DRILL TORQUE LTD
ACN 149 206 333

ANNUAL REPORT

30 JUNE 2013

DRILL TORQUE LTD

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CHAIRMAN’S REPORT
FOR THE YEAR ENDED 30 JUNE 2013

As indicated in our release to the ASX on 17 May 2013, the 2012/13 year has been an extremely difficult year for Drill Torque Limited (DTQ). The on-going deterioration of market conditions in the drilling industry as well as the resources sector as a whole continues to place DTQ under significant financial pressure.

For the 2012/13 financial year, DTQ delivered an EBITDA before the goodwill impairment ($1.515 million) of some $3.622 million, in line with the 2011/12 figure of $3.609 million. However, DTQ’s financials for 2012/13 are most disappointing as follows:

		Current period 30 June 2013 $’000	**Previous period 30 June 2012 $’000**	**Change $’000**
Revenue from ordinary activities	Down 29% to	26,321	37,091	(10,770)
Profit/(loss) after tax before goodwill impairment	Down 683% to	(397)	68	(465)
Profit/(loss) after tax and goodwill impairment	Down 2,911% to	(1,912)	68	(1,980)

Subsequent to the release of DTQ’s 2012/2013 Preliminary Final Report to the ASX on Thursday 22 August 2013, your board and senior management team completed the “internal” restructure of DTQ. Further in early September 2013 as part of DTQ’s external restructure strategy your board negotiated with RBS Morgans to underwrite a 1 for 1 rights issue at 2 cents per share to raise $2.5 million.

On 10 September 2013 the board of DTQ signed a Heads of Agreement with Mitchell Group Holdings Pty Ltd (Mitchell Group) to acquire Mitchell Services Pty Ltd (Mitchell Services). The acquisition is subject to shareholder approval and will require DTQ to issue 40 million new shares to Mitchell Group at 5 cents per share. A summary of the “external strategy” announcement to the ASX dated 10 September 2013 is set out on page 4 under “Subsequent Events”.

Shareholders will be kept updated on all of the foregoing issues. I must reiterate that the current climate in the mining sector is challenging. However, I wish to assure shareholders that directors and the senior management team unanimously support the proposed rights issue and the Mitchell Services acquisition. All directors intend to vote their shares in support of these transactions at the upcoming DTQ Annual General Meeting which is currently scheduled for Monday 4 November 2013. All relevant documents in regard to the rights issue and the notice of meeting and explanatory memorandum will be forwarded to shareholders as they are finalised.

David John Fairfull
Chairman

The directors of Drill Torque Ltd submit herewith the annual report of the company for the financial year ended 30 June 2013. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

DIRECTORS

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

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

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

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

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

Mr Williamson was appointed as director on 22 May 2011 and ceased to be a director upon his death on 11 July 2012.

The estate of Mr Williamson held 100,000 shares in the company and 10,000 options at 11 July 2012. The estate also held a relevant interest in a further 400,000 shares and 40,000 options at 11 July 2012.

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

Dr Craven was appointed as director on 27 May 2011 and continues in office at the date of this report.
Dr Craven has a professional background in the energy and resources sector having previously been CEO to the predecessor to Ergon Energy and CEO of Transpower New Zealand Ltd which owns and operates the National Grid. Dr Craven held senior executive positions with Shell Coal Pty Ltd and NRG Asia Pacific Limited. Dr Craven is currently Non-Executive Director of Senex Energy Limited, Invion Limited and Windlab Systems Pty Ltd. In February 2013, Dr Craven was appointed by Rio Tinto to the Pacific Aluminium Advisory Board. Dr Craven was previously Chairman of Ergon Energy Corporation Limited, Australian Electricity Systems Pty Ltd, Tully Sugar Limited and Deputy Chairman of Arrow Energy Limited.

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

Peter Richard Miller (*Non-Executive Director)*

Mr Miller was appointed as director on 8 February 2011 and continues in office at the date of this report. Mr Miller stepped down from his senior management position on 17 May 2013 but continued on as a non-executive director.
Mr Miller founded Drill Torque in 1992 with 1 drill rig which grew to 29 rigs prior to the acquisition of Well Drilled Pty Ltd. Mr Miller has been involved in all aspects of the drilling industry for the past 29 years. His experience encompasses working with all types of drilling rigs, building rigs and managing drilling companies.

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

At the date of this report, Mr Miller holds 19,816,809 shares in the company and 1,981,681 options. Mr Miller has a relevant interest in a further 2,800,000 shares and 245,000 options. Mr Millers' wife, Sonya Margaret Miller, holds 19,816,810 shares in the company and 1,981,681 options.

Guy Hamish Drummond B.Econ, CA (*Non-Executive Director)*

Mr Drummond was appointed as director on 8 February 2011 and continues in office at the date of this report. Mr Drummond stepped down from his senior management position on 17 May 2013 but continued on as a non-executive director. Mr Drummond started his working career in 1988 with Coopers and Lybrand in Sydney. He qualified as a Chartered Accountant in 1991 with experience in corporate taxation, business recovery and insolvency management. In 1992, Mr Drummond co-founded Clover Corporation with his father, listing the company on the ASX in 1998. He was a director of Clover Corporation until November 2009.

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

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

COMPANY SECRETARY

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

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

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

PRINCIPAL ACTIVITIES

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

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

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

REVIEW OF OPERATIONS

The consolidated entity's operating result after income tax for the year ended 30 June 2013 was a loss of $1,912,438 (2012: $68,425 profit).

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

CHANGES IN STATE OF AFFAIRS

There was no significant change in the state of affairs of the consolidated entity during the financial year.

SUBSEQUENT EVENTS

The following events have occurred since the end of the reporting period.

Heads of Agreement and Rights Issue

On 10 September 2013, the Group signed a Heads of Agreement with Mitchell Group Holdings Pty Ltd ("Mitchell Group"). The Heads of Agreement is non-binding and is subject to binding formal agreements being entered into and shareholder approval at the upcoming Annual General Meeting.

The proposal by Mitchell Group consists of a reorganisation of the Group in three stages. The first stage involves a fully underwritten one for one non-renounceable rights issue at two cents per share to raise $2,500,000. The second stage involves the Group's acquisition of Mitchell Services Pty Ltd, subject to shareholder approval, in consideration for the issue of 40,000,000 shares at five cents per share. The entity to be acquired includes drilling and wireline logging contracts and Mitchell Group management and administration team members to lead and drive the business forward. The final stage consists of additional consideration (to the 40,000,000 shares at five cents per share) for the acquisition of Mitchell Services Pty Ltd in the form of performance based options that are subject to EBITDA and share price hurdles.

The options will convert into fully paid ordinary shares and will be split into four tranches as follows. In the event that the conditions referred to below are not met, the relevant options will lapse.

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

- The Group must have an audited EBITDA for the 2015 financial year of at least $4,000,000; and
- The Group must have a 10 day VWAP of at least five cents per share at any time in the 12 month period following the release of the Group's 2015 financial year results.

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

- The Group must have an audited EBITDA for the 2015 financial year of at least $5,000,000; and
- The Group must have a 10 day VWAP of at least six cents per share at any time in the 12 month period following the release of the Group's 2015 financial year results.

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

- The Group must have an audited EBITDA for the 2016 financial year of at least $7,000,000; and
- The Group must have a 10 day VWAP of at least seven cents per share at any time in the 12 month period following the release of the Group's 2016 financial year results.

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

- The Group must have an audited EBITDA for the 2016 financial year of at least $9,000,000; and
- The Group must have a 10 day VWAP of at least eight cents per share at any time in the 12 month period following the release of the Group's 2016 financial year results.

The acquisition of Mitchell Services Pty Ltd and the issue of performance based options will be subject to shareholder approval and an independent expert's report concluding that the proposed acquisition is reasonable to shareholders.

Working capital loan 2

On 15 May 2013, the Group received approval for a further working capital loan facility totalling $1,000,000. This loan facility was fully drawn by the Group on 26 July 2013.

Sale to Manutech Engineering and Maintenance

The Group entered into a contract with Manutech Engineering and Maintenance for the sale of various items of plant and equipment which were surplus to the Group's requirements. Manutech Engineering and Maintenance is an entity controlled by Peter Richard Miller. The amount payable under the contract of $233,705 including GST has been independently assessed by two appropriately qualified valuers as being fair value. The directors believe that this was an arms-length transaction. Settlement of this transaction occurred on 10 September 2013.

Other than the above, there has not been any matter or circumstance occurring subsequent to the end of the financial year that have significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

FUTURE DEVELOPMENTS

The consolidated entity will continue to pursue its principal activities during the next financial year. Furthermore, the directors believe that the proposed acquisition of Mitchell Services Pty Ltd will have a marked effect on the current operations of the Group and will provide a platform to accelerate our long held strategic objective to become a national "tier one" drilling operation.

ENVIRONMENTAL REGULATIONS

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

DIVIDENDS

There were no dividends paid in respect of the year ended 30 June 2013.

SHARES UNDER OPTION

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

Grant Date	Date of Expiry	Exercise Price	Number under Option
27 July 2011	2 August 2016	$0.30	500,000
28 July 2011	2 August 2016	$0.30	12,500,000
			13,000,000

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

There have been no unissued shares or interests under option of any controlled entity within the Group during or since the end of the reporting period.

During the year ended 30 June 2013, there were no shares in Drill Torque Ltd issued on the exercise of options granted.

INDEMNIFICATION OF OFFICERS AND AUDITORS

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

The company has paid premiums to insure each of the directors and company officers against liabilities for costs and expenses incurred by them in defending legal proceedings arising from their conduct while acting in the capacity of director or officer of the company other than conduct involving a wilful breach of duty in relation to the company. The total premiums paid in this regard amounted to $33,055.

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

DIRECTORS' MEETINGS

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member). During the financial year, 22 board meetings, 2 remuneration and nomination committee meetings and 3 audit and risk committee meetings were held.

Directors	Board of directors		Remuneration and nomination committee		Audit and risk committee	
	Held	**Attended**	**Held**	**Attended**	**Held**	**Attended**
D.J. Fairfull	22	22	2	2	3	3
R.H. Craven	22	21	2	2	3	3
P.R. Miller	22	20	-	-	-	-
G.H. Drummond	22	21	-	-	-	-

NON-AUDIT SERVICES

There were no amounts paid or payable to the auditor for non-audit services provided during the year by the auditor. Refer to note 24 to the financial statements.

AUDITOR'S INDEPENDENCE DECLARATION

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

REMUNERATION REPORT

This remuneration report, which forms part of the directors' report, sets out information about the remuneration of Drill Torque Ltd's key management personnel for the financial year ended 30 June 2013. The term "key management personnel" refers to those persons having authority and responsibility for planning, directing and controlling the activities of the consolidated entity, directly or indirectly, including any director (whether executive or otherwise) of the consolidated entity.

Key management personnel

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

Peter Richard Miller (Former Managing Director and now Non-Executive Director)
Guy Hamish Drummond (Former General Manager Business Development and now Non-Executive Director)
David John Fairfull (Chairman, Non-Executive Director)
David Charles Williamson (Non-Executive Director – deceased 11 July 2012)
Ralph Howard Craven (Non-Executive Director)
Robert Ian Witty (Interim General Manager, Chief Financial Officer and Company Secretary)
William Arthur Fisher (Former Operations Manager Coal and Energy – ceased employment 12 July 2013)
Simon Morrell Morgan (Operations Manager)

Peter Richard Miller and Guy Hamish Drummond stepped down from their respective senior executive positions on 17 May 2013 but continued on as non-executive directors. Robert Ian Witty accepted the role of interim general manager from 17 May 2013 until such time that a new general manager is appointed. Except as noted, the named persons held their current position for the whole of the financial year and since the end of the financial year.

Remuneration Policy

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

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

- The remuneration policy is to be developed by the Remuneration and Nomination Committee and approved by the board. Professional advice may be sought from independent external consultants if required;
- All key management personnel receive a base salary (which is based on factors such as length of service and experience), superannuation, and may receive fringe benefits, options and performance incentives;
- Any performance incentives will generally only be paid once predetermined key performance indicators have been met;
- Incentives paid in the form of options or rights are intended to align the interests of the directors and company with those of the shareholders. In this regard, key management personnel are prohibited from limiting risk attached to those instruments by use of derivatives or other means;
- The Remuneration and Nomination Committee reviews key management personnel packages annually by reference to the consolidated entity's performance, executive performance and comparable information from industry sectors.

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

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

Key management personnel receive a superannuation guarantee contribution required by the government, which is currently 9.25% (to a maximum of $25,000 per annum) of the individual's average weekly ordinary times earnings, and do not receive any other retirement benefits. Some individuals, however, have chosen to sacrifice part of their salary to increase payments towards superannuation.

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

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

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

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

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

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

Performance-based remuneration

The board has not implemented performance based incentives.

Relationship between the remuneration policy and company performance

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

Employment details of members of key management personnel

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

Remuneration of key management personnel

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

	2013			2012		
Fixed remuneration paid:	**Short-term employee benefits Salary $**	**Post-employment benefits Superannuation $**	**Termination benefits $**	**Short-term employee benefits Salary $**	**Post-employment benefits Superannuation $**	**Termination benefits $**
Peter Richard Miller *Former Managing Director and now Non-Executive Director*	322,654	31,746	100,000	449,100	25,519	-
Guy Hamish Drummond *Former General Manager Business Development and now Non-Executive Director*	171,775	20,350	55,000	234,493	21,104	-
David John Fairfull *Non-Executive Director*	87,500	7,875	-	100,000	9,000	-
David Charles Williamson *Former Non-Executive Director*	2,500	225		60,000	5,400	-
Ralph Howard Craven *Non-Executive Director*	54,375	4,894	-	50,000	4,500	-
Robert Ian Witty *Interim General Manager, Chief Financial Officer and Company Secretary*	159,923	14,393	-	173,747	43,269	-
William Arthur Fisher *Former Operations Manager Coal and Energy*	178,427	16,058	-	160,384	14,435	-
Simon Morrell Morgan *Operations Manager*	135,173	12,165	-	145,384	13,085	-
Ian James Milne *Former General Manager Operations*	-	-	-	134,219	22,139	50,000
	1,112,327	107,706	155,000	1,507,327	158,451	50,000

Peter Richard Miller and Guy Hamish Drummond stepped down from their respective senior executive positions on 17 May 2013 but continued on as non-executive directors. In accordance with their executive contracts, the board resolved to pay each of them 3 months' notice in lieu ($100,000 to Peter Richard Miller and $55,000 to Guy Hamish Drummond). It was agreed between the parties that these amounts would be paid subsequent to 30 June 2013.

Options

The following management options issued during the 2012 financial year to key management personnel still exist at the date of this report:

	Options Issued
Robert Ian Witty *Interim General Manager, Chief Financial Officer & Company Secretary*	500,000

The right to exercise the following management options lapsed during the year as both parties stepped down from their senior executive positions on 17 May 2013.

	Options Issued
Peter Richard Miller *Former Managing Director and now Non-Executive Director*	4,583,250
Guy Hamish Drummond *Former General Manager Business Development and now Non-Executive Director*	666,750

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

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

The issue of these options was not performance based.

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

David John Fairfull
Chairman

Dated at Townsville this 20th day of September 2013.

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

Unless stated otherwise in this document, the board's corporate governance arrangements comply with the recommendations of the ASX Corporate Governance Council for the entire financial year ended 30 June 2013.

1. Board of directors

1.1 Role of the board

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

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

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

1.2 Board processes

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

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

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

1.3 Director and executive education

The Group has an informal induction process to educate new directors about the nature of the business, current issues, the corporate strategy, the culture and values of the Group, and the expectations of the Group concerning performance of directors. In addition, directors are also educated regarding meeting arrangements and director interaction with each other, senior executives and other stakeholders. Directors also have the opportunity to visit Group facilities and meet with management to gain a better understanding of business operations. Directors are given access to continuing education opportunities to update and enhance their skills and knowledge.

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

1.4 Independent professional advice and access to Group information

Each director has the right of access to all relevant Group information and to the Group's executives and, subject to prior consultation with the Chairman, may seek independent professional advice from a suitably qualified adviser at the Group's expense. The director must consult with an adviser suitably qualified in the relevant field, and obtain the Chairman's approval of the fee payable for the advice before proceeding with the consultation. A copy of the advice received by the director is made available to all other members of the board.

1.5 Composition of the board

The names of the directors of the company in office at the date of this report are set out in the Directors Report on page 2 and 3 of this report. A replacement for Mr Williamson was not considered necessary.

The Group believes it is in its best interests to maintain a small but efficient board. For the majority of the reporting period, the board consisted of 2 non-executive directors (being David John Fairfull and Ralph Howard Craven) and 2 executive directors (being Peter Richard Miller and Guy Hamish Drummond). On 17 May 2013, both executive directors stepped down from their senior executive positions but remained on the board as non-executive directors. While only 1 of the directors is considered to be independent under the guidelines, the board believes the experience and skills of the current directors continue to be sufficient to discharge the board's duties effectively.

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

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

2. Remuneration and nomination committee

The remuneration and nomination committee must consist of at least 3 members (currently 2 due to the death of Mr Williamson), each of whom must be non-executive directors. The directors are of the opinion that 2 members will be sufficient to properly discharge the duties of the committee for the present time. The Chairman of the committee should be an independent director. The committee has 2 distinct roles as follows:

- Remuneration related matters; and
- Nomination related matters.

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

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

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

Remuneration related matters

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

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

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

Nomination related matters

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

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

3. Audit and risk committee

The audit and risk committee has a documented charter, approved by the board. The committee must consist of at least 3 members (currently 2 due to the death of Mr Williamson), each of whom must be non-executive directors. The directors are of the opinion that 2 members will be sufficient to properly discharge the duties of the committee for the present time. At least one of the members must have significant expertise in financial reporting, accounting or auditing. The Chairman of the committee should be an independent director and must not be Chairman of the board. The purpose of the committee is to assist the board in the effective discharge of its responsibilities in relation to the external audit function, accounting policies, financial reporting, funding, financial risk management, business risk monitoring and insurance.

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

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

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

The external auditors and the managing director are invited to audit and risk committee meetings at the discretion of the committee. The committee met 3 times during the year and committee members' attendance record is disclosed in the table of directors' meetings on page 6 of this report.

The managing director and the chief financial officer declared in writing to the board that the financial records of the Group for the financial year have been properly maintained, the Group's financial reports for the financial year ended 30 June 2013 comply with accounting standards and present a true and fair view of the Group's financial condition and operational results. This statement is required annually.

4. Performance evaluation

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

The board had proposed that it would carry out an evaluation of its operations and performance during the 2013 financial year together with an evaluation of the performance of the board and senior executives. In November 2012, it was recognised that business was being adversely affected by deterioration in the mining sector. The board determined that all director and senior executive salaries would be reduced by 20%.

In April 2013, shareholders were advised that due to the continued deterioration in the mining sector the board and management were to undertake a full strategic and operational review of the business. Following completion of the review, a strategy was put in place which included a major restructure of the Group to better meet the business's needs. The strategy was far reaching and involved significant redundancies and other cost cutting measures.

5. Risk management

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

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

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

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

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

In addition to their regular reporting on business risks, risk management and internal control systems, the managing director and chief financial officer have provided assurance, in writing to the board:

- That the financial reporting risk management and associated compliance and controls have been assessed and found to be operating effectively; and
- The Group's financial reports are founded on a sound system of risk management and internal compliance and control.

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

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

6. Ethical standards

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

Conflict of interest

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

Code of conduct

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

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

Share trading policy

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

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

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

7. Communication with shareholders

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

In summary, the Continuous Disclosure Policy operates as follows:

- The company secretary (also the chief financial officer) and the managing director are responsible for interpreting the Group's policy and where necessary informing the board. The company secretary is responsible for all communications with the ASX. Such matters are advised to the ASX on the day they are discovered but are referred to the board in the first instance.

- The full annual report is provided via the company's website to all shareholders (unless a shareholder has specifically requested to receive a physical copy or not to receive the document). It provides relevant information about the operations of the Group during the year, changes in the state of affairs and details of future developments.

- The half-yearly report contains summarised financial information and a review of the operations of the Group during the period. The half-year reviewed financial report is lodged with the ASX and sent to any shareholder who requests it.

- Proposed major changes in the Group which may impact on share ownership rights are submitted to a vote of shareholders.

- All announcements made to the market can be accessed via the company's website after they have been released to the ASX.

- The external auditor attends the annual general meetings to answer questions concerning the conduct of the audit, the preparation and content of the auditor's report, accounting policies adopted by the Group and the independence of the auditor in relation to the conduct of the audit.

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

8. Diversity

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

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

	2013		2012	
	No.	%	No.	%
Women on the board	-	-	-	-
Women in senior management roles	-	-	1	0.62
Women employees in the Group	3	3.75	6	3.75

AUDITOR'S INDEPENDENCE DECLARATION
FOR THE YEAR ENDED 30 JUNE 2013

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

As lead engagement auditor for the audit of the financial statements of Drill Torque Ltd for the financial year ended 30 June 2013, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Jessups

Ian Jessup
Partner

Dated at Townsville this 22nd day of August 2013

Level 1, 19 Stanley Street
Townsville Qld 4810

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2013

	Note	2013 $	2012 $
Continuing operations			
Revenue from continuing operations	2	26,321,843	37,091,392
Changes in inventories of finished goods		(189,465)	352,565
Advertising		(17,793)	(67,317)
Depreciation and amortisation expenses		(3,313,118)	(2,632,702)
Drilling consumables		(2,082,997)	(4,395,332)
Employee expenses		(12,763,020)	(17,813,404)
Finance costs		(857,618)	(888,218)
Fuel and oil		(1,542,483)	(1,907,171)
Hire of plant and equipment		(561,104)	(1,073,908)
Insurances		(1,448,279)	(1,859,259)
Rent		(188,040)	(179,639)
Service and repairs		(1,096,517)	(2,319,516)
Travel expenses		(1,389,096)	(2,011,617)
Other expenses		(1,421,352)	(2,207,697)
Impairment of goodwill	8	(1,515,032)	-
Profit/(loss) before income tax		(2,064,071)	88,177
Income tax expense	13	151,633	(19,752)
Profit/(loss) for the year from continuing operations		(1,912,438)	68,425
Discontinued operations			
Profit/(loss) for the year from discontinued operations		-	-
Profit/(loss) for the year		(1,912,438)	68,425
Other comprehensive income, net of income tax			
Other comprehensive income for the year, net of income tax		-	-
Total comprehensive income for the year		(1,912,438)	68,425
Profit/(loss) attributable to:			
Owners of the Company		(1,912,438)	68,425
Total comprehensive income attributable to:			
Owners of the Company		(1,912,438)	68,425
Earnings per share			
From continuing and discontinued operations:			
Basic (cents per share)	26	(1.53)	0.06
Diluted (cents per share)	26	(1.53)	0.06
From continuing operations:			
Basic (cents per share)	26	(1.53)	0.06
Diluted (cents per share)	26	(1.53)	0.06

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

DRILL TORQUE LTD

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2013

	Note	2013 $	2012 $
ASSETS			
Current assets			
Cash and cash equivalents	3(a)	528,167	745,061
Trade and other receivables	4	1,924,550	3,680,404
Other financial assets	5	9,800	17,630
Other assets	6	272,379	224,958
Current tax asset	14	6,671	2,190
Inventories	7	1,559,870	1,749,333
Total current assets		4,301,437	6,419,576
Non – current assets			
Other financial assets	5	12,131	17,272
Property, plant and equipment	12	15,976,187	18,572,955
Other assets	6	63,250	63,250
Deferred tax asset	14	1,261,978	1,101,281
Goodwill	8	-	1,515,032
Total non-current assets		17,313,546	21,269,790
Total assets		21,614,983	27,689,366
LIABILITIES			
Current liabilities			
Bank overdraft	3(b)	1,853,075	1,197,903
Trade and other payables	9	1,510,396	3,563,424
Other financial liabilities	10	2,582,779	4,046,583
Current tax payable	14	9,064	-
Provisions	11	404,904	740,264
Total current liabilities		6,360,218	9,548,174
Non – current liabilities			
Other financial liabilities	10	4,298,031	5,253,463
Provisions	11	76,804	95,361
Total non-current liabilities		4,374,835	5,348,824
Total liabilities		10,735,053	14,896,998
Net assets		10,879,930	12,792,368
EQUITY			
Issued capital	15	14,524,100	14,524,100
IPO costs	16	(1,049,780)	(1,049,780)
Retained earnings	17	(2,594,390)	(681,952)
Total equity		10,879,930	12,792,368

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

DRILL TORQUE LTD

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2013

	Note	Share Capital	Retained Earnings	Attributable to Owners of the Parent	Total
		$	$	$	$
Balance at 1 July 2011		1,524,100	(125,377)	1,398,723	1,398,723
Payment of dividends	18	-	(625,000)	(625,000)	(625,000)
Comprehensive income					
Profit/(loss) for the year	17	-	68,425	68,425	68,425
Other comprehensive income for the year		-	-	-	-
Total comprehensive income for the year		-	68,425	68,425	68,425
Shares issued during the year	15	13,000,000	-	13,000,000	13,000,000
Share issue costs	16	(1,049,780)	-	(1,049,780)	(1,049,780)
Balance at 30 June 2012		13,474,320	(681,952)	12,792,368	12,792,368
Comprehensive income					
Profit/(loss) for the year	17	-	(1,912,438)	(1,912,438)	(1,912,438)
Other comprehensive income for the year		-	-	-	-
Total comprehensive income for the year		-	(1,912,438)	(1,912,438)	(1,912,438)
Balance at 30 June 2013		13,474,320	(2,594,390)	10,879,930	10,879,930

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2013

	Note	2013 $	2012 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		29,617,148	40,198,830
Cash paid to suppliers and employees		(26,591,790)	(36,819,736)
Interest received		38,537	30,213
Interest paid		(752,277)	(802,554)
Income tax paid		(4,481)	(36,687)
Net cash generated by operating activities	19	2,307,137	2,570,066
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		280,528	147,273
Acquisition of property, plant and equipment		(901,822)	(9,541,317)
Net cash used in investing activities		(621,294)	(9,394,044)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of share capital		-	13,000,000
Payments for IPO costs		-	(1,499,686)
Dividends paid		-	(625,000)
Proceeds from borrowings		1,196,365	5,943,326
Repayment of financial liabilities		(3,749,139)	(3,966,574)
Repayment of ATO debt		-	(3,498,778)
Repayment of related party loans		-	(3,535,337)
Costs associated with borrowing		(5,135)	(21,100)
Net cash generated by/(used in) financing activities		(2,557,909)	5,796,851
Net increase/(decrease) in cash and cash equivalents		(872,066)	(1,027,127)
Cash and cash equivalents at the beginning of the year		(452,842)	574,285
Cash and cash equivalents at the end of the year	3(c)	(1,324,908)	(452,842)

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

1. SIGNIFICANT ACCOUNTING POLICIES

(a) General information

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

(b) Statement of compliance

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

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

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

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

(c) Basis of preparation

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

(d) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expense of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Company.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control are accounted for as equity transactions. The carrying amounts of the Group's interest's and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at re-valued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable Standards).

The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under AASB 139 "Financial Instruments: Recognition and Measurement" or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

(e) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date – i.e. when control is transferred to the group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

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

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

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

(f) Goodwill and impairment

Goodwill arising on an acquisition of a business is carried at cost as established at the date of the acquisition of the business less accumulated impairment losses, if any.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

(g) Revenue recognition

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

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 from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

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

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

(h) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(i) Employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of short-term employee benefits, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of long term employee benefits are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

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

(j) Income taxes

The Company and its wholly-owned Australian resident entities are part of a tax-consolidated group. As a consequence, all members of the tax-consolidated group are taxed as a single entity. The head entity within the tax-consolidated group is Drill Torque Ltd.

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

Current tax

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

Deferred tax

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

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

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

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

Current and deferred tax for the year

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

(k) Property, plant and equipment

Recognition and measurement

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

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour and any other costs directly attributable to bringing the assets to a working condition for their intended use.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

Subsequent expenditure is capitalised only when it is probable that future economic benefits associated with the expenditure will flow to the Group. On-going repairs and maintenance are expensed as incurred.

Depreciation

Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use.

Depreciation is calculated to write off the cost of property, plant and equipment using the diminishing value basis (excluding buildings which are depreciated on a straight-line basis) over their estimated useful lives. Depreciation is generally recognised in profit or loss. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The depreciation rates used for the current and comparative years of significant items of property, plant and equipment are as follows:

Classes of Fixed Asset	
Buildings	2.5%
Plant & Equipment	6.67% - 40%
Motor Vehicles	18.75% - 40%
Office Equipment, Furniture & Fittings	10% - 67%

Depreciation methods and useful lives are reviewed at each reporting date and adjusted if appropriate.

Impairment of property, plant and equipment

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a re-valued amount, in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a re-valued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(l) Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on first-in-first-out basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. The cost of manufactured products includes direct materials, direct labour and an appropriate portion of variable and fixed overheads. Overheads are applied on the basis of normal operating capacity. Costs are assigned on the basis of weighted average costs.

(m) Provisions

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

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

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

(n) Financial Instruments

Financial assets

The only category of financial assets held by the Group relates to “loans and receivables”.

Loans and receivables

Loans and receivables comprise cash and cash equivalents and, trade and other receivables. The Group initially recognises loans and receivables on the date that they are originated.

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

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*.

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

Impairment of financial assets

The Group’s financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset have been affected.

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

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

De-recognition of financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

On de-recognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities

The only category of financial liabilities owed by the Group relates to "other financial liabilities".

Other financial liabilities

Other financial liabilities comprise loans and borrowings, bank overdrafts, and trade and other payables. The Group initially recognises other financial liabilities on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

Other financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

De-recognition of financial liabilities

The Group de-recognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability de-recognised and the consideration paid and payable is recognised in profit or loss.

(o) Trade and other receivables

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

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

(p) Trade and other payables

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

(q) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO), it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the ATO is included as part of receivables or payables.

Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the ATO is classified within operating cash flows.

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

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

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

Key estimates – impairment

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

(s) Application of new and revised Accounting Standards

Standards and Interpretations affecting amounts reported in the current period (and/or prior periods)

There are no new and revised Standards and Interpretations adopted in these financial statements affecting the reporting results or financial position. The following new and revised Standards and Interpretations affecting presentation and disclosure have been adopted in the current year.

Amendments to AASB 101 “Presentation of Financial Statements”

The amendment (part of AASB 2011-9 “Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income” introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to AASB 101, the statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income and the income statement is renamed as a statement of profit or loss. The amendments to AASB 101 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to AASB 101 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. Other than the above mentioned presentation changes, the application of the amendments to AASB 101 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

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 effective.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 “Financial Instruments”, and the relevant amending standards	1 January 2015	30 June 2016
AASB 10 “Consolidated Financial Statements” and AASB 2011-7 “Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards”	1 January 2013	30 June 2014
AASB 11 “Joint Arrangements” and AASB 2011-7 “Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards”	1 January 2013	30 June 2014
AASB 12 “Disclosure of Interests in Other Entities” and AASB 2011-7 “Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards”	1 January 2013	30 June 2014
AASB 127 “Separate Financial Statements” (2011) and AASB 2011-7 “Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards”	1 January 2013	30 June 2014
AASB 128 “Investments in Associates and Joint Ventures” (2011) and AASB 2011-7 “Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards”	1 January 2013	30 June 2014
AASB 13 “Fair Value Measurement” and AASB 2011-8 “Amendments to Australian Accounting Standards arising from AASB 13”	1 January 2013	30 June 2014
AASB 119 “Employee Benefits” (2011) and AASB 2011-10 “Amendments to Australian Accounting Standards arising from AASB 119 (2011)”	1 January 2013	30 June 2014
AASB 2011-4 “Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements”	1 July 2013	30 June 2014
AASB 2012-2 “Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities”	1 January 2013	30 June 2014
AASB 2012-3 “Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities”	1 January 2014	30 June 2015
AASB 2012-5 “Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle”	1 January 2013	30 June 2014
AASB 2012-10 “Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments”	1 January 2013	30 June 2014

2. REVENUE

	2013 $	2012 $
From continuing operations		
Income from operations	25,903,904	36,403,587
Profit on sale of assets	114,398	64,670
Interest received	38,537	30,213
Recoveries	183,914	522,219
Rental income	5,845	5,490
Government subsidy	23,471	14,550
Other	51,774	50,663
	417,939	687,805
Total income from continuing operations	26,321,843	37,091,392

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

3. CASH AND CASH EQUIVALENTS

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

	2013 $	2012 $
3(a) In funds accounts		
Bank balances	528,167	745,061
3(b) Bank overdraft		
Bank overdraft	(1,853,075)	(1,197,903)
3(c) Net cash at bank	(1,324,908)	(452,842)

The Group's bank overdraft facility has a total limit of $2,500,000. Refer to note 12(a) in relation to security pledged.

4. TRADE AND OTHER RECEIVABLES

	2013 $	2012 $
Trade debtors	1,920,000	3,665,954
Bonds and deposits	4,550	14,450
	1,924,550	3,680,404

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:

	2013 $	2012 $
< 1 month	857,768	2,837,712
1 to 3 months	1,062,232	828,242
	1,920,000	3,665,954

	2013 $	2012 $
5. OTHER FINANCIAL ASSETS		
Current		
Borrowing costs	9,800	9,128
Loans to directors	-	8,502
	9,800	17,630
Non-current		
Borrowing costs	12,131	17,272
	12,131	17,272

5(a) AGEING OF OTHER FINANCIAL ASSETS

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

	2013 $	2012 $
< 1 year	9,800	17,630
	9,800	17,630

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

	2013 $	2012 $
1 to 5 years	12,131	17,272
	12,131	17,272

6. OTHER ASSETS

	2013 $	2012 $
Current		
Prepayments	272,379	224,958
	272,379	224,958
Non-current		
Property held for sale	61,250	61,250
Shares in listed company	2,000	2,000
	63,250	63,250

7. INVENTORIES

	2013 $	2012 $
Finished goods	1,559,870	1,749,333
	1,559,870	1,749,333

The cost of inventories recognised as an expense during the year in respect of continuing operations was $2,082,997 (2012: $4,395,332).

8. GOODWILL

	2013 $	2012 $
Balance at the beginning of the year	1,515,032	1,515,032
Impairment loss during the year	(1,515,032)	-
	-	1,515,032

The goodwill referred to above arose during the 2011 reporting period and was allocated to a cash generating unit comprising the assets (4 drill rigs, support vehicles, plant and equipment) acquired during the business combination associated with Well Drilled Pty Ltd. The Group assesses whether goodwill has suffered any impairment on an annual basis, in accordance with the accounting policy note stated in note 1(f).

The recoverable amount of the cash generating unit to which goodwill has been allocated is its fair value less costs to sell and was determined by reference to an active market with guidance from the recoverable amount assessment performed by the Group as detailed in note 12. Given the current downturn in the resources industry and the resulting recoverable amount of the cash generating unit, goodwill suffered an impairment charge of $1,515,032 during the year.

9. TRADE AND OTHER PAYABLES

	2013 $	2012 $
Current		
Trade creditors	595,363	1,770,366
Other creditors	250,435	281,045
Accrued expenses	664,598	1,512,013
	1,510,396	3,563,424

9(a) AGEING OF TRADE AND OTHER PAYABLES

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

	2013 $	2012 $
< 1 month	262,493	907,709
1 to 3 months	296,501	862,657
> 3 months	36,369	-
	595,363	1,770,366

10. OTHER FINANCIAL LIABILITIES

	2013 $	2012 $
Current		
Equipment finance leases	2,105,234	3,673,988
Equipment line loan	190,585	172,695
Working capital loan 1	2,881	-
Insurance Premium Funding	284,079	199,900
	2,582,779	4,046,583
Non - current		
Equipment finance leases	2,946,551	4,411,397
Equipment line loan	651,480	842,066
Working capital loan 1	700,000	-
	4,298,031	5,253,463

10(a) FINANCE LEASES

	2013 $	2012 $
Current	2,105,234	3,673,988
Non-current	2,946,551	4,411,397
	5,051,785	8,085,385

Minimum future lease payments

	2013 $	2012 $
Not later than 1 year	2,401,746	4,198,024
Later than 1 year and not later than 5 years	3,206,357	4,895,190
Minimum future lease payments	5,608,103	9,093,214
Less future finance charges	(556,318)	(1,007,829)
	5,051,785	8,085,385

	2013 $	2012 $
Present value of minimum future lease payments		
Not later than 1 year	2,105,234	3,673,988
Later than 1 year and not later than 5 years	2,946,551	4,411,397
	5,051,785	8,085,385

The Group leases certain items of equipment under finance leases. The average term is 4 years (2012: 4 years). The Group has options to purchase the equipment at the end of the lease terms for nominal amounts. The Group's obligations under finance leases are secured by lessor's title to goods under finance lease.

The Group's exposure to interest rate risk has been mitigated in that interest rates have been fixed for the duration of the finance period. Effective interest rates payable under finance leases are between 5.68% and 11.09% (2012: 5.68% to 11.98%).

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

10(b) LOANS

A summary of borrowing arrangements applicable to all loans is included in Note 20(a). Security pledged in respect of the equipment line loan and working capital loan 1 is detailed in Note 12(a).

11. PROVISIONS

Annual leave provision - current

	2013 $	2012 $
Opening balance	689,068	210,918
Movement	(327,492)	478,150
Closing balance	361,576	689,068

Long service leave provision - current

	2013 $	2012 $
Opening balance	51,196	38,270
Movement	(7,868)	12,926
Closing balance	43,328	51,196
Total current provisions	404,904	740,264

Long service leave provision – non - current

	2013 $	2012 $
Opening balance	95,361	46,651
Movement	(18,557)	48,710
Closing balance	76,804	95,361
Total non - current provisions	76,804	95,361

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

12. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings $	Plant and equipment $	Motor vehicles $	Furniture and fittings $	Total $
At 1 July 2012					
Cost or fair value	3,591,170	12,626,348	16,379,160	225,576	32,822,254
Accumulated depreciation	(41,046)	(3,503,115)	(10,563,760)	(141,378)	(14,249,299)
Net book amount	3,550,124	9,123,233	5,815,400	84,198	18,572,955
Year ended 30 June 2013					
Opening net book amount	3,550,124	9,123,233	5,815,400	84,198	18,572,955
Additions	-	832,617	54,675	14,530	901,822
Disposals	-	-	(185,472)	-	(185,472)
Depreciation	(70,366)	(1,812,518)	(1,370,657)	(59,577)	(3,313,118)
Closing net book amount	3,479,758	8,143,332	4,313,946	39,151	15,976,187
At 30 June 2013					
Cost or fair value	3,591,170	12,702,440	14,459,339	93,061	30,846,010
Accumulated depreciation	(111,412)	(4,559,108)	(10,145,393)	(53,910)	(14,869,823)
Net book amount	3,479,758	8,143,332	4,313,946	39,151	15,976,187
At 1 July 2011					
Cost or fair value	-	7,551,178	15,897,576	194,128	23,642,882
Accumulated depreciation	-	(2,472,946)	(9,274,671)	(105,068)	(11,852,685)
Net book amount	-	5,078,232	6,622,905	89,060	11,790,197
Year ended 30 June 2012					
Opening net book amount	-	5,078,232	6,622,905	89,060	11,790,197
Additions	3,591,170	5,074,403	841,843	33,899	9,541,315
Disposals	-	-	(128,132)	-	(128,132)
Other	-	2,661	(98)	(286)	2,277
Depreciation	(41,046)	(1,032,063)	(1,521,118)	(38,475)	(2,632,702)
Closing net book amount	3,550,124	9,123,233	5,815,400	84,198	18,572,955
At 30 June 2012					
Cost or fair value	3,591,170	12,626,348	16,379,160	225,576	32,822,254
Accumulated depreciation	(41,046)	(3,503,115)	(10,563,760)	(141,378)	(14,249,299)
Net book amount	3,550,124	9,123,233	5,815,400	84,198	18,572,955

The property, plant and equipment classifications of plant and equipment and motor vehicles are comprised mainly of drilling rigs and associated equipment. Given the current downturn in the resources industry, the Group performed an assessment at 30 June 2013 as to whether the carrying amounts of its drill rigs and associated equipment exceeded their recoverable amounts. Recoverable amount was determined as fair value less costs to sell by an appropriately qualified valuer. The assessment indicated that the relevant carrying amounts did not exceed recoverable amount and as such, impairment was not necessary. Directors and management continually monitor both domestic and overseas markets on new and used drill rig pricing and availability and as a result are of the opinion that the net written down book amount of the Group's property, plant and equipment is conservative. Notwithstanding the foregoing and mindful of the volatility of the mining industry, Directors and management do not intend to change the current depreciation and amortisation rates.

12(a) ASSETS PLEDGED AS SECURITY

The following has been pledged as security in relation to the Group's bank overdraft and other financial liabilities.

Bank overdraft and working capital loan 1

The following securities will secure the repayment of the above facilities.

- An existing registered mortgage given by Drill Torque Ltd over the property situated at 133-137 Crocodile Crescent, Mount St John, Qld (carrying amount of $3,479,758).
- New registered general security agreement given by Notch Holdings Pty Ltd as grantor, over all of its present and after acquired personal and real property including, the goodwill of its business, uncalled and unpaid capital and proceeds.
- New registered general security agreement given by Well Drilled Pty Ltd as grantor, over all of its present and after acquired personal and real property including, the goodwill of its business, uncalled and unpaid capital and proceeds.
- Existing registered company charge given by Drill Torque Ltd over all the assets and undertakings of the company including uncalled and unpaid capital.
- Guarantee and indemnity given by Well Drilled Pty Ltd and Notch Holdings Pty Ltd.

Equipment line loan

The following rigs have been pledged as security.

- 2006 Schramm T130XD drill rig (carrying amount of $512,760)
- 2005 Schramm T130XD drill rig (carrying amount of $489,024)

Working capital loan 2

On 15 May 2013, the Group received approval for a further working capital loan facility totalling $1,000,000. This loan facility was fully drawn by the Group on 26 July 2013 (refer Note 29). The following rigs have been pledged as security.

- 2008 UDR1200 Rotadrill drill rig (carrying amount of $587,936)
- 2007 Schramm T685WS Rotadrill drill rig (carrying amount of $280,703)

	2013 $	2012 $

13. INCOME TAX EXPENSE

Income tax recognised in profit or loss

	2013 $	2012 $
Income tax expense comprises		
Current tax	9,064	-
Deferred tax	(160,697)	31,292
Adjustments recognised in current year in relation to current tax of prior years	-	(11,540)
	(151,633)	19,752

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

	2013 $	2012 $
Profit/(loss) before tax from continuing operations	(2,064,071)	88,177
Income tax expense calculated at 30% (2012: 30%)	(619,221)	26,453
Effect of expenses that are not deductible in determining taxable profit	458,524	4,839
Effect of tax rates in foreign jurisdictions (PNG)	9,064	-
Adjustments recognised in current year in relation to current tax of prior years	-	(11,540)
	(151,633)	19,752

The tax rate used for 2013 and 2012 reconciliations above is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law.

14. TAX ASSETS AND LIABILITIES

	2013 $	2012 $
Tax assets – current		
Income tax receivable	6,671	2,190
Tax assets – non - current		
Deferred tax asset (refer note 14(a))	1,261,978	1,101,281
Tax liabilities – current		
Provision for foreign contractor withholding tax PNG	9,064	-

14(a) DEFERRED TAX ASSET

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

2013	Opening balance 01/07/12	Recognised in profit/(loss)	Recognised in Equity	30%	Closing balance 30/06/13
Temporary differences					
Annual & long service leave provision	(250,687)	353,917	-	106,175	(144,512)
Super provision	(117,245)	211,707	-	63,512	(53,733)
Other accrued expenses	(14,887)	(4,875)	-	(1,462)	(16,349)
Finance leases	(669)	2,229	-	669	-
Building depreciation	174	(1,381)	-	(414)	(240)
Accrued income	23,207	(35,553)	-	(10,666)	12,541
Foreign exchange losses	-	(7,206)	-	(2,162)	(2,162)
Rights issue costs	-	(28,024)	-	(8,407)	(8,407)
IPO costs	(415,558)	351,342	-	105,403	(310,155)
	(775,665)	842,156	-	252,648	(523,017)
Unused tax losses					
Losses carried forward	(325,616)	(1,377,814)	-	(413,345)	(738,961)
	(1,101,281)	(535,658)	-	(160,697)	(1,261,978)

2012	Opening balance 01/07/11	Recognised in profit/(loss)	Recognised in Equity	30%	Closing balance 30/06/12
Annual & long service leave provision	(88,842)	(539,484)	-	(161,845)	(250,687)
Super provision	(78,171)	(130,248)	-	(39,074)	(117,245)
Other accrued expenses	(175,815)	536,427	-	160,928	(14,887)
Finance leases	-	(2,229)	-	(669)	(669)
Building depreciation	-	581	-	174	174
Accrued income	-	77,356	-	23,207	23,207
IPO costs	(58,148)	308,321	(1,499,686)	(357,410)	(415,558)
	(400,976)	250,724	(1,499,686)	(374,689)	(775,665)
Unused tax losses					
Losses carried forward	(277,210)	(161,356)	-	(48,406)	(325,616)
	(678,186)	89,368	(1,499,686)	(423,095)	(1,101,281)

Given the proposed acquisition of Mitchell Services Pty Ltd (refer note 29), the Group believes that it will produce sufficient future taxable profit against which the unused tax losses can be utilised.

14(b) UNRECOGNISED AMOUNTS

Franking account balance	879,970	875,489

	2013 $	2012 $

15. ISSUED CAPITAL

Fully paid ordinary shares

	2013 $	2012 $
Balance at the beginning of the year	14,524,100	1,524,100
Issue of shares	-	13,000,000
	14,524,100	14,524,100

Fully paid ordinary shares	**Consolidated 2013 Number**	**Consolidated 2012 Number**
Balance at the beginning of the year	125,000,005	60,000,005
Shares issued during the year		
27 July 2011	-	65,000,000
	125,000,005	125,000,005

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

16. IPO COSTS

	2013 $	2012 $
Balance at the beginning of the year	(1,049,780)	-
IPO costs incurred during the year	-	(1,499,686)
Tax benefit	-	449,906
	(1,049,780)	(1,049,780)

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

17. RETAINED EARNINGS

	2013 $	2012 $
Balance at the beginning of the year	(681,952)	(125,377)
Profit/(loss) attributable to owners of the Company	(1,912,438)	68,425
Payment of dividends (refer note 18)	-	(625,000)
	(2,594,390)	(681,952)

18. DIVIDENDS

	Year ended 30 June 2013		Year ended 30 June 2012	
	Cents per share	Total $	Cents per share	Total $
Recognised amounts				
Fully paid ordinary shares				
Interim dividend:				
Fully franked at a 30% tax rate	-	-	0.50	625,000

There were no dividend payments in respect of the 2013 financial year.

19. RECONCILIATION OF PROFIT/(LOSS) FOR THE YEAR TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	2013 $	2012 $
Profit/(loss) for the year	(1,912,438)	68,425
Adjustments for:		
Depreciation and amortisation	3,322,722	2,639,268
Goodwill impairment	1,515,032	-
Profit on sale of assets	(114,398)	(64,670)
Loss on sale of assets	19,342	45,530
Income tax expense	(151,633)	19,752
Change in trade and other receivables	1,755,854	165,113
Change in other assets	(38,920)	56,391
Change in inventories	189,465	(352,565)
Change in trade payables and accruals	(1,919,491)	(510,278)
Change in provisions	(353,917)	539,787
Income tax paid	(4,481)	(36,687)
Net cash generated by operating activities	2,307,137	2,570,066

20. FINANCIAL RISK MANAGEMENT

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

Specific financial risk exposures and management thereof

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

(a) Interest rate risk

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

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

2013		Expected duration until repayment				
		Within 1 year $	1 to 2 years $	2 to 3 years $	More than 3 years $	Total $
Bank Overdraft	(a)	1,853,075	-	-	-	1,853,075
Equipment finance leases	(b)	2,105,234	1,386,179	905,686	654,686	5,051,785
Premium Insurance	(c)	284,079	-	-	-	284,079
Equipment line loan	(d)	190,585	210,329	232,117	209,034	842,065
Working capital loan 1	(e)	2,881	-	113,090	586,910	702,881
		4,435,854	1,596,508	1,250,893	1,450,630	8,733,885

(a) Interest rates have varied between 6.28% and 7.03% per annum.

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

(c) Interest rate is fixed at a flat rate of 3.92% of the amount initially financed.

(d) Interest is variable with rates varying between 8.5817% and 8.985% per annum.

(e) Interest is variable with rates varying between 6.01% and 6.03% per annum.

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

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

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

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

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

20. FINANCIAL RISK MANAGEMENT

(b) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure , as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group manages this risk through the following mechanisms:

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

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

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

Financial liability and financial asset maturity analysis

	Within 1 year		1 to 7 years		Total	
	2013 $	2012 $	2013 $	2012 $	2013 $	2012 $
Financial liabilities due for payment						
Trade and other payables (excluding estimated employee entitlements)	1,510,396	3,563,424	-	-	1,510,396	3,563,424
Financial liabilities	2,582,779	4,046,583	4,298,031	5,253,463	6,880,810	9,300,046
Total contractual outflows	4,093,175	7,610,007	4,298,031	5,253,463	8,391,206	12,863,470
Total expected outflows	4,093,175	7,610,007	4,298,031	5,253,463	8,391,206	12,863,470
Financial assets – cash flows realisable						
Cash and cash equivalents	528,167	745,061	-	-	528,167	745,061
Trade and other receivables	1,924,550	3,680,404	-	-	1,924,550	3,680,404
Total anticipated inflows	2,452,717	4,425,465	-	-	2,452,717	4,425,465
Net (outflow)/inflow on financial instruments	(1,640,458)	(3,184,542)	(4,298,031)	(5,253,463)	(5,938,489)	(8,438,005)

(c) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's trade and other receivables from customers. The Group has adopted a policy of only dealing with creditworthy counterparties and uses publicly available financial information and its own trading records to rate its customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored to mitigate financial loss. The maximum exposure to credit risk by class of recognised financial assets at balance date, excluding the value of any collateral or other security held, is equivalent to the carrying value and classification of those financial assets (net of any provisions) as presented in the consolidated statement of financial position.

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

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

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

21. NET FAIR VALUES

Fair value estimation

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

22. RELATED PARTY TRANSACTIONS

22(a) Related parties

The Group's main related parties are as follows.

(i) Entities exercising control over the Group

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

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

(ii) Key management personnel

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

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

(iii) Other related parties

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

22(b) Transactions with related parties

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

The following transactions occurred with related parties.

(i) Lot 4 Sterritt Road Townsville

The property located at Lot 4 Sterritt Road Townsville is owned by Peter Richard Miller. A portion of this property (that is, the office, workshop and part of the land) has been leased to the Group during the 2013 financial year at a gross rental of $85,000 per annum plus GST. This lease expired on 30 June 2013. During the year, the Group paid rental in relation to this property totalling $85,000. A new lease (that is, for part of the land only) was negotiated for a period of six months from 1 July 2013 at a gross rental of $40,000 per annum plus GST. The Group has an option to renew the lease for a six month period following its expiry. The rent payable under each lease has been independently assessed as being fair market rental.

(ii) Transactions between the Group and Manutech Engineering and Maintenance

Manutech Engineering and Maintenance (an entity controlled by Peter Richard Miller) performed repair and maintenance type services for the Group during the year totalling $3,030. Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms.

23. KEY MANAGEMENT PERSONNEL

Refer to the Remuneration Report contained in the Directors' Report for details of the remuneration paid or payable to each member of the Group's key management personnel for the year ended 30 June 2013.

23(a) Key management personnel compensation

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

	2013 $	2012 $
Short-term employee benefits	1,112,327	1,507,327
Post-employment benefits	107,706	158,451
Termination benefits	155,000	50,000
	1,375,033	1,715,778

The remuneration of directors and key executives is determined by the remuneration and nomination committee having regard to the performance of individuals and market trends.

23(b) Key management personnel equity holdings

Fully paid ordinary shares

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

	Shares held at start of year	Shares acquired during year	Shares sold during year	Shares held at end of year
2013				
Peter Richard Miller and Sonya Margaret Miller	42,433,619	-	-	42,433,619
Guy Hamish Drummond	7,752,000	-	-	7,752,000
David John Fairfull	2,700,000	-	-	2,700,000
Ralph Howard Craven	200,000	-	-	200,000
Robert Ian Witty	100,000	-	(100,000)	-
2012				
Peter Richard Miller and Sonya Margaret Miller	39,633,619	2,800,000	-	42,433,619
Guy Hamish Drummond	7,620,000	132,000	-	7,752,000
David John Fairfull	-	2,700,000	-	2,700,000
Ralph Howard Craven	-	200,000	-	200,000
Robert Ian Witty	-	100,000	-	100,000

Share options

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

	Options held at start of year	Options acquired during year as part of public issue	Management options granted/(lapsed) during year	Options held at end of year
2013				
Peter Richard Miller and Sonya Margaret Miller	8,791,612	-	(4,583,250)	4,208,362
Guy Hamish Drummond	1,428,750	-	(666,750)	762,000
David John Fairfull	270,000	-	-	270,000
Ralph Howard Craven	10,000	-	-	10,000
Robert Ian Witty	510,000	-	-	510,000
2012				
Peter Richard Miller and Sonya Margaret Miller	-	4,208,362	4,583,250	8,791,612
Guy Hamish Drummond	-	762,000	666,750	1,428,750
David John Fairfull	-	270,000	-	270,000
Ralph Howard Craven	-	10,000	-	10,000
Robert Ian Witty	-	10,000	500,000	510,000

Peter Richard Miller and Guy Hamish Drummond stepped down from their senior executive positions on 17 May 2013 but continued on as non-executive directors. As a result, they both forfeited their right to exercise the above management options.

Executive and Staff Option Plan

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

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

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

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

24. AUDITORS' REMUNERATION

During the year, the following fees were paid or payable for services provided by the auditor or its related practices:

	2013 $	2012 $
Audit and review of the financial statements	52,500	52,000
Other	-	1,100
	52,500	53,100

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:

	2013 $	2012 $
Minimum lease payments	137,000	147,833

Non-cancellable operating lease commitments:

	2013 $	2012 $
Not later than 1 year	20,000	100,667

26. EARNINGS PER SHARE

	Year ended 30 June 2013 Cents per share	Year ended 30 June 2012 Cents per share
Basic earnings per share		
From continuing operations	(1.53)	0.06
Diluted earnings per share		
From continuing operations	(1.53)	0.06

Basic earnings per share and diluted earnings per share are calculated using earnings and weighted average number of ordinary shares as follows:

Profit/(loss) for the year attributable to owners	(1,912,438)	68,425
Weighted average number of ordinary shares	125,000,005	120,382,519

27. DEFINED CONTRIBUTION RETIREMENT BENEFIT OBLIGATIONS

The Group contributes superannuation on behalf of qualifying employees to defined contribution retirement benefit plans. The assets of the funds are held separately from those of the Group in funds under the control of trustees. The only obligation of the Group is to make specified contributions in accordance with contractual employment and statutory obligations. The total expense recognised in the statement of profit or loss and other comprehensive income of $1,012,788 (2012: $1,343,087) represents the contributions payable by the Group to these plans in accordance with contractual employment and statutory obligations. As at 30 June 2013, contributions of $179,112 due in respect of the 2013 reporting period (2012: $390,819) had not been paid over to the plans. These amounts were paid subsequent to the end of the 2013 reporting period.

28. SEGMENT REPORTING

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

29. EVENTS AFTER THE REPORTING PERIOD

The following events have occurred since the end of the reporting period.

Heads of Agreement and Rights Issue

On 10 September 2013, the Group signed a Heads of Agreement with Mitchell Group Holdings Pty Ltd ("Mitchell Group"). The Heads of Agreement is non-binding and is subject to binding formal agreements being entered into and shareholder approval at the upcoming Annual General Meeting.

The proposal by Mitchell Group consists of a reorganisation of the Group in three stages. The first stage involves a fully underwritten one for one non-renounceable rights issue at two cents per share to raise $2,500,000. The second stage involves the Group's acquisition of Mitchell Services Pty Ltd, subject to shareholder approval, in consideration for the issue of 40,000,000 shares at five cents per share. The entity to be acquired includes drilling and wireline logging contracts and Mitchell Group management and administration team members to lead and drive the business forward. The final stage consists of additional consideration (to the 40,000,000 shares at five cents per share) for the acquisition of Mitchell Services Pty Ltd in the form of performance based options that are subject to EBITDA and share price hurdles.

The options will convert into fully paid ordinary shares and will be split into four tranches as follows. In the event that the conditions referred to below are not met, the relevant options will lapse.

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

- The Group must have an audited EBITDA for the 2015 financial year of at least $4,000,000; and
- The Group must have a 10 day VWAP of at least five cents per share at any time in the 12 month period following the release of the Group's 2015 financial year results.

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

- The Group must have an audited EBITDA for the 2015 financial year of at least $5,000,000; and
- The Group must have a 10 day VWAP of at least six cents per share at any time in the 12 month period following the release of the Group's 2015 financial year results.

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

- The Group must have an audited EBITDA for the 2016 financial year of at least $7,000,000; and
- The Group must have a 10 day VWAP of at least seven cents per share at any time in the 12 month period following the release of the Group's 2016 financial year results.

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

- The Group must have an audited EBITDA for the 2016 financial year of at least $9,000,000; and
- The Group must have a 10 day VWAP of at least eight cents per share at any time in the 12 month period following the release of the Group's 2016 financial year results.

The acquisition of Mitchell Services Pty Ltd and the issue of performance based options will be subject to shareholder approval and an independent expert's report concluding that the proposed acquisition is reasonable to shareholders.

Working capital loan 2

On 15 May 2013, the Group received approval for a further working capital loan facility totalling $1,000,000. This loan facility was fully drawn by the Group on 26 July 2013.

Sale to Manutech Engineering and Maintenance

The Group entered into a contract with Manutech Engineering and Maintenance for the sale of various items of plant and equipment which were surplus to the Group's requirements. Manutech Engineering and Maintenance is an entity controlled by Peter Richard Miller. The amount payable under the contract of $233,705 including GST has been independently assessed by two appropriately qualified valuers as being fair value. The directors believe that this was an arms-length transaction. Settlement of this transaction occurred on 10 September 2013.

No further matters or circumstances have arisen since 30 June 2013 that have significantly affected or may significantly affect:

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

DIRECTORS' DECLARATION

The directors declare that:

(a) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;

(b) in the directors' opinion, the attached financial statements are in compliance with International Financial Reporting Standards, as stated in note 1(b) to the financial statements;

(c) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity; and

(d) the directors have been given the declarations required by section 295A of the Corporations Act 2001.

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

D Fairfull

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David John Fairfull
Chairman

Dated at Townsville this 20th day of September 2013.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DRILL TORQUE LTD ACN 149 206 333 FOR THE YEAR ENDED 30 JUNE 2013

Report on the Financial Report

I have audited the accompanying financial report of Drill Torque Ltd, which comprises the consolidated statement of financial position as at 30 June 2013, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

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

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

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

Independence

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

Auditor's Opinion

In my opinion:

(a) the financial report of Drill Torque Ltd is in accordance with the Corporations Act 2001, including:

    (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the year ended on that date; and

    (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001;

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

DRILL TORQUE LTD

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DRILL TORQUE LTD ACN 149 206 333 FOR THE YEAR ENDED 30 JUNE 2013

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2013. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In my opinion, the Remuneration Report of Drill Torque Ltd for the year ended 30 June 2013, complies with section 300A of the Corporations Act 2001.

Dated this 20th day of September 2013

19 Stanley Street
TOWNSVILLE QLD 4810

I.D. Jessup
(Registered Company Auditor)

DRILL TORQUE LTD

ADDITIONAL AUSTRALIAN STOCK EXCHANGE INFORMATION

The following information is current as at 10 September 2013.

DTQ Quoted Ordinary Shares

Spread of holdings	Number of holders	Shares	% of total issued capital
1 – 1,000	8	3,870	0.003%
1,001 – 5,000	31	126,095	0.101%
5,001 – 10,000	47	441,107	0.353%
10,001 – 100,000	290	13,366,111	10.693%
Greater than 100,000	106	111,062,822	88.850%
Total	**482**	**125,000,005**	**100%**
Holding less than a marketable parcel	51	n/a	n/a

DTQO Quoted Options

Spread of holdings	Number of holders	Shares	% of total quoted options
1 – 1,000	46	46,000	0.368%
1,001 – 5,000	204	632,200	5.057%
5,001 – 10,000	46	383,250	3.066%
10,001 – 100,000	45	1,654,480	13.236%
Greater than 100,000	19	9,784,070	78.273%
Total	**360**	**12,500,000**	**100%**

DRILL TORQUE LTD

ADDITIONAL AUSTRALIAN STOCK EXCHANGE INFORMATION

DTQ Quoted Ordinary Shares

The twenty largest listed security holders comprise:

Rank	Shareholder	Ordinary Shares	% of total issued capital
1	Mrs Sonya Miller	19,816,810	15.853%
2	Mr Peter Miller	19,816,809	15.853%
3	Washinghton H Soul Pattinson and Company Ltd	12,746,386	10.197%
4	Jumani Pty Ltd	6,985,200	5.588%
5	Australian Executor Trustees Ltd (No 1 Account)	3,437,195	2.750%
6	Farjoy Pty Ltd	3,000,000	2.400%
7	Mr Peter Miller & Mrs Sonya Miller (P&S Retirement Fund)	2,800,000	2.240%
8	Pybar Holdings Pty Ltd	2,358,392	1.887%
9	Mr Pairatch Paotrakul	2,250,000	1.800%
10	Netherfield Nominees Pty Ltd (Louise Christie Super Fund)	1,875,000	1.500%
11	Clapsy Pty Ltd (Baron Super Fund)	1,718,000	1.374%
12	Mr Michael Hunter Mansfield	1,658,000	1.326%
13	MCG Mining Pty Ltd	1,618,521	1.295%
14	Richvale Pty Ltd	1,350,000	1.080%
15	D J Fairfull Pty Ltd (Fairfull Superannuation Fund)	1,350,000	1.080%
16	Mr Hugo Charles Barton Kearney	1,283,526	1.027%
17	Simore Pty Ltd	1,230,000	0.984%
18	Mr Yonatan Widjaya and Mrs Mela Widjaya	1,153,164	0.922%
19	Mr Kok Keen Chong & Mrs Hue Nghi Chong	1,017,000	0.815%
20	Mrs Diane Jeanette Harrison-Bialas	1,000,000	0.800%
	Total	**88,464,003**	**70.771%**

DRILL TORQUE LTD

ADDITIONAL AUSTRALIAN STOCK EXCHANGE INFORMATION

DTQO Quoted Options

The twenty largest listed security option holders comprise:

Rank	Optionholder	Options	% of total quoted options
1	Mrs Sonya Miller	1,981,681	15.853%
2	Mr Peter Miller	1,981,681	15.853%
3	Washinghton H Soul Pattinson and Company Ltd	1,274,638	10.197%
4	Mr Alfredo Varela	1,126,250	9.010%
5	Jumani Pty Ltd	698,520	5.588%
6	Farjoy Pty Ltd	445,617	3.565%
7	Oztech Pty Ltd	270,500	2.164%
8	Hamergin Pty Ltd (Super Fund)	250,000	2.000%
9	Mr Peter Miller & Mrs Sonya Miller (P&S Retirement Fund)	245,000	1.960%
10	Oztech Pty Ltd	215,000	1.720%
11	Hancroft Pty Ltd	200,000	1.600%
12	Mr William May	183,600	1.469%
13	Mr Simon Hammer	163,000	1.304%
14	Richvale Pty Ltd	135,000	1.080%
15	D J Fairfull Pty Ltd (Fairfull Superannuation Fund)	135,000	1.080%
16	Mr Anthony Hewett	122,500	0.980%
17	Mr Vincent Gordon Reibelt and Mrs Cecily Reibelt (Auto-Way Pty Ltd Staff Super Fund)	120,000	0.960%
18	Mr Diarmuid Joseph Galway	120,000	0.961%
19	Glenprice Pty Ltd	116,083	0.929%
20	Flash Gordon Investments Pty Ltd (Matthew Gordon Super Fund)	100,000	0.800%
	Total	**9,884,070**	**79.073%**

ADDITIONAL AUSTRALIAN STOCK EXCHANGE INFORMATION

Unquoted Securities

There are 500,000 unquoted Management options comprising:

	Number granted
Mr Robert Witty	500,000

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	Washinghton H Soul Pattinson and Company Ltd	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 is set out below:

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

No other classes of securities have voting rights.

Restricted Securities

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

Number under Restriction	Percentage	Restricted Date	Release Date
500,000	100%	27/07/2011	02/08/2014

Recently listed entities

For the period from 1 July 2012 to 30 June 2013, the Group has used the cash and assets in a form readily convertible to cash that it had at the time of admission in a way that is consistent with its business objectives.

DRILL TORQUE LTD

CORPORATE DIRECTORY

Board of Directors

Chairman
David John Fairfull

Directors
Ralph Howard Craven
Guy Hamish Drummond
Peter Richard Miller

Chief Financial Officer and Company Secretary
Robert Ian Witty

Registered Office
Drill Torque Ltd
ABN 31 149 206 333
133 Crocodile Crescent
Mt St John Qld 4818

Principal Place of Business
133 Crocodile Crescent
Mt St John Qld 4818

PO Box 1627
Thuringowa Central Qld 4817

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Fax: 07 4774 2748
Website: www.drilltorque.com.au

Share Registry
Advanced Share Registry
150 Stirling Highway
Nedlands Western Australia 6909

Ph: 08 9389 8033
Fax: 08 9389 7871
Website: www.advancedshare.com.au

Auditors
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Townsville Qld 4810

Ph: 07 4755 3330
Fax: 07 4721 4513
Website: www.jessupsnq.com.au

Taxation Advisors
PricewaterhouseCoopers
51 Sturt Street
Townsville Qld 4810

Ph: 07 4721 8500
Fax: 07 4721 8599
Website: www.pwc.com.au

Bankers
Suncorp Metway Ltd
61-73 Sturt St
Townsville Qld 4810

Ph: 07 4760 8229
Fax: 07 4771 6348
Website: www.suncorpbank.com.au