

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

28 February 2011

By Electronic Lodgement

Dear Sir/Madam,

### LODGEMENT OF HALF YEAR FINANCIAL REPORT

In accordance with the Listing Rules, please find attached the Half Year Financial Report (Appendix 4D) for XTEK Ltd (XTE) for the financial period ended 31 December 2010.

Should you require any further information in respect to this matter please contact the Chairman, Mr. Uwe Boettcher [Uwe.Boettcher@xtek.net](mailto:Uwe.Boettcher@xtek.net) on 02 6163 5588 in the first instance.

Yours sincerely,



Lawrence A. Gardiner  
Company Secretary

Attachment: XTEK Ltd Half Year Financial Report (Appendix 4D) 31 December 2010.

**XTEK LTD**

**ABN 90 103 629 107**

**HALF-YEAR FINANCIAL REPORT  
APPENDIX 4D  
31 DECEMBER 2010**

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## Results for Announcement to the Market

Name of the Company: XTEK Ltd

ABN 90 103 629 107

31 December 2010

<b>Total Revenue</b>	down	43.43%	to	\$2,667,330
<b>Profit/(Loss) after tax</b>	down	Note [1]	to a loss of	(\$805,143)
<b>Net Profit/(Loss) for the period attributable to members</b>	down	Note [1]	to a loss of	(\$805,143)

Note [1] XTEK Ltd recorded a loss of \$805,143 in the current period to 31 December 2010 and a loss off \$320,456 in the comparative period to 31 December 2009.

### Dividends

	Amount per security	Franked amount per security	Record date for determining entitlements to dividends
Current year – 2010:			
- Interim dividend	n/a	n/a	n/a
- Final dividend	n/a	n/a	n/a
Previous year – 2009:			
- Interim dividend	n/a	n/a	n/a
- Final dividend	n/a	n/a	n/a
Net tangible assets		December 2010	December 2009
Net tangible assets per security		\$0.014	\$0.032

For further explanation of the above figures refer to the Directors' Report. Other financial information required by the Appendix 4D is contained in the Financial Statements.

## Directors' Report

Your Directors submit their report for the half-year ended 31 December 2010.

### Directors

The names of the company's directors in office during the half-year ended 31 December 2010 and until the date of this report are as below. The Directors were in office for this entire period unless otherwise stated.

Mr Uwe Boettcher	Non Executive Director
Brig. Greg Thomas	Non Executive Director
Mr Craig Higgins	Non Executive Director (resigned 23 August 2010)
Mr David Jarvis	Executive Director (resigned 24 June 2010)
Mr Robert Sykes	Executive Director (appointed 25 August 2010, deceased 2 December 2010)
Mr Lawrence Gardiner	Executive Director (appointed 3 December 2010)

### Position of Chief Executive Officer

During the reporting period, Mr. Robert Sykes was appointed as the Chief Executive Officer on 12 July 2010. Mr. Sykes was appointed for an interim term of 12 months and replaced Mr. Jarvis as part of a Company restructure process. In addition to his role as CEO, Mr. Sykes was also appointed as an Executive Director on 25 August 2010. Unexpectedly, Mr. Sykes passed away on 2 December 2010. Subsequently, the Board of Directors carried out a CEO selection and recruitment process in December and appointed Mr. Brian Malcolm to the position of CEO. Mr. Malcolm commenced as the CEO on 4 February 2011.

### Review and Results of Operations

Details of the first half revenue performance can be seen in the table below:

#### XTEK H1 Agency Sales Summary

Category	Half-Year ended 31 Dec 2010 \$'000	Half-Year ended 31 Dec 2009 \$'000	Movement %
<b>Sales</b>			
EOD/IEDD General	406	1,141	-64%
EOD Robots	-	1,486	-
Weapons and Ammunition	625	773	-19%
Logistics Engineering Services	622	634	-2%
Forensics	477	372	28%
General Security	154	179	-14%
Active ES	137	-	-
<b>Total Sales</b>	<b>2,421</b>	<b>4,585</b>	<b>-47%</b>

EOD sales were significantly lower due to delays experienced with orders compared with the corresponding period last year.

## **Second Half Prospects**

Due to reduced revenue for the H1 period we may not be able to limit the full year loss to \$300k as previously announced. However, due to the costs saving measures previously implemented being realised, we still expect H2 to be profitable.

The Defence and Homeland Security business is subject to considerable fluctuations. With constraints in government expenditure not expected to ease in the short term, XTEK has significantly and permanently reduced operating cost to adjust the agency business to a lower revenue operating environment. We look forward to the time when discretionary expenditure in this market returns to previous levels. In the meantime we will keep operating costs low and seek to take advantage of all opportunities.

## **Sustainability Products**

The Company saw opportunities in the sustainability sector and gained a licence to manufacture and distribute an electrical energy saving (lighting) system for the Australian market. This system effectively provides for a reduction in electricity consumption for industrial lighting.

As reported in earlier ASX announcements, there have been some technical issues in adjusting the systems to meet Australian conditions. An Australian distributor has been appointed to service the commercial market and an order has been received from that distributor. The Company has received a part payment from the distributor for the goods as ordered. The balance of the purchase order will be delivered by the Company on completion of a marketing report that has been commissioned by the distributor.

The Company will be directly marketing this energy saving system to the government sector and has already facilitated a trial of the system to be conducted at a Defence site.

While entry into this market has been more difficult than expected, XTEK will persevere as it is a growing market that offers recurring revenue with good margins.

## **Hydroclave Armour Technology**

The jewel in the crown of XTEK is the armour manufacturing technology.

We are very pleased to announce that the pilot-plant hydroclave vessel is now 'fit-for-use'. After a lengthy certification process the vessel has now been independently inspected and verified to comply with the registered design and registered by Safework South Australia as plant that can be used for commercial production.

Through the use of the pilot-plant licenced Hydroclave vessel, the Company has been able to supply sample plates for various tender evaluations. As a result one company has included the use of the hydroclave technology in its tender for various overseas contracts. If any one of those tenders is successful we expect to finally use the novel process for commercial production.

The building of a commercial scale hydroclave vessel has commenced and is expected to be completed in May 2011. Arrangements for the terms for production and use of a larger commercial scale hydroclave, with one smaller armour manufacturer, are close to finalization.

Interest has also been shown by a number of international manufacturers of composite armour systems in evaluating and licensing XTEK's hydroclave technology.

### Management of Change Processes

A new business management system for accounting, inventory and engineering has now been successfully installed and commissioned. The new business system has replaced a number of older dysfunctional systems and provides the Company with an effective management system. The system has also been designed to interface with the new website, thus providing our customers with a real time product viewing and ordering capability.

The restructuring of Company operations as announced to the Market in June 2010, has now been completed with a significant permanent reduction in overheads being achieved. Staff numbers are down to 21. All current staff are totally committed to making XTEK successful and are working hard to achieve that. It will be a significant achievement if XTEK does achieve better revenues than for the comparable period last year together with a profit for H2 with significantly reduced personnel.

### List of abbreviations and acronyms

AP	Armour Piercing
EOD	Explosive Ordnance Disposal
IEDD	Improvised Explosive Device Disposal
LED	Logistic Engineering Division
IP	Intellectual Property
R&D	Research and Development
tEODor®	telerob Explosive Ordnance Disposal and observation robot®
UTM	Ultimate Training Munitions

### Auditor's Independence Declaration

We have obtained an independence declaration from the auditors, Ernst & Young. The signed declaration is included on the following page.

Signed in accordance with a resolution of the Board of Directors.



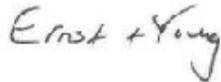
Mr Uwe Boettcher  
Chairman  
Canberra  
28 February 2011



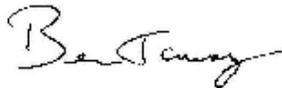
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#### Auditor's Independence Declaration to the Directors of XTEK Limited

In relation to our review of the financial report of XTEK Limited for the half-year ended 31 December 2010, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.



Ernst & Young



Ben Tansley

Partner  
Canberra

Date: 28 February 2011

Liability limited by a scheme approved  
under Professional Standards Legislation

## Financial Statements

### *Statement of Comprehensive Income*

For the half-year ended 31 December 2010

	Notes	2010 \$	2009 \$
<b>Revenue from continuing operations</b>	3	2,421,220	4,585,124
Other income	3	246,110	76,696
Changes in inventories of finished goods and work in progress		(1,577,758)	(2,618,769)
Employee benefits expense	3	(905,177)	(1,339,933)
Depreciation and impairment	3	(60,440)	(90,680)
Operational expenditure	3	(925,342)	(932,179)
Finance Costs	3	(3,756)	(715)
<b>Loss from continuing operations before income tax</b>		<b>(805,143)</b>	<b>(320,456)</b>
Income tax expense		-	-
<b>Loss from continuing operations after income tax</b>		<b>(805,143)</b>	<b>(320,456)</b>
<b>(Loss)/Profit after tax attributable to members of XTEK Ltd</b>		<b>(805,143)</b>	<b>(320,456)</b>
<b>Other comprehensive income</b>		<b>-</b>	<b>-</b>
<b>TOTAL COMPREHENSIVE (LOSS)/INCOME FOR PERIOD</b>		<b>(805,143)</b>	<b>(320,456)</b>
<b>Earnings per share for (loss)/profit for period attributable to ordinary equity holders of the company:</b>		<b>\$</b>	<b>\$</b>
Basic earnings per share		(0.008)	(0.004)
Diluted earnings per share		(0.008)	(0.004)
<b>Earnings per share for (loss) from continued operations attributable to ordinary equity holders of the company:</b>			
Basic earnings per share		(0.008)	(0.004)
Diluted earnings per share		(0.008)	(0.004)

## Statement of Financial Position

For the half-year ended 31 December 2010

	Notes	As at 31 December 2010 \$	As at 30 June 2010 \$
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents		135,974	683,063
Trade and other receivables		835,097	500,501
Inventories		1,009,142	1,199,188
Other		218,901	187,797
<b>Total Current Assets</b>		<b>2,199,114</b>	<b>2,570,549</b>
<b>Non-current Assets</b>			
Property, plant and equipment		561,238	372,068
<b>Total Non-current Assets</b>		<b>561,238</b>	<b>372,068</b>
<b>TOTAL ASSETS</b>		<b>2,760,352</b>	<b>2,942,617</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and other payables		642,821	528,148
Derivative financial liability		41,774	-
Provisions		88,782	200,066
Deferred income		254,848	104,766
Other		190,789	267,080
<b>Total Current Liabilities</b>		<b>1,219,014</b>	<b>1,100,060</b>
<b>Non-current Liabilities</b>			
Provisions		35,534	14,206
<b>Total Non-current Liabilities</b>		<b>35,534</b>	<b>14,206</b>
<b>TOTAL LIABILITIES</b>		<b>1,254,548</b>	<b>1,114,266</b>
<b>NET ASSETS</b>		<b>1,505,804</b>	<b>1,828,351</b>
<b>EQUITY</b>			
Contributed equity		17,899,907	17,417,311
Reserves		514,228	514,228
Accumulated losses		<b>(16,908,331)</b>	<b>(16,103,188)</b>
<b>TOTAL EQUITY</b>		<b>1,505,804</b>	<b>1,828,351</b>

## Statement of Cashflows

For the half-year ended 31 December 2010

	Notes	2010 \$	2009 \$
<b>Cash flows from operating activities</b>			
Receipts from customers		2,529,381	6,206,331
Payments to suppliers and employees		(3,308,140)	(6,433,561)
Interest received		2,610	19,023
Borrowing costs		(3,756)	(715)
<b>Net cash flows (used in)/from operating activities</b>		<b>(779,905)</b>	<b>(208,922)</b>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(250,331)	(27,494)
Proceeds from sale of property, plant and equipment classified as held for sale		-	13,818
Proceeds from sale of property plant and equipment		550	-
<b>Net cash flows used in investing activities</b>		<b>(249,781)</b>	<b>(13,676)</b>
<b>Cash flows from financing activities</b>			
Payments of finance lease		-	(17,873)
Proceeds from issues of ordinary shares and other equity securities		482,597	-
<b>Net cash flows from/(used in) financing activities</b>		<b>482,597</b>	<b>(17,873)</b>
Net (decrease)/increase in cash and cash equivalents		(547,089)	(240,471)
Cash and cash equivalents at beginning of period		683,063	1,338,813
<b>Cash and cash equivalents at end of period</b>	5	<b>135,974</b>	<b>1,098,342</b>

## Statement of Changes in Equity

For the half-year ended 31 December 2009

	Attributable to equity holders				Total equity \$
	Issued Capital \$	Other Equity Securities \$	Equity-based payments reserve \$	Accumulated losses \$	
<b>At 1 July 2009</b>	16,957,559	73,067	488,344	(14,631,477)	2,887,493
Loss for the half-year	-	-	-	(320,456)	(320,456)
<b>Total income and expense for the period</b>	-	-	-	(320,456)	(320,456)
Issues of ordinary shares during the half-year:	-	-	-	-	-
Cost of share based payments	-	-	13,050	-	13,050
<b>At 31 December 2009</b>	<b>16,957,559</b>	<b>73,067</b>	<b>501,394</b>	<b>(14,951,933)</b>	<b>2,580,087</b>

For the half-year ended 31 December 2010

	Attributable to equity holders				Total equity \$
	Issued Capital \$	Other Equity Securities \$	Equity-based payments reserve \$	Accumulated losses \$	
<b>At 1 July 2010</b>	17,344,244	73,067	514,228	(16,103,188)	1,828,351
Profit for the half-year	-	-	-	(805,143)	(805,143)
<b>Total income and expense for the period</b>	-	-	-	(805,143)	(805,143)
Issues of ordinary shares during the half-year:	-	-	-	-	-
Issue of share capital	525,077	-	-	-	525,077
Transaction costs	(42,481)	-	-	-	(42,481)
Cost of share based payments	-	-	-	-	-
<b>At 31 December 2010</b>	<b>17,826,840</b>	<b>73,067</b>	<b>514,228</b>	<b>(16,908,331)</b>	<b>1,505,804</b>

## **Notes to the Half-Year Financial Statements**

The principal accounting policies adopted in the preparation of the half-year financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### **1 Corporate Information**

The half-year financial report of XTEK Ltd for the half-year ended 31 December 2010 was authorised for issue in accordance with a resolution of the directors on 28 February 2011.

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

The nature of the operations and principal activities of the company are described in the Directors' Report.

### **2 Accounting Policies**

#### **2.a Going Concern Basis of Accounting**

The half-year financial report has been prepared on the going concern basis. The company has made a loss of \$805,143 for the half-year year ended 31 December 2010 (half year ended 31 December 2009: loss of \$320,456). Accumulated losses to 31 December 2010 total \$16,908,331 (accumulated losses to 30 June 2010: \$16,103,188). The balance of cash and cash equivalents was \$135,974 as at 31 December 2010 (as at 30 June 2010: \$683,063). The ability of the company to continue as a going concern is dependant on the company's ability to meet its debts as and when they fall due and payable. The company has prepared cash flow forecasts for the next twelve months which suggest that the company will be able to meet its debts as and when they fall due and payable. These cash flow forecasts are based on a number of assumptions in particular about the company's ability to meet projected revenue levels, timing of cash receipts, retention of overheads at budgeted levels, execution of further cost saving initiatives and repayment of a related party loan received subsequent to balance date as disclosed in note 13.

The directors also acknowledge no committed finance facility is presently in place to fund any unforeseen shortfall in forecast cash flows and are therefore monitoring cash flows on a weekly basis and tightly managing discretionary expenditure. The directors are however of the opinion that there are reasonable grounds to believe that the company will meet these projected revenue and cash flow timing assumptions and retain overheads to budget levels. On this basis the directors believe the adoption of the going concern basis of accounting is justified.

However, should this position change the company may not be able to pay its debts as and when they fall due and may be required to raise equity or debt or realise assets and extinguish liabilities other than in the normal course of business and at amounts different from those stated in the financial statements. The half-year financial report does not include any adjustment relating to the recoverability and classification of recorded asset amounts nor to the amount and classification of liabilities that might be necessary should the company not continue as a going concern.

#### **2.b Basis of Preparation and Accounting Policies**

This general purpose condensed financial report for the half-year ended 31 December 2010 has been prepared in accordance with AASB 134 Interim Financial Reporting and the Corporations Act 2001.

This half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investment activities of the entity as the full financial report.

It is also recommended that the half-year financial report should be read in conjunction with the annual financial report of XTEK Ltd for the year ended 30 June 2010 and considered together with any public announcements made by XTEK Ltd during the half-year ended 31 December 2010 in accordance with the continuous disclosure obligations of the ASX listing rules.

The half-year financial report is presented in Australian dollars.

The accounting policies and methods of computation are the same as those adopted in the most recent annual financial report except for the adoption of the following additional accounting policy:

#### Derivative Financial Instruments

The Company uses forward currency contracts to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value. Changes in fair value are recognised immediately in profit or loss in income or expenses. Forward currency contracts are recognised as an asset when their value is positive and as a liability when their value is negative.

### 3 Revenue, Income and Expenses

	<b>2010</b>	<b>2009</b>
	\$	\$
<b>(i) Revenue</b>		
Sale of goods	1,686,918	3,945,616
Revenue from repairs and sales of parts	606,161	541,188
Revenue from services	128,141	98,320
	<u>2,421,220</u>	<u>4,585,124</u>
<b>(ii) Other Income</b>		
Interest	2,610	19,023
Property and Storage rental	17,190	16,886
Property rental	39,136	26,091
Net foreign currency gains	30,187	-
Other (Includes Revenue for Blighter Radar Trials)	156,987	14,696
	<u>246,110</u>	<u>76,696</u>
<b>(iii) Employee Benefits Expense</b>		
Salaries and Wages	746,714	1,108,284
Superannuation	86,854	109,030
Payroll Tax	35,749	57,377
Redundancy payments	23,471	36,656
Share-Based Payments	-	13,050
Workers Compensation	12,389	15,536
	<u>905,177</u>	<u>1,339,933</u>
<b>(iv) Depreciation</b>		
Plant and Equipment	16,309	9,672
Motor Vehicles	3,151	3,438
Office Furniture and Equipment	12,272	14,789
Demonstration Equipment	23,640	35,151
Property Improvements	5,068	4,338
Rental Equipment	-	23,292
	<u>60,440</u>	<u>90,680</u>

	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
<b>(v) Operational Expenditure</b>		
Directors Fees	49,058	78,291
FBT	27,213	45,913
Consultancy fees	41,529	23,574
Audit fees	35,048	35,478
Advertising and conferences	118,646	78,366
Travel and related costs	75,286	159,780
Share Registry Fees	21,770	21,629
Insurance	72,859	64,833
Lease charges	46,973	62,505
Office administrative costs	311,785	305,390
Workshop/Project Materials	39,947	24,599
Foreign exchange losses attributable to derivative financial liability	41,774	-
Foreign exchange losses	-	16,309
Other expenses	43,454	45,277
	925,342	932,179
<b>(iv) Finance Costs</b>		
Interest Expense	3,756	715
	3,756	715

#### 4 Operating Segments

For the half-year ended 31 December 2010, XTEK Ltd had one major reportable segment, the homeland security agency business. This segment is the company's strategic business unit and includes the supply of homeland security equipment and services to predominantly government customers in the Australasian region. The CEO reviews internal management reports for the strategic business unit on a monthly basis.

##### Major customers

The Company has a number of customers to which it provides both agency products and services. The Company supplies a number of Australian Government Agencies that combined account for 48% of external revenue (2009: 78%). The next most significant client accounts for 17% (2009: 10%) and this revenue relates mainly to sub-contracted services for Australian Government Agencies.

Approximately 95% (2009: 98%) of external revenue was from clients in Australia with the more than half of the balance 5% (2009: 2%) from clients in New Zealand.

## 5 Cash and Cash Equivalents

For the purpose of the half-year cash flow statement, cash and cash equivalents are comprised of the following:

	<b>December 2010</b>	<b>June 2010</b>
	<b>\$</b>	<b>\$</b>
Cash at bank and in hand	119,237	666,296
Short term deposits	16,737	16,737
	135,974	683,063

## 6 Dividends Paid and Proposed

No dividends have been declared or proposed in the half-year to 31 December 2010 or in the corresponding period in FY09.

## 7 Inventories

During the half-year ended 31 December 2010 there were no inventory write downs (2009: \$1,367).

## 8 Property, plant and equipment

During the half-year ended 31 December 2010, the company acquired assets with a cost of \$250,331 (2009: \$27,494), including \$168,670 of work in progress associated with the construction of a commercial scale hydroclave vessel (2009: Nil for hydroclave vessel construction).

## 9 Share Based Payments

### Share options and share performance rights

There were no new options or share performance rights issued in the half-year to 31 December 2010 and no options or share performance rights were exercised in this period.

### Expired Options

500,000 options expired in the half-year to 31 December 2010.

## 10 Contributed Equity

### 10a Share Capital

Movement in ordinary share capital on issue	No of shares	\$
At 1 July 2010	93,297,269	17,344,244
Shares Issued 1 September 2010	20,195,287	525,077
Transaction costs on share issue	-	(42,481)
	<u>113,492,556</u>	<u>17,826,840</u>

### Ordinary Shares

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

### 10b Other Equity Securities

Equity component of convertible notes	<u>73,067</u>
<b>Total Contributed Equity</b>	<b><u><u>17,899,907</u></u></b>

## 11 Related Party Disclosures

There were no related party transactions for the half-year ended 31 December 2009.

The only related party transaction for the half year ended 31 December 2010 was for legal services provided by Boettcher Law to a value of \$ 2,710. In February 2011 a loan has been provided by UDB Pty Ltd, a Company in which Uwe Boettcher is a Director as described in Note 13.

## 12 Contingent Liabilities

There are no contingent liabilities as at 31 December 2010.

No changes have been reported in contingent liabilities since the last annual reporting date of 30 June 2010.

## 13 Events after the Balance Sheet Date

In February 2011 an unsecured loan of \$200,000 has been provided to the company by a related party (UDB Pty Ltd) for a period of 4 months with an interest rate of 14.5% to fund a short term cash flow deficit. There are no covenants associated with this loan and repayment is scheduled for June 2011.

## Directors' Declaration

In accordance with a resolution of the directors of XTEK Ltd, I state that:

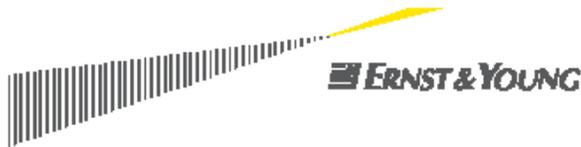
In the opinion of the directors:

- (a) the financial statements and notes of XTEK Ltd are in accordance with the *Corporations Act 2001*, including:
  - i. giving a true and fair view of the financial position as at 31 December 2010 and the performance for the half-year ended on that date of the entity; and
  - ii. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board



Mr. Uwe Boettcher  
Chairman  
Canberra  
28 February 2011



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To the members of XTEK Limited

## Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of XTEK Limited, which comprises the condensed statement of financial position as at 31 December 2010, and the condensed statement of comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the half-year ended on that date, notes comprising a statement of accounting policies and other selected explanatory notes, and the directors' declaration.

### Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of Interim and other Financial Reports Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the company's financial position as at 31 December 2010 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of XTEK Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Independence

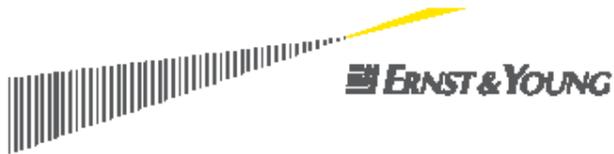
In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

### Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of XTEK Limited is not in accordance with the *Corporations Act 2001*, including:

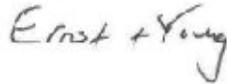
- i. giving a true and fair view of the company's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and
- ii. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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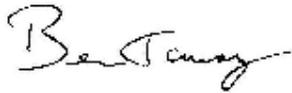


**Material Uncertainty Regarding Continuation as a Going Concern**

Without qualification to the above conclusion, we draw attention to Note 2a: "Going concern basis of accounting" to the half-year financial report which indicates there is material uncertainty whether the company will be able to continue as a going concern, and therefore whether it will be able to pay its debts as and when they fall due and realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial statements. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.



Ernst & Young



Ben Tansley

Partner  
Canberra

Date: 28 February 2011