



Release to the Australian Securities Exchange

Market Update

Canberra, Tuesday 11 May 2010

Expenditure cuts by Defence have impacted on revenues and are likely to continue in the short term.

As a consequence, the Directors regret to announce that revenue for XTEK Limited (ASX: XTE) in the final quarter, traditionally XTEK's strongest quarter, is down dramatically, as are purchase orders for this quarter which are capable of being delivered prior to 30 June 2010.

The company will make a loss for the full year. Amended projections for Financial Year 2009 -10 suggest revenue of \$7.8 - \$8.2 million with a loss of \$1.2 - \$1.4 million, before adjustments for any restructuring costs.

A strategic review of the business has been completed, which highlights the cyclical nature of procurements by customers of the products that XTEK sells. Operations will be restructured to sustain the core business, in line with a reduced base revenue level. However much more needs to be done than reducing expenditure.

A new Strategic Plan addresses the inherent weakness in XTEK's business model by the following:

1. Growing and diversifying recurring revenue in markets others than Defence.

An example of this is the diversification into adjacent markets with a range of energy saving products called Active ES, for which the first orders have been received and are due to be delivered from June 2010;

2. Commercialising Intellectual Property.

The medium to long-term future of the company lies in the commercialisation of XTEK's Intellectual Property such as the Hydroclave composite materials manufacturing process. This novel technology provides the capability to manufacture ballistic armour in geometrically complex shapes with significant weight savings for use in personal and vehicle armour applications. With reduced cycle times and batch processing, both production and wastage costs are reduced in comparison to current methods of manufacturing ballistic armour. This and other Intellectual Property will provide opportunities in a number of growing export markets where the military operational environment has increased demand for improved ballistic protection to counter the new threats;

3. Merging with, or acquiring, another business to grow the company; and

4. Re-engineering the company's systems and processes.

XTEK Ltd is the leading company in the Australian Homeland Security Market. XTEK's knowledge and expertise is focused on the delivery of leading solutions for defence forces, state and federal law enforcement agencies, corrections and customs services and government clients. For more information visit the XTEK web site at www.xtek.net

Signed for and on behalf of XTEK Limited:

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11 May 2010

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