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10 September 2013

The Manager
Company Announcements Office
Australian Stock Exchange
Level 4, 20 Bridge Street
Sydney NSW 2000

BY ELECTRONIC LODGEMENT

Drill Torque Limited (ASX – DTQ)
Heads of Agreement and Rights Issue

Please find attached Drill Torque announcement for immediate release to the market.

Yours Faithfully

Bob Witty
Company Secretary

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10/9/2013

The Manager
Company Announcements Office
Australian Stock Exchange
Level 4, 20 Bridge Street
Sydney NSW 2000

ASX Announcement

Dear Shareholder,

Heads of Agreement to acquire Mitchell Services and a 1 for 1 rights issue at 2 cents per share

We refer to our recent announcements and confirm that the internal restructure of Drill Torque Limited (DTQ) is now complete. As part of our overall strategy for DTQ your board has signed a Heads of Agreement with the Mitchell Group Holdings Pty Ltd (Mitchell Group) on the external restructure of DTQ subject to shareholder approval at the upcoming Annual General Meeting (AGM) currently scheduled for Monday 4 November 2013.

The Heads of Agreement is non-binding and is subject to binding formal agreements being entered into on or before 18 October 2013 or such later date as the parties may agree.

Your board has been in discussions with a number of parties over the last 3 months. During the last ten days we received a proposal from the Mitchell Group via RBS Morgans which we believe is superior to any other proposition we had reviewed. Intense discussions and negotiation have taken place and your board is of the opinion that the following reorganisation is in the best interests of all DTQ shareholders.

The **first stage** of the reorganisation strategy reflected in the Heads of Agreement is for DTQ to put in place a non-renounceable rights issue to raise $2.5 million. To this end we are negotiating with RBS Morgans to underwrite a 1 for 1 rights issue at 2 cents per share to raise $2.5 million. DTQ will immediately advise shareholders if and when an underwriting agreement is entered into. DTQ will also advise an indicative timetable for the proposed rights issue at that same time. It is expected that as part of the underwriting arrangements, the Mitchell Group together with senior Mitchell Group managers will sub-underwrite the first 50.0 million shortfall shares which in the event of a shortfall could deliver up to 19.9% of DTQ's shares on issue post the rights issue.

Under the Heads of Agreement, but subject to binding contracts being entered into, to the extent the Mitchell Group together with its senior management acquire less than 19.9% of DTQ's shares post the rights issue, but before taking into account any shares to be issued under stage 2 of the restructure referred to below, subject to shareholder approval, DTQ will issue such further number of shares by way of a placement to Mitchell

Group at the rights issue price of 2 cents per share that together with any shares obtained under the sub-underwriting of the rights issue equal 19.9% of DTQ's issued capital post the rights issue and placement.

The **second stage** of the reorganisation strategy reflected in the non-binding Heads of Agreement is for DTQ to acquire Mitchell Services Pty Limited ("**Mitchell Services**"), subject to shareholder approval, in consideration for the issue of 40 million DTQ shares at 5 cents per share.

It is to be a condition of the acquisition of Mitchell Services that it holds at completion the following assets:

- Drilling and wireline logging contracts.
- Mitchell management and administration team, to lead and drive the business moving forward.
- A perpetual and royalty free licence from the Mitchell Group for Australia and Papua New Guinea for the following registered trademarks and other intellectual property:
  - The Mitchell "Globe" and Mitchell name (as it relates to drilling services only)
  - MAXIAL2 (surface to inseam)
  - MAXTRACK (directional drilling software)
  - Mitchell Wireline Services
  - Mitchell Energy Services
- A property lease in respect of the Mitchell Services head office located at 112 Bluestone Circuit, Seventeen Mile Rocks.
- An option to purchase the Mitchell Group African drilling business, subject to agreeing terms.
- A service contract to oversee the Mitchell Group African operations.
- Intellectual property including financial model and budget models applicable to drilling and safe work instructions and training guides

As a **third stage** of the proposal and in addition to the consideration of the 40 million DTQ shares for the acquisition of Mitchell Services, the Mitchell Group and its management team will receive performance based options that include an EBITDA and share price hurdles as set out below.

The options will convert into ordinary fully paid DTQ shares and will be split into four Tranches with varying hurdles:

Tranche A

Mitchell Group and Mitchell senior managers will receive 45,000,000 options with the following two conditions in order for the options to vest:

1) DTQ must have an audited EBITDA for FY2015 of at least $4.0 million; and
2) DTQ must have a 10 day VWAP of at least $0.05 per share at any time in the 12 month period following the DTQ release of the FY2015 results.

In the event that these conditions are not met the Tranche A options will lapse.

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Tranche B

Mitchell Group and Mitchell senior managers will receive an additional 65,000,000 options with the following two conditions in order for the options to vest:

1) DTQ must have an audited EBITDA for FY2015 of at least \$5.0 million; and
2) DTQ must have a 10 day VWAP of at least \$0.06 per share at any time in the 12 month period following the DTQ release of the FY2015 results

In the event that these conditions are not met the Tranche B options will lapse.

Tranche C

Mitchell Group and Mitchell senior managers will receive an additional 50,000,000 options with the following two conditions in order for the options to vest:

1) DTQ must have an audited EBITDA for FY2016 of at least \$7.0million; and
2) DTQ must have a 10 day VWAP of at least \$0.07 per share at any time in the 12 month period following the DTQ release of the FY2016 results

In the event that these conditions are not met the Tranche C options will lapse.

Tranche D

Mitchell Group and Mitchell senior managers will receive an additional 50,000,000 options with the following two conditions in order for the options to vest:

1) DTQ must have an audited EBITDA for FY2016 of at least \$9.0million; and
2) DTQ must have a 10 day VWAP of at least \$0.08 per share at any time in the 12 month period following the DTQ release of the FY2016 results

In the event that these conditions are not met the Tranche D options will lapse.

The option terms will also contain customary restructuring provisions in the event of a rights issue, bonus issue or other share capital re-organisation.

In the event that a senior Mitchell Group manager who holds options A, B, C or D ceases to be employed before exercising their options, in certain circumstances, their options will automatically lapse. The Board, may in its sole discretion, allow the departing manager to retain some or all of their options.

The acquisition of the Mitchell Services and the issue of performance based options will be subject to Shareholder approval and an independent expert's report concluding that the proposed acquisition is reasonable to the shareholders of DTQ. In this regard the Board has engaged BDO Corporate Finance (Qld) as an independent expert to review the proposed transactions and provide an independent expert's report which will be provided to shareholders as part of the notice of meeting seeking the required shareholder approvals. Landerer & Company have been appointed as DTQ's legal advisors.

It is proposed that the Mitchell Management team will commence formal operations within DTQ as soon as practical and will be available to work with DTQ under a services agreement at cost. In this regard it is

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proposed that Nathan Mitchell and another Mitchell Group appointee will join the board of DTQ and that Nathan Mitchell will be appointed Managing Director of DTQ. Guy Drummond has indicated that if the transaction is approved by Shareholders, he will resign from the board and both Dr Ralph Craven and I will stay on the board until 31 March 2014 to assist in the transition period. Mr Peter Miller will remain on the board as a non-executive director. As part of the overall transaction it is proposed that DTQ change its name to Mitchell Services Ltd subject to shareholder approval at the AGM.

The Directors of DTQ are most excited about the foregoing strategy. For nearly 45 years the Mitchell name has been synonymous with drilling in Australia. In 2008 Mitchell sold its Australian drilling operations to AJ Lucas for approximately $A150 million. At that time Mitchell was Australia's largest privately owned drilling contractor. Under the sale terms Mitchell had a restraint of trade which expired in August 2013. During this period Mitchell expanded their drilling operations internationally (operating in China, India and Africa) and gaining global experience and recognition. In recent weeks the Mitchell family and its management team have decided to return to the Australian drilling industry that they helped pioneer and we are privileged that they have chosen to re-enter the drilling industry via DTQ.

The Directors of DTQ believe that the acquisition of Mitchell Services will have a marked effect on the current operations of DTQ and the merged vehicle will provide a platform to accelerate our long held strategic objective to become a national "tier one" drilling operation. The addition of the Mitchell management team should help to ensure that this objective is achieved and the introduction of Nathan Mitchell and another Mitchell Group appointee to our board brings new industry thinking and operational expertise which will undoubtedly lead to improved shareholder value.

The DTQ board unanimously supports the Mitchell Services acquisition and all Directors intend to vote their shares in support of the transaction at the AGM. If binding formal contracts are entered into as contemplated by the Heads of Agreement, then all relevant documents in regard to the rights issue and the notice of meeting and explanatory memorandum setting out and explaining the resolutions that will need to be passed in order to obtain the required shareholder approvals in respect of the acquisition of Mitchell Services, the issue of Performance Options to the Mitchell Group and its key managers and the potential further placement of shares to Mitchell Group will be mailed to shareholders as soon as they have been completed.

Yours sincerely,

D Fairfull

D. J. Fairfull
Chairman