

# **Drill Torque Limited**

**ACN 149 206 333**

**Directors' Annual Report**

**And Financial Statements**

**For the Period Ended 30<sup>th</sup> June 2011**

# Drill Torque Limited

Annual Report to Shareholders

For the Period Ended 30<sup>th</sup> June 2011

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# Drill Torque Limited

Joint Report from the Chairman and the Managing Director

For the Period Ended 30<sup>th</sup> June 2011

## Financial Result for 30<sup>th</sup> June 2011 exceeds previous year and Prospectus forecast

Drill Torque Limited was formed on 8<sup>th</sup> February 2011 to acquire Well Drilled Pty Ltd and Notch Holdings Pty Ltd. These acquisitions were completed on 18<sup>th</sup> February 2011 and as a result Drill Torque Limited issued 60,000,000 shares to acquire all the issued capital of Notch Holdings Pty Ltd which had previously acquired all the issued share capital of Well Drilled Pty Ltd.

On the 8<sup>th</sup> July 2011 Drill Torque Limited issued a prospectus inviting applications for the public issue of shares and options in the company. Pursuant to the prospectus, 65 million shares were issued at 20 cents per share resulting in total issued shares of 125,000,005. Attached to the shares of the company are options exercisable at 30 cents each, which were allotted on the basis one (1) option for every ten (10) shares held in the company at the date of allotment.

Drill Torque Limited was admitted to the official list of the Australian Stock Exchange Limited (ASX) on 29<sup>th</sup> July 2011 and shares and options were officially quoted by the ASX from commencement of trading on 2<sup>nd</sup> August 2011.

The Drill Torque Group's financial statements for the year ending 30<sup>th</sup> June 2011 show that the revenue is up 13% to \$25.3m compared to \$22.4m for the previous year to 30<sup>th</sup> June 2010 while Profit (Loss) after tax for the 12 months to 30<sup>th</sup> June 2011 shows an improvement of 93% to a loss of (\$73,000) compared to a loss of (\$970,000) in the previous period to 30<sup>th</sup> June 2010.

However the foregoing financial statements only include the Well Drilled Pty Ltd acquisition for the 4 month period to 30<sup>th</sup> June 2011. Thus to compare the Group's results for the current period to 30<sup>th</sup> June 2011 with the prospectus forecast we need to normalise the results by including Well Drilled Pty Ltd figures for the full twelve months. The normalised financials, when compared with the prospectus forecasts show Group revenue for the period to 30<sup>th</sup> June 2011 increasing to \$27.225m versus \$27.200m in prospectus forecasts. Likewise, the Group achieved an EBITDA of \$3.579m versus \$3.400m in prospectus forecast and a loss of (\$165,000) versus the prospectus forecast loss of (\$300,000) as per the following table:

### Normalised Financial Results Compared to Prospectus Forecasts

		Normalised <sup>(a)</sup> Current period 30 June 2011 \$'000	Prospectus Forecasts 30 June 2011 \$'000	Change \$'000
Revenue from continuing operations	Up .09% to	27,225	27,200	25
EBITDA	Up 5.26% to	3,579	3,400	179
Profit/(Loss) before non-regular items from ordinary activities after tax attributable to members	Up 45% to	(165)	(300)	135

<sup>(a)</sup> Normalised by including Well Drilled Pty Ltd financials for the full 12 months as shown in the Prospectus (Page 14)

# Drill Torque Limited

Joint Report from the Chairman and the Managing Director

For the Period Ended 30<sup>th</sup> June 2011

Given the extenuating circumstances faced by the Group during the 2010/2011 financial year due to extraordinary climatic conditions, (excessive rainfall, flooding and cyclones), the Global Financial Crisis and changes in Government Policy (proposed Carbon Tax, proposed introduction of a Mining Tax), directors are of the view that the financial performance of the Group pre-IPO is a credible one, especially so, given the fact that normalised results exceeded prospectus forecasts.

Post the IPO, the Group received an equity injection of some \$13.0 million and has utilised these funds to complete and upgrade the Townsville maintenance facility, purchase capital equipment, repay debt associated with the acquisition of Well Drilled Pty Ltd, provide funds to settle a deferred payment obligation with the ATO and for working capital all as set out in the prospectus.

On the 24<sup>th</sup> August 2011, the Group formally acquired the property at 133 Crocodile Crescent, Mount St John (Townsville) and will utilise the property as its new maintenance facility and administration head office. These new premises will enable management to deliver a number of efficiency gains from improvements to utilisation of the DTQ Group's drill rig fleet:

- Capacity for up to 6 drill Rigs to be serviced and maintained at one particular time as opposed to 2 drill Rigs at current rented premises;
- Work to be undertaken in all weather conditions, 24 hours per day thereby reducing servicing delays; and
- Ability for maintenance to be undertaken under cover when the drill rig mast is totally extended thereby improving safety and efficiency.

In regard to the Drill Torque Group's future outlook, we can confidently state that operations continue to benefit from favourable conditions and sentiment in the mining and exploration industry as a whole. The Group 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 and CSG drilling having been entered into with both current and new major customers and tenders lodged to assist other CSG Companies. Over recent months the longevity of contracts, quality of clients and mix of clientele have been substantially upgraded. This bears testament to the Group's quality of management and OH&S models.

The upgrade of the three new drill rigs recently purchased in the USA is in the final stages. Management expects to receive delivery of the first of these rigs no-later than the end of September 2011 with the other two rigs due for delivery middle-to-late October 2011. Demand for these US Drill Rigs has been overwhelming from major customers and we expect the three rigs to be in full utilisation before the end of 2011 year. Although the 2011/12 financial year has just commenced and the Directors and Senior Management have been somewhat distracted by the Drill Torque Limited public float we can report that unaudited management accounts show that despite rig utilisation in July and August 2011 not yet reaching our optimum targets, EBITDA & Profit before tax are currently ahead of forecast. However Directors and Senior Management reiterate that these are early non-audited management figures and drilling company financials by their nature are volatile.

We also take this opportunity to remind shareholders that while Directors and Senior Management are striving to deliver the Prospectus Forecasts, and the early signs are encouraging, we are basing this on current overall outlook for our industry and the results to hand for one and a half months. Likewise it would be remiss of us not to remind all shareholders of the major risks facing the Group:

- Changes in commodity prices and general outlook for the resource industry;
- Adverse changes in climatic conditions;
- Reliance on key personnel and labour shortages;
- Global Financial Crisis; and
- Changes to Government policy and introduction of new taxes.

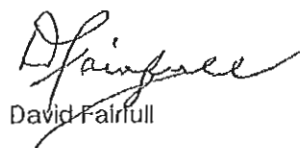
# Drill Torque Limited

Joint Report from the Chairman and the Managing Director

For the Period Ended 30<sup>th</sup> June 2011

In conclusion, Drill Torque Limited Directors and Senior Management wish to thank all shareholders for their support both pre- and post- the public float. The day of the official listing on the stock exchange was the date of what one may call a meltdown of global stock markets, and the fact that Drill Torque Limited has continued to trade above its listing price of 20 cents per share is a great testament to both management and the advisory group associated with the float.

Likewise, even though it is early days we have commenced the 2011/2012 financial year on a positive note and our normalised financials for the 12 months to 30<sup>th</sup> June 2011 surpassed prospectus forecasts, which stands us in good stead for the future.



David Fairfull

Chairman



Peter Miller

Managing Director

# Drill Torque Limited

## Directors' Report

For the Period Ended 30<sup>th</sup> June 2011

Your directors present their report together with the financial statements of the Group, being the company and its controlled entities, for the financial period ended 30 June 2011.

### Directors

The following persons were directors of Drill Torque Limited during the financial period or up to the date of this report. The duration for which each director has held office is disclosed within the Director's particulars.

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

Mr Fairfull was appointed as director on 8<sup>th</sup> 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 15,446,386 shares and 1,544,638 options.

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

Mr Williamson was appointed as director on 22<sup>nd</sup> May 2011 and continues in office at the date of this report.

Mr Williamson has been registered as a Chartered Accountant for approximately 30 years and is principal of his own firm, Williamson Chaseling Pty Ltd. He has 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 is currently 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, Mr Williamson holds 100,000 shares in the company and 10,000 options. Mr Williamson 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<sup>th</sup> 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 Chairman of Ergon Energy Corporation Limited and Australian Electricity Systems Pty Ltd and Non Executive Director of Windlab Systems Pty Ltd. Dr Craven was previously Chairman of Tully Sugar Limited, Deputy Chairman of Arrow Energy Limited and a Non-Executive Director of Energy Developments Limited.

At the date of this report, Dr Craven does not hold shares in the company but has a relevant interest in 100,000 shares and 10,000 options.

# Drill Torque Limited

## Directors' Report

For the Period Ended 30<sup>th</sup> June 2011

### **Peter Richard Miller** *Managing Director*

Mr Miller was appointed as director on 8<sup>th</sup> 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 28 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 1,981,680 options. Mr Miller has a relevant interest in a further 2,450,000 shares, 245,000 options and 4,583,250 management options.

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

Mr Drummond was appointed as director on 8<sup>th</sup> 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 Limited 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 7,620,000 shares, 762,000 options and 666,750 management options.

### **Principal Activities**

Prior to the creation of the Drill Torque Limited group, Notch Holdings Pty Ltd's principal activities were the provision of exploration and mine site drilling services to the mining industry.

Drill Torque Limited was formed on the 8th February 2011 to acquire Notch Holdings Pty Ltd which, by the time of its acquisition, had acquired Well Drilled Pty Ltd. The acquisitions of Notch Holdings Pty Ltd by Drill Torque Limited and of Well Drilled Pty Ltd by Notch Holdings were completed on 18th February 2011.

Subsequent to the completion of these acquisitions, the group continued its principal activities, providing exploration and mine site drilling services to the mining industry.

The group also undertakes servicing and maintenance of drill rigs and equipment and is in the process of relocating its maintenance and administrative base to a purpose-built facility.

No significant change in the nature of these activities occurred during the financial period.

# Drill Torque Limited

Directors' Report

For the Period Ended 30<sup>th</sup> June 2011

## Review of Operations

The consolidated operating result of the group, after providing for income tax, for the period to 30th June 2011 was a loss of \$72,777, compared to a loss of \$970,000 in the previous period to 30<sup>th</sup> June 2010.

Further detailed comments on operations up to the date of this report are included separately in this Annual Report in the joint report from the Chairman and the Managing Director.

## Significant Changes in State of Affairs

Drill Torque Limited was formed on the 8th February 2011 to acquire Notch Holdings Pty Ltd (ACN 009 271 461) which would, prior to its acquisition, acquire Well Drilled Pty Ltd (ACN 123 980 343). The acquisitions of Notch Holdings Pty Ltd by Drill Torque Limited and of Well Drilled Pty Ltd by Notch Holdings were completed on 18th February 2011.

Drill Torque Limited issued 60,000,000 shares to acquire all the issued share capital of Notch Holdings Pty Ltd, holder of all the issued share capital of Well Drilled Pty Ltd.

The accompanying financial statements are issued under the name of Drill Torque Limited but effectively represent a continuation of the financial statements of the main operating entity, Notch Holdings Pty Ltd.

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

The company issued a Prospectus dated 8<sup>th</sup> July 2011 inviting applications for the public issue of shares and options in the company. Pursuant to the prospectus, on 27<sup>th</sup> July 2011, 65,000,000 shares were issued, resulting in total issued shares of 125,000,005. Attached to the shares of the company are Options. Options were allotted on 28<sup>th</sup> 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<sup>th</sup> July 2011 and shares and options were officially quoted by the Australian Stock Exchange Limited from commencement of trading on 2<sup>nd</sup> August 2011.

## Dividends paid or declared

No Dividend was paid or declared during the financial period.

## Matters Subsequent to the End of the Financial Period

Subsequent to 30th June 2011, the company received Application Monies from its public offer of shares pursuant to the Prospectus dated 8th July 2011. The group intends to utilise these funds to complete the acquisition and upgrade of the Townsville maintenance facility, purchase capital equipment, repay debt associated with the acquisition of Well Drilled Pty Ltd, provide funds to settle a deferred payment obligation with the Australian Taxation Office and for working capital.

On 24<sup>th</sup> August 2011, the group acquired a property at 133 Crocodile Crescent, Mount St John (Townsville) for \$2,800,000. The Group will utilise the property as its new maintenance facility and for offices.

# Drill Torque Limited

Directors' Report

For the Period Ended 30<sup>th</sup> June 2011

No other matters or circumstances have arisen since 30th June 2011 that has significantly affected or may significantly affect:

- the company's, and the group's operations in future financial years; or
- the results of those operations in future financial years; or
- the company's, or the group's state of affairs in the future financial year.

## Likely Developments and Expected Results of Operations

The group's operations continue to benefit from favourable conditions and sentiment in mining and exploration. The group 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.

The group is relocating its maintenance facility and administrative offices to new premises in Townsville. Management is currently working to deliver a number of efficiency gains from improvements to the utilisation of the group's drill rig fleet. Specifically the new facilities allow for:

- Capacity for up to 6 drill rigs to be serviced and maintained at one particular time as opposed to 2 drill rigs under the previous rented premises;
- Work to be undertaken undercover in all weather conditions, 24 hours a day, thereby reducing servicing delays; and
- Ability for maintenance to be undertaken when the drill rig mast is extended which enables the service or inspection to be carried out under cover in all weather conditions, 24 hours a day, thereby improving both safety and efficiency.

Further information on likely developments in the operations of the company and the expected results of operations have not been included in this annual report because the directors believe that it would likely result in unreasonable prejudice to the company.

## Company Secretary

The company secretary is Robert Ian Witty. Mr Witty was appointed to the position of company secretary on 8<sup>th</sup> February 2011. Mr Witty also holds the position of Chief Financial Officer for the group.

Mr Witty joined Notch Holdings Pty Ltd in 2009, prior to its acquisition by Drill Torque Limited, after 38 years experience in retail and business banking and 2 years experience as a Senior Manager with PricewaterhouseCoopers.

Mr Witty has an Associate Diploma of Business (Accounting) and a Graduate Certificate in Management and is a Member of the National Institute of Accountants, a Board Member of the Townsville Diocesan Development Fund (Catholic Diocese of Townsville) and has been a board member of Standard White Cabs Limited since 2008.

# Drill Torque Limited

Directors' Report

For the Period Ended 30<sup>th</sup> June 2011

## Options and Options Issued as Remuneration

At the date of this report, the unissued ordinary shares of Drill Torque Limited under option are as follows:

Grant Date	Date of Expiry	Exercise Price	Number under Option
27 <sup>th</sup> July 2011	27 <sup>th</sup> July 2016	\$0.30	6,000,000
2 <sup>nd</sup> August 2011	2 <sup>nd</sup> August 2016	\$0.30	<u>12,500,000</u>
			<b>18,500,000</b>

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 period ended 30 June 2011, there were no shares in Drill Torque Limited issued on the exercise of options granted.

During and since the end of the financial period, an aggregate of 6,000,000 options were granted to Directors and key management personnel as part of their remuneration as follows:

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

## Environmental Considerations

The group'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 group 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 group undertakes its compliance duties in accordance with the contractor regime implemented by the licensed or regulated entity.

## Meetings of Directors

During the financial period, 2 meetings of directors were held. Committee meetings have not yet been held by Directors. Attendances at Directors' meeting by each director during and since the end of the financial period were as follows:

	Meetings Held	Attended
D Fairfull	2	2
D Williamson	2	2
R Craven	1	0
P Miller	2	2
G Drummond	2	2

# Drill Torque Limited

Directors' Report

For the Period Ended 30<sup>th</sup> June 2011

## Remuneration Report

### *Remuneration Policy*

The remuneration policy of Drill Torque Limited 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 group's financial results. The Board of Drill Torque Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best key management personnel to run and manage the consolidated group, 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 group is as follows:

- The remuneration policy is to be developed by the remuneration 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;
- 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 committee reviews key management personnel packages annually by reference to the consolidated group's performance, executive performance and comparable information from industry sectors

The performance of key management personnel is measured against criteria agreed bi-annually with each executive and is based predominantly on the forecast growth of the consolidated group'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 committee's recommendations. Any changes 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) and do not receive any other retirement benefits. Individuals may, at their election, choose 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 company and expensed.

The Board's policy is to remunerate non-executive directors at market rates for time, commitment and responsibilities. The remuneration 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.

# Drill Torque Limited

## Directors' Report

For the Period Ended 30<sup>th</sup> June 2011

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 who are subject to the arrangement are subject to a policy governing the use of external hedging arrangements. Such personnel are prohibited from entering into hedge arrangements, ie put options, on unvested shares and options which form part of their remuneration package. Terms of employment signed by such personnel contain details of such restrictions.

### *Performance-based Remuneration*

The company has not implemented performance based incentives.

### *Relationship between 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 directors and executives to encourage the alignment of personal and shareholder interests. The company believes this policy will be effective in increasing shareholder wealth in forthcoming years.

The company's shares were not traded at any time during the financial period, having been listed subsequent to the end of that time. Accordingly no relevant relationship yet exists between remuneration policy, company performance and shareholder wealth.

### *Employment Details of Directors and Members of Key Management Personnel*

Non- executive Directors have determined not to draw remuneration during the financial period.

Other Key Management Personnel (Detail)	Consolidated 30 June 2011		Consolidated 30 June 2010	
	Base Salary	Superannuation	Base Salary \$	Superannuation \$
Peter Richard Miller <i>Managing Director</i>	150,000	13,500	150,000	13,500
Sonya Margaret Miller (ceased 30th June 2011) <i>Former Executive Director Notch Holdings</i>	150,000	13,500	150,000	13,500
Guy Hamish Drummond (commenced 11th March 2011) <i>General Manager Business Development and Executive Director</i>	40,385	3,635	-	-
Robert Ian Witty <i>Chief Financial Officer and Company Secretary</i>	122,499	11,025	106,962	9,474
Ian James Milne <i>General Manager Operations</i>	150,000	13,500	89,140	7,996

The board has determined that there are no other senior managers who qualify for inclusion in this report.

No Director or senior manager appointed during the period received a payment as part of their consideration for agreeing to hold the position.

# Drill Torque Limited

## Directors' Report

For the Period Ended 30<sup>th</sup> June 2011

The board has determined to issue six million Management Options to the following Key Management Personnel:	Options Issued
Peter Richard Miller <i>Managing Director</i>	4,583,250
Guy Hamish Drummond <i>General Manager Business Development and Executive Director</i>	666,750
Robert Ian Witty <i>Chief Financial Officer and Company Secretary</i>	500,000
Ian James Milne <i>General Manager Operations</i>	250,000
	<hr/> <u>6,000,000</u>

Key Terms that will be 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 thirty cents
- \*the Management Options may not be exercised before the third anniversary of the Listing Date or after 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.

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 company 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 give the company the required period of notice in writing or the executive leaves employment during the period of notice, the company 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.

### *Changes in Directors and Executives Subsequent to Year-end*

There have been no changes to Directors or Executives since the end of the financial period.

### **Indemnification of Officers or Auditor**

During or since the end of the financial period, 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, or any related entities, other than conduct involving a wilful breach of duty in relation to the company. The total premiums paid for directors amounted to \$18,426.

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

# Drill Torque Limited

Directors' Report

For the Period Ended 30<sup>th</sup> June 2011

## Proceedings on Behalf of Company

No person has applied for leave of Court under s237 of the Corporations Act 2001 for leave 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

The Board of Directors, in accordance with advice from the audit committee, is satisfied that the provision of non-audit services during the period is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the audit committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided does not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

The following fees were paid or payable to Jessups for non-audit services provided during the period ended 30<sup>th</sup> June 2011:

	\$
Audit of predecessor companies now included in the Drill Torque Limited consolidated group	14,811
Assistance with preparation of financial statements	22,137
	<u>\$36,948</u>

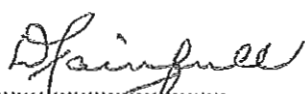
## Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporation Act 2001* is set out on page 19.

## Auditor

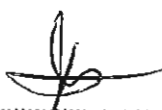
Ian Jessup of Jessups is the auditor for the period ended 30<sup>th</sup> June 2011 in accordance with section 327 of the *Corporations Act 2001*.

This report is made in accordance with a resolution of the Board of Directors:



David Fairfull  
Chairman

Dated 21.9.2011 at Townsville



Peter Richard Miller  
Director

Dated 21-9-11 at Townsville

# Drill Torque Limited

Corporate Governance Statement

For the Period Ended 30<sup>th</sup> June 2011

In recognising the need for appropriate standards of corporate behaviour and accountability, the Directors support, and have adhered to, the ASX Corporate Governance Principles. This statement outlines the manner by which the Directors implement, monitor and assess the framework for the group's corporate governance.

## Scope of Responsibility of the Board

The Board is responsible for monitoring the business activities of the Company on behalf of Shareholders and implementing and maintaining proper corporate governance. The Board has formally adopted a corporate governance statement designed to encourage Directors to focus their attention on a wide range of corporate governance issues including accountability, risk management and ethical conduct.

The Board's broad function is to:

- devise strategy and set financial targets for the Company;
- monitor the implementation and execution of strategy and performance against financial and non-financial targets; and
- appoint and oversee the performance of executive management and generally to take and fulfill an effective leadership role.

## Board composition

The Board comprises an independent Non-Executive Chairman, two independent Non-Executive Directors, a Managing Director and an Executive Director. The Board has an Audit and Risk Committee, Remuneration Committee and Nominations Committee, all of which are chaired by an independent Non-Executive Director and a Health, Safety, Environment and Sustainability Committee that is chaired by the Managing Director. The Board and Board committees are administered by the Company Secretary, Mr Robert Witty, who is also the Chief Financial Officer.

## Board Charter and Policy

Drill Torque Limited has adopted a charter (which will be reviewed and amended from time to time as the Board considers appropriate) to give formal recognition of the Board's role and responsibilities and to specify how Drill Torque Limited is governed so as to promote Drill Torque Limited and protect the interests of Shareholders, employees, customers and the broader community.

# Drill Torque Limited

Corporate Governance Statement

For the Period Ended 30<sup>th</sup> June 2011

## Audit and Risk Committee

The objective of the Audit and Risk Committee is to ensure the integrity of the Company's financial reporting by assisting the Board to discharge its responsibility to exercise due diligence and skill in relation to:

- External financial reporting – by ensuring a review of all statutory financial statements
- Accounting policy development and application
- Financial Compliance – in accordance with statutory requirements
- Risk management (non occupational health and safety) – in accordance with normal business requirements with a particular focus on non-operating matters.
- Internal audit – development of an internal audit plan and evaluation and performance review and remuneration
- External audit – assessment of approach and evaluation of performance and remuneration
- Budget review – ensure underlying assumptions are realistic and are applied
- Receive and review responses to its code of ethics and value complaints – from clients, employees and external service providers

This committee comprises the 3 Non-Executive directors of the Company, with Mr David Williamson as Chairman and Mr David Fairfull and Dr Ralph Craven as members. Mr Robert Witty as Company Secretary will also sit on this committee.

## Remuneration and Nominations Committee

The purpose of this committee is to assist the Board by making recommendations in relation to the appointment of new Directors (both Executive and Non-Executive), senior executives, their levels of remuneration equity-based incentive plans and other employee benefit programs.

The Committee has the following duties and responsibilities:

- regularly review the size and composition of the Board and the mix of expertise, skills, experience and perspectives that may be desirable to permit the Board to execute its functions;
- identify any competencies not adequately represented and agree the process necessary to be assured that a candidate with those competencies is selected;
- conducting a bi-annual external evaluation of the performance of the Board;
- recommending suitable individuals for nomination as members of the Board and its committees;
- reviewing the Company's recruitment, retention and termination policies;
- reviewing the Company's superannuation arrangements;
- reviewing succession plans of senior executives and executive Directors;
- conducting an annual evaluation of the performance of senior executives;

# Drill Torque Limited

## Corporate Governance Statement

For the Period Ended 30<sup>th</sup> June 2011

- considering those aspects of the Company's remuneration policies and packages, including equity-based incentives, which should be subject to shareholder approval; and
- establishment of procedures, and recommendations to the Chairman, for the proper oversight of the Board and management.

The remuneration and nominations committee will meet as often as necessary, but must meet at least twice a year.

This committee comprises the 3 Non-Executive Directors of the Company, with Dr Ralph Craven as Chairman and Mr David Fairfull and Mr David Williamson as members. The remaining executive directors of the Company and Mr Robert Witty as Company Secretary are invited to attend meetings of this committee.

## Health, Safety, Environment and Sustainability Committee

The purpose of the Health, Safety, Environment and Sustainability Committee is to assist the Board:

- in the effective discharge of its responsibilities in relation to safety and the key operational risks outlined above. The Committee has authority from the Board to review and investigate any matter within the scope of its charter and make recommendations to the Board in relation to those matters.
- in monitoring the decisions and actions of management in achieving the Drill Torque Limited Group aspiration to be a sustainable organisation.

The Committee is responsible for overseeing and monitoring the promotion, establishment and integration across the Group of the principles of safety, environmental responsibility and sustainability as the foundations of good management and good business.

Sustainability encompasses how the Drill Torque Limited Group conducts business, now and in the future, through the pursuit of workplace safety, a commitment to corporate social responsibility, environmentally sustainable solutions and employee diversity, development and opportunity.

The Committee has the following responsibilities:

### *Health & Safety*

- Oversee the Health and Safety function of the Group.
- Review the effectiveness of Group policies and initiatives designed to ensure the well-being of employees and the workforce.

### *Corporate Social Responsibility*

- Review the effectiveness of Group policies on corporate social responsibility, workplace diversity and equal opportunity.

# Drill Torque Limited

## Corporate Governance Statement

For the Period Ended 30<sup>th</sup> June 2011

### *Environment*

- Oversee the Environmental responsibilities of the Group.
- Review the effectiveness of Group policies and initiatives designed to deliver best practice environmentally sustainable solutions.

### *Compliance*

- Assist the Board in its oversight of the Group's compliance with applicable legal and regulatory requirements in relation to environmental matters, socially responsible initiatives,
- and health and safety issues and regulations governing drilling operations and reviewing the supporting management systems and processes;
- reviewing investigations of major incidents within the Group's operations; and
- monitoring legislative developments and considering major operational issues that may have significant implications for the Group.

This committee comprises the entire Board of the Company.

## **Compliance with ASX Corporate Governance Principles and Recommendations**

The ASX document, 'Corporate Governance Principles and Recommendations' ('Guidelines') was published by the ASX Corporate Governance Council with the aim of enhancing the credibility and transparency of Australia's capital markets. The Board has assessed Drill Torque Limited's current practice against the Guidelines as follows:

### *Principle 1 – Lay solid foundations for management and oversight*

The role of the Board and delegation to management has been formalised in Drill Torque Limited's Board charter. The charter will be reviewed and amended from time to time taking into consideration practical experience gained in operating as a listed company. Drill Torque Limited complies with this principle of the Guidelines.

### *Principle 2 – Structure the Board to add value*

Drill Torque Limited has a five-member Board comprising 3 non-executive and 2 executive Directors. Together, the Directors have a broad range of experience, expertise, skills, qualifications and contacts relevant to Drill Torque Limited and its business.

The Company believes it is in its best interests to maintain a small but efficient board of Directors with at least two executive Directors. The non-executive Chairman of the Board is Mr David Fairfull. For the reasons stated below, he is considered to be independent. The Managing Director is Mr Peter Miller and the other executive Director is Mr Guy Drummond.

Under the Guidelines, Mr Fairfull does not meet the criteria for independence as he is a Director of a substantial shareholder (defined in s9 of the Corporations Act as being 5% or more of the total number of votes attached to voting shares in the company). Although the Guidelines are not mandatory, the Board has assessed the independence of its members and is of the view that Mr Fairfull is independent for the reasons set out below.

# Drill Torque Limited

## Corporate Governance Statement

For the Period Ended 30<sup>th</sup> June 2011

All Directors are committed to bringing their independent views and judgement to the Board and, in accordance with the Corporations Act, must inform the Board if they have any interest that could conflict with those of the company. 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.

### *Principle 3 – Promote ethical and responsible decision making*

This principle deals with a code of conduct for the Company, including the level of integrity of its Directors and employees, the legal obligations of the Company and the responsibility of investigating and reporting unethical practices.

Consistent with Drill Torque Limited's statement of commitments, principles and values, the Board has developed and implemented policies governing director and employee conduct as well as a code of conduct for transactions dealing in Drill Torque Limited's securities. Drill Torque Limited has also adopted a policy of diversity (including gender diversity) to take into account the amendments to the Guidelines. A summary of these codes are available on Drill Torque Limited's website at [www.drilltorque.com.au](http://www.drilltorque.com.au)

The purpose of these codes is to guide Directors and employees in the performance of their duties and to define the circumstances in which both they and management, and their respective associates, are permitted to deal in securities. The codes have been designed with a view to ensuring the highest ethical and professional standards, as well as compliance with legal obligations, and therefore compliance with the Guidelines.

### *Principle 4 – Safeguard integrity in financial reporting*

The Audit and Risk Committee has been established with its own charter and consists of Mr David Williamson (chairman), Mr David Fairfull and Dr Ralph Craven. The Audit and Risk Committee complies with recommendation 4.2 of the Guidelines, which recommends that the Committee have at least three members, the majority of which must be independent. Drill Torque Limited's audit committee charter is available on Drill Torque Limited's website at [www.drilltorque.com.au](http://www.drilltorque.com.au).

### *Principle 5 – Make timely and balanced disclosure*

Drill Torque Limited's current practice on disclosure is consistent with the Guidelines. The Board has adopted a continuous disclosure policy and procedures are in place to ensure compliance with ASX Listing Rule disclosure requirements. The Board's continuous disclosure policy is available on Drill Torque Limited's website at [www.drilltorque.com.au](http://www.drilltorque.com.au).

### *Principle 6 – Respect the rights of shareholders*

Drill Torque Limited is committed to providing regular communication to Shareholders about the financial performance of Drill Torque Limited and its business and operations. Annual reports are to be provided to Shareholders, except those who request not to receive a copy. The Board will communicate with Shareholders regularly and clearly by electronic means as well as by traditional methods. Shareholders are encouraged to attend and participate at general meetings. Drill Torque Limited's auditor will attend the annual general meeting and will be available to answer Shareholders' questions. Drill Torque Limited's policies comply with the Guidelines in relation to the rights of Shareholders.

A description of arrangements regarding communication with and participation of Shareholders is available on Drill Torque Limited's website at [www.drilltorque.com.au](http://www.drilltorque.com.au).

# Drill Torque Limited

Corporate Governance Statement

For the Period Ended 30<sup>th</sup> June 2011

## *Principle 7 – Recognise and manage risks*

The Board is mindful of its responsibility to identify, monitor and mitigate risk and to this end has developed a policy in regard to risk oversight and management and internal control systems. This policy is continuously monitored and assessed. Where appropriate, certain risks are covered by insurance. The Chief Financial Officer is responsible for reporting to the Board and the Audit and Risk Committee about the management of Drill Torque Limited's material business risks.

A summary of its policies on risk oversight and management of material business risks is available on Drill Torque Limited's website at [www.drilltorque.com.au](http://www.drilltorque.com.au).

## *Principle 8 – Remunerate fairly and responsibly*

The Remuneration Committee ensures that remuneration is consistent with current market practices and that Drill Torque Limited can attract, retain and develop valued employees. In this regard, Drill Torque Limited complies with best practice principle 8.

In accordance with best practice principle 8, the Remuneration Committee is comprised of Drill Torque Limited's three independent Non-Executive Directors with Dr Ralph Craven as Chairman. Remuneration of Directors and executives will be fully disclosed in Drill Torque Limited's annual report.

# Drill Torque Limited

Auditor's Independence Declaration

For the Period Ended 30<sup>th</sup> June 2011

## Auditors Independence Declaration under Section 307C of the Corporations Act 2001 to the Directors of Drill Torque Limited

As lead engagement auditor for the audit of Drill Torque Limited for the period ended 30<sup>th</sup> June 2011, I declare that, to the best of my knowledge and belief, there have been:

- (i) no contraventions of independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

Jessups



Ian Jessup

Partner

Dated this day the 1<sup>st</sup> September 2011

Level 1, 19 Stanley Street

TOWNSVILLE QLD 4810

# Drill Torque Limited

Statement of Comprehensive Income  
For the Period Ended 30th June 2011

	Notes	Consolidated 30 June 2011 \$	Consolidated 30 June 2010
Revenue from Continuing Operations	2	25,288,247	22,353,505
Total Income from Continuing Operations		<u>25,288,247</u>	<u>22,353,505</u>
Gain from Continuing Operations			
Gain on recognition of inventory	1(c)	1,396,768	-
Expenses from Continuing Operations			
Employee benefits expense		(11,533,411)	(8,898,216)
Depreciation and amortisation expense		(2,621,233)	(2,600,410)
Advertising		(22,048)	(12,961)
Service and repairs		(1,280,729)	(1,020,659)
Rent		(241,852)	(132,713)
Expenses associated with Public Offering		(257,022)	-
Other expenses		(9,397,085)	(8,379,587)
Finance costs		(1,238,473)	(2,179,513)
Total Expenses from Continuing Operations		<u>(26,591,852)</u>	<u>(23,224,059)</u>
<b>Profit/(Loss) Before Tax</b>		<u>93,163</u>	<u>(870,554)</u>
Income tax (expense)/revenue	13	(165,940)	(99,402)
<b>Profit/(Loss) for the period from Continuing Operations</b>		<u>(72,777)</u>	<u>(969,956)</u>
<b>Other Comprehensive Income</b>		-	-
<b>Profit and Total Comprehensive Income for the period</b>		<u>(72,777)</u>	<u>(969,956)</u>
Profit and Comprehensive Income attributed to: Owners of the Parent Entity		<u>(72,777)</u>	<u>(969,956)</u>
		<u>(72,777)</u>	<u>(969,956)</u>
<b>Earnings per share</b>			
From continuing operations:			
Basic earnings per share (cents)	27	(0.13)	(1.86)
Diluted earnings per share (cents)	27	(0.13)	(1.86)

The statement of comprehensive income should be read in conjunction with the notes to and forming part of the accounts

# Drill Torque Limited

Balance Sheet  
As at 30th June 2011

		Consolidated 30 June 2011 \$	Consolidated 30 June 2010
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	3 a)	764,764	318,453
Trade and other receivables	4	3,845,517	2,577,108
Other financial assets	5	3,758	-
Tax asset	14	678,186	208,334
Other assets	6	291,931	292,960
Inventories	7	1,396,768	-
<b>Total current assets</b>		<u>6,980,924</u>	<u>3,396,855</u>
<b>Non-current assets</b>			
Other financial assets	5	8,307	1,667,760
Property, plant and equipment	12	11,790,197	11,103,955
Other assets	6	63,250	63,250
Tax asset	14	-	781,274
<b>Total non-current assets</b>		<u>11,861,754</u>	<u>13,616,239</u>
<b>Intangible Assets</b>			
Goodwill	8	1,515,032	318,024
		<u>1,515,032</u>	<u>318,024</u>
<b>TOTAL ASSETS</b>		<u>20,357,710</u>	<u>17,331,118</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Bank overdraft	3 b)	190,478	201,036
Trade and other payables	9	7,765,434	5,995,726
Other financial liabilities	10	6,933,260	4,983,572
Tax liability	14	41,819	-
Provisions	11	249,188	184,950
<b>Total current liabilities</b>		<u>15,180,178</u>	<u>11,365,283</u>
<b>Non - Current liabilities</b>			
Provisions	11	46,651	14,046
Other financial liabilities	10	3,732,159	6,004,289
		<u>3,778,809</u>	<u>6,018,335</u>
<b>TOTAL LIABILITIES</b>		<u>18,958,989</u>	<u>17,383,619</u>
<b>NET ASSETS</b>		<u>1,398,723</u>	<u>(52,500)</u>
<b>EQUITY</b>			
Contributed Equity	15	1,524,100	100
Reserves and retained profits	16	(125,377)	(52,600)
<b>TOTAL EQUITY</b>		<u>1,398,723</u>	<u>(52,500)</u>

The balance sheet should be read in conjunction with the notes to and forming part of the accounts

# Drill Torque Limited

Statement of Changes in Equity  
For the Period Ended 30th June 2011

	Note	Contributed Equity	Retained Earnings	Attributable to Owners of the Parent	Total
Balance at 1st July 2009		100	812,700	812,800	812,800
Comprehensive Income					
Profit or Loss for the year			(969,956)	(969,956)	(969,956)
Other Comprehensive income for the year			-	-	-
Total Comprehensive income for the year			(969,956)	(969,956)	(969,956)
Restatement of prior year for temporary differences brought to account resulting in Deferred Tax balance	14		104,656	104,656	104,656
<b>Balance at 30th June 2010</b>		<b>100</b>	<b>(52,600)</b>	<b>(52,500)</b>	<b>(52,500)</b>
Balance at 1st July 2010		100	(52,600)	(52,500)	(52,500)
Comprehensive Income					
Profit or Loss for the year	16		(72,777)	(72,777)	(72,777)
Other Comprehensive income for the year			-	-	-
Total Comprehensive income for the year			(72,777)	(72,777)	(72,777)
Transactions with owners, in their capacity as owners					
Shares Issued during the year	15	1,524,000	-	1,524,000	1,524,000
Total transactions with owners		1,524,000	-	1,524,000	1,524,000
<b>Balance at 30th June 2011</b>		<b>1,524,100</b>	<b>(125,377)</b>	<b>1,398,723</b>	<b>1,398,723</b>

The statement of changes in equity should be read in conjunction with the notes to and forming part of the accounts

# Drill Torque Limited

Statement of Cash Flows

For the Period Ended 30th June 2011

	Notes	Parent Entity 30 June 2011 \$	Consolidated 30 June 2010 \$
<b>Cash from operating activities:</b>			
Receipts from customers		25,980,721	22,110,555
Payments to suppliers and employees		(22,759,965)	(19,512,998)
Interest received		58,641	57,296
Interest and borrowing costs paid		(1,238,473)	-
Income tax		(165,940)	-
<b>Net cash provided by (used in) operating activities</b>	<b>17</b>	<b>1,874,984</b>	<b>2,654,853</b>
<b>Cash flows from investing activities:</b>			
Proceeds from sale of plant and equipment		1,088,754	425,268
Purchase of property, plant and equipment		(2,378,199)	(1,223,333)
<b>Net cash provided by (used in) investing activities</b>		<b>(1,289,445)</b>	<b>(798,065)</b>
<b>Cash flows from Financing activities:</b>			
Repayment of (proceeds from) financial assets		1,659,453	(682,038)
Repayment of (proceeds from) financial liabilities		(1,527,348)	(980,682)
Costs incurred in preparation for public offering		(257,022)	-
Costs associated with Borrowing		(3,758)	-
<b>Net cash provided by (used in) Financing activities</b>		<b>(128,675)</b>	<b>(1,662,720)</b>
<b>Net increase (decreases) in cash held</b>		<b>456,863</b>	<b>194,068</b>
Cash at beginning of financial year		117,417	(76,651)
<b>Cash at end of financial year</b>	<b>3 c)</b>	<b>574,280</b>	<b>117,417</b>

The cash flow statement should be read in conjunction with the notes to and forming part of the accounts

# Drill Torque Limited

Notes to the Financial Statements

For the Period Ended 30<sup>th</sup> June 2011

## 1. Summary of Significant Accounting Policies

### General Information

These consolidated financial statements and notes represent those of Drill Torque Limited and Controlled Entities (the "consolidated group" or "group").

The separate financial statements of the parent entity, Drill Torque Limited have not been presented within this financial report as permitted by the Corporations Act 2001.

Drill Torque Limited is a company limited by shares and is incorporated and domiciled in Australia.

The financial statements were authorised for issue on 20<sup>th</sup> September 2011 by the directors of the company.

### Basis of preparation

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with Australian Accounting Standards ensures that the financial statements and notes thereto comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless otherwise stated.

The financial statements have been prepared on an accruals basis and are based on historical costs modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

#### (a) Principles of Consolidation

The consolidated financial statements incorporate the assets, liabilities and results of entities controlled by Drill Torque Limited at the end of the reporting period. A controlled entity is any entity over which Drill Torque Limited 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 period, the financial performance of those entities is included only for the period that they were controlled. A list of controlled entities is contained in Note 21 to the financial statements.

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

Non-controlling interests, being the equity in a subsidiary not attributable, directly or indirectly, to a parent, are reported separately within the equity section of the consolidated statement of financial position and statement of comprehensive income. The non-controlling interests in the net assets comprise their interests at the date of the original business combination and their share of changes in equity since that date.

# Drill Torque Limited

Notes to the Financial Statements

For the Period Ended 30<sup>th</sup> June 2011

## 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.

Business combinations of the type whereby Drill Torque Limited 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 Limited by Notch Holdings Pty Ltd. These financial statements are issued under the name of Drill Torque Limited 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 Limited 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 Limited and the fair value of equity interests in Drill Torque Limited.

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 Limited together with the retained profits (losses) of the continuing Drill Torque Limited business combination.

## Goodwill

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

- i. the consideration transferred;
- ii. any non-controlling interest; and
- iii. 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.

# Drill Torque Limited

Notes to the Financial Statements

For the Period Ended 30<sup>th</sup> June 2011

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 and this is stated in the respective notes to these financial statements disclosing the business combination.

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.

Refer to Notes 8 and 29 for information on the goodwill policy adopted by the Group for acquisitions.

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.

## (b) Income taxes

The income tax expense (revenue) for the period comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to profit or loss is the tax payable on taxable income. Current tax liabilities (assets) are measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the period as well unused tax losses.

Current and deferred income tax expense (income) is charged or credited outside profit or loss when the tax relates to items that are recognised outside profit or loss.

Except for business combinations, no deferred income tax is recognised from the initial recognition of an asset or liability, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

# Drill Torque Limited

Notes to the Financial Statements

For the Period Ended 30<sup>th</sup> June 2011

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where: (a) a legally enforceable right of set-off exists; and (b) the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

## (c) Inventories (including Change in Accounting Policy)

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.

During the interim period ended 31<sup>st</sup> December 2010 the entity adopted AASB 102, Inventories. Prior to this time inventories were not tracked or recognised in the balance sheet by the group but were expensed at the time of purchase.

Comparative figures for 30<sup>th</sup> June 2010 have not been restated to reflect this policy change, as it is not possible to determine what the retrospective fair value of these inventories would have been at the end of the previous period.

In recognising the value of the inventory on the balance sheet as at 31<sup>st</sup> December 2010 a revenue item has been taken up in the Statement of Comprehensive Income of \$1,161,696, together with a further \$235,072 for the subsequent interim period ended 30<sup>th</sup> June 2011.

## (d) Work in Progress

Work in progress is valued at cost, plus profit recognised to date less any provision for anticipated future losses. Cost includes both variable and fixed costs relating to specific contracts, and those costs that are attributable to the contract activity in general and that can be allocated on a reasonable basis.

Profits are recognised on the stage of completion basis and measured using the proportion of costs incurred to date compared to expected actual costs. Where losses are anticipated they are provided for in full.

Revenue has been recognised on the basis of the terms of the contract adjusted for any variations or claims allowable under the contract.

# Drill Torque Limited

Notes to the Financial Statements

For the Period Ended 30<sup>th</sup> June 2011

## (e) Property, plant and equipment

Each class of property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation and impairment losses.

### Property

Freehold land and buildings are recorded at their fair value (being the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction), based on periodic, but at least triennial, valuations by external independent valuers, less accumulated depreciation for buildings.

Increases in the carrying amount arising on revaluation of land and buildings are credited to a revaluation surplus in equity. Decreases that offset previous increases of the same asset are recognised against fair value reserves directly in equity; all other decreases are recognised in profit or loss. Each period the difference between depreciation based on the revalued carrying amount of the asset charged to the statement of comprehensive income and depreciation based on the asset's original cost is transferred from the revaluation reserve to retained earnings.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

### Plant and equipment (including motor vehicles and furniture and fittings)

Plant and equipment are measured on the cost basis and therefore carried at cost less accumulated depreciation and any accumulated impairment. In the event the carrying amount of 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(h) for details of impairment).

The carrying amount of 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 consolidated 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.

Plant and equipment that have been contributed at no cost or for nominal cost are valued and recognised at the fair value of the asset at the date it is acquired.

### Depreciation

The depreciable amount of all fixed assets is depreciated on a diminishing value basis over the asset's useful life to the company commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

# Drill Torque Limited

Notes to the Financial Statements

For the Period Ended 30<sup>th</sup> June 2011

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

**Classes of Fixed Asset**

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.

**(f) Leases**

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that is transferred to entities in the consolidated group, 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.

**(g) Financial Instruments**

**Recognition and Initial Measurement**

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is the equivalent to the date that the company commits itself to either purchase or sale of the asset (ie 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.

# Drill Torque Limited

Notes to the Financial Statements

For the Period Ended 30<sup>th</sup> June 2011

## Classification and Subsequent Measurement

Finance instruments are subsequently measured at either of fair value, amortised cost using the effective interest rate method, or cost. Fair value represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

*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) through 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.

Loans and receivables are included in current assets, where they are expected to mature within 12 months after the end of the reporting period.

### (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 (ie 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 within 12 months after the end of the reporting period. All other financial assets are classified as current assets.

# Drill Torque Limited

Notes to the Financial Statements

For the Period Ended 30<sup>th</sup> June 2011

## *(iii) Financial liabilities*

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

### **Impairment**

At the end of each reporting period, the Group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in profit or loss. Also, any cumulative decline in fair value previously recognised in other comprehensive income is reclassified to profit or loss at this point.

### **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 guarantee is subsequently measured at the higher of the best estimate of the obligation and the amount initially recognised less, when appropriate, cumulative amortisation in accordance with AASB 118: Revenue. Where the entity gives guarantees in exchange for a fee, revenue is recognised under AASB 118.

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 in a period;
- the proportion of the exposure that is not expected to be recovered due to the guaranteed party defaulting; and
- the maximum loss exposed if the guaranteed party were to default.

### **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 entity 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 value 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.

## **(h) Impairment of assets**

At each reporting date, the group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been 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, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

# Drill Torque Limited

Notes to the Financial Statements

For the Period Ended 30<sup>th</sup> June 2011

Where the future economic benefits of the asset are not primarily dependent upon the asset's ability to generate net cash inflows and when the company would, if deprived of the asset, replace its remaining future economic benefits, value in use is determined on the depreciated replacement cost of an asset.

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

Where an impairment loss on a revalued asset is identified, this is debited against the revaluation reserve in respect of the same class of asset to the extent that the impairment loss does not exceed the amount in the revaluation reserve for that same class of asset.

## (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 wages 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.

Contributions are made by the entity to an employee superannuation fund and are charged as expenses when incurred.

## (j) Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

Provisions are measured using the best estimate of the amounts required to settle the obligation at the end of the reporting period

## (k) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Where there are bank overdrafts, these are shown within short-term borrowings in current liabilities on the balance sheet.

## (l) Revenue

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

# Drill Torque Limited

Notes to the Financial Statements

For the Period Ended 30<sup>th</sup> June 2011

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 Company 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).

## **(m) Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

## **(n) Critical accounting estimates and judgments**

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and based on current trends and economic data, obtained both externally and within the company.

### *Key estimates – Impairment*

The company assesses impairment at each reporting date by evaluating conditions specific to the company 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.

## **(o) New Accounting Standards for Application in Future Periods**

The AASB has issued new, revised and amended standards and interpretations that have mandatory application dates for future reporting periods and which the company has not adopted early. The company does not anticipate early adoption of any of the above reporting requirements and does not expect these requirements to have any material effect on the company's financial statements.

### **Standards and Interpretations in issue not yet adopted**

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet adopted.

# Drill Torque Limited

Notes to the Financial Statements

For the Period Ended 30<sup>th</sup> June 2011

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
<i>AASB 124 Related Party Disclosures (revised December 2009), AASB 2009-12 Amendments to Australian Accounting Standards</i>	1 January 2011	30 June 2012
<i>AASB 9 Financial Instruments, AASB2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9</i>	1 January 2013	30 June 2014
<i>AASB 2009-14 Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement</i>	1 January 2011	30 June 2012
<i>AASB 2010-5 Amendments to Australian Accounting Standards</i>	1 January 2011	30 June 2012
<i>AASB 2010-6 Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets</i>	1 July 2011	30 June 2012
<i>AASB 2010-8 Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets</i>	1 January 2012	30 June 2013

# Drill Torque Limited

Notes to the Financial Statements  
For the Period Ending 30th June 2011

	Consolidated 30 June 2011 \$	Consolidated 30 June 2010 \$
<b>2 Revenue</b>		
From continuing operations		
Income from Operations	24,121,441	21,631,733
Profit on Sale of Assets	456,810	192,755
Interest	58,641	57,296
Recoveries	613,047	437,386
Rental Income	5,739	2,635
Government Subsidy	3,718	7,000
Other	28,853	24,700
	<u>1,166,807</u>	<u>721,772</u>
Total Income from Continuing Operations	<u>25,288,247</u>	<u>22,353,505</u>

## 3 Cash and cash equivalents

Cash at the end of the year is shown in the statement of cash flows is reconciled to the related items in the balance sheet as follows.

### 3 a) In funds accounts

Bank accounts	764,764	311,653
Deposit on equipment	-	6,800
	<u>764,764</u>	<u>318,453</u>

### 3 b) Bank overdraft

Bank overdraft	(190,478)	(201,036)
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### 3 c) Net cash at bank

	<u>574,285</u>	<u>117,417</u>
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## 4 Trade and other receivables

Trade debtors	3,843,517	2,538,548
Work in progress	-	38,560
Bond	2,000	-
	<u>3,845,517</u>	<u>2,577,108</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	3,655,116	1,098,035
1 to 3 months	161,076	1,440,513
> 3 months	27,326	-
	<u>3,843,517</u>	<u>2,538,548</u>

# Drill Torque Limited

Notes to the Financial Statements  
For the Period Ending 30th June 2011

	Consolidated 30 June 2011 \$	Consolidated 30 June 2010 \$
<b>5 Other financial assets</b>		
Financial assets - current		
Borrowing costs	3,758	-
	<u>3,758</u>	<u>-</u>
Financial assets - non-current		
Loans to directors (unsecured)	197	1,134,094
Loan to Miller Family Trust (unsecured)	-	428,128
Loan to PR & SM Miller (unsecured)	-	94,724
Borrowing costs	8,111	10,814
	<u>8,307</u>	<u>1,667,760</u>

## 5 a) Ageing of other financial assets

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

< 1 year	3,758	-
1 to 5 years	-	-
> 5 years	-	-
	<u>3,758</u>	<u>-</u>

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

< 1 year	197	655,235
1 to 5 years	8,111	1,012,525
> 5 years	-	-
	<u>8,307</u>	<u>1,667,760</u>

## 6 Other assets

Other assets - current		
Prepayments	234,075	292,960
Listing costs carried forward	57,856	-
	<u>291,931</u>	<u>292,960</u>

Other assets - 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

Raw Materials	-	-
Work in progress	-	-
Finished goods	1,396,768	-
	<u>1,396,768</u>	<u>-</u>

The cost of inventories recognised as an expense during the year in respect of continuing operations was \$2,978,143 (2010: \$2,391,237).

Note 1(c) provides further information in relation to the accounting policy establishing the inventory recorded in these financial statements.

# Drill Torque Limited

Notes to the Financial Statements  
For the Period Ending 30th June 2011

	Consolidated 30 June 2011 \$	Consolidated 30 June 2010 \$
<b>8 Goodwill</b>		
Cost		
Balance at beginning of year	318,024	318,024
Amount recognised from business combination occurring during the year	1,515,032	-
Amount derecognised	(318,024)	-
	<u>1,515,032</u>	<u>318,024</u>

Goodwill arising during the current period has been allocated, for the purposes of impairment testing to a cash generating unit comprised of the assets acquired with the purchase of Well Drilled Pty Ltd.

Goodwill of \$318,024 recorded in the comparative period and which was subject to an audit qualification in that period was written off during the current period.

## 9 Liabilities - trade and other payables

Liabilities - trade and other payables - current		
Trade creditors	2,777,420	1,837,996
Other creditors	3,694,798	3,641,221
Accrued expenses	1,293,216	516,509
	<u>7,765,434</u>	<u>5,995,726</u>

### 9 a) Ageing of trade creditors

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

< 1 month	2,033,405	825,227
1 to 3 months	479,962	441,679
> 3 months	264,053	571,089
	<u>2,777,420</u>	<u>1,837,995</u>

## 10 Other financial liabilities

Other financial liabilities - current		
Equipment finance leases	3,196,005	4,653,687
Loans		
Richvale Pty Ltd	1,500,000	-
Miller Superannuation Fund	490,000	209,496
Drummond Group	350,000	-
Jumani Pty Ltd	981,089	-
Pharmamark Pty Ltd	214,248	-
Insurance Premium Funding	201,917	120,389
	<u>6,933,260</u>	<u>4,983,572</u>
Other financial liabilities - non-current		
Equipment finance leases	3,732,159	6,004,289
	<u>3,732,159</u>	<u>6,004,289</u>

# Drill Torque Limited

Notes to the Financial Statements  
For the Period Ending 30th June 2011

	Consolidated 30 June 2011 \$	Consolidated 30 June 2010 \$
<b>10 Other financial liabilities (Cont'd)</b>		
<b>10 a) Finance Leases</b>		
Included in the consolidated financial statements as:		
Current	3,196,005	4,653,687
Non-current	3,732,159	6,004,289
	<u>6,928,164</u>	<u>10,657,976</u>
	<i>Minimum Future Lease Payments</i>	
No later than 1 year	3,847,772	4,653,687
Later than one year and not later than 5 years	3,893,945	7,664,938
Later than 5 years	-	-
Minimum future lease payments	<u>7,741,717</u>	<u>12,318,625</u>
Less future finance charges	813,554	1,660,649
Present value of minimum lease payments	<u>6,928,164</u>	<u>10,657,976</u>
	<i>Present Value of Minimum Future Lease Payments</i>	
No later than 1 year	3,196,005	3,669,638
Later than one year and not later than 5 years	3,732,159	6,988,338
Later than 5 years	-	-
Present value of minimum lease payments	<u>6,928,164</u>	<u>10,657,976</u>

The group leases certain items of equipment under finance leases. The average term is four years (2010 four 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 7.55% and 11.98% (2010: 7.55% to 11.98%).

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

## 10 b) Loans

All loans are current. A summary of borrowing arrangements applicable to these loans is included in Note 18 Financial Risk Management (Interest Rate Risk).

# Drill Torque Limited

Notes to the Financial Statements  
For the Period Ending 30th June 2011

	Consolidated 30 June 2011 \$	Consolidated 31 June 2010 \$
<b>11 Provisions</b>		
<b>Annual Leave Provision - Current</b>		
Opening Balance	141,576	126,238
Movement	69,342	15,338
Closing balance	<u>210,918</u>	<u>141,576</u>
<b>Long Service Leave Provisions - Current</b>		
Current Long Service Leave Provision		
Opening Balance	43,374	55,275
Movement	(5,105)	(11,901)
Closing balance	<u>38,269</u>	<u>43,374</u>
<b>Total Current Provisions</b>	<u>249,188</u>	<u>184,950</u>
<b>Long Service Leave Provision - Non-Current</b>		
Opening Balance	14,046	7,376
Movement	32,605	6,670
Closing balance	<u>46,651</u>	<u>14,046</u>
<b>Total Non - Current Provisions</b>	<u>46,651</u>	<u>14,046</u>

## 12 Property, plant & equipment

	Land and buildings \$	Plant and equipment \$	Motor Vehicles \$	Furniture & Fittings \$	Total \$
<b>At 1 July 2010</b>					
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
<b>Year ended 30 June 2011</b>					
Opening net book amount	-	2,811,362	8,243,770	48,823	11,103,955
Additions	16,894	1,810,783	502,243	48,280	2,378,199
Additions through acquisition of controlled entity	-	927,917	282,672	3,281	1,213,869
Transfers	-	510,295	(510,295)	-	-
Disposals	-	(432,688)	(199,256)	-	(631,944)
Depreciation charge	-	(566,331)	(1,696,228)	(11,323)	(2,273,882)
Closing net book amount	16,894	5,061,337	6,622,905	89,061	11,790,197
<b>At 30 June 2011</b>					
Cost or fair value	16,894	8,372,488	16,302,734	194,128	24,886,245
Accumulated depreciation	-	(3,311,151)	(9,679,829)	(105,068)	(13,096,048)
Net book amount	16,894	5,061,337	6,622,905	89,060	11,790,197

# Drill Torque Limited

Notes to the Financial Statements  
For the Period Ending 30th June 2011

## 12 Property, plant & equipment (Cont'd)

	Land and buildings \$	Plant and equipment \$	Motor Vehicles \$	Furniture & Fittings \$	Total \$
<b>At 1 July 2009</b>					
Cost or fair value	-	4,807,643	15,859,765	120,953	20,788,361
Accumulated depreciation	-	(1,729,523)	(6,279,154)	(66,138)	(8,074,815)
Net book amount	-	3,078,120	9,580,611	54,815	12,713,546
<b>Year ended 30 June 2010</b>					
Opening net book amount	-	3,078,120	9,580,611	54,815	12,713,546
Additions	-	188,028	1,027,094	8,211	1,223,333
Transfers	-	-	-	-	-
Disposals	-	-	(232,513)	-	(232,513)
Depreciation charge	-	(454,786)	(2,131,422)	(14,203)	(2,600,411)
Closing net book amount	-	2,811,362	8,243,770	48,823	11,103,955
<b>At 30 June 2010</b>					
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

The Property, plant & equipment classifications of Plant & Equipment and Motor Vehicles are comprised mainly of drilling rigs and associated equipment. Given the current boom in the resources industry and the resultant huge 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 Drill Torque'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.

# Drill Torque Limited

Notes to the Financial Statements  
For the Period Ending 30 June 2011

## 13 Income Tax Expense

	Consolidated 30 June 2011	Consolidated 30 June 2010
	\$	\$
<b>Income tax recognised in profit</b>		
Tax expense comprises:		
Deferred Tax / (revenue)	165,940	99,402
	<u>165,940</u>	<u>99,402</u>
The expense for the year can be reconciled to the accounting profit as follows:		
Profit from continuing operations	93,163	(870,554)
Income tax expense at 30% recognised in profit	27,949	(261,166)
ADD		
Effect of expenses that are not deductible for in determining taxable profit	137,991	393,511
LESS		
Investment allowance	-	(32,943)
	<u>165,940</u>	<u>99,402</u>

The tax rate used for the reconciliation above is the corporate tax rate of 30%.

## 14 Tax assets and liabilities

	Consolidated 30 June 2011	Consolidated 30 June 2010
	\$	\$
<b>Tax assets - current</b>		
Deferred tax asset	678,186	-
Income tax receivable	-	208,334
	<u>678,186</u>	<u>208,334</u>
<b>Tax assets - non-current</b>		
Comparative period balance	-	676,618
Restatement of prior year for temporary differences brought to account resulting in Deferred Tax balance		104,656
Deferred tax asset	-	781,274
	<u>-</u>	<u>781,274</u>
<b>Tax liabilities - current</b>		
Tax Payable	41,819	-
	<u>41,819</u>	<u>-</u>

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

	Opening Balance 1/7/10	Recognised in profit/(loss)	30%	Closing Balance 30/6/11
<b>Temporary differences</b>				
Annual & long service leave provision	(59,699)	(97,145)	(29,143)	(88,842)
Super provision	(55,121)	(76,836)	(23,051)	(78,171)
Other accrued expenses	(154,954)	(262,459)	(78,738)	(233,691)
	<u>(269,773)</u>	<u>(436,440)</u>	<u>(130,932)</u>	<u>(400,705)</u>
<b>Unused tax losses</b>				
Losses carried forward	(511,501)	780,065	234,020	(277,481)
	<u>(511,501)</u>	<u>780,065</u>	<u>234,020</u>	<u>(277,481)</u>
	<u>(781,274)</u>	<u>343,625</u>	<u>103,087</u>	<u>(678,186)</u>

# Drill Torque Limited

Notes to the Financial Statements  
For the Period Ending 30 June 2011

## 14 Tax assets and liabilities (Cont'd)

Temporary differences	Opening Balance 1/7/09	Recognised in profit/(loss)	30%	Closing Balance 30/6/10
Deferred revenue & expenses	283,104	(943,681)	(283,104)	-
Prepayments	27,004	(90,015)	(27,005)	-
Annual leave provision	(56,667)	(10,107)	(3,032)	(59,699)
Superannuation provision	(114,560)	381,868	114,560	-
Superannuation provision (restated)	-	(183,735)	(55,121)	(55,121)
Other accrued expenses	(101,400)	(13,395)	(4,019)	(105,418)
Other accrued expenses (restated)	-	(165,117)	(49,535)	(49,535)
	<u>37,482</u>	<u>(1,024,182)</u>	<u>(307,255)</u>	<u>(269,773)</u>
<b>Unused tax losses</b>				
Losses carried forward	(813,502)	1,006,669	302,001	(511,501)
	<u>(813,502)</u>	<u>1,006,669</u>	<u>302,001</u>	<u>(511,501)</u>
	<u>(776,020)</u>	<u>(17,513)</u>	<u>(5,254)</u>	<u>(781,274)</u>

Unrecognised Amounts	Consolidated 30 June 2011 \$	Consolidated 30 June 2010 \$
Franking Account Balance		
Franking Account Balance	1,141,156	1,132,348

## Restatement of Prior Period Balance

The balance of the Deferred Tax Asset as disclosed in the financial statements for the period ended 30th June 2010 has been restated to include all temporary differences relating to Superannuation and Other Accruals. The Deferred Tax Asset has been increased by \$104,656 (attributable \$55,121 to Superannuation provisions and \$49,535 to Other Accruals). Retained Earnings as at 30th June 2010 have been increased by \$104,656.

# Drill Torque Limited

Notes to the Financial Statements  
For the Period Ended 30th June 2011

15 Contributed equity	Consolidated 30 June 2011 \$	Consolidated 30 June 2010 \$
<b>Contributed Equity</b>		
Balance at 1 July 2010 (Notch Holdings Pty Ltd)	100	100
Equity in Notch Holdings Pty Ltd issued prior to entry to Drill Torque Limited group	1,524,000	-
At the end of the reporting period - total contributed equity (Drill Torque Limited business combination)	1,524,100	100

These financial statements are prepared in accordance with accounting standard AASB 3 which considers the Drill Torque Limited business combination to be a reverse acquisition of Drill Torque Limited by Notch Holdings Pty Ltd. These financial statements are issued under the name of Drill Torque Limited but effectively represent a continuation of the financial statements of Notch Holdings Pty Ltd. The legal capital structure of the legal controlling entity, Drill Torque Limited 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 Limited and the fair value of equity interests in Drill Torque Limited.

The comparative period presentation reflects the contributed equity of Notch Holdings Pty Ltd.

Ordinary Shares	Consolidated 30 June 2011 Number	Consolidated 30 June 2010 Number
At the beginning of the reporting period	-	100
Shares issued during the year		
- 8th February 2011	5	
- 18th February 2011	60,000,000	
At the end of the reporting period	60,000,005	100

These financial statements, together with the comparative period presentation reflect the legal capital of the legal parent (Drill Torque Limited). Drill Torque Limited was formed on 8th February 2011 and no comparative issued ordinary shares are disclosed for Drill Torque Limited.

The comparative period presentation reflects the issued capital of Notch Holdings Pty Ltd.

Using the exchange ratio established when shares in Drill Torque Limited were exchanged for shares in Notch Holdings Pty Ltd on 18th February 2011, the equivalent number of Drill Torque Limited shares on issue at 30th June 2010 could be calculated as 52,173,913.

# Drill Torque Limited

Notes to the Financial Statements  
For the Period Ended 30th June 2011

16 Reserves and retained profits	Note	Consolidated 30 June 2011 \$	Consolidated 30 June 2010 \$
Retained profits			
Movements in retained profits were as follows:			
Retained profit/(loss) attributable to equity holder of Notch Holdings Pty Ltd		(52,600)	812,700
Retained Profit/(Loss) Movement		(72,777)	(969,956)
Restatement of comparative period movement for temporary tax differences brought to account as deferred tax asset	14	-	104,656
Retained profit/(loss) attributable to equity holder of Notch Holdings Pty Ltd		<u>(125,377)</u>	<u>(52,600)</u>

These financial statements are prepared in accordance with accounting standard AABS 3 which considers the Drill Torque Limited business combination to be a reverse acquisition of Drill Torque Limited by Notch Holdings Pty Ltd. These financial statements are issued under the name of Drill Torque Limited but effectively represent a continuation of the financial statements of Notch Holdings Pty 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 Limited together with the retained profits (losses) of the continuing Drill Torque Limited business combination.

The comparative period presentation reflects the retained profits of Notch Holdings Pty Ltd.

## 17 Reconciliation of Net Cash Provided By / Used in Operating Activities

Operating profit/(loss) for the year	(72,777)	(969,956)
Depreciation and amortisation	2,621,233	2,600,411
Costs incurred in preparation for public offer	257,022	-
Net Profit/(Loss) on sale of assets	(456,810)	(192,755)
Decrease/(Increase) in trade and other receivables	(1,268,409)	(1,082,447)
Decrease/(Increase) in Income tax receivable	41,819	(208,334)
Decrease/(Increase) in other assets	(28,298)	-
Decrease/(Increase) in deferred tax asset	311,422	99,402
Decrease/(Increase) in WIP	-	905,120
Decrease/(Increase) in Inventory	(1,396,768)	-
Increase/(decrease) in trade payables	1,769,708	1,314,796
Increase/(decrease) in other payables	-	-
Increase/(decrease) in provisions	96,842	10,106
Increase/(decrease) in accruals	-	178,510
Net cash inflow from operating activities	<u>1,874,984</u>	<u>2,654,853</u>

# Drill Torque Limited

Notes to the Financial Statements

For the Period Ended 30<sup>th</sup> June 2011

## 18 Financial Risk Management

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 entity 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 company is exposed to through its financial instruments are interest rate risk, liquidity risk and credit risk.

#### (a) Interest rate risk

Exposure to interest rate risk arises on financial assets 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 company is also exposed to earnings volatility on floating rate instruments.

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

2011		Expected duration until repayment				Total
		1 Year or less	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	
		\$	\$	\$	\$	\$
Bank Overdraft	(b)	190,478				190,478
Equipment finance leases	(a)	3,196,005	2,600,051	969,508	162,599	6,928,164
Premium Insurance	(a)	201,917		-	-	201,917
Loans						
Richvale Pty Ltd	(c)	1,500,000				1,500,000
Miller Superannuation Fund	(d)	490,000				490,000
Drummond Group	(d)	350,000				350,000
Jumani Pty Ltd	(e)	981,089				981,089
Pharmamark Pty Ltd	(e)	214,248				214,248
		7,123,738	2,600,051	969,508	162,599	10,855,897

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

(b) Interest rates have varied between 10.5% and 12.5%.

(c) Interest rate is variable at BBSW + 5%, rates have varied between 9.85% and 9.92%. Interest is not payable until after 1st July 2011.

(d) Loans do not bear interest

(e) Interest Rate is fixed at 12.2%.

# Drill Torque Limited

Notes to the Financial Statements

For the Period Ended 30<sup>th</sup> June 2011

## 18 Financial Risk Management (Cont'd)

2010		Fixed Interest Rate				Total \$
		1 Year or less \$	Over 1 to 2 Years \$	Over 2 to 3 Years \$	Over 3 to 5 Years \$	
Finance Leases	(a)	4,653,687	3,926,396	2,725,317	1,013,225	12,318,625
Finance Loans	(a)	329,885	-	-	-	329,885
		4,983,572	3,926,396	2,725,317	1,013,225	12,648,510

(a) Interest rates are fixed for the duration of the loan period.

### (b) Liquidity risk

Liquidity risk refers to the risk that the company might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The company manages risk through the following mechanisms:

- Ensuring that there is access to adequate capital, and in particular, the successful completion, subsequent to the end of the financial period, of a public offer of equity in the group
- preparing forward looking cash flow analysis in relation to its operational, investing and financial activities;
- obtaining funding from a variety of sources
- maintaining a reputable credit risk profile
- managing credit risk related to financial assets
- investing surplus cash only with major financial institutions

The table below reflects a contractual maturity analysis for financial liabilities, compared with financial assets.

Cash flows expected to be realised from financial assets reflect management's expectation as to the timing of realisation. Actual timing may therefore differ from that disclosed. The deficiency identified in the table will be met from cash flows generated by the group's normal operations and from funds received from the successful completion, subsequent to the end of the financial period, of a public offer of equity in the group.

The equity offer is for 65,000,000 shares at 20 cents per share. Refer Note 20 for additional information on matters subsequent to the end of the financial period.

# Drill Torque Limited

Notes to the Financial Statements

For the Period Ended 30<sup>th</sup> June 2011

## 18 Financial Risk Management (Cont'd)

Financial liability and financial asset maturity analysis	Within 1 Year		Total Contractual Cash Flow	
	30th June 2011	30th June 2010	30th June 2011	30th June 2010
	\$	\$	\$	\$
<b>Financial liabilities due for payment</b>				
Trade and other payables (excluding estimated employee entitlements)	7,765,434	5,995,726	7,765,434	5,995,726
Financial Liabilities	6,933,260	4,983,572	10,665,419	10,987,861
Total contractual outflows	<u>14,698,693</u>	<u>10,979,298</u>	<u>18,430,852</u>	<u>16,983,587</u>
Total expected outflows	14,698,693	10,979,298	18,430,852	16,983,587
<b>Financial assets - cash flows realisable</b>				
Cash and cash equivalents	574,285	117,417	574,285	117,417
Trade, term and loans receivable	3,845,517	2,870,068	3,845,517	4,537,828
Total anticipated inflows	<u>4,419,803</u>	<u>2,987,485</u>	<u>4,419,803</u>	<u>4,655,245</u>
<b>Net (outflow)/inflow on financial instruments</b>	(10,278,891)	(7,991,813)	(14,011,050)	(12,328,342)

### (c) Credit risk

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 balance sheet.

The company 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 are 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 as detailed at Note 4.

## 19 Net Fair Values

### *Fair value estimation*

The carrying values of financial assets and financial liabilities as detailed in the Statement of Financial Position and these Notes approximate their fair values at reporting date.

# Drill Torque Limited

Notes to the Financial Statements

For the Period Ended 30<sup>th</sup> June 2011

## 20 Matters Subsequent to the End of the Financial Period

Subsequent to 30th June 2011, the group has been significantly affected by the following matters:

The group issued a Prospectus dated 8<sup>th</sup> July 2011 inviting applications for the public issue of shares and options in the company. On 27<sup>th</sup> July 2011, pursuant to the prospectus, 65,000,000 shares were issued, resulting in total issued shares of 125,000,005.

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

On 13<sup>th</sup> August 2011, the group received Application Monies from its public offer of shares pursuant to the Prospectus. The group intends to utilise these funds to complete the acquisition and upgrade of the Townsville maintenance facility, purchase capital equipment, repay debt associated with the acquisition of Well Drilled Pty Ltd, provide funds to settle a deferred payment obligation with the Australian Taxation Office and for working capital.

Attaching to the shares of the company are Options. Options were allotted on 28<sup>th</sup> July 2011, one for every 10 shares held in the company as at the date of allotment.

On 24<sup>th</sup> August 2011, the Company acquired a property at 133 Crocodile Crescent, Mount St John (Townsville) for \$2,800,000. The Group will utilise the property as its new maintenance facility and for offices.

No other matters or circumstances have arisen since 30th June 2011 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 the future financial year.

# Drill Torque Limited

Notes to the Financial Statements  
For the Period Ended 30th June 2011

## 21 Related Parties

### 21 a) Parent Entity

The Parent Entity of the Group is Drill Torque Ltd A.C.N. 149 206 333

### 21 b) Subsidiaries

The subsidiary companies in the Group are:  
Notch Holdings Pty Ltd A.C.N. 009 271 461  
Well Drilled Pty Ltd A.C.N. 123 980 343

### 21 c) Key Management Personnel

Disclosures relating to key management personnel are set out in Note 22.

### 21 d) Other Related Party

Washington H. Soul Pattinson Ltd (See below)

### 21 e) Related Party Transactions and Balances

#### (i) Subsidiaries

Since the acquisition of all of the shares in Well Drilled Pty Ltd by Notch Holdings Pty Ltd, all of the day to day operations of the group, have been conducted by Notch Holdings Pty Ltd.

In doing so, Notch Holdings Pty Ltd has utilised the assets of Well Drilled Pty Ltd in earning business income.

Further, Notch Holdings Pty Ltd has had the opportunity to utilise the benefit of accumulated tax losses of Well Drilled Pty Ltd amounting to \$361,315 (Tax Effect \$108,395) and of Drill Torque Limited amounting to \$20,175 (Tax Effect \$6,053) in the financial year ended 30th June 2011.

As at 30th June 2011, Notch Holdings Pty Ltd was owed \$100,877 by Drill Torque Limited and \$33,141 by Well Drilled Pty Ltd.

#### (ii) Other Related Entities

Richvale Pty Ltd

During the financial year, Notch Holdings Pty Ltd was loaned \$1,500,000 by Richvale Pty Ltd A.C.N. 003 203 601, a company associated with Mr David John Fairfull, a Director of Drill Torque Limited and Notch Holdings Pty Ltd. This loan is on commercial terms and was current at 30th June 2011, but no interest was payable until 1st July 2011.

This liability was included in the Balance Sheet Item "Other Financial Liabilities-Current" and is detailed at Note 10.

Washington H. Soul Pattinson Ltd

Washington H. Soul Pattinson Ltd acquired 12,746,386 shares in Drill Torque Limited during the year (21.1% of the issued shares). Non-Executive Director, Mr David John Fairfull is also a Non-Executive Director of Washington H. Soul Pattinson Ltd.

For a short period of time during the financial year, Washington H. Soul Pattinson held all of the issued shares in Drill Torque Limited, and was, for that short period of time, the Ultimate Holding Company of Drill Torque Limited. This relationship ceased on the issue of further shares in Drill Torque Limited.

# Drill Torque Limited

Notes to the Financial Statements  
For the Period Ended 30th June 2011

## 22 Key Management Personnel

The key management personnel of the Group are:

### 22 a) Directors

	Position Held
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
Ralph Howard Craven	Non- Executive Director
Sonya Margaret Miller <i>(Note (i))</i>	Executive Director Notch Holdings Pty Ltd

Note (i) Sonya Margaret Miller ceased to be a Director on 28th February 2011, and an employee on 30th June 2011.

### 22 b) Other Key Management Personnel

	Position Held
Robert Ian Witty	Chief Financial Officer and Company Secretary
Ian James Milne	General Manager Operations

### 22 c) Key Management Personnel Compensation Paid

	Consolidated 30 June 2011	Consolidated 30 June 2010
No non-executive Director received any compensation during the financial year.	\$	\$

#### Other Key Management Personnel (Total)

Short Term Employee Benefits	612,884	496,102
Post-Employment Benefits	55,160	44,470
<b>Total</b>	<b>668,044</b>	<b>540,572</b>

Other Key Management Personnel (Detail)	Consolidated 30 June 2011		Consolidated 30 June 2010	
	Base Salary	Superann- uation	Base Salary	Superann- uation
Fixed remuneration paid:				
Peter Richard Miller <i>Managing Director</i>	150,000	13,500	150,000	13,500
Sonya Margaret Miller (ceased 30th June 2011) <i>Former Executive Director Notch Holdings</i>	150,000	13,500	150,000	13,500
Guy Hamish Drummond (commenced 11th March 2011) <i>General Manager Business Development and Executive Director</i>	40,385	3,635	-	-
Robert Ian Witty <i>Chief Financial Officer and Company Secretary</i>	122,499	11,025	106,962	9,474
Ian James Milne <i>General Manager Operations</i>	150,000	13,500	89,140	7,996

# Drill Torque Limited

Notes to the Financial Statements  
For the Period Ended 30th June 2011

## 22 Key Management Personnel (Cont'd)

### 22 d) Future Key Management Personnel Compensation

#### (i) Fixed Remuneration

	Base Salary \$	Superannuation \$
--	-------------------	----------------------

The following fixed remuneration will be paid in the following year:

David Fairfull <i>Chairman</i>	100,000	9,000
David Williamson <i>Non Executive Director</i>	60,000	5,400
Dr Ralph Craven <i>Non Executive Director</i>	50,000	4,500
Peter Richard Miller <i>Managing Director</i>	400,000	25,000
Guy Hamish Drummond <i>General Manager Business Development and Executive Director</i>	220,000	19,800
Robert Ian Witty <i>Chief Financial Officer and Company Secretary</i>	180,000	16,200
Ian James Milne <i>General Manager Operations</i>	200,000	18,000

#### (ii) Employee Share Option Plan

The board has determined to issue six million Management Options to the following Key Management Personnel:

Options Issued

Peter Richard Miller <i>Managing Director</i>	4,583,250
Guy Hamish Drummond <i>General Manager Business Development and Executive Director</i>	666,750
Robert Ian Witty <i>Chief Financial Officer and Company Secretary</i>	500,000
Ian James Milne <i>General Manager Operations</i>	250,000
	<hr/> <u>6,000,000</u>

Key Terms that will be 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 thirty cents
- \*the Management Options may not be exercised before the third anniversary of the Listing Date or after 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.

# Drill Torque Limited

Notes to the Financial Statements  
For the Period Ended 30th June 2011

## 22 Key Management Personnel (Cont'd)

### 22 e) Equity Instrument disclosures relating to Key Management Personnel

Ordinary Shares Issued to and held by Key Management Personnel ( and their associated persons and entites) during and at the end of the financial year ended June 2011.

Drill Torque Limited (Year Ended 30th June 2011 only)	Shares Held at Start of Year	Shares Acquired During Year	Shares Sold During the Year	Shares Held at End of Year
Peter Richard Miller and Sonya Margaret Miller	Nil	52,380,000	12,746,381	39,633,619
Guy Hamish Drummond	Nil	7,620,000	Nil	7,620,000
David John Fairfull <i>(Note (ii))</i>	Nil	12,746,386	Nil	12,746,386
<i>Note (ii) Director David John Fairfull is a Non-Executive Director of Washington H. Soul Pattinson and Company Limited which acquired 12,746,386 shares in Drill Torque Ltd during the financial year.</i>				
<b>Notch Holdings Pty Ltd</b> (Year ended 30th June 2011)				
Peter Richard Miller and Sonya Margaret Miller	100	Nil	100	Nil
Guy Hamish Drummond	Nil	15	15	Nil
Drill Torque Ltd	Nil	115	Nil	115
<b>Well Drilled Pty Ltd</b> (Year Ended 30th June 2011)				
Guy Hamish Drummond	120	Nil	120	Nil
Notch Holdings Pty Ltd	Nil	120	Nil	120

### 22 f) Other matters

#### 133 Crocodile Crescent Townsville

Since the end of the financial period, the group has acquired a property situated at 133 Crocodile Crescent Townsville at a purchase price of \$2,800,000, from an entity associated with Peter Richard Miller and Sonya Margaret Miller. The contract was entered into prior to the end of the financial year (on 6th June 2011). The purchase price is supported by an independent valuation by an appropriately qualified valuer. During the year, the group paid rental pursuant to a lease of these premises. Rental totalled \$100,000.

#### Lot 4 Sterritt Road Townsville

Peter Richard Miller and Sonya Margaret Miller have leased a portion of this property to Notch Holdings Pty Ltd for a period of two years from 1st March 2011 at a gross rental of \$85,000 per annum plus GST. The company 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 \$42,500.

## 23 Dividends

At the time of signing of these financial statements, a dividend had not been proposed, declared or recognised in the financial statements. No dividend has been declared or recognised in relation to the comparative period.

# Drill Torque Limited

Notes to the Financial Statements  
For the Period Ended 30th June 2011

24 Remuneration of auditors	Consolidated 30 June 2011 \$	Consolidated 30 June 2010 \$
During the year the following fees were paid or payable for services provided by the auditor or its related practices:		
Audit and other assurance services	74,933	29,000
Accounts preparation assistance	22,137	20,800
	<u>97,070</u>	<u>49,800</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	186,500	-
	<u>186,500</u>	<u>-</u>

Non-cancellable operating lease commitments:

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

## 26 Commitments for expenditure

Capital expenditure commitments of the group are classified as follows:

Plant and equipment		
Not later than 1 year	1,764,565	-
Later than 1 year and not later than 5 years	-	-
Later than 5 years	-	-
	<u>1,764,565</u>	<u>-</u>
Land and buildings		
Not later than 1 year	2,800,000	-
Later than 1 year and not later than 5 years	-	-
Later than 5 years	-	-
	<u>2,800,000</u>	<u>-</u>

Operating lease commitments are disclosed in Note 25.

Finance lease commitments are disclosed in Note 10.

27 Earnings per share	Consolidated 30 June 2011 cents	Consolidated 30 June 2010 cents
Basic earnings per share		
From continuing operations	(0.13)	(1.86)
Diluted earnings per share	(0.13)	(1.86)
From continuing operations		

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	(72,777)	(969,956)
Weighted average number of ordinary shares on issue:	55,004,171	52,173,913

*Note: Weighted number of shares on issue is calculated for Drill Torque Limited in accordance with the Reverse Acquisition provisions of AASB 3 using the Drill Torque Limited equity structure from the acquisition date and, until the acquisition date, Notch Holdings Pty Ltd issued equity structure adjusted for the exchange ratio established by the acquisition agreements relating to Well Drilled Pty Ltd and Drill Torque Limited. Comparative period calculations utilise the Notch Holdings issued equity structure for the comparative period, adjusted by the same acquisition exchange ratio.*

# Drill Torque Limited

Notes to the Financial Statements  
For the Period Ended 30th June 2011

## 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 consolidated Statement of Comprehensive Income of \$914,915 (2010:\$705,214) represents the contributions payable by the group to these plans at the rates specified in the plans. As at 30th June 2011, contributions of \$829,103 due in respect of the 2011 reporting period (2010: \$705,214) had not been paid over to the plans. These amounts were paid subsequent to the end of the 2011 reporting period.

## 29 Business Combinations

			Consideration transferred \$
Subsidiaries acquired during the reporting period ended 30th June 2011:			
Well Drilled Pty Ltd acquired 18th February 2011	Drilling Contractor	Acquired 100%	1,524,000
Drill Torque Limited acquired by reverse acquisition 18th February 2011	Holding Company	Acquired 100%	-
			<u>1,524,000</u>
Consideration transferred:			
Issue of fully paid shares in Notch Holdings Pty Ltd			<u>1,524,000</u>
			<u>1,524,000</u>
Fair value of assets acquired and liabilities assumed at the date of acquisition:			
Cash and cash equivalents			44,201
Trade and other receivables			52,757
Inventory			41,111
Plant & equipment			1,217,032
Deferred tax asset			58,740
Trade and other payables			(121,132)
Financial liabilities			(1,283,746)
Net identifiable assets acquired			<u>8,963</u>
Add goodwill			1,515,037
Net assets acquired			<u>1,524,000</u>

Goodwill has arisen from customer relationships that do not meet the definition of an identifiable intangible asset at the date of acquisition. None of the goodwill is expected to be deductible for tax purposes.

### Revenue and profit contribution:

Prior to its acquisition, Well Drilled Pty Ltd operated as a stand-alone entity. Its business has now been integrated into the operations of Notch Holdings Pty Ltd, achieving savings from reduced overheads. It is not practical to determine the prospective profit that would be included in the consolidated profit for the period if the subsidiary had been owned for the entire period.

# Drill Torque Limited

Notes to the Financial Statements  
For the Period Ended 30th June 2011

## 30 Segment Reporting

The group operates entirely 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 consolidated entity as a whole and no separate segment reporting is disclosed in these financial statements.

The group has a drilling operation in PNG. During the financial period, and at the balance date, revenue and the value of resources allocated to this operation are not material to the group. Accordingly these operations have been included within the Australian and Drilling Services segments.

## 31 Company Details

Registered office and principal place of business:

The registered office of the company is:

Land McKaig  
96 Eighth Avenue  
Home Hill QLD 4806

Principal place of business is:

20 Jackson Street  
Garbutt QLD 4814

# Drill Torque Limited

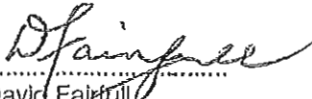
Directors Declaration

For the Period Ended 30<sup>th</sup> June 2011


The directors of the company declare that:

1. The financial statements and notes are in accordance with the *Corporations Act 2001* and:
  - (a) comply with Accounting Standards; and
  - (b) give a true and fair view of the company's financial position as at 30<sup>th</sup> June 2011 and of its performance for the period ended on that date in accordance with the accounting policies described in Note 1 to the financial statements.
2. 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.

This declaration is made in accordance with a resolution of the Board of Directors.

  
.....  
David Fairfull  
Chairman

Dated 21.9.2011 at Townsville

  
.....  
Peter Richard Miller  
Director

Dated 21-9-11 at Townsville

# Drill Torque Limited

Independent Auditors Report

For the Period Ended 30th June 2011

## INDEPENDENT AUDITOR'S REPORT

To the members of Drill Torque Limited ACN 149 206 333,

### **Report on the Financial Report**

I have audited the accompanying financial report of Drill Torque Limited, which comprises the balance sheet as at 30<sup>th</sup> June 2011, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the period ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

### **Directors' Responsibility for the Financial Report**

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **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. These Auditing 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 entity's preparation and fair presentation 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, provided to the directors of Drill Torque Limited on 1<sup>st</sup> September 2011, would be in the same terms if provided to the directors as at the date of this auditor's report.

# Drill Torque Limited

Independent Auditors Report

For the Period Ended 30th June 2011

## Auditor's Opinion

In my opinion the financial report of Drill Torque Limited is in accordance with the Corporations Act 2001, including:

- (a) giving a true and fair view of the company's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

Dated this day the *22nd September* 2011  
19 Stanley Street  
TOWNSVILLE QLD 4810

  
\_\_\_\_\_  
I.D. Jessup  
(Registered Company Auditor)

# Drill Torque Limited

Australian Stock Exchange Additional Information

The shareholder information set out below was current as at 12<sup>th</sup> September 2011.

## DTQ Quoted Ordinary Shares

Spread of holdings	Number of holders	Shares	% of total issued capital
1 – 1,000	0	0	0.000 %
1,001 – 5,000	37	137,937	0.110 %
5,001 – 10,000	81	771,264	0.617 %
10,001 – 100,000	459	19,176,386	15.341%
Greater than 100,00	90	104,914,418	83.932 %
<b>Total</b>	<b>667</b>	<b>125,000,005</b>	<b>100 %</b>

## DTQO Quoted Options

Spread of holdings	Number of holders	Options	% of total quoted options
1 – 1,000	58	58,000	0.464 %
1,001 – 5,000	303	916,400	7.331 %
5,001 – 10,000	58	479,500	3.836 %
10,001 – 100,000	58	2,004,430	16.035 %
Greater than 100,00	19	9,041,670	72.333%
<b>Total</b>	<b>496</b>	<b>12,500,000</b>	<b>100 %</b>

# Drill Torque Limited

Australian Stock Exchange Additional 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	15.853
2	Mr Peter Miller	19,816,809	15.853
3	Washington H Soul Pattinson and Company Limited	12,746,386	10.197
4	Jumani Pty Ltd	6,985,200	5.588
5	MLEQ Nominees Pty Limited	5,234,677	4.188
6	Bond Street Custodians Limited	3,671,000	2.937
7	HSBC Custody Nominees Australia Limited	3,510,880	2.809
8	Citicorp Nominees Pty Limited	2,968,941	2.375
9	Farjoy Pty Ltd	2,500,000	2.000
10	Mr Peter Miller & Mrs Sonya Miller (P&S Retirement Fund)	2,450,000	1.960
11	Richvale Pty Ltd	1,350,000	1.080
12	D J Fairfull Pty Ltd (Fairfull Superannuation Fund)	1,350,000	1.080
13	Mr Michael Hunter Mansfield	1,015,000	0.812
14	Asia Union Investments Pty Ltd	1,000,000	0.800
15	Mr Mervyn James Harris	1,000,000	0.800
16	Mrs Diane Jeanette Harrison-Bialas	1,000,000	0.800
17	Merrill Lynch (Australia) Nominees Pty Limited	900,926	0.721
18	UBS Wealth Management Australia Nominees Pty Ltd	888,500	0.711
19	Growth Equities Imputation Limited	700,000	0.560
20	Pharmamark Australia Pty Ltd	634,800	0.508
	TOTAL	89,539,929	71.632

# Drill Torque Limited

Australian Stock Exchange Additional 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	15.853
2	Mr Peter Miller	1,981,681	15.853
3	Washington H Soul Pattinson and Company Limited	1,274,638	10.197
4	Jumani Pty Ltd	698,520	5.588
5	HSBC Custody Nominees Australia Limited – A/C 2	375,000	3.000
6	Hancroft Pty Ltd	310,000	2.480
7	Bond Street Custodians Limited	300,000	2.400
8	Citicorp Nominees Pty Limited	262,500	2.100
9	31 May Pty Ltd	256,117	2.049
10	Farjoy Pty Ltd	250,000	2.000
11	Hamergin Pty Ltd	250,000	2.000
12	Mr Peter Miller & Mrs Sonya Miller (P&S Retirement Fund)	245,000	1.960
13	Merrill Lynch (Australia) Nominees Pty Limited	175,000	1.400
14	Georges Heights Pty Ltd	145,000	1.160
15	Jannarn Pty Ltd	144,033	1.152
16	Richvale Pty Ltd	135,000	1.080
17	D J Fairfull Pty Ltd (Fairfull Superannuation Fund)	135,000	1.080
18	MR Anthony Hewett	122,500	0.980
19	Mrs Diane Jeanette Harrison-Bialas	100,000	0.800
20	Mr Mervyn James Harris	100,000	0.800
	<b>TOTAL</b>	<b>9,241,670</b>	<b>73.932</b>

## Unquoted Securities

There are 6,000,000 unquoted Management options comprising:

1	Mr Peter Miller	4,583,250	76.388
2	Mr Guy Drummond	666,750	11.113
3	Mr Robert Witty	500,000	8.333
4	Mr Ian Milne	250,000	4.167

# Drill Torque Limited

Australian Stock Exchange Additional Information

## Substantial Shareholders

Rank	Shareholder	Ordinary Shares	%of total issued capital
1	Mrs Sonya Miller	19,816,810	15.853
2	Mr Peter Miller	19,816,809	15.853
3	Washington H Soul Pattinson and Company Limited	12,746,386	10.197
4	Jumani Pty Ltd	6,985,200	5.588

## Voting Rights

### Ordinary Shares

The voting rights attached to ordinary shares are 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	27/07/2013

Unquoted Management Options may not be exercised before 2<sup>nd</sup> August 2014:

Number under Restriction	Percentage	Restricted Date	Release Date
6,000,000	100%	2/08/2011	2/08/2014