,000	13,500
Guy Hamish Drummond <i>General Manager Business Development and Executive Director</i>	234,493	21,104	-	40,385	3,635
David John Fairfull <i>Non-Executive Director</i>	100,000	9,000	-	-	-
David Charles Williamson <i>Non-Executive Director</i>	60,000	5,400	-	-	-
Ralph Howard Craven <i>Non-Executive Director</i>	50,000	4,500	-	-	-
Robert Ian Witty <i>Chief Financial Officer and Company Secretary</i>	173,747	43,269	-	122,499	11,025
William Arthur Fisher <i>Operations Manager Coal and Energy</i>	160,384	14,435	-	n/a	n/a
Simon Morrell Morgan <i>Operations Manager Minerals</i>	145,384	13,085	-	n/a	n/a
Ian James Milne <i>General Manager Operations</i>	134,219	22,139	50,000	150,000	13,500
	1,507,327	158,451	50,000	612,884	55,160

William Arthur Fisher and Simon Morrell Morgan were not considered part of the key management personnel during the 2011 financial year. Ian Milne ceased employment on 14 February 2012 and was paid 3 months' salary (\$50,000) in lieu of notice.

DRILL TORQUE LTD

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2012

Options

The Board has issued 6,000,000 management options to the following key management personnel during the year:

Options Issued	
Peter Richard Miller Managing Director	4,583,250
Guy Hamish Drummond General Manager Business Development	666,750
Robert Ian Witty Chief Financial Officer & Company Secretary	500,000
Ian James Milne General Manager Operations	250,000
	6,000,000

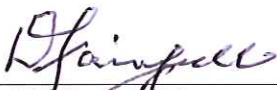
Ian Milne's right to exercise the options above has now lapsed due to the cessation of his employment on 14 February 2012.

Key terms that are associated with these management options are as follows:

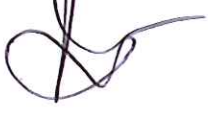
- The option holder must be continuously employed to be able to exercise the management options.
- The management options will not be listed.
- The management options will not be encumbered or transferred.
- The exercise price for each management option is 30 cents.
- The management options may not be exercised before 2 August 2014, being the third anniversary of the listing date or after 2 August 2016, being the fifth anniversary of the listing date.
- Upon the valid exercise of a management option, the company will issue and allot one fully paid ordinary share for each management option to the option holder.

The issue of these options was not performance based.

This directors' report, incorporating the remuneration report, is signed in accordance with a resolution of the directors made pursuant to section 298(2) of the Corporations Act 2001.



David John Fairfull
Chairman



Peter Richard Miller
Director

Dated at Townsville this 17th day of September 2012.

**CORPORATE GOVERNANCE STATEMENT
FOR THE YEAR ENDED 30 JUNE 2012**

The board considers there to be a clear and positive relationship between the creation and delivery of long-term shareholder value and high-quality corporate governance. Accordingly, in pursuing its objective, the board has committed to corporate governance arrangements that strive to foster the values of integrity, respect, trust and openness amongst and between the board members, management, employees, customers and suppliers.

Unless stated otherwise in this document, the board's corporate governance arrangements comply with the recommendations of the ASX Corporate Governance Council (including the 2010 amendments) for the entire financial year ended 30 June 2012.

1. Board of directors

1.1 Role of the board

The board's primary role is the protection and enhancement of long-term shareholder value.

To fulfil this role, the board is responsible for the overall corporate governance of the Group including formulating its strategic direction, approving and monitoring capital expenditure, setting remuneration, appointing, removing and creating succession policies for directors and senior executives, establishing and monitoring the achievement of management's goals and ensuring the integrity of risk management, internal control, legal compliance and management information systems. It is also responsible for approving and monitoring financial and other reporting.

The board has delegated responsibility for operation and administration of the Group to the managing director and executive management. Responsibilities are delineated by formal authority delegations.

1.2 Board processes

To assist in the execution of its responsibilities, the board has established 2 board committees which include a Remuneration and Nomination Committee and an Audit and Risk Committee. Both committees have written charters which are reviewed on a regular basis. The board has also established a framework for the management of the Group including a system of internal control, a business risk management process and the establishment of appropriate ethical standards.

The full board currently holds not less than 10 scheduled meetings each year, plus strategy meetings and any extraordinary meetings at such other times as may be necessary to address any specific significant matters that may arise.

The agenda for meetings is prepared by the company secretary in conjunction with the chairperson. Standing items include the managing directors' report, operational manager reports, financial reports and training and safety reports. The board package is provided to all concerned in advance of meetings. Executives are regularly involved in board discussions and directors have other opportunities, including visits to business operations, for contact with a wider group of employees.

1.3 Director and executive education

The Group has an informal induction process to educate new directors about the Group's operations and industry sectors, the Group's financial, strategic, operational and risk management position and the new directors' rights, duties and responsibilities. As part of this induction process, new directors will meet with all incumbent directors and senior management and are encouraged to visit Group facilities to gain a better understanding of business operations.

The Group also has an informal process to educate new senior executives upon taking such positions. This involves reviewing the Group's structure, strategy, operations, financial position and risk management policies.

1.4 Independent professional advice and access to Group information

Each director is entitled to access any relevant Group information and liaise with any of the Group's executives. Furthermore, with the prior consent of the Chairman, each director may take such legal, financial or other advice as they consider necessary at the Group's cost. The advice obtained is required to be provided to all other members of the board.

**CORPORATE GOVERNANCE STATEMENT
FOR THE YEAR ENDED 30 JUNE 2012**

1.5 Composition of the board

The names of the directors of the company in office at the date of this report are set out in the Directors Report on page 3 and 4 of this report.

The Group believes it is in its best interests to maintain a small but efficient board which until David Williamson's death on 11 July 2012 consisted of 3 non-executive directors and 2 executive directors. While only 2 of the 3 non-executive directors were considered independent, the board believes the experience and skills of the current directors continue to be sufficient to discharge the board's duties effectively until such time that a non-executive director is appointed to replace Mr Williamson.

The Chairman is Mr David John Fairfull. Under the guidelines, Mr Fairfull does not meet the criteria for independence as he is a director of a substantial shareholder. In any event, all directors are committed to bringing their independent views and judgement to the board and, in accordance with the Corporations Act 2001, must inform the board if they have any interest that could conflict with those of the Group. Where the board considers that a significant conflict exists, it may exercise its discretion to determine whether the director concerned may be present at the meeting while the item is considered. For these reasons, the board believes that Mr Fairfull may be considered to be acting independently in the execution of his duties.

The board considers the mix of skills and the diversity of board members when assessing the composition of the board. The board assesses existing and potential directors' skills to ensure they have appropriate industry expertise in the Group's business operations. The board's policy is to seek a diverse range of directors who have a range of ages, genders and ethnicity that compliments the environment in which the Group operates (refer section 8 below on diversity).

2. Remuneration and nomination committee

The remuneration and nomination committee must consist of at least 3 members, each of whom must be non-executive directors. The Chairman of the committee should be an independent director. The committee has 2 distinct roles as follows:

- Remuneration related matters; and
- Nomination related matters.

The members of the remuneration and nomination committee during the year were:

- Dr Ralph Howard Craven – Chairman and non-executive director;
- Mr David Charles Williamson – non-executive director (deceased 11 July 2012); and
- Mr David John Fairfull – non-executive director.

All directors are invited to remuneration and nomination committee meetings at the discretion of the committee. The committee met twice during the year and committee members' attendance record is disclosed in the table of directors' meetings on page 6 of this report.

Remuneration related matters

The committee assists the board in the general application of the remuneration policy. In doing so, the committee is responsible for:

- Developing remuneration policies for directors and key management personnel;
- Reviewing key management personnel packages annually and, based on these reviews, making recommendations to the board on remuneration levels for key management personnel; and
- Assisting the board in reviewing key management personnel performance annually.

Executive directors and senior executives are remunerated by way of salary, non-monetary benefits and statutory superannuation. Non-executive directors are remunerated by way of salary and statutory superannuation. There are no schemes for retirement benefits for directors other than statutory superannuation arrangements for non-executive directors.

**CORPORATE GOVERNANCE STATEMENT
FOR THE YEAR ENDED 30 JUNE 2012**

Nomination related matters

The committee assists the board in ensuring that the board comprises directors with a range and mix of attributes appropriate for achieving its objective. The committee does this by:

- Overseeing the appointment and induction process for directors;
- Reviewing the skills and expertise of directors and identifying potential deficiencies;
- Identifying suitable candidates for the board;
- Overseeing board and director reviews on an annual basis; and
- Establishing succession planning arrangements for the executive team.

3. Audit and risk committee

The audit and risk committee has a documented charter, approved by the board. The committee must consist of at least 3 members, each of whom must be non-executive directors. At least one of the members must have significant expertise in financial reporting, accounting or auditing. The Chairman of the committee should be an independent director and must not be Chairman of the board. The purpose of the committee is to assist the board in the effective discharge of its responsibilities in relation to the external audit function, accounting policies, financial reporting, funding, financial risk management, business risk monitoring and insurance.

The members of the audit and risk committee during the year were:

- Mr David Charles Williamson (B.Com, FCA, MAICD) – Chairman and non-executive director (deceased 11 July 2012);
- Dr Ralph Howard Craven (BE PhD FIEAust FIPENZ FAICD CPEng) – non-executive director; and
- Mr David John Fairfull (B.Com, ACIS, CPA, ASIA, MAICD) – non-executive director.

Mr Robert Ian Witty as company secretary/chief financial officer will also sit on this committee.

The external auditors and the managing director are invited to audit and risk committee meetings at the discretion of the committee. The committee met 4 times during the year and committee members' attendance record is disclosed in the table of directors' meetings on page 6 of this report.

The managing director and the chief financial officer declared in writing to the board that the financial records of the Group for the financial year ended 30 June 2012 comply with accounting standards and present a true and fair view of the group's financial condition and operational results. This statement is required annually.

4. Performance evaluation

The Remuneration and Nomination Committee is required to annually review the effectiveness of the functioning of the board, its committees, individual directors and senior executives through internal peer review.

Given that the entity has only been operating as a public company for just over 12 months, the board did not consider it appropriate to conduct performance evaluations during the year ended 30 June 2012. However, the board has proposed that it will carry out an evaluation of its operation and performance during the 2013 financial year. The board will also be evaluating the performance of senior executives and assessing whether the current employment arrangements and any incentives are encouraging appropriate performance and behaviour.

**CORPORATE GOVERNANCE STATEMENT
FOR THE YEAR ENDED 30 JUNE 2012**

5. Risk management

The board considers identification and management of key risks associated with the business as vital to creating and delivering long-term shareholder value.

The main risks that could negatively impact on the performance of the Group's business activities include:

- Seasonal conditions and business interruptions;
- Dependence on key personnel and labour shortages;
- Customer demand and outlook for the resources industry;
- High regulation in relation to health, safety and the environment.

A detailed analysis of the Group's business risks was included in the company's prospectus dated 8 July 2011.

An assessment of the business's risk profile is undertaken and reviewed by the board annually, covering all aspects of the business from the operational level through to strategic level risks. Executive management has been delegated the task of implementing internal controls to identify and manage risks for which the board provides oversight. The effectiveness of these controls is monitored and reviewed regularly by management. Executive management has reported on an ongoing basis (via monthly board meetings) to board as to whether the Group's business risks have been effectively managed.

In addition to their regular reporting on business risks, risk management and internal control systems, the managing director and chief financial officer also provide the board with written assurance that the directors' declaration provided with the annual report is founded on a sound system of risk management and internal control, and that this system is operating effectively in all material aspects in relation to financial reporting risks. This assurance has been provided in writing to the board.

The board is responsible for the overall internal control framework, but recognises that no cost-effective internal control system will preclude all errors and irregularities. Comprehensive practices have been established to ensure:

- Capital expenditure and revenue commitments above a certain size obtain prior board approval;
- Financial exposures are controlled;
- Health and safety standards and management systems are monitored and reviewed to achieve high standards of performance and compliance with regulations;
- Business transactions are properly authorised and executed;
- The quality and integrity of personnel;
- Financial reporting accuracy and compliance with the financial reporting regulatory framework. Monthly actual results are reported against budgets approved by the directors and revised forecasts for the year are prepared regularly; and
- Environmental regulation compliance. The Group's health, safety, environment and sustainability committee consists of all members of the board and focuses on ensuring compliance with these various areas.

**CORPORATE GOVERNANCE STATEMENT
FOR THE YEAR ENDED 30 JUNE 2012**

6. Ethical standards

All directors, managers and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Group. Every employee has a nominated supervisor to whom they may refer any issues arising from their employment. The board reviews its Code of Conduct and Ethics regularly and processes are in place to promote and communicate these policies.

Conflict of interest

Directors must keep the board advised, on an on-going basis, of any interest that could potentially conflict with those of the Group. The board has developed procedures to assist directors to disclose potential conflicts of interest. Where the board believes that a significant conflict exists for a director on a board matter, the director concerned does not receive the relevant board papers and is not present at the meeting whilst the item is considered. Details of director related entity transactions with the Group are set out in notes 22 and 23 to the financial statements.

Code of conduct

The Group has advised each director, manager and employee that they must comply with the Group's Code of Conduct and Ethics. The code requires all directors, management and employees to at all times with all relevant stakeholders:

- Act honestly and in good faith;
- Exercise due care and diligence in fulfilling the functions of office;
- Avoid conflicts and make full disclosure of any possible conflict of interest;
- Comply with both the letter and spirit of the law;
- Encourage the reporting and investigation of unlawful and unethical behaviour; and
- Comply with the share trading policy.

Share trading policy

The share trading policy restricts directors and employees from acting on price sensitive information (which is not available to the public) until it has been released to the market and adequate time has been given for this to be reflected in the company's share price.

Directors and other key management personnel are also prohibited from trading during closed periods. Closed periods are periods other than 6 weeks commencing from:

- The release of the Group's annual result to the ASX;
- The release of the Group's half-yearly result to the ASX; and
- The date of the annual general meeting.

DRILL TORQUE LTD

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 30 JUNE 2012

7. Communication with shareholders

The board provides shareholders with information using a comprehensive Continuous Disclosure Policy which includes identifying matters that may have a material effect on the price of the company's shares and notifying them to the ASX.

In summary, the Continuous Disclosure Policy operates as follows:

- The company secretary (also the chief financial officer) and the managing director are responsible for interpreting the Group's policy and where necessary informing the board. The company secretary is responsible for all communications with the ASX. Such matters are advised to the ASX on the day they are discovered but are referred to the board in the first instance.
- The full annual report is provided via the company's website to all shareholders (unless a shareholder has specifically requested to receive a physical copy or not to receive the document). It provides relevant information about the operations of the Group during the year, changes in the state of affairs and details of future developments.
- The half-yearly report contains summarised financial information and a review of the operations of the Group during the period. The half-yearly reviewed financial report is lodged with the ASX and sent to any shareholder who requests it.
- Proposed major changes in the Group which may impact on share ownership rights are submitted to a vote of shareholders.
- All announcements made to the market can be accessed via the company's website after they have been released to the ASX.
- The external auditor attends the annual general meetings to answer questions concerning the conduct of the audit, the preparation and content of the auditor's report, accounting policies adopted by the Group and the independence of the auditor in relation to the conduct of the audit.

The board encourages full participation of shareholders at the Annual General Meeting, to ensure a high level of accountability and identification with the Group's strategy and goals. Important issues are presented to the shareholders as single resolutions.

8. Diversity

The board does not currently have an established policy regarding the gender, age, ethnic and cultural diversity of its board members and senior executives. Given the size of the Group, the nature of the drilling industry and the limited number of board and senior executive positions available, the group does not expect to develop a policy in this regard for the near future. Notwithstanding this, and whenever the opportunity arises, the board will consider new board members and senior executives of any gender, age, ethnicity and culture.

The proportion of women employees in the whole organisation is detailed below.

	2012	
	No.	%
Women on the board	-	-
Women in senior management roles	1	0.62
Women employees in the Group	6	3.75

DRILL TORQUE LTD

**AUDITOR'S INDEPENDENCE DECLARATION
FOR THE YEAR ENDED 30 JUNE 2012**

Auditor's independence declaration under Section 307C of the Corporations Act 2001 to the directors of Drill Torque Ltd

As lead engagement auditor for the audit of the financial statements of Drill Torque Ltd for the financial year ended 30 June 2012, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Jessups



Ian Jessup
Partner

Dated at Townsville this *14th* day of September 2012

Level 1, 19 Stanley Street
Townsville Qld 4810

DRILL TORQUE LTD
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2012**

	Note	2012 \$	2011 \$
Revenue from continuing operations	2	<u>37,091,392</u>	<u>25,288,247</u>
Total income from continuing operations		<u>37,091,392</u>	<u>25,288,247</u>
Gain from continuing operations			
Gain on recognition of inventory	7	-	1,396,768
Changes in inventories of finished goods		352,565	-
Expenses from continuing operations			
Advertising		(67,317)	(22,048)
Depreciation and amortisation expenses		(2,632,702)	(2,621,233)
Drilling consumables		(4,395,332)	(2,870,525)
Employee expenses		(17,813,404)	(11,533,411)
Finance costs		(888,218)	(1,238,473)
Fuel and oil		(1,907,171)	(1,974,203)
Hire of plant and equipment		(1,073,908)	(607,949)
Insurances		(1,859,259)	(976,896)
Rent		(179,639)	(241,852)
Service and repairs		(2,319,516)	(1,280,729)
Travel expenses		(2,011,617)	(1,505,332)
Expenses associated with Public Offering		-	(257,022)
Other expenses		<u>(2,207,697)</u>	<u>(1,462,179)</u>
Total expenses from continuing operations		<u>(37,355,780)</u>	<u>(26,591,852)</u>
Profit/(loss) before income tax		88,177	93,163
Income tax expense	13	<u>(19,752)</u>	<u>(165,940)</u>
Profit/(loss) for the year from continuing operations		68,425	(72,777)
Other comprehensive income		-	-
Total comprehensive income for the year		<u>68,425</u>	<u>(72,777)</u>
Total comprehensive income attributable to:			
Owners of the Company		<u>68,425</u>	<u>(72,777)</u>
Earnings per share			
<i>From continuing operations:</i>			
Basic (cents per share)	27	0.06	(0.13)
Diluted (cents per share)	27	0.06	(0.13)

The accompanying notes are an integral part of these financial statements.

DRILL TORQUE LTD
**CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2012**

	Note	2012 \$	2011 \$
ASSETS			
Current assets			
Cash and cash equivalents	3(a)	745,061	764,764
Trade and other receivables	4	3,680,404	3,845,517
Other financial assets	5	17,630	3,955
Other assets	6	224,958	291,931
Current tax asset	14	2,190	-
Inventories	7	1,749,333	1,396,768
Total current assets		<u>6,419,576</u>	<u>6,302,935</u>
Non – current assets			
Other financial assets	5	17,272	8,110
Property, plant and equipment	12	18,572,955	11,790,197
Other assets	6	63,250	63,250
Deferred tax asset	14	1,101,281	678,186
Goodwill	8	1,515,032	1,515,032
Total non-current assets		<u>21,269,790</u>	<u>14,054,775</u>
Total assets		<u>27,689,366</u>	<u>20,357,710</u>
LIABILITIES			
Current liabilities			
Bank overdraft	3(b)	1,197,903	190,478
Trade and other payables	9	3,563,424	7,765,432
Other financial liabilities	10	4,046,583	6,933,260
Current tax payable	14	-	41,819
Provisions	11	740,264	249,188
Total current liabilities		<u>9,548,174</u>	<u>15,180,177</u>
Non – current liabilities			
Other financial liabilities	10	5,253,463	3,732,159
Provisions	11	95,361	46,651
Total non-current liabilities		<u>5,348,824</u>	<u>3,778,810</u>
Total liabilities		<u>14,896,998</u>	<u>18,958,987</u>
Net assets		<u>12,792,368</u>	<u>1,398,723</u>
EQUITY			
Issued capital	15	14,524,100	1,524,100
IPO costs	16	(1,049,780)	-
Retained earnings	17	(681,952)	(125,377)
Total equity		<u>12,792,368</u>	<u>1,398,723</u>

The accompanying notes are an integral part of these financial statements.

DRILL TORQUE LTD
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2012**

	Note	Share Capital	Retained Earnings	Attributable to Owners of the Parent	Total
		\$	\$	\$	\$
Balance at 1 July 2010		100	(52,600)	(52,500)	(52,500)
Comprehensive income					
Profit/(loss) for the year		-	(72,777)	(72,777)	(72,777)
Other comprehensive income for the year		-	-	-	-
Total comprehensive income for the year		-	(72,777)	(72,777)	(72,777)
Shares issued during the year		1,524,000	-	1,524,000	1,524,000
Balance at 30 June 2011		1,524,100	(125,377)	1,398,723	1,398,723
Payment of dividends	18	-	(625,000)	(625,000)	(625,000)
Comprehensive income					
Profit/(loss) for the year	17	-	68,425	68,425	68,425
Other comprehensive income for the year		-	-	-	-
Total comprehensive income for the year		-	68,425	68,425	68,425
Shares issued during the year	15	13,000,000	-	13,000,000	13,000,000
Share issue costs	16	(1,049,780)	-	(1,049,780)	(1,049,780)
Balance at 30 June 2012		13,474,320	(681,952)	12,792,368	12,792,368

The accompanying notes are an integral part of these financial statements.

DRILL TORQUE LTD
**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2012**

	Note	2012 \$	2011 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		40,198,830	25,980,721
Cash paid to suppliers and employees		(36,819,736)	(22,759,965)
Interest received		30,213	58,641
Interest and borrowing costs paid		(802,554)	(1,238,473)
Income tax paid		<u>(36,687)</u>	<u>(165,940)</u>
Net cash generated by operating activities	19	<u>2,570,066</u>	<u>1,874,984</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		147,273	1,088,754
Acquisition of property, plant and equipment		<u>(9,541,317)</u>	<u>(2,378,199)</u>
Net cash used in investing activities		<u>(9,394,044)</u>	<u>(1,289,445)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of share capital		13,000,000	-
Payments for IPO costs		(1,499,686)	-
Dividends paid		(625,000)	-
Proceeds from borrowings		5,943,326	-
Repayment of (proceeds from) financial assets		-	1,659,453
Repayment of financial liabilities and ATO debt		(11,000,689)	(1,527,348)
Costs incurred in preparation for public offering		-	(257,022)
Costs associated with borrowing		<u>(21,100)</u>	<u>(3,759)</u>
Net cash generated by/(used in) financing activities		<u>5,796,851</u>	<u>(128,676)</u>
Net increase/(decrease) in cash and cash equivalents		(1,027,127)	456,863
Cash and cash equivalents at the beginning of the year		<u>574,285</u>	<u>117,422</u>
Cash and cash equivalents at the end of the year	3(c)	<u>(452,842)</u>	<u>574,285</u>

The accompanying notes are an integral part of these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012**

1. SIGNIFICANT ACCOUNTING POLICIES

(a) General information

Drill Torque Ltd (the Company) is a limited company incorporated in Australia. The addresses of its registered office and principal place of business are disclosed in the Corporate Directory of this Annual Report. The principal activities of the Company and its subsidiaries (the Group) involve the provision of exploration and mine site drilling services to the mining industry.

(b) Statement of compliance

These financial statements are general purpose financial statements which have been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and comply with other requirements of the law.

The financial statements comprise the consolidated financial statements of the Group. For the purposes of preparing the consolidated financial statements, the Company is a for-profit entity.

Accounting Standards include Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the financial statements and notes of the Group comply with International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the directors on the date shown in the directors' declaration.

(c) Basis of preparation

The consolidated financial statements have been prepared on an accruals basis and are based on historical costs, except for certain non-current assets and financial instruments that are measured at revalued amounts or fair values, as explained in the accounting policies below. Historical cost is generally based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

(d) Basis of consolidation

The consolidated financial statements incorporate the assets, liabilities, and results of entities controlled by the Company at the end of the reporting period. A controlled entity is any entity over which the Company has the ability and right to govern the financial and operating policies so as to obtain benefits from the entity's activities.

Where controlled entities have entered or left the Group during the year, the financial performance of those entities is included only for the period of the year that they were controlled. A list of controlled entities is contained in note 22 to the financial statements.

In preparing the consolidated financial statements, all intra-group balances and transactions between entities in the consolidated group have been eliminated in full on consolidation.

(e) Business combinations

Business combinations occur where an acquirer obtains control over one or more businesses.

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The business combination will be accounted for from the date that control is attained, whereby the fair value of the identifiable assets acquired and liabilities (including contingent liabilities) assumed is recognised (subject to certain limited exemptions).

When measuring the consideration transferred in the business combination, any asset or liability resulting from a contingent consideration arrangement is also included. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability is remeasured each reporting period to fair value, recognising any change to fair value in profit or loss, unless the change in value can be identified as existing at acquisition date.

All transaction costs incurred in relation to the business combination are expensed to the statement of comprehensive income.

DRILL TORQUE LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

The acquisition of a business may result in the recognition of goodwill or a gain from a bargain purchase.

Business combinations of the type whereby Drill Torque Ltd has legally acquired all of the issued capital of Notch Holdings Pty Ltd are considered, for accounting purposes, to be a reverse acquisition of Drill Torque Ltd by Notch Holdings Pty Ltd. These financial statements are issued under the name of Drill Torque Ltd but effectively represent a continuation of the financial statements of Notch Holdings Pty Ltd.

The legal capital structure (shares and options) of the legal controlling entity, Drill Torque Ltd is reflected in these financial statements, together with all amounts recognised as equity interests in Notch Holdings Pty Ltd prior to its entry into the business combination with Drill Torque Ltd and the fair value of equity interests in Drill Torque Ltd.

The financial statements reflect all amounts recognised as retained profits (losses) of Notch Holdings Pty Ltd prior to its entry into the business combination with Drill Torque Ltd together with the retained profits (losses) of the continuing Drill Torque Ltd business combination.

(f) Goodwill

Goodwill is carried at cost less accumulated impairment losses. Goodwill is calculated as the excess of the sum of:

- the consideration transferred;
- any non-controlling interest; and
- the acquisition date fair value of any previously held equity interest

over the acquisition date fair value of net identifiable assets acquired.

The acquisition date fair value of the consideration transferred for a business combination plus the acquisition date fair value of any previously held equity interest shall form the cost of the investment in the separate financial statements.

Fair value uplifts in the value of pre-existing equity holdings are taken to the statement of comprehensive income. Where changes in the value of such equity holdings had previously been recognised in other comprehensive income, such amounts are recycled to profit or loss.

The amount of goodwill recognised on acquisition of each subsidiary in which the Group holds less than a 100% interest will depend on the method adopted in measuring the non-controlling interest. The Group can elect in most circumstances to measure the non-controlling interest in the acquiree either at fair value (*full goodwill method*) or at the non-controlling interest's proportionate share of the subsidiary's identifiable net assets (*proportionate interest method*). In such circumstances, the Group determines which method to adopt for each acquisition. There were no such acquisitions during the current reporting period.

Under the full goodwill method, the fair value of the non-controlling interest is determined using valuation techniques which make the maximum use of market information where available. Under this method, goodwill attributable to the non-controlling interests is recognised in the consolidated financial statements.

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates.

Goodwill is tested for impairment annually and is allocated to the Group's cash-generating units or groups of cash-generating units, representing the lowest level at which goodwill is monitored not larger than an operating segment. Gains and losses on the disposal of an entity include the carrying amount of goodwill related to the entity disposed of.

Changes in the ownership interests in a subsidiary are accounted for as equity transactions and do not affect the carrying values of goodwill.

(g) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and amounts collected on behalf of third parties. The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measureable until all contingencies relating to the sale have been resolved.

DRILL TORQUE LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement

Revenue is recognised for the major business activities as follows:

Drilling revenue

Drilling revenue is derived from the depth and type of drilling and the hours worked on the specific site.

Interest income

Interest income is recognised on a time proportion basis as it is earned. The Group recognises revenue when the amount of revenue can be reliably measured. Interest revenue is recognised using the effective interest rate method, which, for floating rate financial assets, is the rate inherent in the instrument.

Other revenue is recognised when the right to receive the revenue has been established.

All revenue is stated net of the amount of goods and services tax (GST).

(h) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the assets (but not the legal ownership) are classified as finance leases.

Finance leases are capitalised by recognising an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a diminishing value basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are recognised as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the lease term.

(i) Employee benefits

Provision is made for the Group's liability for employee benefits arising from services rendered by employees to the end of the reporting period. Employee benefits that are expected to be settled within 1 year have been measured at the amounts expected to be paid when the liability is settled. Employee benefits payable later than 1 year have been measured at the present value of the estimated future cash outflows to be made for those benefits. In determining the liability, consideration is given to employee wage increases and the probability that the employee may satisfy vesting requirements. Those cash flows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cash flows attributable to employee benefits.

Payments to defined contribution retirement plans are recognised as an expense when employees have rendered service entitling them to the contributions.

(j) Income taxes

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax liabilities and assets are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

(k) Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset.

In the event the carrying amount of property, plant and equipment is greater than the estimated recoverable amount, the carrying amount is written down immediately to the estimated recoverable amount and impairment losses are recognised either in profit or loss or as a revaluation decrease if the impairment losses relate to a revalued asset. A formal assessment of recoverable amount is made when impairment indicators are present (refer to note 1(o) for details of impairment).

The carrying amount of property, plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The cost of fixed assets constructed within the Group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

DRILL TORQUE LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

Depreciation

The depreciable amount of all fixed assets (excluding buildings which are depreciated on a straight-line basis) is depreciated on a diminishing value basis over the asset's useful life to the Group commencing from the time the asset is held ready for use.

The depreciation rates used for each class of depreciable assets are:

Classes of Fixed Asset	
Buildings	2.5%
Plant & Equipment	6.67% - 30%
Motor Vehicles	18.75% - 40%
Office Equipment, Furniture & Fittings	10% - 50%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the statement of comprehensive income. When revalued assets are sold, amounts included in the revaluation surplus relating to that asset are transferred to retained earnings.

(l) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of manufactured products includes direct materials, direct labour and an appropriate portion of variable and fixed overheads. Overheads are applied on the basis of normal operating capacity. Costs are assigned on the basis of weighted average costs.

(m) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(n) Financial Instruments

Recognition and initial measurement

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions to the instrument. For financial assets, this is the equivalent to the date that the Group commits itself to either purchase or sale of the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transactions costs, except where the instrument is classified "at fair value through profit or loss", in which case transaction costs are expensed to profit or loss immediately.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

Classification and subsequent measurement

Financial instruments are subsequently measured at either of fair value, amortised cost using the effective interest rate method, or cost.

Amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment, and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the *effective interest method*.

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

The *effective interest method* is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) over the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense item in profit or loss.

The Group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of Accounting Standards specifically applicable to financial instruments.

(i) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

Gains or losses are recognised in profit or loss through the amortisation process and when the financial asset is derecognised.

(ii) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are either not suitable to be classified into other categories of financial assets due to their nature, or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

They are subsequently measured at fair value with changes in such fair value (i.e. gains or losses) recognised in other comprehensive income (except for impairment losses and foreign exchange gains and losses).

When the financial asset is derecognised, the cumulative gain or loss pertaining to that asset previously recognised in other comprehensive income is reclassified into profit or loss.

Available-for-sale financial assets are included in non-current assets where they are expected to be sold after 12 months from the end of the reporting period. All other financial assets are classified as current assets.

(iii) *Financial liabilities*

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial liability is derecognised.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012**

Impairment

At the end of each reporting period, the Group assesses whether there is objective evidence that a financial asset has been impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events (a "loss event") having occurred, which has an impact on the estimated future cash flows of the financial asset(s).

In the case of available-for-sale financial instruments, a significant or prolonged decline in the market value of the instrument is considered to constitute a loss event. Impairment losses are recognised in profit or loss immediately. Also, any cumulative decline in fair value previously recognised in other comprehensive income is reclassified to profit or loss at this point.

In the case of financial assets carried at amortised cost, loss events may include: indications that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments; indications that they will enter bankruptcy or other financial reorganisation; and changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortised cost (including loans and receivables), a separate allowance account is used to reduce the carrying amount of financial assets impaired by credit losses. After having taken all possible measures of recovery, if management establishes that the carrying amount cannot be recovered by any means, at that point the written-off amounts are charged to the allowance account or the carrying amount of impaired financial assets is reduced directly if no impairment amount was previously recognised in the allowance account.

When the terms of financial assets that would otherwise have been past due or impaired have been renegotiated, the Group recognises the impairment for such financial assets by taking into account the original terms as if the terms have not been renegotiated so that the loss events that have occurred are duly considered.

Financial guarantees

Where material, financial guarantees issued that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due are recognised as a financial liability at fair value on initial recognition.

The fair value of financial guarantee contracts has been assessed using a probability-weighted discounted cash flow approach. The probability has been based on:

- the likelihood of the guaranteed party defaulting during the next reporting period;
- the proportion of the exposure that is not expected to be recovered due to the guaranteed party defaulting; and
- the maximum loss exposure if the guaranteed party were to default.

Financial guarantees are subsequently measured at the higher of the best estimate of the obligation in accordance with AASB 137: Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less, when appropriate, cumulative amortisation in accordance with AASB 118: Revenue. Where the Group gives guarantees in exchange for a fee, revenue is recognised under AASB 118.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expire or the asset is transferred to another party whereby the Group no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012**

(o) Impairment of assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. The assessment will include the consideration of external and internal sources of information including dividends received from subsidiaries, associates or jointly controlled entities deemed to be out of pre-acquisition profits. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, to the asset's carrying amount. Any excess of the asset's carrying amount over its recoverable amount is recognised immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with another Standard (e.g. in accordance with the revaluation model in AASB 116). Any impairment loss of a revalued asset is treated as a revaluation decrease in accordance with that other Standard.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

(p) Trade and other receivables

Trade and other receivables include amounts due from customers for goods and services performed in the ordinary course of business. Receivables expected to be collected within 12 months of the end of the reporting period are classified as current assets. All other receivables are classified as non-current assets.

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Refer to note 1(n) for further discussion on the determination of impairment losses.

(q) Trade and other payables

Trade and other payables represent the liabilities for goods and services received by the Group that remain unpaid at the end of the reporting period. The balance is recognised as a current liability with the amounts normally paid within 30 days after the end of the month in which they were initially recognised as a liability.

(r) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO).

Receivables and payables are stated inclusive of GST receivable or payable. The net amount of GST recoverable from, or payable to, the ATO is included with other receivables or payables in the consolidated balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the ATO are presented as operating cash flows included in receipts from customers or payments to suppliers.

(s) Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key estimates – impairment

The Group assesses impairment at each reporting date by evaluating conditions specific to the Group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

(t) Application of new and revised Accounting Standards

Standards and Interpretations in issue not yet adopted

At the date of authorisation of the financial statements, the Australian Accounting Standards and Interpretations listed below were in issue but not yet effective. The reported results and position of the Group will not change on adoption of these pronouncements as they do not result in any changes to the Group's existing accounting policies. Adoption may, however, result in changes to information currently disclosed in the financial statements. The Group does not intend to adopt any of these pronouncements before their effective dates.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 "Financial Instruments", AASB 2009-11 "Amendments to Australian Accounting Standards arising from AASB 9" and AASB 2010-7 "Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)"	1 January 2013	30 June 2014
AASB 10 "Consolidated Financial Statements"	1 January 2013	30 June 2014
AASB 11 "Joint Arrangements"	1 January 2013	30 June 2014
AASB 12 "Disclosure of Interests in Other Entities"	1 January 2013	30 June 2014
AASB 127 "Separate Financial Statements" (2011)	1 January 2013	30 June 2014
AASB 128 "Investments in Associates and Joint Ventures" (2011)	1 January 2013	30 June 2014
AASB 13 "Fair Value Measurement" and AASB 2011-8 "Amendments to Australian Accounting Standards arising from AASB 13"	1 January 2013	30 June 2014
AASB 119 "Employee Benefits" (2011) and AASB 2011-10 "Amendments to Australian Accounting Standards arising from AASB 119 (2011)"	1 January 2013	30 June 2014
AASB 2010-8 "Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets"	1 January 2012	30 June 2013
AASB 2011-4 "Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements"	1 July 2013	30 June 2014
AASB 2011-7 "Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements standards"	1 January 2013	30 June 2014
AASB 2011-9 "Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income"	1 July 2012	30 June 2013

DRILL TORQUE LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

	2012 \$	2011 \$
2. REVENUE		
From continuing operations		
Income from operations	36,403,587	24,121,441
Profit on sale of assets	64,670	456,810
Interest on bank deposits	30,213	58,641
Recoveries	522,219	613,047
Rental income	5,490	5,739
Government subsidy	14,550	3,718
Other	50,663	28,851
	<u>687,805</u>	<u>1,166,806</u>
Total income from continuing operations	<u>37,091,392</u>	<u>25,288,247</u>

3. CASH AND CASH EQUIVALENTS

For the purposes of the consolidated statement of cash flows, cash and cash equivalents include cash on hand and in banks, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the year as shown in the consolidated statement of cash flows can be reconciled to the related items in the consolidated balance sheet as follows.

3(a) In funds accounts

Bank balances	<u>745,061</u>	<u>764,764</u>
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3(b) Bank overdraft

Bank overdraft	<u>(1,197,903)</u>	<u>(190,478)</u>
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3(c) Net cash at bank

	<u>(452,842)</u>	<u>574,285</u>
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The Group's bank overdraft facility is secured by a new registered mortgage given by Drill Torque Ltd over the property situated at 133 Crocodile Crescent Townsville and a new registered company charge given by Drill Torque Ltd over all of the assets and undertakings of the company including uncalled and unpaid capital.

4. TRADE AND OTHER RECEIVABLES

Trade debtors	3,665,954	3,843,517
Bonds and deposits	<u>14,450</u>	<u>2,000</u>
	<u>3,680,404</u>	<u>3,845,517</u>

4(a) CREDIT RISK AND AGEING OF TRADE DEBTORS

The Group has no significant concentration of credit risk with respect to any single counterparty or group of counterparties. The class of assets described as "trade debtors" is considered to be the main source of credit risk related to the Group. In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The Group does not hold any collateral over these balances.

The ageing of trade debtors (financial assets) is as follows:

< 1 month	2,837,712	3,655,116
1 to 3 months	828,242	161,076
> 3 months	<u>-</u>	<u>27,325</u>
	<u>3,665,954</u>	<u>3,843,517</u>

DRILL TORQUE LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

	2012 \$	2011 \$
5. OTHER FINANCIAL ASSETS		
Current		
Borrowing costs	9,128	3,758
Loans to directors (unsecured - refer note 22(b)(iii))	8,502	197
	<u>17,630</u>	<u>3,955</u>
Non-current		
Borrowing costs	17,272	8,110
	<u>17,272</u>	<u>8,110</u>

5(a) AGEING OF OTHER FINANCIAL ASSETS

The ageing of other financial assets - current is as follows:

< 1 year	<u>17,630</u>	<u>3,955</u>
	<u>17,630</u>	<u>3,955</u>

The ageing of other financial assets – non- current is as follows:

1 to 5 years	<u>17,272</u>	<u>8,110</u>
	<u>17,272</u>	<u>8,110</u>

6. OTHER ASSETS

Current		
Prepayments	224,958	234,075
Listing costs carried forward	-	57,856
	<u>224,958</u>	<u>291,931</u>
Non-current		
Property held for sale	61,250	61,250
Shares in listed company	2,000	2,000
	<u>63,250</u>	<u>63,250</u>

7. INVENTORIES

Finished goods	<u>1,749,333</u>	<u>1,396,768</u>
	<u>1,749,333</u>	<u>1,396,768</u>

The cost of inventories recognised as an expense during the year in respect of continuing operations was \$4,395,332 (2011: \$2,978,143).

8. GOODWILL

Balance at the beginning of the year	1,515,032	318,024
Amount recognised from business combination during the year	-	1,515,032
Amount derecognised during the year	-	(318,024)
	<u>1,515,032</u>	<u>1,515,032</u>

DRILL TORQUE LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

	2012 \$	2011 \$
9. TRADE AND OTHER PAYABLES		
Current		
Trade creditors	1,770,366	2,777,420
Other creditors	281,045	3,694,798
Accrued expenses	<u>1,512,013</u>	<u>1,293,214</u>
	<u>3,563,424</u>	<u>7,765,432</u>

9(a) AGEING OF TRADE AND OTHER PAYABLES

The ageing of trade creditors (financial liabilities) is as follows:

< 1 month	907,709	2,033,405
1 to 3 months	862,657	479,962
> 3 months	<u>-</u>	<u>264,053</u>
	<u>1,770,366</u>	<u>2,777,420</u>

10. OTHER FINANCIAL LIABILITIES

Current		
Equipment finance leases	3,673,988	3,196,005
Equipment line loan	172,695	-
Related party loans		
Richvale Pty Ltd	-	1,500,000
Miller Superannuation Fund	-	490,000
Jumani Pty Ltd	-	350,000
Jumani Pty Ltd	-	981,089
Pharmamark Pty Ltd	-	214,248
Insurance Premium Funding	<u>199,900</u>	<u>201,918</u>
	<u>4,046,583</u>	<u>6,933,260</u>

Non - current		
Equipment finance leases	4,411,397	3,732,159
Equipment line loan	<u>842,066</u>	<u>-</u>
	<u>5,253,463</u>	<u>3,732,159</u>

10(a) FINANCE LEASES

Current	3,673,988	3,196,005
Non-current	<u>4,411,397</u>	<u>3,732,159</u>
	<u>8,085,385</u>	<u>6,928,164</u>

Minimum future lease payments

Not later than 1 year	4,198,024	3,847,772
Later than 1 year and not later than 5 years	<u>4,895,190</u>	<u>3,893,945</u>
Minimum future lease payments	9,093,214	7,741,717
Less future finance charges	<u>(1,007,829)</u>	<u>(813,553)</u>
	<u>8,085,385</u>	<u>6,928,164</u>

DRILL TORQUE LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

	2012 \$	2011 \$
<i>Present value of minimum future lease payments</i>		
Not later than 1 year	3,673,988	3,196,005
Later than 1 year and not later than 5 years	<u>4,411,397</u>	<u>3,732,159</u>
	<u>8,085,385</u>	<u>6,928,164</u>

The Group leases certain items of equipment under finance leases. The average term is 4 years (2011: 4 years). The Group has options to purchase the equipment at the end of the lease terms for nominal amounts. The Group's obligations under finance leases are secured by lessor's title to goods under finance lease.

The Group's exposure to interest rate risk has been mitigated in that interest rates have been fixed for the duration of the finance period. Effective interest rates payable under finance leases are between 5.68% and 11.98% (2011: 7.55% to 11.98%).

The fair value of the finance lease liabilities is approximately equal to the carrying amount.

10(b) LOANS

The Group has pledged 2 of its rigs as security for the equipment line loan under a mortgage. A summary of borrowing arrangements applicable to all loans is included in Note 20 financial risk management (interest rate risk).

11. PROVISIONS

Annual leave provision - current

Opening balance	210,918	141,576
Movement	<u>478,150</u>	<u>69,342</u>
Closing balance	<u>689,068</u>	<u>210,918</u>

Long service leave provision - current

Opening balance	38,270	43,374
Movement	<u>12,926</u>	<u>(5,104)</u>
Closing balance	<u>51,196</u>	<u>38,270</u>
Total current provisions	<u>740,264</u>	<u>249,188</u>

Long service leave provision – non - current

Opening balance	46,651	14,046
Movement	<u>48,710</u>	<u>32,605</u>
Closing balance	<u>95,361</u>	<u>46,651</u>
Total non - current provisions	<u>95,361</u>	<u>46,651</u>

The above provisions represent annual leave and long service leave entitlements accrued by the Group's employees.

DRILL TORQUE LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

12. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings \$	Plant and equipment \$	Motor vehicles \$	Furniture and fittings \$	Total \$
At 1 July 2011					
Cost or fair value	-	7,551,178	15,897,576	194,128	23,642,882
Accumulated depreciation	-	(2,472,946)	(9,274,671)	(105,068)	(11,852,685)
Net book amount	-	5,078,232	6,622,905	89,060	11,790,197
Year ended 30 June 2012					
Opening net book amount	-	5,078,232	6,622,905	89,060	11,790,197
Additions	3,591,170	4,747,292	1,168,954	33,899	9,541,315
Disposals	-	-	(128,132)	-	(128,132)
Other	-	2,661	(98)	(286)	2,277
Depreciation	(41,046)	(1,032,063)	(1,521,118)	(38,475)	(2,632,702)
Closing net book amount	3,550,124	8,796,122	6,142,511	84,198	18,572,955
At 30 June 2012					
Cost or fair value	3,591,170	12,299,237	16,706,271	225,576	32,822,254
Accumulated depreciation	(41,046)	(3,503,115)	(10,563,760)	(141,378)	(14,249,299)
Net book amount	3,550,124	8,796,122	6,142,511	84,198	18,572,955
At 1 July 2010					
Cost or fair value	-	4,995,671	16,385,066	129,164	21,509,901
Accumulated depreciation	-	(2,184,309)	(8,141,296)	(80,341)	(10,405,946)
Net book amount	-	2,811,362	8,243,770	48,823	11,103,955
Year ended 30 June 2011					
Opening net book amount	-	2,811,362	8,243,770	48,823	11,103,955
Additions	-	1,827,677	502,242	48,280	2,378,199
Additions through acquisition of controlled entity	-	927,917	282,672	3,280	1,213,869
Transfers	-	510,295	(510,295)	-	-
Disposals	-	(432,688)	(199,256)	-	(631,944)
Depreciation	-	(566,331)	(1,696,228)	(11,323)	(2,273,882)
Closing net book amount	-	5,078,232	6,622,905	89,060	11,790,197
At 30 June 2011					
Cost or fair value	-	7,551,178	15,897,576	194,128	23,642,882
Accumulated depreciation	-	(2,472,946)	(9,274,671)	(105,068)	(11,852,685)
Net book amount	-	5,078,232	6,622,905	89,060	11,790,197

The property, plant and equipment classifications of plant and equipment and motor vehicles are comprised mainly of drilling rigs and associated equipment. Given the current boom in the resources industry and the resultant demand for drill rigs, the market value of both new and used rigs has risen significantly. Directors and management continually monitor both domestic and overseas markets on new and used drill rig pricing and availability and as a result are of the opinion that the net written down book amount of the Group's property, plant and equipment is conservative. Notwithstanding the foregoing and mindful of the volatility of the mining industry, Directors and management do not intend to change the current depreciation and amortisation rates.

12(a) ASSETS PLEDGED AS SECURITY

Freehold land and buildings with a carrying amount of \$3,550,124 have been pledged as security for the Group's bank overdraft facility under a mortgage (refer note 3).

The Group's obligations under finance leases are secured by lessor's title to the leased assets under finance lease. The Group has also pledged 2 of its rigs as security for the equipment line loan under a mortgage (refer note 10).

DRILL TORQUE LTD**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012**

	2012 \$	2011 \$
13. INCOME TAX EXPENSE		
Income tax recognised in profit or loss		
Income tax expense comprises		
Current tax	-	-
Deferred tax	31,292	165,940
Adjustments recognised in current year in relation to current tax of prior years	<u>(11,540)</u>	<u>-</u>
	<u>19,752</u>	<u>165,940</u>

The income tax expense for the year can be reconciled to the accounting profit as follows:

Profit before tax from continuing operations	88,177	93,163
Income tax expense calculated at 30% (2011: 30%)	26,453	27,949
Effect of expenses that are not deductible in determining taxable profit	4,839	137,991
Adjustments recognised in current year in relation to current tax of prior years	<u>(11,540)</u>	<u>-</u>
	<u>19,752</u>	<u>165,940</u>

The tax rate used for 2012 and 2011 reconciliations above is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law.

Income tax recognised directly in equity

Share issue expenses deductible over 5 years	<u>449,906</u>	<u>-</u>
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14. TAX ASSETS AND LIABILITIES

Tax assets – current		
Income tax receivable	<u>2,190</u>	<u>-</u>
Tax assets – non - current		
Deferred tax asset (refer note 14(a))	<u>1,101,281</u>	<u>678,186</u>
Tax liabilities – current		
Provision for income tax payable	<u>-</u>	<u>41,819</u>

DRILL TORQUE LTD
**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012**
14(a) DEFERRED TAX ASSET

Deferred tax assets arise on income and expenses recognised in comprehensive income.

2012	Opening balance 01/07/11	Recognised in profit/(loss)	Recognised in Equity	30%	Closing balance 30/06/12
Temporary differences					
Annual & long service leave provision	(88,842)	(539,484)	-	(161,845)	(250,687)
Super provision	(78,171)	(130,248)	-	(39,074)	(117,245)
Other accrued expenses	(175,815)	536,427	-	160,928	(14,887)
Finance leases	-	(2,229)	-	(669)	(669)
Building depreciation	-	581	-	174	174
Accrued income	-	77,356	-	23,207	23,207
IPO costs	(58,148)	308,321	(1,499,686)	(357,410)	(415,558)
	<u>(400,976)</u>	<u>250,724</u>	<u>(1,499,686)</u>	<u>(374,689)</u>	<u>(775,665)</u>
Unused tax losses					
Losses carried forward	(277,210)	(161,356)	-	(48,406)	(325,616)
	<u>(678,186)</u>	<u>89,368</u>	<u>(1,499,686)</u>	<u>(423,095)</u>	<u>(1,101,281)</u>
2011	Opening balance 01/07/10	Recognised in profit/(loss)	Recognised in Equity	30%	Closing balance 30/06/11
Annual & long service leave provision	(59,699)	(97,145)	-	(29,143)	(88,842)
Super provision	(55,121)	(76,836)	-	(23,050)	(78,171)
Other accrued expenses	(154,954)	(263,363)	-	(79,009)	(233,963)
	<u>(269,774)</u>	<u>(437,344)</u>	<u>-</u>	<u>(131,202)</u>	<u>(400,976)</u>
Unused tax losses					
Losses carried forward	(511,500)	780,967	-	234,290	(277,210)
	<u>(781,274)</u>	<u>343,623</u>	<u>-</u>	<u>103,088</u>	<u>(678,186)</u>

14(b) UNRECOGNISED AMOUNTS

Franking account balance	<u>909,986</u>	<u>1,132,348</u>
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DRILL TORQUE LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

	2012 \$	2011 \$
15. ISSUED CAPITAL		
Fully paid ordinary shares		
Balance at the beginning of the year	1,524,100	100
Issue of shares	<u>13,000,000</u>	<u>1,524,000</u>
	<u>14,524,100</u>	<u>1,524,100</u>

The Company issued a Prospectus dated 8 July 2011 inviting applications for the public issue of shares and options in the Company. Pursuant to the Prospectus, on 27 July 2011, 65,000,000 shares were issued (at 20 cents per share), resulting in total issued shares of 125,000,005. Attaching to the shares of the Company are options. Options were allotted on 28 July 2011, one for every 10 shares held in the Company as at the date of allotment. The Company was admitted to the Official List of the Australian Stock Exchange Limited on 29 July 2011 and shares and options were officially quoted by the Australian Stock Exchange Limited from commencement of trading on 2 August 2011.

	Consolidated 2012 Number	Consolidated 2011 Number
Fully paid ordinary shares		
Balance at the beginning of the year	60,000,005	-
Shares issued during the year		
8 February 2011	-	5
18 February 2011	-	60,000,000
27 July 2011	<u>65,000,000</u>	<u>-</u>
	<u>125,000,005</u>	<u>60,000,005</u>

Fully paid ordinary shares carry one vote per share and carry a right to dividends.

16. IPO COSTS

Balance at the beginning of the year	-	-
IPO costs incurred during the year	(1,499,686)	-
Tax benefit	<u>449,906</u>	<u>-</u>
	<u>(1,049,780)</u>	<u>-</u>

Costs incurred during the year ended 30 June 2012 in relation to the IPO (refer note 15) that are available as an offset against equity amounted to \$1,499,686. The income tax benefit associated with these costs is \$449,906.

17. RETAINED EARNINGS

Balance at the beginning of the year	(125,377)	(52,600)
Profit/(loss) attributable to owners of the Company	68,425	(72,777)
Payment of dividends (refer note 18)	<u>(625,000)</u>	<u>-</u>
	<u>(681,952)</u>	<u>(125,377)</u>

DRILL TORQUE LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

18. DIVIDENDS

	Year ended 30 June 2012		Year ended 30 June 2011	
	Cents per share	Total \$	Cents per share	Total \$
Recognised amounts				
<i>Fully paid ordinary shares</i>				
Interim dividend:				
Fully franked at a 30% tax rate	0.50	625,000	-	-

On 1 March 2012, the directors declared a fully franked interim dividend of 0.5 cents per share to the holders of fully paid ordinary shares in respect of the year ended 30 June 2012. This was paid to shareholders on 20 April 2012. The directors have determined that there will be no final dividend payment for the year ended 30 June 2012.

	2012 \$	2011 \$
19. RECONCILIATION OF PROFIT FOR THE YEAR TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the year	68,425	(72,777)
<i>Adjustments for:</i>		
Depreciation and amortisation	2,639,268	2,621,233
Costs incurred in preparation for public offer	-	257,022
Profit on sale of assets	(64,670)	(456,810)
Loss on sale of assets	45,530	-
Income tax expense	19,752	-
Change in trade and other receivables	165,113	(1,268,409)
Change in income tax payable	-	41,819
Change in deferred tax asset	-	311,422
Change in other assets	56,391	(28,298)
Change in inventories	(352,565)	(1,396,768)
Change in trade payables and accruals	(510,278)	1,769,708
Change in provisions	539,787	96,842
Income tax paid	(36,687)	-
Net cash generated by operating activities	2,570,066	1,874,984

20. FINANCIAL RISK MANAGEMENT

The Group's financial instruments mainly consist of deposits with banks, trade receivables and payables, borrowings and leases from financial institutions and borrowings from related parties. The Board of Directors are responsible for monitoring and managing the financial risks. They monitor these risks through regular meetings with the Group's management. The Group does not enter into derivative financial instruments and does not speculate in any type of financial instrument.

Specific financial risk exposures and management thereof

The main risks the Group is exposed to through its financial instruments are interest rate risk, liquidity risk and credit risk. There have been no substantive changes in the types of risks the Group is exposed to, how these risks arise, or the Board's objectives, policies and processes for managing or measuring the risks from the previous reporting period.

(a) Interest rate risk

Exposure to interest rate risk arises on financial assets and liabilities recognised at reporting date whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments. The Group is also exposed to earnings volatility on floating rate instruments.

DRILL TORQUE LTD
**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012**

The following tables set out the Group's exposure to interest rate risk.

2012		Expected duration until repayment				
		Within 1 year \$	1 to 2 years \$	2 to 3 years \$	3 to 5 years \$	Total \$
Bank Overdraft	(a)	1,197,903	-	-	-	1,197,903
Equipment finance leases	(b)	3,673,988	1,860,469	1,265,892	1,285,036	8,085,385
Premium Insurance	(c)	199,900	-	-	-	199,900
Equipment line loan	(d)	172,695	190,585	210,329	441,152	1,014,761
		5,244,486	2,051,054	1,476,221	1,726,188	10,497,949

(a) Interest rates have varied between 6.87% and 7.92% per annum.

(b) Interest rates are commercial lease finance rates and are fixed for the duration of the loan period.

(c) Interest rate is fixed at a flat rate of 3.98% of the amount initially financed.

(d) Interest is variable with rates varying between 8.895% and 9.935% per annum.

2011		Expected duration until repayment				
		Within 1 year \$	1 to 2 years \$	2 to 3 years \$	3 to 5 years \$	Total \$
Bank Overdraft	(a)	190,478	-	-	-	190,478
Equipment finance leases	(b)	3,196,005	2,600,051	969,508	162,600	6,928,164
Premium Insurance	(c)	201,918	-	-	-	201,918
Loans						
Richvale Pty Ltd	(d)	1,500,000	-	-	-	1,500,000
Miller Superannuation Fund	(e)	490,000	-	-	-	490,000
Jumani Pty Ltd	(e)	350,000	-	-	-	350,000
Jumani Pty Ltd	(f)	981,089	-	-	-	981,089
Pharmamark Pty Ltd	(f)	214,248	-	-	-	214,248
		7,123,738	2,600,051	969,508	162,600	10,855,897

(a) Interest rates have varied between 10.5% and 12.5% per annum.

(b) Interest rates are commercial lease finance rates and are fixed for the duration of the loan period.

(c) Interest rate is fixed at a flat rate of 2.98% of the amount initially financed.

(d) Interest rate is variable at BBSW + 6%. Interest became payable from 1 July 2011 with rates varying between 10.79% and 10.87%.

(e) Loans do not bear interest.

(f) Interest rate is fixed at 12.62% per annum.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

20. FINANCIAL RISK MANAGEMENT

(b) Liquidity risk

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Group manages this risk through the following mechanisms:

- ensuring that there is access to adequate capital;
- preparing forward looking cash flow analyses in relation to its operational, investing and financial activities;
- monitoring undrawn credit facilities;
- obtaining funding from a variety of sources;
- maintaining a reputable credit profile;
- managing credit risk related to financial assets;
- investing surplus cash only with major financial institutions; and
- comparing the maturity profile of financial liabilities with the realisation profile of financial assets.

The table below reflects an undiscounted contractual maturity analysis for financial liabilities, compared with financial assets. Bank overdrafts have been excluded from the analysis below as management does not consider that there is any material risk that the bank will terminate such facilities.

Cash flows realised from financial assets reflect management's expectation as to the timing of realisation. Actual timing may therefore differ from that disclosed. The timing of cash flows presented in the table to settle financial liabilities reflect the earliest contractual settlement dates and do not reflect management's expectations that banking facilities will be rolled forward. The deficiency identified in the table will be met from cash flows generated by the Group's normal operations.

Financial liability and financial asset maturity analysis

	Within 1 year		1 to 5 years		Total	
	2012 \$	2011 \$	2012 \$	2011 \$	2012 \$	2011 \$
Financial liabilities due for payment						
Trade and other payables (excluding estimated employee entitlements)	3,563,424	7,765,432	-	-	3,563,424	7,765,432
Financial liabilities	4,046,583	6,933,260	5,253,463	3,732,159	9,300,046	10,665,419
Total contractual outflows	7,610,007	14,698,692	5,253,463	3,732,159	12,863,470	18,430,851
Total expected outflows	7,610,007	14,698,692	5,253,463	3,732,159	12,863,470	18,430,851
Financial assets – cash flows realisable						
Cash and cash equivalents	745,061	764,764	-	-	745,061	764,764
Trade and other receivables	3,680,404	3,845,517	-	-	3,680,404	3,845,517
Total anticipated inflows	4,425,465	4,610,281	-	-	4,425,465	4,610,281
Net (outflow)/inflow on financial instruments	(3,184,542)	(10,088,411)	(5,253,463)	(3,732,159)	(8,438,005)	(13,820,570)

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012**

(c) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and uses publicly available financial information and its own trading records to rate its customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored to mitigate financial loss. The maximum exposure to credit risk by class of recognised financial assets at balance date, excluding the value of any collateral or other security held, is equivalent to the carrying value and classification of those financial assets (net of any provisions) as presented in the consolidated balance sheet.

The Group has no significant concentration of credit risk with any single counterparty or group of counterparties. Details with respect to credit risk of trade and other receivables is provided in note 4.

Trade and other receivables that are neither past due or impaired are considered to be of high credit quality. Aggregates of such amounts are detailed at note 4.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

21. NET FAIR VALUES

Fair value estimation

The carrying values of financial assets and financial liabilities as detailed in the consolidated balance sheet and these notes approximate their fair values at reporting date.

22. RELATED PARTY TRANSACTIONS

22(a) Related parties

The Group's main related parties are as follows.

(i) Entities exercising control over the Group

The ultimate parent entity that exercises control over the Group is Drill Torque Ltd ACN 149 206 333. The subsidiary companies in the Group are Notch Holdings Pty Ltd ACN 009 271 461 and Well Drilled Pty Ltd ACN 123 980 343.

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.

(ii) Key management personnel

Any person(s) having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity are considered key management personnel.

Disclosures relating to key management personnel are set out in note 23.

(iii) Other related parties

Other related parties include entities over which key management personnel have control or joint control.

DRILL TORQUE LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

22(b) Transactions with related parties

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

The following transactions occurred with related parties.

(i) 133 Crocodile Crescent Townsville

Up until 24 August 2011, the property located at 133 Crocodile Crescent Townsville was owned by an entity associated with Peter Richard Miller. The Group paid rental of \$25,000 pursuant to a lease of these premises for the period from 1 July 2011 to 24 August 2011. The Group's parent entity, Drill Torque Ltd, acquired this property on 24 August 2011 at a purchase price of \$2,800,000 from the entity associated with Peter Richard Miller. The purchase price is supported by an independent valuation by an appropriately qualified valuer.

(ii) Lot 4 Sterritt Road Townsville

The property located at Lot 4 Sterritt Road Townsville is owned by Peter Richard Miller. A portion of this property has been leased to the Group for a period of two years from 1 March 2011 at a gross rental of \$85,000 per annum plus GST. The Group has two further renewal options, each of two years following the expiry of the lease. The rent payable has been independently assessed as being fair market rental. During the year, the Group paid rental in relation to this property totalling \$70,833 (the Group had paid two instalments in advance at 30 June 2011).

(iii) Amounts outstanding from related parties

An amount of \$8,502 is due from Peter Richard Miller at 30 June 2012 (refer Note 5). The outstanding amount relates to personal expenses incurred by Peter Richard Miller on the Group's corporate credit card. This amount has been repaid by Peter Richard Miller subsequent to year end. No interest was charged on this amount given the short term nature of the loan.

(iv) Amounts payable to related parties

The following loans payable to related parties were extinguished during the current financial year.

- Richvale Pty Ltd – an entity associated with David John Fairfull.
- Miller Superannuation Fund – an entity associated with Peter Richard Miller.
- Jumani Pty Ltd – an entity associated with Guy Hamish Drummond.
- Pharmamark Pty Ltd – an entity associated with Guy Hamish Drummond.

	2012 \$	2011 \$
Loan from Richvale Pty Ltd		
Beginning of year	1,500,000	-
Loans advanced	-	1,500,000
Loan repayment	(1,500,000)	-
Interest charged	41,995	-
Interest paid	(41,995)	-
End of year	-	1,500,000

Interest has been incurred at the 90 day BBSW plus 6%.

Loan from Miller Superannuation Fund		
Beginning of year	490,000	-
Loans advanced	-	490,000
Loan repayment	(490,000)	-
End of year	-	490,000

No interest was incurred on the above loan.

DRILL TORQUE LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

	2012 \$	2011 \$
Loan from Jumaní Pty Ltd		
Beginning of year	350,000	-
Loans advanced	150,000	350,000
Loan repayment	(500,000)	-
End of year	-	350,000

No interest was incurred on the above loan.

Loan from Jumaní Pty Ltd		
Beginning of year	981,089	-
Assumed on business combination	-	951,285
Loan repayment	(981,089)	-
Interest charged	12,732	29,804
Interest paid	(12,732)	-
End of year	-	981,089

Interest has been incurred at the rate of 12.62% per annum.

Loan from Pharmamark Pty Ltd		
Beginning of year	214,248	-
Assumed on business combination	-	207,710
Loan repayment	(214,248)	-
Interest charged	2,780	6,538
Interest paid	(2,780)	-
End of year	-	214,248

Interest has been incurred at the rate of 12.62% per annum.

23. KEY MANAGEMENT PERSONNEL

Refer to the Remuneration Report contained in the Directors' Report for details of the remuneration paid or payable to each member of the Group's key management personnel for the year ended 30 June 2012.

23(a) Key management personnel compensation

The aggregate compensation made to directors and other members of key management personnel of the Group is set out below:

Short-term employee benefits	1,507,327	612,884
Post-employment benefits	158,451	55,160
Termination benefits	50,000	-
	1,715,778	668,044

The remuneration of directors and key executives is determined by the remuneration and nomination committee having regard to the performance of individuals and market trends. The remuneration levels are not dependent on the satisfaction of performance conditions.

DRILL TORQUE LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

23(b) Key management personnel equity holdings

Fully paid ordinary shares

The number of ordinary shares in Drill Torque Ltd held by each member of the key management personnel (and their associated persons and entities) during the financial year is as follows.

	Shares held at start of year	Shares acquired during year	Shares sold during year	Shares held at end of year
Peter Richard Miller and Sonya Margaret Miller	39,633,619	2,800,000	-	42,433,619
Guy Hamish Drummond	7,620,000	132,000	-	7,752,000
David John Fairfull	-	2,700,000	-	2,700,000
Estate of David Charles Williamson	-	500,000	-	500,000
Ralph Howard Craven	-	200,000	-	200,000
Robert Ian Witty	-	100,000	-	100,000

Mr Ian James Milne (the Group's former General Manager Operations) acquired 25,000 shares (2,500 options attaching) during the public issue in July 2011 while he held the position of General Manager Operations of the Group. Mr Milne ceased employment with the Group on 14 February 2012.

Share options

The numbers of options over ordinary shares held during the financial year by each key management personnel of the Group is as follows.

	Options held at start of year	Options acquired during year as part of public issue	Management options granted during year	Options held at end of year
Peter Richard Miller and Sonya Margaret Miller	-	4,208,362	4,583,250	8,791,612
Guy Hamish Drummond	-	762,000	666,750	1,428,750
David John Fairfull	-	270,000	-	270,000
Estate of David Charles Williamson	-	50,000	-	50,000
Ralph Howard Craven	-	10,000	-	10,000
Robert Ian Witty	-	10,000	500,000	510,000

Executive and Staff Option Plan

The management options detailed above were issued to key management personnel on 27 July 2011 in accordance with the Executive and Staff Option Plan.

Mr Ian James Milne (the Group's former General Manager) was also granted 250,000 management options on 27 July 2011. Mr Milne ceased employment with the Group on 14 February 2012. As a result, he has forfeited his right to exercise these options.

Key terms that are associated with these management options are as follows:

- The option holder must be continuously employed to be able to exercise management options.
- The management options will not be listed.
- The management options will not be encumbered or transferred.
- The exercise price for each management option is 30 cents.
- The management options may not be exercised before 2 August 2014, being the third anniversary of the listing date or after 2 August 2016, being the fifth anniversary of the listing date.
- Upon the valid exercise of a management option, the Company will issue and allot one fully paid ordinary share for each management option to the option holder.

The issue of these options was not performance based. Management options issued under the Executive and Staff Option Plan carry no rights to dividends and no voting rights.

DRILL TORQUE LTD**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012**

	2012 \$	2011 \$
24. AUDITORS' REMUNERATION		
During the year, the following fees were paid or payable for services provided by the auditor or its related practices:		
Audit and review of the financial statements	52,000	74,933
Accounts preparation assistance	-	22,137
Other	<u>1,100</u>	<u>-</u>
	<u>53,100</u>	<u>97,070</u>

25. OPERATING LEASE COMMITMENTS

Operating leases relate to leases of land and buildings with varying lease terms not exceeding two years. Some lease contracts contain provision for market rental reviews within the remaining lease term.

The following payments were recognised as an expense:

Minimum lease payments	<u>147,833</u>	<u>186,500</u>
	<u>147,833</u>	<u>186,500</u>

Non-cancellable operating lease commitments:

Not later than 1 year	100,667	133,000
Later than 1 year and not later than 5 years	<u>-</u>	<u>56,590</u>
	<u>100,667</u>	<u>189,590</u>

26. COMMITMENTS FOR EXPENDITURE

Capital expenditure commitments of the Group are classified as follows:

Plant and equipment		
Not later than 1 year	<u>-</u>	<u>1,764,565</u>
	<u>-</u>	<u>1,764,565</u>
Land and buildings		
Not later than 1 year	<u>-</u>	<u>2,800,000</u>
	<u>-</u>	<u>2,800,000</u>

Operating lease commitments are disclosed in note 25.

Finance lease commitments are disclosed in note 10.

DRILL TORQUE LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

	Year ended 30 June 2012 Cents per share	Year ended 30 June 2011 Cents per share
27. EARNINGS PER SHARE		
Basic earnings per share		
From continuing operations	0.06	(0.13)
Diluted earnings per share		
From continuing operations	0.06	(0.13)
Basic earnings per share and diluted earnings per share are calculated using earnings and weighted average number of ordinary shares as follows:		
Profit for the year attributable to owners	68,425	(72,777)
Weighted average number of ordinary shares	120,382,519	55,004,171

28. DEFINED CONTRIBUTION RETIREMENT BENEFIT OBLIGATIONS

The Group contributes superannuation on behalf of qualifying employees to defined contribution retirement benefit plans. The assets of the funds are held separately from those of the Group in funds under the control of trustees. The only obligation of the Group is to make specified contributions in accordance with contractual employment and statutory obligations. The total expense recognised in the statement of comprehensive income of \$1,343,087 (2011: \$914,915) represents the contributions payable by the Group to these plans in accordance with contractual employment and statutory obligations. As at 30 June 2012, contributions of \$390,819 due in respect of the 2012 reporting period (2011: \$829,103) had not been paid over to the plans. These amounts were paid subsequent to the end of the 2012 reporting period.

29. SEGMENT REPORTING

The Group operates within Australia, providing services wholly to a discrete industry segment (provision of drilling services to the mining industry). These geographic and operating segments are considered based on internal management reporting and the allocation of resources by the Group's chief decision makers (Board of Directors). On this basis, the financial results of the reportable operating and geographic segments are equivalent to the financial statements of the Group as a whole and no separate segment reporting is disclosed in these financial statements.

30. EVENTS AFTER THE REPORTING PERIOD

On 29 May 2012 a longstanding client terminated a drilling contract. The Group disputed the basis of the termination and the matter was set down for mediation on 30 August 2012. The Group attended mediation with this client. The matter has been settled with the financial and other terms of the settlement confidential.

No further matters or circumstances have arisen since 30 June 2012 that have significantly affected or may significantly affect:

- the Group's operations in future financial years; or
- the results of those operations in future financial years; or
- the Group's state of affairs in future financial years.

DRILL TORQUE LTD

DIRECTORS' DECLARATION

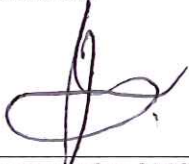
The directors declare that:

- (a) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;
- (b) in the directors' opinion, the attached financial statements are in compliance with International Financial Reporting Standards, as stated in note 1(b) to the financial statements;
- (c) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity; and
- (d) the directors have been given the declarations required by section 295A of the Corporations Act 2001.

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



David John Fairfull
Chairman



Peter Richard Miller
Director

Dated at Townsville this 17th day of September 2012.

DRILL TORQUE LTD

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DRILL TORQUE LTD ACN 149 206 333 FOR THE YEAR ENDED 30 JUNE 2012

Report on the Financial Report

I have audited the accompanying financial report of Drill Torque Ltd, which comprises the consolidated balance sheet as at 30 June 2012, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB101: Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards (IFRS).

Auditor's Responsibility

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

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

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Independence

In conducting my audit, I have complied with the independence requirements of the Corporations Act 2001. I confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of Drill Torque Ltd, would be in the same terms if provided to the directors as at the date of this auditor's report.

Auditor's Opinion

In my opinion:

- (a) the financial report of Drill Torque Ltd is in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001;
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

DRILL TORQUE LTD

**INDEPENDENT AUDITOR'S REPORT TO THE
MEMBERS OF DRILL TORQUE LTD ACN 149 206 333
FOR THE YEAR ENDED 30 JUNE 2012**

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In my opinion, the Remuneration Report of Drill Torque Ltd for the year ended 30 June 2012, complies with section 300A of the Corporations Act 2001.

Dated this 17th day of September 2012

19 Stanley Street
TOWNSVILLE QLD 4810



I.D. Jessup
(Registered Company Auditor)

DRILL TORQUE LTD**ADDITIONAL AUSTRALIAN STOCK EXCHANGE INFORMATION**

The following information is current as at 12 September 2012.

DTQ Quoted Ordinary Shares

Spread of holdings	Number of holders	Shares	% of total issued capital
1 – 1,000	2	20	0.00%
1,001 – 5,000	36	145,245	0.11%
5,001 – 10,000	59	544,173	0.44%
10,001 – 100,000	336	15,543,951	12.44%
Greater than 100,000	112	108,766,616	87.01%
Total	545	125,000,005	100%
Holding less than a marketable parcel	100	n/a	n/a

DTQO Quoted Options

Spread of holdings	Number of holders	Shares	% of total quoted options
1 – 1,000	46	46,000	0.36%
1,001 – 5,000	223	687,200	5.50%
5,001 – 10,000	47	390,750	3.13%
10,001 – 100,000	55	2,030,980	16.25%
Greater than 100,000	18	9,345,070	74.76%
Total	389	12,500,000	100%

DRILL TORQUE LTD**ADDITIONAL AUSTRALIAN STOCK EXCHANGE INFORMATION****DTQ Quoted Ordinary Shares**

The twenty largest listed security holders comprise:

Rank	Shareholder	Ordinary Shares	% of total issued capital
1	Mrs Sonya Miller	19,816,810	15.85%
2	Mr Peter Miller	19,816,809	15.85%
3	Washington H Soul Pattinson and Company Ltd	12,746,386	10.20%
4	Jumani Pty Ltd	6,985,200	5.59%
5	Farjoy Pty Ltd	3,000,000	2.40%
6	Mr Peter Miller & Mrs Sonya Miller (P&S Retirement Fund)	2,800,000	2.24%
7	National Nominees Ltd	2,541,664	2.03%
8	Clapsy Pty Ltd (Baron Super Fund)	1,718,000	1.38%
9	Mr Michael Hunter Mansfield	1,658,000	1.33%
10	UBS Wealth Management Australia Nominees Pty Ltd	1,492,275	1.19%
11	NSR Investments Pty Ltd (NSR Super Fund)	1,450,000	1.16%
12	Richvale Pty Ltd	1,350,000	1.08%
13	D J Fairfull Pty Ltd (Fairfull Superannuation Fund)	1,350,000	1.08%
14	Mr Pairatch Paotrakul	1,250,000	1.00%
15	Mr Hugo Charles Kearney	1,233,526	0.99%
16	Simore Pty Ltd	1,230,000	0.98%
17	Australian Executor Trustees Ltd (No 1 Account)	1,220,732	0.98%
18	Mr Yonatan Widjaya and Mrs Mela Widjaya	1,200,000	0.96%
19	Asia Union Investments Pty Ltd	1,000,000	0.80%
20	Netherfield Nominees Pty Ltd (Louise Christie Super Fund)	1,000,000	0.80%
	Total	84,859,402	67.89%

DRILL TORQUE LTD**ADDITIONAL AUSTRALIAN STOCK EXCHANGE INFORMATION****DTQO Quoted Options**

The twenty largest listed security option holders comprise:

Rank	Optionholder	Options	% of total quoted options
1	Mrs Sonya Miller	1,981,681	15.85%
2	Mr Peter Miller	1,981,681	15.85%
3	Washington H Soul Pattinson and Company Ltd	1,274,638	10.20%
4	Jumani Pty Ltd	698,520	5.59%
5	Hancroft Pty Ltd	600,000	4.80%
6	Mr Alfredo Varela	495,250	3.96%
7	Farjoy Pty Ltd	445,617	3.57%
8	Citicorp Nominees Pty Ltd	262,500	2.10%
9	Hamergin Pty Ltd (Super Fund)	250,000	2.00%
10	Mr Peter Miller & Mrs Sonya Miller (P&S Retirement Fund)	245,000	1.96%
11	Oztech Pty Ltd	215,000	1.72%
12	Mr Simon Hammer	163,000	1.30%
13	Richvale Pty Ltd	135,000	1.08%
14	D J Fairfull Pty Ltd (Fairfull Superannuation Fund)	135,000	1.08%
15	Mr Anthony Hewett	122,500	0.98%
16	Mr Vincent Gordon Reibelt and Mrs Cecily Reibelt (Auto-Way Pty Ltd Staff Super Fund)	120,000	0.96%
17	Glenprice Pty Ltd (Glenprice Super Fund)	116,083	0.93%
18	Mr William May	103,600	0.83%
19	Mr Mervyn James Harris	100,000	0.80%
20	Mr Andrew Petrie and Mrs Edwina Petrie (Andrew Petrie Super Fund)	100,000	0.80%
	Total	9,545,070	76.36%

DRILL TORQUE LTD

ADDITIONAL AUSTRALIAN STOCK EXCHANGE INFORMATION

Unquoted Securities

There are 5,750,000 unquoted Management options comprising:

	Number granted
Mr Peter Miller	4,583,250
Mr Guy Drummond	666,750
Mr Robert Witty	500,000

Substantial Shareholders

Rank	Shareholder	Ordinary Shares	% of total issued capital
1	Mrs Sonya Miller	19,816,810	15.85%
2	Mr Peter Miller	19,816,809	15.85%
3	Washington H Soul Pattinson and Company Ltd	12,746,386	10.20%
4	Jumani Pty Ltd	6,985,200	5.59%

Voting Rights

Ordinary shares

The voting rights attached to ordinary shares is set out below:

On a show of hands, every member present at a meeting in person, or by proxy, shall have one vote, and upon a poll, each share shall have one vote.

No other classes of securities have voting rights.

Restricted Securities

Ordinary shares held under escrow, by escrow expiry date, comprise:

Number under Escrow	Percentage	Restricted Date	Release Date
60,000,005	48%	27/07/2011	29/07/2013

Unquoted Management Options that may not be exercised before 2 August 2014 comprise:

Number under Restriction	Percentage	Restricted Date	Release Date
5,750,000	100%	27/07/2011	02/08/2014

Recently listed entities

For the period from 29 July 2011 to 30 June 2012, the Group has used the cash and assets in a form readily convertible to cash that it had at the time of admission in a way that is consistent with its business objectives.

DRILL TORQUE LTD

CORPORATE DIRECTORY

Board of Directors

Chairman

David John Fairfull

Managing Director

Peter Richard Miller

Directors

David Charles Williamson (deceased 11 July 2012)

Ralph Howard Craven

Guy Hamish Drummond

Chief Financial Officer and Company Secretary

Robert Ian Witty

Registered Office

Drill Torque Ltd

ABN 31 149 206 333

133 Crocodile Crescent

Mt St John Qld 4818

Principal Place of Business

133 Crocodile Crescent

Mt St John Qld 4818

PO Box 1627

Thuringowa Central Qld 4817

Ph: 07 4774 5733

Fax: 07 4774 2748

Website: www.drilltorque.com.au

Share Registry

Advanced Share Registry

150 Stirling Highway

Nedlands Western Australia 6909

Ph: 08 9389 8033

Fax: 08 9389 7871

Website: www.advancedshare.com.au

Auditors

Jessups

Level 1 Stanley Street

Townsville Qld 4810

Ph: 07 4721 5409

Fax: 07 4721 4513

Website: www.jessupsnq.com.au

Taxation Advisors

PricewaterhouseCoopers

51 Sturt Street

Townsville Qld 4810

Ph: 07 4721 8500

Fax: 07 4721 8599

Website: www.pwc.com.au

Bankers

Suncorp Metway Ltd

61-73 Sturt St

Townsville Qld 4810

Ph: 07 4760 8229

Fax: 07 4771 6348

Website: www.suncorpbank.com.au