

Manager,
Company Announcements Office
Australian Securities Exchange
Exchange Centre
Level 4, 20 Bridge Street
SYDNEY NSW 2000

28 August 2014

By Electronic Lodgement

Dear Sir/Madam,

LODGEMENT OF 2014 PRELIMINARY FINAL REPORT (APPENDIX 4E)

In accordance with the Listing Rules, please find attached the Preliminary Final Report (Appendix 4E) for XTEK Limited (XTE) for the financial year ended 30 June 2014.

Should you require any further information in respect to this matter please contact the Chairman, Mr Uwe Boettcher at Uwe.Boettcher@xtek.net or 02 6232 0601 in the first instance.

Yours sincerely,



Lawrence A. Gardiner
Company Secretary

Attachment: Appendix 4E – 2014 Preliminary Final Report for XTEK Limited.

XTEK LIMITED

ABN 90 103 629 107

APPENDIX 4E

PRELIMINARY FINAL REPORT FOR THE YEAR ENDED 30 JUNE 2014

GIVEN TO THE ASX UNDER LISTING RULE 4.3A

Current period:	1 July 2013 to 30 June 2014
Prior corresponding period:	1 July 2012 to 30 June 2013



RESULTS FOR ANOUNCEMENT TO THE MARKET

Key Information	2014 \$'000	2013 \$'000		% Change
Revenue from ordinary activities	5,709	4,833	↑	18%
(Loss) after tax from ordinary activities	(223)	(773)	↓	71%
Net (loss) attributable to members	(223)	(773)	↓	71%

Dividends	Amount per security	Franked amount per security
Final dividend	Nil	Nil
Interim dividend	Nil	Nil
Record date for determining entitlements to dividend		Not applicable

Loss per share attributable to the ordinary equity holders of the company	2014 \$	2013 \$
Basic (loss) per share	(0.001)	(0.005)
Diluted (loss) per share	(0.001)	(0.005)

Net tangible asset backing per share	2014 \$	2013 \$
Net tangible asset backing per share	(0.007)	(0.006)



XTEK BUSINESS ANALYSIS

The simplified Income Statement for the financial year ended 30 June 2014 is outlined below:

	1 st Half				2 nd Half				Full Year			
	Dec-13	Dec-12	Change		Jun-14	Jun-13	Change		Jun-14	Jun-13	Change	
	\$'000	\$'000	\$'000	%	\$'000	\$'000	\$'000	%	\$'000	\$'000	\$'000	%
Revenue from sale of goods and services												
Agency sales	716	841	(125)	(15%)	2,593	2,129	464	22%	3,309	2,970	339	11%
Logistics engineering revenue	325	767	(442)	(58%)	407	589	(182)	(31%)	732	1,356	(624)	(46%)
Unmanned arial vehicle (UAV)	114	-	114		-	-	-		114	-	114	
FCT funding	339	-	339		305	-	305		644	-	644	
R&D income (including XTclave)	-	-	-		519	-	519		519	-	519	
Total revenue	1,494	1,608	(113)	(7%)	3,824	2,718	1,106	41%	5,318	4,326	993	23%
Gross profit	843	783	60	8%	1,645	1,073	572	53%	2,488	1,856	632	34%
Gross profit %	56%	49%		8%	43%	39%		4%	47%	43%		4%
Other income	47	252	(205)	(81%)	344	255	89	35%	391	507	(116)	(23%)
Total expenses	(1,499)	(1,548)	49	3%	(1,603)	(1,588)	(15)	(1%)	(3,102)	(3,136)	34	1%
Agency (loss)/profit before tax	(609)	(513)	(96)	(19%)	386	(260)	646	248%	(223)	(773)	550	71%
Income tax	-	-	-	-	-	-	-	-	-	-	-	-
Total (loss)/profit after tax	(609)	(513)	(96)	(19%)	386	(260)	646	248%	(223)	(773)	550	71%

Comments

Revenue for financial year 2014 from the sale of goods and services for the Company increased by 23% to \$5.3m (2013: \$4.3m) and total income has increased by 18% to \$5.7m (2013: \$4.8m).

The Company's loss position improved by 71% from \$773k for financial year 2013 to a loss of \$223k for the financial year 2014. This was achieved despite continued budget constraints on Government expenditure in the Defence and Homeland Security sectors. The recorded loss for the financial year 2014 was largely due to slippage in manufacturing schedules which resulted in an inability to deliver significant Defence orders to the value of some \$587k by 30 June 2014. Whilst this slippage of orders had an impact on financial year 2014 results, it has provided a healthy start to financial year 2015 with purchase orders to the value of \$3.14m already on hand. The Company ends the financial year without debt.

Please refer to the comments by Directors and preliminary financial statements for further explanation regarding the above results.

A table highlighting the Company's overarching business trends from financial year 2012 to 2014 is shown below:

Performance Indicators	Financial Year		
	2012	2013	2014
Revenue from sale of goods and services \$'000	4,366	4,326	5,318
Gross profit from sales of goods and services \$'000	1,697	1,856	2,488
Gross profit %	39%	43%	47%
Net profit \$'000	(1,087)	(773)	(223)
Return on sales %	(25%)	(18%)	(4%)
Net tangible asset backing per share \$	0.0077	0.0061	0.0071
Market Capital @ 30 June \$'000	3,925	4,227	8,856



COMMENTS BY DIRECTORS

The Agency business continued to grow in strength throughout the reporting period, with key portfolios improving on financial year 2013 results. Of particular note, Weapons and Ancillaries sales continued to increase for the second consecutive year. The Company was also able to successfully strengthen existing Agency lines with additional leading-edge products and innovative sales initiatives to meet contemporary client requirements.

In addition to traditional product lines, the Company successfully brought to market its own unique range of tactical weapon accessories for use by specialist Defence and Police Agencies. In recognition of successfully meeting exacting and stringent user technical requirements, XTEK was awarded significant Defence orders for the supply of these bespoke tactical weapon accessories.

The Company continued to invest in the development of its operational Unmanned Aerial Vehicle capability for use by a range of Government and private sector organisations. This included the development of a suite of Unmanned Aerial Vehicle solutions and the integration of geographic information systems. The investment in this unique capability has placed the Company in a strong position to meet the many and varied requests now being received from an increasingly technically sophisticated client base. A concerted sales effort, meanwhile, culminated in the Company successfully tendering for the supply of an AeroVironment unmanned aerial system for use by an Australian Law Enforcement Agency. Delivery of this system is scheduled for half 1 of financial year 2015.

Significant XTclave™ development and testing work on advanced lightweight hard armour plate solutions for the United States Department of Defense Foreign Comparative Testing (FCT) Office has been undertaken during the reporting period. Progress with this project in FY14 has resulted in the FCT Office formally exercising its option with XTEK to continue the armour project work for a further 12 month period. XTclave™ product development opportunities continue to be investigated by the Company across the lucrative Global Composites Market.

The XTEK Head Office moved to new premises at 3 Faulding Street, Symonston, ACT in early May. The fully integrated facility at Symonston combines modern office space with a purpose built secure electronics workshop to provide XTEK with the state-of-the-art premises expected of today's advanced technical solutions providers without increasing costs.

The Company successfully concluded an Equipment Sale and Software Licence Agreement with Armour Australia on 25 June 2014. The Agreement provides for the termination of the Hydroclave Joint Venture Agreement between XTEK and Armor Australia and for the subsequent sale of the remaining half share of the Joint Venture Hydroclave plant to Armor Australia.

Significant changes in the state of affairs

- 1) On 24 September 2013, Mr. Ivan Slavich was appointed as a Non-Executive Director of the Company.
- 2) On 21 November 2013, Mr. Lawrence Broadbent resigned as a Non-Executive Director of the Company.



COMMENTS BY DIRECTORS (continued)

Matters subsequent to the end of the financial year

- 1) On 2 July 2014, the Company received a Purchase Order for the supply of weapon ancillaries, to the value of \$376,000 AUD, from the Australian Defence Force.
- 2) On 3 July 2014, the Company received a Purchase Order for the supply of one (1) AeroVironment Unmanned Aerial Vehicle System, inclusive of operational spares and training, to the value of approximately \$831k from an Australian Law Enforcement agency.
- 3) On 17 July 2014, the Company was formally invited by the Australian Defence Force to respond to a Request for Quotation (RFQ) for the supply of Body Armour, Explosive Ordnance Disposal Bomb Suits as part of a Standing Offer Panel. The Company plans to respond to the RFQ by offering the Morgan Advanced Materials ERGOTECH bomb suits.

Likely future developments

On the back of its recent success in achieving sales in a range of high quality weapon ancillaries, the Company continues to work closely with end users in order to better understand their tactical requirements. This will enable further development and expansion of the range of XTEK precision weapon ancillaries to meet future Defence and Law Enforcement needs.

It is anticipated that customer demands for specialist Unmanned Aerial Vehicle services will increase throughout financial year 2015 and the Company believes that it is in a strong position to benefit from any such procurement/lease opportunities.

The Company considers itself well placed to secure increased sales of its diverse and sophisticated range of Agency equipment / service solutions in financial year 2015. This assumption is based on a perception of client requirements, anticipated Government tenders due for release in financial year 2015 and the positive interest and feedback received from end users regarding XTEK products and services.



STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2014

	Notes	2014 \$	2013 \$
Revenue	2	5,318,161	4,325,840
Changes in inventories of finished goods and work in progress		(2,829,622)	(2,469,510)
Gross profit		2,488,539	1,856,330
Other income	2	390,576	507,151
Employee benefits expense	3	(1,645,331)	(1,704,237)
Depreciation	3	(154,010)	(128,127)
Operational expenditure	3	(1,192,134)	(1,296,324)
Additional expenditure	3	(65,276)	-
Finance costs	3	(45,040)	(7,726)
(Loss) from operations before income tax		(222,676)	(772,933)
Income tax expenses		-	-
Total comprehensive (loss) for the period		(222,676)	(772,933)

Loss per share attributable to the ordinary equity holders of the company

	Notes	2014 \$	2013 \$
Basic (loss) per share	5	(0.001)	(0.005)
Diluted (loss) per share	5	(0.001)	(0.005)



STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2014

	Notes	2014 \$	2013 \$
ASSETS			
Current assets			
Cash and cash equivalents		649,773	450,911
Trade and other receivables		1,012,687	978,243
Inventories		744,667	579,692
Other		111,929	79,967
Total current assets		2,519,056	2,088,813
Non-current assets			
Property, plant and equipment	6	387,361	689,859
Total non-current assets		387,361	689,859
TOTAL ASSETS		2,906,417	2,778,672
LIABILITIES			
Current liabilities			
Trade and other payables		620,508	1,225,368
Provisions		140,124	87,209
Deferred income		646,108	90,247
Other current liabilities	10	-	200,000
Total current liabilities		1,406,739	1,602,825
Non-current liabilities			
Other payables		26,734	-
Provisions		4,180	29,382
Deferred income		-	72,153
Total non-current liabilities		30,914	101,535
TOTAL LIABILITIES		1,437,653	1,704,360
NET ASSETS		1,468,764	1,074,312
EQUITY			
Contributed equity	11	19,942,856	19,325,728
Reserves		514,228	514,228
Accumulated losses		(18,988,320)	(18,765,644)
TOTAL EQUITY		1,468,764	1,074,312



STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2014

	Notes	2014 \$	2013 \$
Cash flows from/(used in) operating activities			
Receipts from customers		5,961,834	3,914,681
Payments to suppliers and employees		(6,148,756)	(4,725,840)
		(186,922)	(811,159)
Receipt of grants		264,995	291,549
Interest received		13,539	5,584
Borrowing costs		(45,040)	(7,726)
Net cash flows from/(used in) operating activities	4	46,572	(521,753)
Cash flows (used in)/from investing activities			
Payments for property plant and equipment		(264,838)	(117,565)
Proceeds from sale of demonstration equipment		-	204,545
Net cash flows (used in)/from investing activities		(264,838)	86,980
Cash flows from financing activities			
Proceeds from issue of ordinary shares	9	655,296	756,959
Payment of transaction costs associated with issued capital		(62,168)	(55,739)
Proceeds from short term loans		450,000	125,000
Payment of sale and leaseback		(200,000)	-
Repayments of short term loans	9	(426,000)	(147,240)
Net cash flows from financing activities		417,128	678,980
Net increase in cash and cash equivalents		198,862	244,207
Cash and cash equivalents at beginning financial year		450,911	206,704
Cash and cash equivalents at end of year		649,773	450,911



STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2014

	Issued capital (note 11) \$	Other equity securities \$	Equity-based payments reserve \$	Accumulated losses \$	Total Equity \$
Balance at 1 July 2012	18,523,681	73,067	514,228	(17,992,711)	1,118,265
Loss for the year	-	-	-	(772,933)	(772,933)
Total income and expense for the period	-	-	-	(772,933)	(772,933)
Issues of ordinary shares during the year:					
Issue of share capital	784,719	-	-	-	784,719
Transaction costs associated with issued share capital	(55,739)	-	-	-	(55,739)
Transfer between categories of equity	73,067	(73,067)	-	-	-
Balance at 30 June 2013	19,325,728	-	514,228	(18,765,644)	1,074,312
Balance at 1 July 2013	19,325,728	-	514,228	(18,765,644)	1,074,312
Loss for the year	-	-	-	(222,676)	(230,063)
Total income and expense for the period	-	-	-	(222,676)	(230,063)
Issues of ordinary shares during the year:					
Issue of share capital	679,296	-	-	-	679,296
Transaction costs associated with issued share capital	(62,168)	-	-	-	(62,168)
Transfer between categories of equity	-	-	-	-	-
Balance at 30 June 2014	19,942,856	-	514,228	(18,988,320)	1,468,764



NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS

1. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the preliminary final report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The preliminary final report includes the financial statements for XTEK Limited as an individual entity.

a. Corporate information

The preliminary financial report of XTEK Ltd for the year ended 30 June 2014 was authorised for issue in accordance with a resolution of the Directors on 28 August 2014.

XTEK Ltd is a Company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange.

b. Going concern basis of accounting

This report has been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and settlement of liabilities in the normal course of business.

The Company has incurred a loss of \$222,676 for the year ended 30 June 2014 (full year ended 30 June 2013: loss of \$772,933 and half-year ended 31 December 2013: loss of \$609,401). Accumulated losses to 30 June 2014 total \$18,988,320 (accumulated losses to 30 June 2013 of 18,765,644 and accumulated losses to 31 December 2013 total \$19,375,045). The balance of cash and cash equivalents was \$649,773 as at 30 June 2014 (as at 30 June 2013: \$450,911 and as at 31 December 2013: \$1,248,092).

The ability of the company to continue as a going concern is dependent on:

- i. the ability to meet projected revenue levels;
- ii. timing of cash receipts;
- iii. retention of overheads at budgeted levels;

The Directors have reviewed the Company's financial position and cash flow forecasts for the next twelve months, which show that the Company will be able to meet its debts as and when they fall due and payable and are, therefore, of the opinion that the use of the going concern basis of accounting is appropriate. This is based on the belief that the Company will meet projected revenue from its Agency and product development businesses, and that the Company will be able to retain overheads at budgeted levels.

Should the company not achieve the matters set out above, there is uncertainty whether the Company will continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. The financial report does not include any adjustments to assets and liabilities that may be necessary if the Company is unable to continue as a going concern.

c. New accounting standards and interpretations

- i. Changes in accounting policy and disclosures.

The accounting policies adopted are consistent with those of the previous financial year.

- ii. Adoption of new Australian Accounting Standard requirements

Australian Accounting Standards and Interpretations issued or amended that are applicable to the current reporting period did not have a financial impact in the financial statements or performance of the Company, and are not expected to have a future financial impact on the Company.



NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS (continued)

- 1. Summary of significant accounting policies (continued)**
c. New accounting standards and interpretations (continued)

iii. Future Australian Accounting Standard requirements

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Company for the annual reporting period ended 30 June 2014. It is anticipated that the new requirements will have no material financial impact on future reporting periods.

d. Significant accounting judgment, estimates and assumptions

No accounting judgements, estimates or assumptions have been made that have a significant risk of causing a material adjustment to carrying amounts of assets and liabilities within the next annual reporting period.

e. Foreign currency translation

i. Functional and presentation currency

The financial statements are presented in Australian dollars, which is XTEK Limited's functional and presentation currency.

ii. Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

f. Property, plant and equipment

i. Cost and valuation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value.

ii. Depreciation

Depreciation is calculated on a straight line basis over the estimated useful life of the asset as follows:
Major depreciation periods are:

- plant and equipment 3 - 15 years

iii. Impairment

The carrying values of plant and equipment are reviewed for impairment when events or changes in the circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of comprehensive income.



NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS (continued)

1. Summary of significant accounting policies (continued)

g. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (i.e. an asset that necessarily takes a substantial period of time to get ready for its intended use or sale) are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. XTEK Limited does not currently hold any qualifying assets but, if it did, the borrowing costs directly associated with this asset would be capitalised (including any other associated costs directly attributable to the borrowing and temporary investment income earned on the borrowing).

h. Intangible assets

i. Research and development

Research costs are expensed as incurred.

Development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured. Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure carried forward is amortised over the period of expected future sales from the related project.

The carrying value of development costs is reviewed for impairment annually when the asset is not yet in use, or more frequently when an indicator of impairment arises during the reporting year indicating that the carrying value may not be recoverable. Where recognition criteria are not met, development costs are recognised in the statement of comprehensive income as incurred.

Gains or losses from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of comprehensive income when the asset is derecognised.

i. Recoverable amount of assets

At each reporting date, the Company assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Company makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

The recoverable amount is the greater of fair value less costs to sell and value in use for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash generating unit to which the asset belongs.

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.



NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS (continued)

1. Summary of significant accounting policies (continued)

j. Inventories

Inventories are valued at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- Raw materials - purchase cost on a first in, first out basis; and
- Finished goods and work-in-progress cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

k. Trade receivables

Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectable amounts. Receivables are non-interest bearing and are generally on 30 day terms, unless otherwise agreed with the customer. Collectability of trade receivables is reviewed on an ongoing basis. Debts that are known to be uncollectable are written off when identified. An allowance for doubtful debts is raised when there is objective evidence that the Company will not be able to collect the debt.

Receivables from related parties are recognised and carried at amortised cost, with interest recognised using the effective interest rate method.

l. Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short term deposits with an original maturity of three months or less. For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and equivalents as defined above, net of outstanding bank overdrafts.

m. Provisions

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

Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

n. Share based payment transactions

The Company has an ability to provide benefits to employees (including key management personnel) in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares ('equity settled transactions').

There are currently two plans in place to provide such benefits:

- the XTEK Long Term Incentive Performance Rights Plan (LTIPRP); and
- the Employee Share Ownership Plan (ESOP), which provides benefits to all employees.



NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS (continued)

1. Summary of significant accounting policies (continued)

n. Share based payment transactions (continued)

The cost of these equity settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by reference to either the Black Scholes valuation or by an external valuer using a binomial model.

In valuing equity settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of XTEK Limited ('market conditions') if applicable.

The cost of equity settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled (the vesting period), ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

At each subsequent reporting date until vesting, the cumulative charge to the statement of comprehensive income is the product of (i) the grant date fair value of the award, (ii) the current best estimate of the awards that will vest, taking into account such factors as the likelihood of employee turnover during the vesting period and the likelihood of non-market performance conditions being met; and (iii) the expired portion of the vesting period. The charge to the statement of comprehensive income for the period is the cumulative amount as calculated above less the amounts already charged in previous periods. There is also a corresponding credit to equity.

Until an award has vested, any amounts recorded are contingent and will be adjusted if more or fewer awards vest than were originally anticipated to do so. Any award subject to a market condition is considered to vest irrespective of whether or not the market condition is fulfilled, provided that all other conditions are satisfied.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it has vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as an additional share dilution in the computation of diluted earnings per share.

o. Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

i. Sale of Goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards of ownership are considered passed to the buyer at the time of delivery of the goods to the customer.

ii. Rendering of Services

Revenue is recognised by reference to the stage of completion of a contract.

Stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours for each contract. When the contract outcome cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.



NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS (continued)**1. Summary of significant accounting policies (continued)****o. Revenue recognition (continued)**

iii. Interest revenue

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

iv. Deferred Income

Deferred income consists of customer deposits received and government grants. Deferred income relating to customer deposits is not recognised as revenue until such time when the ownership of the goods is transferred to the customer. In the case of Government grants, grants are recognised in accordance with the accounting policy outlined in Note 1(y).

p. Taxes

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred income tax is provided on all temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable differences:

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax assets and unused tax losses can be utilised:

- except where the deferred income tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

Deferred income tax assets and liabilities are measured at all tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the statement of financial position date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the statement of comprehensive income.



NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS (continued)

1. Summary of significant accounting policies (continued)

q. Employee benefits

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave and long service leave.

Liabilities arising in respect of wages and salaries, annual leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the market yield as at the reporting date on national government bonds, which have terms to maturity approximating the terms of the related liability, are used.

Employee benefit expenses and revenues arising in respect of the following categories:

- wages and salaries, non-monetary benefits, annual leave, long service leave and other leave entitlements; and
- other types of employee entitlements,

are charged against surpluses on a net basis in their respective categories.

The contributions made to superannuation funds are charged to the statement of profit or loss and other comprehensive income.

i. Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

ii. Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after statement of financial position date are discounted to present value.

r. Earnings per share

i. Basic earnings per share

Basic EPS is calculated as net profit attributable to members, adjusted to exclude costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.



NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS (continued)

1. Summary of significant accounting policies (continued)

r. Earnings per share (continued)

ii. Diluted earnings per share

Diluted EPS is calculated as net profit attributable to members, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary charges in revenues or expenses during the period that would result from the dilution of potential ordinary shares;
- divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

s. Interest bearing loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised and as well as through the amortisation process.

t. Trade and other payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

u. Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

v. Dividends

No dividends were declared on or before or subsequent to the end of the financial year.

w. Other Taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.



NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS (continued)**1. Summary of significant accounting policies (continued)****x. Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed and determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in profit and loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

i. Impairment of Loans

If there is objective evidence that an impairment loss on receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through use of an allowance account. The amount of the loss is recognised in profit or loss.

y. Government grants

Government grants are recognised when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. They are not credited directly to shareholders equity.

When the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of comprehensive statement over the expected useful life of the relevant asset by equal annual instalments.

z. Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

i. Company as a lessee

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term. Lease incentives are recognised in the statement of comprehensive income as an integral part of the total lease expense.

ii. Company as a lessor

Leases in which the Company retains substantially all the risks and benefits of ownership of the leased asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as rental income. Income from leases relates only to property which is sub-let by the Company



NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS (continued)

2. Revenue and other income**a. Revenue from operations**

	2014	2013
	\$	\$
Sales revenue	4,585,776	2,969,474
Revenue from repairs	681,835	1,332,326
Revenue from services	50,550	24,040
	5,318,161	4,325,840

b. Other income

	2014	2013
	\$	\$
Rental income	2,995	70,777
Interest	13,539	5,584
R&D tax incentive (refer Note 7)	360,426	408,551
Grant income	11,906	14,437
Other	1,710	7,802
	390,576	507,151

3. Expenses**(Loss) before income tax includes the following specific expenses:**

	2014	2013
	\$	\$
Employee Benefits		
Salaries and wages	1,421,879	1,504,695
Superannuation	163,485	145,270
Redundancy payments	-	4,088
Payroll tax	38,162	27,638
Workers compensation	21,805	22,546
Total employee benefits	1,645,331	1,704,237

	2014	2013
	\$	\$
Depreciation		
Plant and equipment	22,197	16,149
Motor vehicles	1,319	1,614
Office furniture and equipment	18,779	18,991
Computer software	16,778	16,778
Demonstration equipment	43,590	26,131
Leasehold property improvements	8,245	9,479
XTclave	43,102	38,985
Total depreciation	154,010	128,127



NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS (continued)

3. Expenses (continued)

	2014	2013
Operational expenditure	\$	\$
Accounting fees	15,100	13,807
Audit fees	47,564	70,907
Advertising and conferences	64,660	140,969
Bank charges	4,162	8,682
Consultancy fees	98,988	80,280
Directors fees	123,291	71,423
Insurance	104,465	108,722
FBT	10,422	20,575
Legal fees	1,451	9,930
Office administrative costs	440,225	432,948
Operating lease charges	42,337	79,529
Share registry fees	30,710	29,163
Travel and entertainment	81,174	81,412
Staff training	7,661	18,813
R&D project expenses	14,705	16,029
Net foreign currency losses	25,577	29,438
Other expenses	79,642	83,697
Total operational expenditure	1,192,134	1,296,324

	2014	2013
Additional expenditure	\$	\$
Relocation costs	46,994	-
Impairment of assets due to relocation	18,282	-
Total additional expenditure	65,276	-

	2014	2013
Finance costs	\$	\$
Interest	21,140	7,726
Finance charges	23,900	-
Total finance costs	45,040	7,726



NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS (continued)

4. Reconciliation of (losses) after income tax to net cash flows from/(used in) operating activities

	2014	2013
	\$	\$
(Loss) for the year	(222,676)	(772,933)
<i>Adjustments for:</i>		
Depreciation	154,010	128,127
Net loss on disposal of property plant and equipment	18,292	-
<i>Changes in assets and liabilities</i>		
(Increase) in trade debtors	(34,444)	(817,611)
Decrease in inventory	230,060	148,288
(Increase)/decrease in prepayments and other assets	(31,962)	85,762
(Decrease)/increase in trade and other payables	(578,126)	846,661
Increase/(decrease) in deferred income	483,707	(164,158)
Increase in provisions	27,711	24,111
Net cash flows from/(used in) operating activities	46,572	(521,753)

5. Earnings per share**a. Basic loss per share**

	2014	2013
	\$	\$
(Loss) attributable to the ordinary equity holders of the Company	(0.001)	(0.005)

b. Diluted loss per share

	2014	2013
	\$	\$
(Loss) attributable to the ordinary equity holders of the Company	(0.001)	(0.005)

c. Weighted average number of shares used as the denominator

	2014	2013
	Number	Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	192,634,408	162,022,007
<i>Adjustments for calculation of diluted earnings per share:</i>		
Options and share performance rights	-	-
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	192,634,408	162,022,007



NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS (continued)

5. Earnings per share (continued)

c. Weighted average number of shares used as the denominator (continued)

i. Options and share performance rights

Options and share performance rights granted to employees and Directors that are considered to be potential ordinary shares have been included in the determination of diluted earnings per share to the extent to which they are dilutive. As at reporting date, the options and share performance rights have not been included in the determination of basic earnings per share.

6. Property plant and equipment

During the full year ended 30 June 2014, the Company acquired assets with a cost of \$264,838 (2013: \$117,565), which includes \$47,260 for patent application costs associated with the Intellectual Property of the process for the manufacture of multilayer articles (2013: \$0).

In June 2014, XTEK Limited transferred the carrying amount (\$387,531) of its 50% ownership of the Joint Venture Hydroclave to inventory held for sale. The associated Hydroclave Joint Venture Agreement was terminated in June 2014 with Armor Australia purchasing XTEK's share of the Joint Venture Hydroclave plant.

7. Government grants

a. AusIndustries R&D tax incentive

Income of \$360,426 was recognised in financial year 2014 from AusIndustry's R&D Tax Incentive Regime. Of this \$238,776 was recognised in relation to R&D expenses incurred in financial year 2014 and \$40,665 was recognised in relation to R&D expenses incurred in financial year 2013. A further \$80,985 was recognised in financial year 2014 from the funds received from AusIndustry's R&D Tax Incentive Regime for financial year 2012 consistent with the accounting policies of the Company.

Funds of \$253,089 were received from AusIndustry's R&D Tax Incentive Regime and related to R&D expenses for financial year 2013. There were no unfulfilled conditions or contingencies attached to this grant at the reporting date. Of the \$253,089 received, \$212,424 was recognised as income in financial year 2013 and the balance of \$40,665 was recognised in financial year 2014.

b. Other grants

Income was recognised and funds were received to the value of \$11,906 from the Austrades Export Marketing and Development Grant in financial year 2014.

8. Share based payments

a. Expired options and share performance rights

There were no options or share performance rights exercisable at the end of the year or any prior year. As at 30 June 2014 there were no unissued shares.

b. Weighted average share price

The weighted average market price at 30 June 2014 was 4.1 cents.



NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS (continued)

9. Interest bearing liabilities

On 11 April 2013, a secured loan facility of \$300,000 was made available to the Company by a related party (UDB Pty Ltd) for a twelve month period with an interest rate of 12.5%. This loan facility was to fund any short term cash flow deficit and was structured to allow for partial or full draw down by the Company during the term of the loan. There was an establishment fee for this loan of \$23,900 which was recognised as an expense during the first half of financial year 2014. In August 2013, \$250,000 of this loan was drawn upon and in September 2013, the balance of \$50,000 was drawn upon. The full amount drawn upon was repaid in November 2013; \$276,000 was repaid in cash and the remaining \$24,000 was offset from the capital raised.

On 26 September 2013, a short term unsecured loan of \$150,000 was provided to the company by a related party (Mr. Lawrence Gardiner) with an interest rate of 14.5% to fund a short term cash flow deficit. There were no covenants associated with this loan and full repayment was made in November 2013.

10. Other current liabilities

In financial year 2012, the Company entered into a contractual arrangement that is in the legal form of a sale and operating leaseback arrangement with a related party (UDB Pty Ltd) associated with a Remote Positioning Vehicle. However, the substance of the arrangement and the relationship between the parties meant that revenue from the transaction was not recognised, but rather deferred within other current liabilities, to the amount of \$200,000. In November the Remote Positioning Vehicle was purchased by the Company from UDB Pty Ltd and the liability has been extinguished.

11. Contributed equity**a. Share capital**

Movement in ordinary shares on issue	No. of Shares	\$
At 1 July 2013	176,112,537	19,325,728
Shares issued	25,159,115	679,296
Transaction cost on shares issued	-	(62,168)
	201,271,652	19,942,856

b. Ordinary Shares

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

12. Contingent liabilities

There are no contingent liabilities at 30 June 2014.

No changes have been reported in contingent liabilities since the last annual reporting date.



NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS (continued)

13. Events occurring after the balance sheet date

- ✓ On 2 July 2014, the Company received a Purchase Order for the supply of weapon ancillaries, to the value of \$376,000 AUD, from the Australian Defence Force.
- ✓ On 3 July 2014, the Company received a Purchase Order for the supply of one (1) AeroVironment Unmanned Aerial Vehicle System, inclusive of operational spares and training, to the value of approximately \$831k from an Australian Law Enforcement agency.
- ✓ On 17 July 2014, the Company was formally invited by the Australian Defence Force to respond to a Request for Quotation (RFQ) for the supply of Body Armour, Explosive Ordnance Disposal Bomb Suits as part of a Standing Offer Panel. The Company plans to respond to the RFQ by offering the Morgan Advanced Materials ERGOTECH bomb suits.

COMPLIANCE

1. This report is based on accounts which are in the process of being audited.
2. The entity has a formally constituted finance, audit and risk management committee.

Signed



Printed Name: Uwe Boettcher (Chairman)
Date: 28 August 2014

