XTEK 2013

ANNUAL REPORT

XTEK LTD
PROTECT AND SUSTAIN

1800 500 032 | www.xtek.net | ABN: 90 103 629 107

Contents

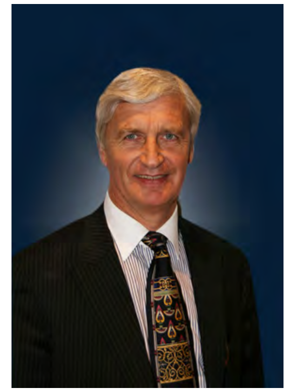
Corporate Directory

Directors	Uwe Boettcher (Appointed 28 April 2009 - Appointed Chairman 25 June 2009) Lawrence Broadbent (Appointed 28 May 2013) Lawrence Gardiner (Appointed 3 December 2010) Brian Malcolm (Appointed 29 June 2012 – Resigned 1 March 2013) Robert Quodling (Appointed 1 March 2013)
Secretary	Lawrence Gardiner (Appointed 17 August 2004)
Principal Registered Office in Australia	25 Yallourn Street Fyshwick ACT 2609 Australia Telephone: +61 2 6163 5588 Facsimile: +61 2 6280 6518
Australian Securities Exchange Listing	Australian Securities Exchange Limited Level 3, Securities Exchange Centre 530 Collins Street Melbourne VIC 3000 Australia
Auditor	Ernst & Young 121 Marcus Clarke Street Canberra ACT 2600 Australia
Share Registry	Computershare Investor Services Pty Limited Yarra Falls 452 Johnston Street Abbotsford VIC 3067 Australia
Solicitors	Minter Ellison Level 23, Rialto Towers 525 Collins Street Melbourne VIC 3000 Australia
Bankers	Bendigo Bank 161 London Circuit Canberra ACT 2600 Australia
Website Address	www.xtek.net

Chairman's Report

Dear Shareholders,

It is pleasing to report that revenue is up by 7% despite continued budget constraints on Government expenditure in the Defence and Homeland Security sectors during 2013. What is particularly pleasing is that in these difficult trading conditions XTEK was still able to make some significant sales to both the Australian and New Zealand Defence Forces in the latter part of the financial year. The loss for the year is down significantly on last year.



Agency Business

XTEK has continued to expand and diversify its product range in order to mitigate the current sales climate and to meet contemporary customer expectations. This has enhanced the Company's client base and resulted in extremely positive feedback in Customer Satisfaction Surveys.

The Company has also invested in its Unmanned Aerial Vehicle (UAV) capability and now has two qualified UAV pilots. This is the critical first step in XTEK developing an indigenous UAV lease capability which will allow us to provide an operational unmanned aerial capability to a range of government and private sector organisations.

Commercialisation of Intellectual Property (IP)

XTEK has been awarded a significant international contract to the total value of $1,502,166 by the United States (US) Department of Defense Foreign Comparative Testing (FCT) Office. XTEK was notified of its success on 3 October 2012 and after successfully completing all stages of the FCT Process, was formally awarded the FCT contract to undertake development and testing works using XTclave™ technology on 1 July 2013.

The contract requires XTEK to undertake development and testing work for the US Army over the next two years to develop advanced lightweight hard armour plate solutions using XTEK's novel XTclave™ isostatic Composite Consolidation Technology (CCT). This is a significant achievement and positions the Company for a future that will include XTclave™ CCT as an important business revenue stream.

Looking forward, the focus of the Company will be to build upon the initial success of recently introduced agency and XTEK-developed product ranges and to successfully complete the FCT armour development and testing work for the US Army in order to firmly establish XTclave™ as the world leading armour technology of choice. Further XTclave™ research and development opportunities will also be investigated along with alternative market sector applications in the lucrative Global Composites Market.

No revenue was earned from the XTclave™ in the last financial year. Despite this, the company's financial performance improved. This year XTEK expects to generate significant revenues from the XTclave™ technology which should lead to increased revenue and an overall improved financial performance.

Board Appointment

Finally, a warm welcome to Ivan Slavich who joined the XTEK Board on 24 September 2013. His extensive business experience and skills will undoubtedly enhance the business performance of XTEK.

Uwe Boettcher
Chairman
27 September 2013

Directors' Report

Your Directors present their report on the Company, XTEK Limited for the year ended 30 June 2013.

Directors

The following persons were Directors of XTEK Limited during the whole of the financial year and up to the date of this report unless otherwise indicated:

Mr. Uwe Boettcher

Mr. Lawrence Broadbent (Appointed 28 May 2013)

Mr. Lawrence Gardiner

Mr. Brian Malcolm (Resigned 1 March 2013)

Mr. Robert Quodling (Appointed 1 March 2013)

Principal Activities

During the year the principal activities of the Company focused on the supply of Homeland Security products and services to Defence and Law Enforcement agencies throughout Australasia.

Operating and Financial Review

Company Overview

Agency sales remain in line with last financial year, however gross margins have improved slightly from the previous year. Operational expenditure remained within budgeted limits resulting in a recorded loss of $0.773m for this financial year compared with a loss of $1,087m in 2012. On an earnings per share basis this is a loss of approximately 1 cent which is similar to the loss in 2012. Details of the agency sales of equipment and services are included in the business analysis table below.

Agency Business

In addition to taking on new agency lines, the Company has also successfully developed and brought to market a range of tactical weapon components for use by Defence and Law Enforcement Agencies. In recognition of meeting the stringent procurement requirements of Defence in a timely and cost-effective manner, XTEK has also achieved preferred supplier status within the Australian and New Zealand Defence Forces.

The Company has continued to review and adapt business practices to better meet the challenges associated with the current changing fiscal environment. This has allowed the Company to reaffirm its position as a leading company in the Australian Homeland Security Market.

XTEK Ltd Business Analysis

	1st Half Dec 12 $'000	1st Half Dec 11 $'000	%	2nd Half Jun 13 $'000	2nd Half Jun 12 $'000	%	Full Year Jun 13 $'000	Full Year Jun 12 $'000	%
Agency Sales									
EOD/IEDD General	210	207	1%	77	190	(59%)	287	397	(28%)
High Risk Response	31	289	(89%)	310	241	29%	341	530	(36%)
Forensics	68	887	(92%)	152	307	(51%)	220	1,194	(82%)
Weapons and Ammunition	532	454	17%	1,590	734	117%	2,122	1,188	79%
Logistics Engineering Revenue	767	390	97%	589	486	21%	1,356	875	55%
Environmental products		182	(100%)					182	(100%)
Total Sales	**1,608**	**2,409**	**(33%)**	**2,718**	**1,957**	**39%**	**4,326**	**4,366**	**(1%)**
Gross Profit	**783**	**865**	**(10%)**	**1,073**	**832**	**29%**	**1,856**	**1,697**	**9%**
Gross Profit %	**49%**	**36%**		**39%**	**43%**		**43%**	**39%**	
Other Income	252	66	282%	255	85	200%	507	151	236%
Agency Expenses	(1,548)	(1,524)	2%	(1,587)	(1,411)	12%	(3,135)	(2,935)	7%
Agency (loss)/profit before tax	**(513)**	**(593)**		**(260)**	**(494)**		**(773)**	**(1,087)**	
Income Tax	-	-		-	-		-	-	
Total (Loss)/Profit after Tax	**(513)**	**(593)**		**(260)**	**(494)**		**(773)**	**(1,087)**	

Agency Loss before tax

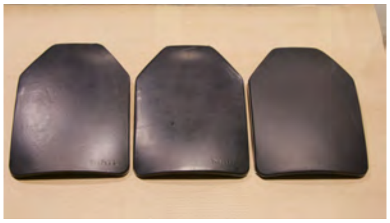
The agency loss before tax and restructure costs was $0.773m compared with a loss of $1.087m in 2012.

Commercialisation of IP

On 1 July 2012 the Company was awarded a significant international contract up to the value of $1,502,166 by the United States (US) Department of Defense (DoD) Foreign Comparative Testing (FCT) Program.

The FCT Program is a US DoD initiative that providers for the testing and evaluation by the US armed services of foreign non-developmental items that demonstrate the potential to satisfy US military user requirements.

The contract was awarded to XTEK following its initial success in being selected to participate in the FCT Program on 3 October 2012. This FCT Contract will see XTEK undertake development and testing work for the US Army over the next two years to develop advanced lightweight hard armour plate solutions using XTEK's novel XTclave™ isostatic Composite Consolidation Technology (CCT).



The awarding of this US FCT Contract to XTEK to undertake specific development and testing work over the next two years further demonstrates the acceptance of XTEK's leading edge armour technology. The Company is confident, that it will meet all of the objectives required of the US FCT Contract and successfully position XTclave™ as a world leading armour technology.

XTEK Designed Precision Weapon Ancillaries

The Company delivered a range of XTEK designed and manufactured precision weapon ancillaries for the Blaser Tactical 2 Sniper Rifle for use by the Australian Defence Force during FY 13. On the back of this the Company will continue to investigate opportunities to develop further XTEK products to meet specific client requirements.

Significant changes in the state of affairs

(a) On 1 March 2013, Mr. Robert Quodling was appointed as a Non Executive Director of the Company.

(b) On 1 March 2013, Mr. Brian Malcolm resigned as an Executive Director of the Company.

(c) On 28 May 2013, Mr. Lawrence Broadbent was appointed as a Director of the Company.

Matters subsequent to the end of the financial year

(a) On 5 July 2013, the Company announced that it had been awarded a significant international contract up to the value of $1,502,166 over a two year period by the US Department of Defense FCT Program. No revenue for 2013 was recognised at 30 June 2013 for this contract.

(b) On 24 September 2013, the XTEK Board approved the Company to undertake a capital raising of up to $679,291.00 in H1 of FY 2013/2014. The Company intends to raise the capital through a Non – Renounceable Rights Issue to shareholders/investors.

(c) On 24 September 2013, Mr. Ivan Slavich was appointed as a Non Executive Director of the Company.

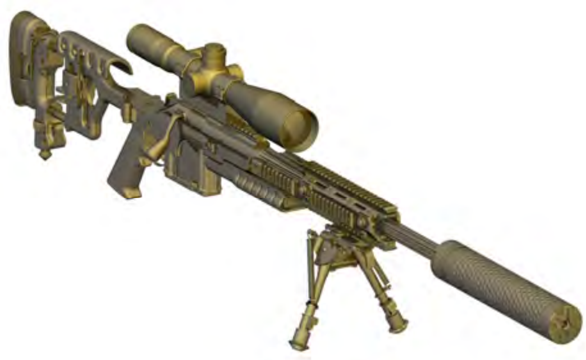
(d) On 26 September 2013, a short term unsecured loan of $150,000 was provided to the company by a related party (Mr Lawrence Gardiner) with an interest rate of 14.5%.

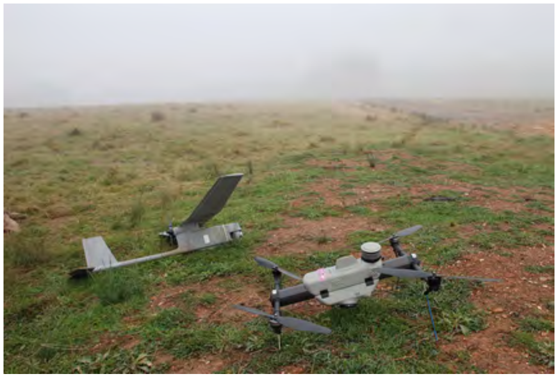
Likely future developments

XTEK believes that its novel XTclave™ CCT has significant potential well beyond the manufacture of ballistic armour systems and will actively investigate opportunities to diversify into further technical fields within the Global Composites Market. XTEK anticipates accessing these sectors through international alliances, joint ventures and licence agreements. XTclave™ CCT has the potential to provide significant financial return to the Company in the medium to long term through production and licence agreements.

On the back of its recent success developing a high quality range of weapon ancillaries, the Company will continue to investigate opportunities to develop further XTEK products to meet specific client requirements.

XTEK will continue to invest in its UAV capability throughout the coming year with a view to securing market share in the growing government and private sector UAV lease markets.





Information on Directors

Mr. Uwe Boettcher - *Chairman and Non Executive Director.*

Mr. Boettcher is the Principal of the law firm, Boettcher Law, starting his career at the firm now known as King & Wood Mallesons and most recently having been a partner at Abbott Tout Lawyers. He is a Fellow of the Australian and New Zealand College of Notaries. In 2011 he was appointed as a Foundation Fellow of the Australian Association of Angel Investors. In 1996/97 he was the Treasurer of the ACT Law Society. He is a past Chairman of the National Health Sciences Centre Limited and the Australasian Legal Alliance.

Other Directorships
Chairman of Kord Defence Group of Companies, Greenmag Group Pty Ltd, GPSports Systems Pty Limited;
Director of Capital Angels Pty Limited; and Manuka Corporate Pty Limited.

Special responsibilities
Chairman of the Nomination Committee.

Interests in shares and options
41,328,691 ordinary shares at 30 June 2013.

Mr. Robert Quodling – Non Executive Director (Appointed on 1 March 2013).

Mr. Quodling has extensive experience as a leader and motivator of high performance commerce teams in the defence and aerospace sectors at the operational and executive level. His skills have been gained in a diverse range of activities including corporate governance, corporate planning, financial planning, project management, marketing, sales and business development. Mr. Quodling as a former Army Officer and held a range of command and operational appointments in the Australian Army between 1975 and 1994. He was awarded a Conspicuous Service Medal (CSM) for conspicuous service with the Special Air Service Regiment.

Other Directorships
Director of Simmersion Holdings Pty Ltd

Special responsibilities
Chairman of the Remuneration and Human Resource Committee.

Interests in shares and options
Nil ordinary shares at 30 June 2013.

Mr. Lawrence Broadbent – Non Executive Director (Appointed on 28 May 2013).

Mr. Broadbent is a Certified Practicing Accountant (CPA Australia) with some 34 years experience in the industry as a practicing accountant. In addition, he holds a Bachelor of Business and Accounting Degree from the Monash University in Melbourne. Mr. Broadbent started his professional career in the early seventies in Melbourne in the era of large manufacturing organisations. Mr. Broadbent has over the years gained extensive financial accounting experience with commercial and government organisations. The appointment of Mr. Broadbent as a Non Executive Director provides corporate accounting balance to the structure of the XTEK Board.

Special responsibilities
Chairman of the Audit, Finance and Risk Committee.

Interests in shares and options
Nil ordinary shares at 30 June 2013.

Mr. Lawrence Gardiner - Executive Director and Company Secretary.

Mr. Gardiner served with the Australian Army and specialised in the fields of logistic management and explosive ordnance disposal operations. In addition to his military service, Mr. Gardiner also served with the Australian Federal Police (AFP), performing senior executive roles in the areas of counter terrorist first response and protective security operations. Mr. Gardiner served as a Director of the International Association of Bomb Technicians and Investigators for over 11 years and is a current member of the Australian Institute of Company Directors, the Australian Institute of Management.

Special responsibilities
Corporate Governance

Interests in shares and options
253,000 ordinary shares at 30 June 2013.

Mr. Brian Malcolm – Chief Executive Officer (Resigned as a Director on 1 March 2013).

Mr. Malcolm is a highly accomplished Defence specialist with extensive military operational experience in the fields of ammunition and explosives management, explosive ordnance disposal, logistics and counter-terrorism. He is a graduate of the Royal Military Academy Sandhurst, the Royal Military College of Science and the United Kingdom Advanced Command and Staff Course. Mr. Malcolm served with the British Army for some 17 years before accepting a commission in the Australian Army in 2007. He has a Master of Arts degree in Defence Studies from Cranfield University and a Managing Successful Programs Qualification from the Bristol Management Centre

Special responsibilities
Chief Executive Officer

Interests in shares and options
140,000 ordinary shares at 30 June 2013

Directors Meetings

The numbers of meetings of the Company's Board of Directors and of each Board committee held during the year ended 30 June 2013, and the numbers of meetings attended by each officer were:

	Full meetings of directors		Meetings of committees					
			Audit		Nomination		Remuneration	
	A	B	A	B	A	B	A	B
Mr. Uwe Boettcher	11	11	2	2	2	2	1	1
Mr. Lawrence Broadbent	2	2	-	-	-	-	-	-
Mr. Lawrence Gardiner	11	11	2	2	2	2	1	1
Mr. Brian Malcolm	6	6	2	2	1	1	-	-
Mr. Robert Quodling	5	5	-	-	1	1	1	1

A = Number of meetings attended
B = Number of meetings held during the time the Officer held office or was a member of the committee during the year

Indemnification and Insurance of Directors and Officers

During the financial year, XTEK Limited paid a premium of $12,325 to insure the Directors and Officers of the Company.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the Company, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a willful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

Indemnification of auditors

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001.*

Non-Audit Services

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company is important.

Details of the amounts paid or payable to the auditor for audit and non-audit services provided during the year are set out below.

The Board of Directors has considered the position and, in accordance with the advice received from the audit committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001.* The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor
- none of the services undermine the general principles relating to auditor independence as set out in Professional Statement F1, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risk and rewards.

During the year the following fees were paid or payable for services provided by the auditor of the company, its related practices and non-related audit firms:

	2013 $	2012 $
Assurance services		
Audit services		
Ernst & Young Australian firm		
Audit and review of financial reports and other audit work under the *Corporations Act 2001*	**66,950**	75,705
Total remuneration for audit services	**66,950**	75,705

Remuneration Report (Audited)

This remuneration report outlines the director and executive remuneration arrangements of the Company in accordance with the requirements of the Corporations Act 2001 and its regulations. For the purposes of this report, key management personnel (KMP) of the Company are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company, directly or indirectly, including any director (whether executive or otherwise) of the company.

For the purposes of this report, the term 'executive' encompasses the Chief Executive Officer, Senior Executives and Company Secretary of the Company.

Details of key management personnel

(a) ***Directors***

The following persons were directors of XTEK Limited during the financial year:

Uwe Boettcher – Non Executive Director (Chairman)

Lawrence Broadbent – Non Executive Director

Robert Quodling – Non Executive Director

Lawrence Gardiner – Executive Director / Company Secretary.

Brian Malcolm – Executive Director / Chief Executive Officer (Resigned as an Executive Director on 1 March 2013)

(b) *Executives*

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, during the financial year:

Megan Burgmann - Chief Financial Officer

Remuneration Committee

The remuneration committee of the board of directors of the Company is responsible for determining and reviewing remuneration

arrangements for the directors and executives.

The remuneration committee assesses the appropriateness of the nature and amount of remuneration of executives on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality, high performing director and executive team.

Remuneration Philosophy

The performance of the Company depends upon the quality of its directors and executives. To prosper, the Company must attract, motivate and retain highly skilled directors and executives.

Remuneration Structure

In accordance with best practice corporate governance, the structure of non-executive director and executive remuneration is separate and distinct.

Remuneration Report

The remuneration report is set out under the following main headings:

A Principles used to determine the nature and amount of remuneration
B Details of remuneration
C Service agreements
D Share-based compensation

A Principles used to determine the nature and amount of remuneration

The objective of the Company's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders, and conforms with market best practice for delivery of reward. The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage / alignment of executive compensation
- transparency
- capital management

The Company has structured an executive remuneration framework that is market competitive and complimentary to the reward strategy of the organisation. Company and individual performances are considered during the annual remuneration review.

Alignment to shareholders' interests:

- has economic profit as a core component of plan design
- focuses on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and delivering constant return on assets as well as focusing the executive on key non-financial drivers of value
- attracts and retains high calibre executives.

Alignment to program participants' interests:

- rewards capability and experience
- reflects competitive reward for contribution to growth in shareholder wealth
- provides a clear structure for earning rewards
- provides recognition for contribution.

Non-Executive Director Remuneration

Objective
The board seeks to set aggregate remuneration at a level that provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders.

Structure

The constitution and the ASX listing rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. The current base remuneration was last reviewed with effect from 28 November 2006. The Chairman's remuneration is inclusive of committee fees while non-executive Directors who chair a committee receive additional yearly fees.

Fees and payments to non executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed annually by the Board. The Chairman's fees are determined independently to the fees of non-executive directors based on comparative roles in the external market. The Chairman is not present at any discussions relating to determination of his own remuneration.

Non-executive directors' fees are determined within an aggregate directors' fee which is periodically recommended for approval by shareholders. This was set at $320,000 as per resolution 4 and passed by members at the Annual General Meeting on 28 November 2006.

The remuneration of non-executive directors for the year ended 30 June 2012 and 30 June 2013 is detailed in table 2 and 1 respectively of this report.

Executive Remuneration

Objective
The Company aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Company so as to:

- Reward executives for Company, business unit and individual performance against targets set by reference to appropriate benchmarks
- Align the interests of executives with those of shareholders
- Ensure total remuneration is competitive by market standards.

Structure

In determining the level and make-up of executive remuneration, the remuneration committee engages external consultants as needed to provide independent advice.

The remuneration committee has entered into a detailed contract of employment with the Chief Executive Officer and a standard contract with other executives. Details of these contracts are provided on page 12.

Remuneration consists of the following key elements:

- Fixed remuneration (base salary, superannuation and non-monetary benefits)
- Variable remuneration
- Short term incentive (STI)
- Long term incentive (LTI)

The proportion of fixed remuneration and variable remuneration (potential short term and long term incentives) for each executive in 2013 is set out in table 1 and 2012 in table 2.

Fixed Remuneration

Objective
Fixed remuneration is reviewed annually by the remuneration committee. The process consists of a review of company, business unit and individual performance, relevant comparative remuneration externally and internally and, where appropriate, external advice on policies and practices. As noted above, the Committee has access to external advice independent of management.

Structure

Executives are given the opportunity to receive their fixed (primary) remuneration in a variety of forms including cash and fringe benefits such as motor vehicles. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Company. Base pay for senior executives is reviewed annually to ensure the executive's pay is competitive with the market. An executive's pay is also reviewed on promotion. There are no guaranteed base pay increases included in any senior executives' contracts.

The fixed remuneration component of executives is detailed in table 1.

Variable Remuneration — Short Term Incentive (STI)

Objective

The objective of the STI program is to link the achievement of the Company's operational targets with the remuneration received by the executives charged with meeting those targets. The total potential STI available is set at a level so as to provide sufficient incentive to the executive to achieve the operational targets and such that the cost to the Company is reasonable in the circumstances.

Structure

Actual STI payments granted to each executive depend on the extent to which specific targets set at the beginning of the financial year are met. The targets consist of a number of key performance indicators (KPIs) covering both financial and non-financial, corporate and individual measures of performance. Typically included are measures such as contribution to net profit after tax, customer service, risk management, product management, and leadership/team contribution. These measures were chosen as they represent the key drivers for the short term success of the business and provide a framework for delivering long term value.

The Company has predetermined benchmarks that must be met in order to trigger payments under the STI scheme. On an annual basis, after consideration of performance against KPIs, the remuneration committee, in line with their responsibilities, determine the amount, if any, of the short term incentive to be paid to each executive. This process usually occurs within three months after the reporting date.

The aggregate of annual STI payments available for executives across the Company is subject to the approval of the remuneration committee. Payments made are delivered as a cash bonus in the following reporting period.

STI bonus for 2012 and 2013 financial years

For the 2012 financial year, no STI cash bonuses were accrued or payable.

For the 2013 financial year, no STI cash bonuses were accrued or payable.

Variable Remuneration — Long Term Incentives (LTI)

Objective

The objective of the LTI plan is to reward executives and managers in a manner that aligns remuneration with the creation of shareholder wealth. As such, LTI grants are only made to executives and managers who are able to influence the generation of shareholder wealth and thus have an impact on the Company's performance against the relevant long term performance hurdle.

Structure

LTI grants are delivered in the form of options to Directors of the company and share performance rights to executives and managers of the company.

Share options and share performance rights

Information on XTEK Limited options and share performance rights is set out in tables 1, 2, and in note 33.

Options

All options issued to Directors in the past have lapsed.

Share performance rights

The share performance rights issued to executives are subject to achievement of market-based performance hurdles and service conditions prior to vesting.

Market-based performance hurdles

The company uses a relative Total Shareholder Return (TSR) as the performance hurdle for the LTI plan. Relative TSR was selected as the LTI Performance hurdle as it ensures an alignment between comparative shareholder return and reward for executives.

In assessing whether the performance hurdles for each grant have been met, the Company may seek independent data from an external adviser, which will provide both the Company's TSR growth from the commencement of each grant and that of the pre-selected peer group.

The peer group chosen for comparison is the ASX 300 Index at the date of the grant. This peer group reflects the chosen benchmark as selected by the Board.

The Company's performance against the hurdle is determined according to XTEK's Total Shareholder Return (TSR) performance over the performance period that applies to that tranche of the performance rights compared to the performance of the ASX 300 Index over the corresponding period. TSR measures the return provided to shareholders by share price appreciation plus reinvested dividends over the performance period, expressed as a percentage of the volume weighted average sale price of XTEK shares over the 20 trading days immediately preceding, but not including, the date of grant of the performance right.

The final share price (to be used to determine the share price increase over the relevant performance period) will be determined by reference to the volume weighted average sale price of XTEK shares on the 20 trading days immediately preceding 30 June of the relevant performance period. A performance period is the period commencing, in all cases, on the grant date and ending on 30 June of the year in which the relevant tranche of performance rights is available to vest. Similarly, the increase / decrease in the ASX 300 Index over the same period (expressed as a percentage) will be determined by reference to the ASX 300 Index at the start and end of the relevant performance period.

No performance rights held by a Participant will vest unless XTEK's TSR over the relevant performance period equals or exceeds the performance of the ASX 300 Index for that same period. If the XTEK TSR equals the performance of the ASX 300 Index for the relevant performance period, 50% of the performance rights will vest. Thereafter, 2% of the available rights will vest for every 1% by which the XTEK TSR for the performance period exceeds the ASX 300 Index for that same period. In other words, if the XTEK TSR outperforms the ASX 300 Index for the relevant performance period by 25% or more, all performance rights available to vest at the end of that performance period will vest in the Participants.

Once vested, the Participant will have until the expiry of the Exercise Period to exercise the performance right and have a Share in XTEK issued (ASX: XTE), or have transferred, to him / her. Exercise will require the Participant to pay the Exercise Price.

The Exercise Price will be the volume weighted average sale price of XTEK shares on the 10 trading days immediately preceding, but not including, the date of grant (award) of the performance right plus 15%.

Lapse of Performance Rights

Performance rights in relation to which the performance test is not satisfied (i.e. that do not vest) will lapse and will not be able to be exercised. Performance rights that are either vested or unvested will lapse where a Participant ceases employment with XTEK other than on retirement, redundancy, death or total and permanent disablement. However, at the discretion of the Board, performance rights may vest on a pro rata basis, subject to reasonable performance testing, in the event of retirement, redundancy, death or total and permanent disablement prior to the end of a performance period. At the discretion of the Board, performance rights may also vest in the event of a change of control of the Company prior to the end of a performance period.

Subject to the discretion of the Board, vested performance rights that have not been exercised will lapse on the earliest of:

- 6 months after the Participant ceases employment with XTEK for a reason other than death, disablement or redundancy (or such other reason as may be determined by the Board);
- 12 months after the Participant ceases employment with XTEK as a result of death, disablement or redundancy (or such other reason as may be determined by the Board); or
- 12 months after a change of control of XTEK.

Any performance rights held by a Participant will lapse, whether or not they have become exercisable, if the Board determines that the Participant has acted fraudulently or dishonestly or is in serious breach of duty to the Company.

It is intended that the shares required for the Plan will be provided either by issuing new shares or by acquiring shares on market.

Service Conditions

Where a participant ceases employment prior to the vesting of their share options, the share options are forfeited unless cessation of employment is due to termination initiated by the Company or death. In the event of a change of control of the Company, the performance period end date will be brought forward to the date of the change of control and awards will vest subject to performance over this shortened period.

All share performance rights that had been issued by the company to date lapsed on 30 June 2010.

B Details of remuneration Remuneration Report (Audited) (continued)

Table 1: Remuneration of key management personnel

2013	Short-term benefits				Post-employment benefits		Share-based payment	Other long term employee benefits		
Name	Cash salary and fees * 1 $	Cash Bonus or Comm $	Employee Entitlements Annual Leave * 2 $	Non-monetary benefits $	Super-annuation $	Other $	Options or shares $	Employee Entitlements Long Service Leave * 2 $	Total $	% Perf. Related
Non-Executive Directors										
Uwe Boettcher	60,000	-	-	-	-	-	-	-	60,000	-
Robert Quodling * 4	10,480	-	-	-	943	-	-	-	11,423	-
Lawrence Broadbent * 5	-	-	-	-	-	-	-	-	-	-
Sub-total Non-Executive Directors	**70,480**	**-**	**-**	**-**	**943**	**-**	**-**	**-**	**71,423**	
Other key management personnel										
Lawrence Gardiner (Company Secretary and Executive Director)	91,078	-	3561	25,000	8,197	-	-	2,590	130,426	-
Brian Malcolm (Chief Executive Officer) * 3	163,405	-	915	-	14,706	-	-	-	179,026	-
Megan Burgmann (Chief Financial Officer)	95,215	-	(603)	-	8,569	-	-	7,464	110,645	-
Sub-total key management personnel	**349,698**	**-**	**3,873**	**25,000**	**31,472**	**-**	**-**	**10,054**	**420,097**	
Totals	**420,178**	**-**	**3,873**	**25,000**	**32,415**	**-**	**-**	**10,054**	**491,520**	

Notes

1 Cash salary and fees are per payroll summary or actual invoices received. These payments may vary to contract due to employee benefits, voluntary salary reductions, additional pay, back pay and annual leave paid out.

2 Amounts included above for annual leave and long service leave are movements in accrued entitlements for the relevant 12 month period. Where the movement is negative, the employee has taken more hours than the annual entitlement or has had leave entitlements paid out.

3 On 1 March 2013, Brian Malcolm, Chief Executive Officer resigned as Executive Director.

4 On 1 March 2013, Robert Quodling was appointed as Non Executive Director.

5 On 28 May 2013, Lawrence Broadbent was appointed as Non Executive Director.

B Details of remuneration (continued) Remuneration Report (Audited) (continued)

Table 2: Remuneration of key management personnel

2012	Short-term benefits				Post-employment benefits		Share-based payment	Other long term employee benefits		
Name	Cash salary and fees * 1 $	Cash Bonus or Comm $	Employee Entitlements Annual Leave * 2 $	Non-monetary benefits $	Super-annuation $	Other $	Options or shares $	Employee Entitlements Long Service Leave * 2 $	Total $	% Perf. Related
Non-Executive Directors										
Uwe Boettcher	60,000	-	-	-	-	-	-	-	60,000	-
Brigadier Greg Thomas	49,992	-	-	-	-	-	-	-	49,992	-
Sub-total Non-Executive Directors	**109,992**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**109,992**	
Other key management personnel										
Lawrence Gardiner (Company Secretary and Executive Director)	89,998	-	569	25,000	8,100	-	-	2,143	125,810	-
Brian Malcolm (Chief Executive Officer and Executive Director) * 3	161,807	-	(520)	-	14,563	-	-	-	175,850	-
Megan Burgmann (Chief Financial Officer)	88,027	-	1,622	-	7,922	-	-	-	97,571	-
Sub-total key management personnel	**339,832**	**-**	**1,671**	**25,000**	**30,585**	**-**	**-**	**2,143**	**399,231**	
Totals	**449,824**	**-**	**1,671**	**25,000**	**30,585**	**-**	**-**	**2,143**	**509,223**	

Notes

1 Cash salary and fees are per payroll summary or actual invoices received. These payments may vary to contract due to employee benefits, voluntary salary reductions, additional pay, back pay and annual leave paid out.

2 Amounts included above for annual leave and long service leave are movements in accrued entitlements for the relevant 12 month period. Where the movement is negative, the employee has taken more hours than the annual entitlement or has had leave entitlements paid out.

3 On 29 June 2012, Brian Malcolm, Chief Executive Officer was also appointed Executive Director.

C Service agreements Remuneration Report (Audited) (continued)

Remuneration and other terms of employment for the Chief Executive Officer, Company Secretary and the other specified executives are formalised in individual service agreements. The major provisions relating to remuneration are set out below:

Mr. Lawrence Gardiner – Executive Director and Company Secretary

- A written employment agreement is in place, effective from 3 September 2011.
- Base salary, inclusive of superannuation, to the value of $ 99,275 per annum (part time only, four days per week).
- Motor vehicle allowance (Novated Lease vehicle fully maintained) to the value of $25,000 per annum.
- Eligibility for Company Long Term Incentive Performance Rights Plan (LTIPRP).
- Eligibility for Company Short Term Incentive Plan (STIP).
- Qantas Club membership.

Mr. Brian Malcolm – Executive Director and Chief Executive Officer

- A written employment agreement is in place, effective from 4 February 2011.
- Base salary, inclusive of superannuation, to the value of $176,000 per annum.
- Eligibility for Company Long Term Incentive Performance Rights Plan (LTIPRP).
- Eligibility for Company Short Term Incentive Plan (STIP).
- Qantas Club membership.

Ms. Megan Burgmann – Chief Financial Officer

- A written employment agreement in place, effective from 12 October 2010.
- Base salary, inclusive of superannuation, to the value of $95,000 per annum.
- Eligibility for Company Long Term Incentive Performance Rights Plan (LTIPRP).
- Eligibility for Company Short Term Incentive Plan (STIP).

All agreements expiring after balance date are in the process of being renegotiated or have been renewed.

C Share-based compensation (audited)

There were no new issues of share options or share performance rights during the 2012-2013 or the 2011-2012 financial years.

All share options and share performance rights issued by the Company have lapsed.

Shares issued as a result of the exercise of options and share performance rights

During the year no shares were issued as a result of the exercise of options or share performance rights.

Auditors' Independence Declaration
A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 23.

Auditor

Ernst and Young continues in office in accordance with section 327 of the *Corporations Act 2001.*

Signed in accordance with a resolution of the Directors.

Uwe Boettcher
Chairman
Canberra, 27 September 2013

Corporate Governance Statement

Approach to Corporate Governance

XTEK Limited (XTEK) is committed to implementing the highest standards of corporate governance. In determining what those high standards should involve, the Company has turned to the ASX *Corporate Governance Council's Corporate Governance Principles and Recommendations*. The Company's approach to corporate governance is to have a set of values and behaviours that underpin everyday activities, ensure transparency and fair dealing and protect shareholder interests. This approach includes a commitment to best practice governance standards, which XTEK sees as being in the best interests of investors whilst ensuring full compliance with legal requirements.

The framework for XTEK's Corporate Governance Statement follows the Australian Securities Exchange (ASX) Corporate Governance Council's eight principles for Corporate Governance.

PRINCIPLE 1 LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Council Recommendation 1.1: Companies should establish and disclose the respective roles and responsibilities of Board and Management.

Role of the Board

The Board's role is to govern the Company rather than to manage it. In governing the Company, the Directors must act in the best interests of the Company as a whole. It is the role of senior management to manage the Company in accordance with the direction and delegations of the Board and the responsibility of the Board to oversee the activities of management in carrying out these delegated duties.

In carrying out its governance role, the main task of the Board is to drive the performance of the Company. The Board must also ensure that the Company complies with all of its contractual, statutory and any other legal obligations, including the requirements of any regulatory body. The Board has the final responsibility for the successful operations of the Company.

To assist the Board carry out its functions, it has adopted a formal Charter that details functions and responsibilities of the Board and areas of authority as delegated to the senior executive. The Board Charter is supplemented by the Company Code of Conduct that is available to guide the Directors, the Chief Executive Officer, the Company Secretary and the Chief Financial Officer and other senior executives and employees in the performance of their roles.

Role of Chief Executive Officer and Executive

The Chief Executive Officer's role is to develop and agree with the Board the corporate strategy and vision and to oversee implementation of the strategy and management of the Company to achieve the agreed vision in accordance with the strategies, policies and programs set by the Board.

Responsibilities include:

- Formulating and reviewing, with the Board, the vision and strategy and developing actions and plans to achieve the vision and implement the strategy. Reporting to the Board on the progress against those plans;
- Appointing a management team and negotiating terms and conditions for approval by the Human Resource and Remuneration Committee or the Board. Providing leadership to and overseeing the senior management team, ensuring employees are properly instructed to achieve a safe workplace and ensuring compliance with laws and Company policies and that a high level of ethical behaviour is practiced;
- Reporting to the Board on various matters, including all matters requiring review or approval, significant changes to the risk profile, certification (with the CFO) to the Board on the fairness of the financial statements and adequacy of policies as regards risk management, monthly reporting on performance of businesses and continual education of Directors on the Company, its business environment and relevant changes of law;
- Acting within delegated authority levels for capital expenditure, sale of assets, appointment and termination of executives; and
- All other matters necessary for the day-to-day management of the Company and not reserved for the Board.

Induction procedures are in place to allow new executive management personnel to participate fully and actively in management decision making at the earliest opportunity upon appointment. This induction process will take into account the individuals knowledge of the Company and the homeland security industry. The induction program for senior executives is designed to make available the following information:

- The Company's financial position, strategies, operations and risk management policies; and
- The respective rights, duties, responsibilities and roles of the Board and senior executives.

Responsibilities of the Board of Directors

In general, the Board is responsible for, and has the authority to determine, all matters relating to the policies, practices, management and operations of the Company. It is required to do all things that may be necessary to be done in order to carry out the objectives of the Company.

Without intending to limit this general role of the Board, the principal functions and responsibilities of the Board include the following.

- Leadership of the Organisation: overseeing the Company and establishing codes that reflect the values of the Company and guide the conduct of the Board, management and employees.
- Strategy Formulation: working with senior management to set and review the overall strategy and goals for the Company and ensuring that there are policies in place to govern the operation of the Company.
- Overseeing Planning Activities: overseeing the development of the Company's strategic plan and approving that plan as well as the annual and long-term budgets.
- Shareholder Liaison: ensuring effective communications with shareholders through an appropriate communications policy and promoting participation at general meetings of the Company.
- Monitoring, Compliance and Risk Management: overseeing the Company's risk management, compliance, control and accountability systems and reviewing the effectiveness and directing the financial and operational performance of the Company.
- Company Finances: approving expenses in excess of those approved under the Company authorisations process and approving and monitoring acquisitions, divestitures and financial and other reporting.
- Human Resources: appointing, and, where appropriate, removing the Chief Executive Officer (CEO), Company Secretary and Chief Financial Officer (CFO) as well as reviewing the performance of the CEO and monitoring the performance of senior management in their implementation of the Company's strategy.
- Ensuring the Health, Safety and Well-Being of Employees: in conjunction with the senior management team, developing, overseeing and reviewing the effectiveness of the Company's occupational health and safety systems to ensure the well-being of all employees.
- Delegation of Authority: delegating appropriate powers to the CEO to ensure the effective day-to-day management of the Company and establishing and determining the powers and functions of the Committees of the Board.

Whilst at all times the Board retains full responsibility for guiding and monitoring the Company, in discharging its stewardship it makes use of sub-committees. Specialist committees are able to focus on a particular responsibility and provide informed feedback to the Board.

The Board has established the following Standing Committees, details of which are included later in this Corporate Governance Statement:

- Finance, Audit & Risk Management Committee;
- Human Resources & Remuneration Committee; and
- Nomination Committee

The Board is responsible for ensuring that management's objectives and activities are aligned with the expectations and risks identified by the Board. The Board has a number of mechanisms in place to ensure this is achieved including:

- Board approval of strategic plans designed to meet stakeholders' needs and manage business risk;
- Reviewing, ratifying and monitoring systems of risk management and internal control, codes of conduct and legal compliance;
- Ongoing development of strategic plans and approving initiatives and strategies designed to ensure the continued growth and success of the entity; and
- Implementation of budgets by management and monitoring progress against budget. This is achieved by the establishment and reporting of both financial and non-financial key performance indicators.
- Other functions reserved to the Board include:
- Approval of the annual and half-yearly financial reports;
- Approving and monitoring the progress of major capital expenditure, capital management, and acquisitions and divestitures;
- Ensuring that any significant risks that arise are identified, assessed, appropriately managed and monitored;
- Ensuring appropriate resources are available to senior executives; and
- Reporting to shareholders.

Full details of the Board's role and responsibilities are contained in the Board Charter, a copy of which is contained on the Company's website at the Corporate Governance Section

Council Recommendation 1.2: Companies should disclose the process for evaluating the performance of senior executives.

Evaluating the performance of senior executives

The performance of senior executives is reviewed regularly through the application of a formal Performance Appraisal Program (PAP) that defines appropriate evaluation measures to be applied in the assessment process. Each year senior executives (including the CEO) establish a set of performance targets with their superior. These targets are aligned to overall business goals and the Company's requirements of the position. The PAP is administrated annually (October) for all senior executives with the Chief Executive Officer being responsible for their individual assessment and subsequent reporting of outcomes to the Board. The Nomination Committee of the Board is responsible for the performance assessment of the Chief Executive Officer in accordance with contractual performance measures and deliverables. An informal review of the PAP outcomes for other senior executives and staff is carried out annually by the Human Resource and Remuneration Committee.

Council Recommendation 1.3: Companies should provide the information indicated in the Guide to reporting on Principle 1.

All senior executives at the Company routinely have their performance evaluated. The evaluation was conducted in accordance with the established Board policy. The Company is fully compliant with Recommendations 1.1 and 1.2. A statement outlining specific matters reserved for the Board and Executive Management are contained in the Board Charter, a copy of which is posted on the Company's website at the Corporate Governance Section.

PRINCIPLE 2 STRUCTURE OF THE BOARD TO ADD VALUE

Council Recommendation 2.1: A majority of the Board should be independent Directors

Composition of the Board

Under the Company's Constitution, the Board is to be comprised of not less than three and no more than twelve Directors, unless otherwise determined by a general meeting. The Board consists of three Non Executive Directors and one Executive Director (Company Secretary).

To add value to the Company, the Board has been formed so that it has effective composition, size and commitment to adequately discharge it responsibilities and duties. The names of the Directors and their qualifications and experience are stated in their Director Profiles that form part of the Annual Report along with the term of office held by each of the Directors. Directors are appointed based on the specific governance skills required by the Company and on the independence of their decision-making and judgment. The Company recognises the importance of Non-Executive Directors and the external perspective and advice that Non-Executive Directors can offer. Messrs Boettcher, Broadbent and Quodling served as Non-Executive Directors during the reporting period. The Company further recognises that Independent Directors are important in assuring shareholders that the Board is properly fulfilling its role, therefore, in addition to being a Non-Executive Director, Messrs, Broadbent and Quodling also met the criteria for independence adopted by the Company.

The Board has a specific Code of Conduct for Directors and Senior Management. As part of this, where any Director has a material personal interest in a matter, the Director will not be permitted to be present during discussions or to vote on the matter. The enforcement of this requirement should ensure that the interest of shareholders, as a whole, are pursued and not jeopardised by a lack of a majority of independent Directors. The independence of Non-Executive Directors is assessed annually by the Nomination Committee.

The names of Directors in office and their term in office at the date of this statement, and their standing as Executive or Non - Executive and independence, are given in the Directors Report contained in the Annual Report and on the Board of Directors page of XTEK's website.

Council Recommendation 2.2: The chairperson should be an independent Director

Independence of Chairman

Whilst the Board recognises the importance of independence in decision-making, it does not comply with Recommendations 2.2 as Mr. Boettcher, as a major shareholder of the Company, does not meet the Company's criteria for independence as a Non-Executive Director and Chairman. Although Mr. Boettcher has a substantial interest as a major shareholder in the Company, the Board believes due to his extensive business experience and knowledge, the Board considers it appropriate for Mr. Boettcher to remain on the Board in his current position.

Council Recommendation 2.3: The roles of Chairperson and Chief Executive Officer should not be exercised by the same individual

Roles of Chairman and Chief Executive Officer

The roles of Chairman and the Chief Executive Officer are not exercised by the same individual.

Council Recommendation 2.4: The Board should establish a Nomination Committee

Nomination Committee

In consideration of the size of the Company and the Board, the Directors have resolved that the Board as a whole shall comprise the Nomination Committee. The members of the Nomination Committee during the year and their attendance at meetings of the

Committee are disclosed in the Directors' Report in the Annual Report.

In this role, the Board as Nomination Committee:

- Reviews the structure, size and composition of the Board;
- Identifies, considers and selects candidates with appropriate capabilities, to fill Board vacancies when they arise;
- Ensures candidates have adequate time available to fulfill their role as a Director;
- Undertakes or arranges for annual performance evaluation of the Board, its committees and Directors, and
- Reviews the:
  - continuation of the Chairman after the initial term of appointment and subsequent re-appointments;
  - re-election of Directors who retire by rotation; and
  - membership of committees

If the need for a new Board member is identified, the Board in its role as the Nomination Committee, may initiate a search or nominate eligible candidates, who are interviewed by the Chairman and considered by the Board. The Board then appoints the most suitable candidate, who must stand for election at the next general meeting of the shareholders.

Council Recommendation 2.5: Companies should disclose the process for evaluating the performance of the Board, its committees and individual Directors.

Disclosure of the process for evaluating the performance of the Board

The Nomination Committee of the Board is responsible for the conduct of a performance review of the Board (both collectively and individually) and the Chief Executive Officer. This is an annual evaluation process and is based on a number of goals for the Board and the individual Directors that have been established in the preceding year. The goals are based on the role of the Board and individual Directors as well as corporate objectives and any areas for improvement identified in previous reviews. The assessment of the performance of individual Directors is undertaken by the Chairman who meets privately with each Director to discuss this assessment.

The Directors have resolved that all new Directors will be provided with a letter of appointment setting out the Company's expectations, their responsibilities, rights and terms and conditions of their employment. By way of induction, new Directors meet with the Company Secretary and the Chairman upon appointment. These briefings cover the operation of the Board and its Committees and financial, strategic, operations and risk management issues.

The Company's performance assessment policy as defined and implemented by the Nomination Committee is posted on the Company's website at the Corporate Governance Section.

Council Recommendation 2.6: Companies should provide the information indicated in the Guide to reporting on Principle 2.

Independence

The Board considers independent decision-making as critical to effective governance and to meet the ASX Corporate Governance Council Recommendation 2.1. Independent Directors are identified by their profiles in this Annual Report. These profiles details the skills, experience, and expertise relevant to the position of Director, and the terms of office held by the Director and also the status of each Director in relation to the criteria listed below:

Unless otherwise stated, the Board does not consider a Director to be an independent Director of the Company if the Director:

- is a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
- is employed, or within the last three years, has been employed in an executive capacity by the Company, and there has not been a period of at least three years between ceasing such employment and serving on the Board;
- has within the last three years, has been a principal of a material professional adviser or a material consultant to the Company, or an employee materially associated with the service provided;
- is a material supplier or customer of the Company or another group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- has a material contractual relationship with the Company other than as a Director of the Company;
- has served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company; and
- is not free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company.

Similarly, the Board has adopted a policy that the Chair should be an independent Director. However due to changes to the Board in 2009, Mr. Boettcher was appointed as a Non-Executive Director and Chairman. Mr. Boettcher, as a major shareholder of the Company, does not meet the Company's criteria for independence, consequently the Company does not comply with Recommendation 2.2. Since different individuals hold the positions of Chairman and Chief Executive Officer, the Company does comply with Recommendation 2.3.

Nomination Committee

The Nomination Committee was formed by resolution of the Board on 4 September 2006. The role of the Nomination Committee is to help achieve a structured Board that adds value to the Company by ensuring an appropriate mix of skills are present in Directors on the Board at all times.

The current members of the Nomination Committee are:

- Mr. Boettcher (Chair);
- Mr. Broadbent;
- Mr. Gardiner; and
- Mr. Quodling

Director Selection and Appointment

The Board has adopted policy as developed by the Nomination Committee for selection and appointment of Directors. This policy defines procedural processes for the appointment of Directors and the re-election of incumbent Directors. Directors are appointed based on the specific governance skills required by the Company. Given the size of the Company and the business that it operates, the Company aims at all times to have at least one Director with experience in the industry, appropriate to the Company's market.

Access to independent Professional Advice

To ensure that Directors have access to independent expertise necessary to effectively carry out their role as a Director of the Company, the Board has adopted a policy to allow Directors to seek independent professional advice at the Company's expense, up to specified limits, to assist them to carry out their responsibilities.

Performance Evaluations

The Board considers the evaluation of its own performance as fundamental to establishing a culture of performance and accountability within the Company. It considers the ongoing development and improvement of its own performance as a critical input to effective governance. As a result, the Chairman undertakes an annual performance evaluation of the Board and individual Directors. This review is based on a number of goals for the Board and the individual Directors that have been established in the preceeding year. The goals are based on the role of the Board and individual Directors as well as corporate objectives and any areas for improvement indentified in previous reviews.

PRINCIPLE 3 PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING

Council Recommendation 3.1: Establish a code of conduct to guide Directors, Chief Executive Officer, Chief Financial Officer, Company Secretary and other key executives.

Company Code of Conduct

As part of its commitment to recognising the legitimate interests of stakeholders, the Company has established a Code of Conduct to guide compliance with legal and other obligations to legitimate stakeholders. These stakeholders include shareholders, employees, customers, government authorities, creditors and the community as whole. The Company Code of Conduct was adopted by resolution of the Board on 4th September 2006. All Directors, senior executives and employees are reminded annually of the existence of the Company Code of Conduct and are requested to confirm they have read it. The Company's Code of Conduct gives guidance on:

- **Ethical Standards:** All Directors, senior executives and employees are expected to act with the utmost honesty and integrity, striving at all times to enhance the reputation and performance of the Company.
- **Responsibilities to Shareholders and the Financial Community Generally:** The Company complies with the spirit as well as the letter of all laws and regulations that govern shareholders' rights. The Company has processes in place designed to ensure the truthful and factual presentation of the Company's financial position and prepares and maintains its accounts fairly and accurately in accordance with the generally accepted accounting and financial reporting standards.
- **Responsibilities to Clients, Customers and Consumers:** Each employee has an obligation to use their best efforts to deal in a fair and responsible manner with each of the Company's clients, customers and consumers. The Company for its part is committed to providing clients, customers and consumers with fair value.
- **Employment Practices:** The Company endeavours to provide a safe workplace in which there is equal opportunity for all employees at all levels of the Company. The Company does not tolerate the offering or acceptance of bribes or the misuse of Company assets or resources.
- **Obligations Relative to Fair Trading and Dealing:** The Company aims to conduct its business fairly and to compete ethically and in accordance with relevant competition laws. The Company strives to deal fairly with the Company's customers, suppliers, competitors and other employees and encourages it employees to strive to do the same.
- **Responsibilities to the Community:** As part of the community the Company:
  - is committed to conducting its business in accordance with applicable environmental laws and regulations and encourages all employees to have regard for the environment when carrying out their jobs; and
  - encourages all employees to engage in activities beneficial to their local community.
- **Responsibility to the Individual:** The Company is committed to keeping private information from employees, clients, customers, consumers and investors confidential and protected from uses other than those for which it was provided.
- **Conflicts of Interest:** Employees and Directors must avoid conflicts as well as the appearance of conflicts between personal interests and the interests of the Company.
- **How the Company Complies with Legislation:** Within Australia, the Company strives to comply with the spirit and the letter of all legislation affecting its operations. Outside Australia, the Company will abide by local laws in all countries in which it operates. Where those laws are not as stringent as the Company's operating policies, particularly in relation to the environment, workplace practices, intellectual property and the giving of "gifts", Company policy will prevail.
- **How the Company Monitors and Ensures Compliance with its Code of Conduct:** The Board, management and all employees of the Company are committed to implementing this Code of Conduct and each individual is accountable for such compliance. Disciplinary measures may be imposed for violating the Code.
- **Whistleblower Protection:** The Company Code of Conduct provides for the reporting of unlawful and unethical behaviour by Directors, Senior Executives and Employees of the Company. These provisions allow for whistleblower protection in accordance with legislative requirements and good practice recommendations. The policy aims to provide a working environment that enables employees to voice genuine concerns in relation to:
  - breaches of relevant legislation;
  - breaches of the Company's Vision and Values;
  - financial misconduct or impropriety or fraud;
  - failure to comply with legal obligations;
  - danger to health and safety or the environment;
  - criminal activity; and
  - attempts to conceal any of the above.

The Company's Code of Conduct policy is posted on the Company's website at the Corporate Governance Section.

Council Recommendation 3.2: Disclose the policy concerning trading in Company securities by Directors, officers and employees

Trading in Company Securities

The Company has a Securities Trading Policy under which Directors, members of senior management (Designated Officers) and their associates likely to be in possession of unpublished price sensitive information, may only trade in the Company's securities during a 6 week period commencing immediately after each of the following ("Trading Windows"):

- the release by the Company of its half-yearly results to the ASX;
- the release by the Company of its annual results to the ASX: and
- the release of an announcement to the ASX together with a resolution of the Board that a Trading Window is open from the time of the announcement.

In addition, consistent with the law, designated officers are prohibited from trading in the Company's securities while in the possession of unpublished price sensitive information concerning the Company. Unpublished price sensitive information is information regarding the Company of which the market is not aware and that a reasonable person would expect to have a material effect on the price or value of the Company's securities.

The Company's Securities Trading policy is posted on the Company's web site at the Corporate Governance Section.

Council Recommendation 3.3: Companies should provide the information indicated in the Guide to reporting on Principle 3.

The Company has in place formal policy that is applicable to its Directors, senior executive and other employees of the Company in respect to the Code of Conduct and Trading in Company Securities. Both policy documents are posted on the Company website. The Company is fully compliant with Recommendations 3.1 and 3.2.

PRINCIPLE 4 SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

Council Recommendation 4.1 The Board should establish an Audit Committee.

Finance, Audit & Risk Management Committee

The Finance, Audit and Risk Management (formerly Audit)

Committee was formed by resolution of the Board on 4 September 2006. Below is a summary of the role, composition and responsibilities of the Finance, Audit and Risk Management Committee. Further details are contained in the Finance, Audit and Risk Management Committees Charter, which is available on the Company's website at the Corporate Governance Section.

Responsibilities

The Finance, Audit and Risk Management Committee reviews the audited annual and half-yearly financial statements and any reports which accompany published financial statements before submission to the Board and recommends their approval.

The Finance, Audit and Risk Management Committee also recommends to the Board the appointment of the external auditor and the internal auditor and, each year, reviews the appointment of the external auditor, their independence, the audit fee and any questions of resignation or dismissal.

The Finance, Audit and Risk Management Committee is responsible for establishing policies on risk oversight and management.

The responsibilities of the Finance, Audit and Risk Management Committee include:

- Reviewing audit reports to ensure that where major deficiencies or breakdowns in controls or procedures have been identified, appropriate and prompt remedial action is taken by management;
- Liaising with the auditors and ensuring that the annual statutory audits are conducted in an effective manner;
- Monitoring management efforts to improve continuously the quality of the accounting function;
- Reviewing the half-year and annual reporting and financial statements prior to lodgment of those documents with the Australian Stock Exchange and to make the necessary recommendations to the Board for the approval of these documents;
- Providing the Board with additional assurance regarding the reliability of financial information for inclusion in the financial reports;
- Recommending to the Board the appointment, removal and remuneration of the external auditors, and reviewing the terms of their engagement the scope and quality of the audit;
- Assessing the attention being given by management to matters likely to impact on the financial performance of the Company, including monitoring of compliance with laws and regulations and monitoring and control of business risks;
- Management information and other systems of internal control and risk management; and
- Ethical policies and practices for corporate conduct are in place and being adhered to.

The auditors, the Chief Financial Officer and Company Managers may be invited to the Finance Audit and Risk Management Committee meetings at the discretion of the Committee Chair.

Council Recommendation 4.2: Structure the Audit Committee so that it consists of only non-executive Directors, a majority of independent Directors, an independent chairperson (who is not chairperson of the Board) and at least three members

Composition

The Finance, Audit and Risk Management Committee consists currently of three members. Members are appointed by the Board from amongst the Directors. The current members of the Audit Committee are Messrs. Boettcher, Broadbent, Gardiner and Quodling. Mr. Broadbent is the current Chair. All members can read and understand financial statements and are otherwise financially literate. The details of the member's qualifications may be found in their Director Profiles that form part of the Annual Report.

Council Recommendation 4.3: The Audit Committee shall have a formal charter

Charter

A formal charter for the Finance, Audit and Risk Management (formerly Audit) Committee was established by resolution of the Board on 4 September 2006. This charter defines the role and responsibility of the Audit, Finance and Risk Management Committee and is posted on the Company's web site.

Council Recommendation 4.4: Companies should provide the information indicated in the Guide to reporting on Principle 4.

The names of those appointed to the Audit, Finance and Risk Management Committee during the year are stated above and details of their qualifications and attendance at meetings of the Committee are disclosed in the Directors' Report in the Annual Report.

The Board, with the involvement of the Finance, Audit and Risk Management Committee, has established procedures in relation to the external auditor selection and appointment and for discussing with the auditor the rotation of the lead partner. The current external Auditor as appointed by the Board is Ernst and Young.

Formal policy relating to the role and responsibilities of the Audit, Finance and Risk Management Committee, together with procedures for the selection and appointment of external auditors and rotation of engagement partners are posted on the Company's web site at the Corporate Governance Section. The Company is fully compliant with Recommendations 4.1, 4.2 and 4.3.

PRINCIPLE 5 MAKE TIMELY AND BALANCED DISCLOSURES

Council Recommendation 5.1: Companies should establish written policies designed to ensure compliance with ASX listing rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.

Continuous Disclosure

It is the policy of the Company to act at all times with integrity and in accordance with law, including the disclosure required of:

- Australian Securities Exchange (ASX) Listing Rules;
- ASX Guidance Notes;
- ASX Corporate Governance Council Recommendations; and
- Corporations *Act 2001.*

In accordance with the ASX Listing Rules, the Company immediately notifies the ASX of information:

- concerning the Company that a reasonable person would expect to have a material effect on the price or value of the Company's securities; and
- that would, or would be likely to, influence persons who commonly invest in securities in deciding whether to acquire or dispose of the Company's securities.

The only exception to this is where the ASX Listing Rules do not require such information to be disclosed. Upon confirmation of receipt from the ASX, the Company posts all information disclosed in accordance with this policy on the Company's website in an area accessible by the public.

The Board has designated the Company Secretary as the person responsible for overseeing and coordinating disclosure of information to the ASX as well as communicating with the ASX. The Company Secretary is responsible for ensuring that all Company announcements are made in a timely manner and are factual and do not omit any material information. The Company Secretary is also responsible for ensuring that all announcements are expressed in a clear and objective manner that allows investors to assess the impact of the information when making investment decisions.

To assist the Company Secretary fulfill the Company's disclosure requirements, all Divisional Heads are responsible for immediately communicating to the CEO and Company Secretary any possible continuous disclosure matter concerning their division. The Head of each division is required to promptly respond to requests from the Company Secretary for further information concerning possible continuous disclosure matters.

The Company Secretary's role includes:

- overseeing compliance with the continuous disclosure requirements in the ASX Listing Rules;
- overseeing and coordinating information disclosure to the ASX, shareholders, analysts, brokers, the media and the public; and
- educating Directors and staff on the Company's disclosure policies and procedures and raising awareness of the principles underlying continuous disclosure.

Price sensitive information is publicly released through the ASX before disclosing it to analysts or others outside the Company. Further dissemination to investors through the ASX website and other information providers is also managed through the ASX.

Council Recommendation 5.2: Companies should provide the information indicated in the Guide to reporting on Principle 5.

Policies designed to guide compliance with corporate governance and continuous disclosure requirements are publically available on the Company's website. As part of the ongoing Company Quality Assurance (QA) process all governance policies are subject to regular review to ensure compliance with the ASX Listing Rules and applicable law. The Company is fully compliant with Recommendation 5.1

The Company's Continuous Disclosure policy is posted on the Company's web site at the Corporate Governance Section.

PRINCIPLE 6 RESPECT THE RIGHTS OF SHAREHOLDERS

Council Recommendation 6.1: Design and disclose a communication strategy to promote effective communication with shareholders and encourage effective participation at general meetings and disclose their policy or a summary of that policy.

Shareholder communication and participation

The Company aims to ensure that the shareholders are informed of all major developments affecting the state of affairs of the Company. Information is communicated to shareholders through:

- the Annual Report and the Interim Report;
- disclosures made to the Australian Securities Exchange;
- notices and explanatory memoranda of annual and extraordinary general meetings;
- the annual general meeting;
- occasional letters or emails to shareholders where appropriate; and
- the Company's website, which has a dedicated investor relations section.

The Company respects the rights of its shareholders and to facilitate the effective exercise of those rights the Company is committed to:

- communicating effectively with shareholders through releases to the market via ASX, the Company's website, information mailed to shareholders and the general meetings of the Company;
- giving shareholders ready access to balanced and understandable information about the Company and corporate proposals;
- making it easy for shareholders to participate in general meetings of the Company; and
- having the external auditor attend the Annual General Meeting (AGM) and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

The Company website also includes a feedback mechanism and an option for shareholders to register their email address for direct email updates of Company matters. The Company encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification with the Company's strategy and goals. Important issues are presented to the shareholders as single resolutions.

Council Recommendation 6.2: Companies should provide the information indicated in the Guide to reporting on Principle 6.

The Company has developed formal policy for promoting communication with shareholders and this is publically available and published on the Company's website. The Company is fully compliant with Recommendation 6.1

The Company's Communication policy is posted on the Company's web site at the Corporate Governance Section.

PRINCIPLE 7 RECOGNISING AND MANAGING RISK

Council Recommendation 7.1: The Board or appropriate Board Committee should establish policies for the oversight and management of material business risks and disclose a summary of those policies.

Risk Management

The Board's Charter clearly establishes that it is responsible for ensuring there is a sound system for oversighting, assessing and managing risk. The Board has delegated certain responsibilities in these matters to the Finance Audit and Risk Management Committee. In compliance with the Board's approach, the Company has established specific policies and procedures to identify, assess and manage critical areas of financial and operating risk.

The Company's Risk Management policy is posted on the Company's website at the Corporate Governance Section.

Council Recommendation 7.2: The Board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks.

Management Statement

The Chief Executive Officer and the Senior Executive are required to provide a signed Management Statement to the Board with regard to the risk management and internal control systems of the Company for the year ended 30 June 2013. This statement requires the CEO and Senior Executive to confirm or declare otherwise:

- that the risk management and internal compliance and control systems in all material respects implements the policies adopted by the Directors;
- that the risk management and internal compliance and control systems to the extent they relate to material business risks are operating effectively and efficiently in all material respects, based on the risk management framework adopted by the Company; and that nothing has came to their (CEO/CFO) attention that would indicate any material change to the statements as made in relation to risk management and compliance.

On 27 September 2013, Mr. Brian Malcolm (CEO) and Ms. Megan Burgmann (CFO) provided the Board with a written assurance that the risk management and internal compliance and control systems were operating efficiently and effectively in all material respects. Their statement has assured the Board that risk management and internal compliance and control systems are sound.

Council Recommendation 7.3: The Board should disclose whether it has received assurance from the Chief Executive Officer and Chief Financial Officer that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal compliance and that the system is operating effectively in all material respects in relation to financial reporting risks.

CEO and CFO Attestation

At the time the Board reviews the draft half year and full year financial statements and reports, the Chief Executive Officer and Chief Financial Officer are required to provide a signed declaration that the statements and reports are founded on a sound system of risk management and internal compliance and control that implements the policies adopted by the Board, and that the Company's risk management and internal compliance and control is operating efficiently and effectively in all material respects.

On 27 September 2013, Mr. Brian Malcolm (CEO) and Ms. Megan Burgmann (CFO) declared to the Board that the risk management and internal compliance and control systems were operating efficiently and effectively in all material respects. Their statement has assured the Board that the financial statements are founded on a sound system of risk management and internal compliance.

Council Recommendation 7.4: Companies should provide the information indicated in the Guide to reporting on Principle 7.

The Company has developed formal policy for recognising and managing risk, this policy is publically available and published on the Company's website. The Company is fully compliant with Recommendations 7.1, 7.2 and 7.3.

The Company's Risk Management policy is posted on the Company's web site at the Corporate Governance Section.

PRINCIPLE 8 REMUNERATE FAIRLY AND RESPONSIBLY

Council Recommendation 8.1: The Board should establish a Remuneration Committee

Remuneration Committee

The Board established a formal Human Resources (HR) and Remuneration Committee by a resolution of the Board on 4 September 2006. The role of this Committee is to review and make recommendations to the Board on remuneration packages for the Chief Executive Officer, Senior Executives and Directors. In addition the committee has an objective to ensure that the Company maintains a system of human resource management practices that recognises the Company's staff as an important asset of the Company and that HR practices meet legislative requirements for current and future business needs. This role also includes responsibility for share option schemes incentive performance packages and retirement and termination entitlements. Remuneration levels are competitively set to attract the most qualified and experienced Directors and senior executives. The Committee may obtain independent advice on the appropriateness of remuneration packages.

Composition

The HR and Remuneration Committee consists currently of four members. Members are appointed by the Board from amongst the Directors. The current members of the Committee are Messrs Boettcher, Broadbent, Gardiner and Quodling. Mr. Quodling is the current Chair. The details of the member's qualifications may be found in their Director Profiles that form part of this report.

Council Recommendation 8.2: Companies should clearly distinguish the structure of Non-Executive Directors remuneration from that of Executive Directors and senior executives.

Remuneration Practice

The XTEK Board has determined that Non Executive Directors will be remunerated differently from Executive Directors and senior executives in the following ways:

- Non-executive Directors will receive fees in the form of cash fees and statutory superannuation; Non-executive Directors may be issued options as approved by shareholders, but will not participate in the XTEK Staff Share Option plan or receive bonus payments; and

Non-executive Directors will not receive retirement benefits other than superannuation.

The Board has determined that in general terms the remuneration of Non-Executive Directors, Executive Directors and senior executives, will be as follows:

Remuneration of Non - Executive Directors

Non Executive Directors are remunerated by fixed annual fees, superannuation, and at various times may also be remunerated at agreed hourly rates, for additional time expended in the performance of authorised tasks that are in addition to their normal Director functions.

The level of annual Directors' fees is reviewed by the HR and Remuneration Committee, taking into account a number of factors, including the range of Directors' fees paid in the market, and the Company's costs and operating performance. The maximum total for annual fees for Directors is approved from time to time by shareholders in a general meeting, this was last set at $320,000 per annum at the 2006 Annual General Meeting.

Non Executive Directors may also, in view of the Company's size and resources, from time-to-time be issued options as part of their remuneration in place of a higher cash fee. Options would be issued after consideration by the HR and Remuneration Committee and the Board and subject to shareholder approval at general meeting.

Executive Directors and Senior Executives

Under the Company's constitution, remuneration of Executive Directors, subject to other provisions in any contract between these executives and the Company, may be by way of fixed salary or participation in the profits of the Company but may not be by way of commission on or percentage of operating revenue. Other senior executives, including the Company Secretary, may be remunerated by fixed salary and performance based bonuses. Remuneration packages will generally be set to be competitive to both retain executives and attract experienced executives to the Company.

Where packages comprise a fixed element and variable incentive components, the variable components will depend on Company and personal performance. Short term incentives may include annual cash incentives on meeting specific profit and performance criteria that have been agreed in plans set with the CEO and the Board. Criteria to be met may include company and/ or business unit profit performance and personal Key Performance Indicators. The amount of the incentive will depend upon the extent that the measure is exceeded. These conditions help to ensure that the short term incentives are aligned with the interests of shareholders in the current period.

The total cost of Directors and Senior Manager remuneration packages, including the fair value of options, is listed in the Directors Report and Financial Statements in the Annual Report.

Council Recommendation 8.3: Companies should provide the information indicated in the Guide to reporting on Principle 8.

The Company has developed formal policy to remunerate fairly and responsibly. This policy is publically available and published on the Company's website. The Board has determined that executives will only participate in equity-based plans where the plan has been approved by shareholders, and participation in a benefit is subject to share price performance measures of the Company being met. The Company is fully compliant with Recommendations 8.1 and 8.2.

The Company's HR & Remuneration Committee policy and charter are posted on the Company's website at the Corporate Governance Section.

Ernst & Young
121 Marcus Clarke Street
Canberra ACT 2600 Australia
GPO Box 281 Canberra ACT 2601

Tel: +61 2 6267 3888
Fax: +61 2 6246 1500
ey.com/au

Independent auditor's report to the members of XTEK Limited

Report on the financial report

We have audited the accompanying financial report of XTEK Limited, which comprises the statement of financial position as at 30 June 2013, the statement of comprehensive income, statement of changes in equity and 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.

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 controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about 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 judgment, 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 controls relevant to the entity's preparation of the financial report that gives a true and fair view 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 controls. 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit 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.

Opinion

In our opinion:

a. the financial report of XTEK Limited is in accordance with the *Corporations Act 2001*, including:

   i giving a true and fair view of the company'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*; and

b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

Material Uncertainty Regarding Continuation as a Going Concern

Without qualification to the opinion expressed above, attention is drawn to the following matter. As a result of the matters described in Note 2: "Going concern basis of accounting" to the financial statements there is significant uncertainty whether the entity 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 entity not continue as a going concern.

Report on the remuneration report

We have audited the Remuneration Report included in pages 6 to 12 of 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.

Opinion

In our opinion, the Remuneration Report of XTEK Limited for the year ended 30 June 2013 complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

Ben Tansley
Partner
Canberra
27 September 2013

Ernst & Young
121 Marcus Clarke Street
Canberra ACT 2600 Australia
GPO Box 281 Canberra ACT 2601

Tel: +61 2 6267 3888
Fax: +61 2 6246 1500
ey.com/au

Auditor's Independence Declaration to the Directors of XTEK Limited

In relation to our audit of the financial report of XTEK Limited for the financial year ended 30 June 2013, 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

Ernst & Young

Ben Tansley
Partner
27 September 2013

Statement of Comprehensive Income for the year ended 30 June 2013

	Notes	**2013 $**	2012 $
Revenue from operations	4	**4,325,840**	4,365,750
Other income	5	**507,151**	151,009
Changes in inventories of finished goods and work in progress		**(2,469,510)**	(2,669,398)
Employee benefits expense	6	**(1,704,237)**	(1,500,998)
Depreciation	6	**(128,127)**	(108,561)
Operational expenditure	6	**(1,296,324)**	(1,294,263)
Finance costs	6	**(7,726)**	(30,909)
Loss from operations before income tax		**(772,933)**	(1,087,370)
Income tax expense	7	**-**	-
Loss from operations after tax		**(772,933)**	(1,087,370)
Loss after tax attributable to members		**(772,933)**	(1,087,370)
Other comprehensive income		**-**	-
TOTAL COMPREHENSIVE (LOSS) FOR THE PERIOD		**(772,933)**	(1,087,370)
Earnings per share for (loss) for the year attributable to the ordinary equity holders of the company:			
Basic loss per share	32	**(0.005)**	(0.008)
Diluted loss per share	32	**(0.005)**	(0.008)

Notes:

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Statement of Financial Position as at 30 June 2013

	Notes	**2013 $**	2012 $
ASSETS			
Current assets			
Cash and cash equivalents	9	**450,911**	206,704
Trade and other receivables	10	**978,243**	160,631
Inventories	11	**579,692**	794,768
Other	12	**79,967**	165,729
Total current assets		**2,088,813**	1,327,832
Non-current assets			
Property, plant and equipment	15	**689,859**	838,179
Total non-current assets		**689,859**	838,179
Total assets		**2,778,672**	2,166,011
LIABILITIES			
Current liabilities			
Trade and other payables	16	**1,225,369**	378,708
Interest bearing liabilities	17	**-**	50,000
Provisions	18	**87,209**	54,897
Deferred income	19	**90,247**	326,558
Other current liabilities	20	**200,000**	200,000
Total current liabilities		**1,602,825**	1,010,163
Non-current liabilities			
Provisions	21	**29,382**	37,583
Deferred income	19	**72,153**	-
Total non-current liabilities		**101,535**	37,583
Total liabilities		**1,704,360**	1,047,746
Net assets		**1,074,312**	1,118,265
EQUITY			
Contributed equity	23	**19,325,728**	18,596,748
Reserves	24	**514,228**	514,228
Accumulated losses	24	**(18,765,644)**	(17,992,711)
Total equity		**1,074,312**	1,118,265

Notes:

The above statement of financial position should be read in conjunction with the accompanying notes.

Statement of Cash Flows for the year ended 30 June 2013

	Notes	2013 $	2012 $
Cash flows used in operating activities			
Receipts from customers		**3,914,681**	5,594,278
Payments to suppliers and employees		**(4,725,842)**	(6,157,241)
		(811,161)	(562,963)
Receipt of grants		**291,549**	29,804
Interest received		**5,584**	6,028
Borrowing costs		**(7,726)**	(30,909)
Net cash flows used in operating activities	31	**(521,754)**	(558,040)
Cash flows from/(used in) investing activities			
Payments for property, plant and equipment		**(117,564)**	(286,066)
Proceeds from sale of property, plant and equipment		**204,545**	8,658
Net cash outflow from/(used in) investing activities		**86,981**	(277,408)
Cash flows from financing activities			
Proceeds from issue of ordinary shares		**756,959**	593,417
Payment of transaction costs associated with the issue of capital	23	**(55,739)**	(16,545)
Proceeds from short term loans	17	**125,000**	100,000
Proceeds from sale and leaseback	20	**-**	200,000
Repayments of short term loans	17	**(147,240)**	(130,032)
Net cash inflow from financing activities		**678,980**	746,840
Net increase/(decrease) in cash and cash equivalents		**244,207**	(88,608)
Cash and cash equivalents at the beginning of the financial year		**206,704**	295,312
Cash and cash equivalents at end of year	9	**450,911**	206,704

Notes:

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

For the year ended 30 June 2013

	Issued Capital (Note 23) $	Other Equity Securities (Note 23) $	Equity-based payments reserve $	Accumulated losses $	Total equity $
At 1 July 2011	17,826,840	73,067	514,228	(16,905,341)	1,508,794
Loss for the year	-	-	-	(1,087,370)	(1,087,370)
Total income and expense for the period	-	-	-	(1,087,370)	(1,087,370)
Issues of ordinary shares during the year:					
Issue of share capital	713,386	-	-	-	713,386
Transaction costs associated with issue of share capital	(16,545)	-	-	-	(16,545)
At 30 June 2012	18,523,681	73,067	514,228	(17,992,711)	1,118,265
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 issue of share capital	(55,739)	-	-	-	(55,739)
Transfer between categories of equity	73,067	(73,067)	-	-	-
At 30 June 2013	19,325,728	-	514,228	(18,765,644)	1,074,312

Notes to the Financial Statements

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

1. Corporate Information

The financial report of XTEK Limited for the year ended 30 June 2013 as authorised for issue in accordance with a resolution of the directors on 27 September 2013.

XTEK Limited 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. Going Concern basis of Accounting

The final 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 $772,933 for the year ended 30 June 2013 (full year ended 30 June 2012: loss of $1,087,370 and half-year ended 31 December 2012: loss of $513,453). Accumulated losses to 30 June 2013 total $18,765,644 (accumulated losses to 31 December 2012 total $18,506,164). The balance of cash and cash equivalents was $450,911 as at 30 June 2013 (as at 30 June 2012: $206,704 and as at 31 December 2012: $298,808).

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; and

(iv) additional capital being raised.

The Directors acknowledge that limited finance facilities are presently in place through related parties as disclosed in Note 17(c) and are therefore monitoring cash flows on a weekly basis and tightly managing discretionary expenditure.

The Directors have reviewed the Company's financial position and cash flow forecasts for the next twelve months, which shows 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 XTclave™ R&D businesses, raise additional capital as outlined in Note 30(b) 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.

3. Summary of significant accounting policies

(a) Basis of Preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes financial statements for XTEK Limited as an individual entity.

(b) Compliance Statement

The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

(c) New accounting standards and interpretations

<u>Changes in accounting policy and disclosures.</u>

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

<u>Adoption of new Australian Accounting Standard requirements</u>

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.

<u>Future Australian Accounting Standard requirements</u>

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 2013. 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 judgments, 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.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(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
- Office furniture & equipment - 3 - 20 years
- Computer software - 4 years
- Property improvements - 4 - 13 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.

(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 derecognition 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.

(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

(i) Equity-settled 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.

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.

(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 3 (x).

(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 balance 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.

(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 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.

(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.

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.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(x) 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.

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 income over the expected useful life of the relevant asset by equal annual installments.

(y) 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 fulfillment 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.

4.a Revenue

	2013	2012
	$	$
From operations		
Sales revenue		
Sale of goods	**2,969,474**	3,485,748
Revenue from repairs	**1,332,326**	789,447
Revenue from services	**24,040**	90,555
	4,325,840	4,365,750

4.b Revenue by Product Category

	2013	2012
	$	$
From Agency Sales		
EOD/IEDD General	**287,243**	396,984
High Risk Response	**340,870**	529,396
Forensics	**219,510**	1,194,452
Weapons and Ammunition	**2,121,851**	1,187,516
Logistics Engineering Revenue	**1,356,366**	875,202
Environmental Products	**-**	182,200
	4,325,840	4,365,750

5. Other income

	2013	2012
	$	$
Rental income	**70,777**	95,269
Interest	**5,584**	6,028
R&D tax incentive (refer Note 14)	**408,551**	-
Grant income	**14,437**	29,804
Other	**7,802**	18,421
Profit on sale of property, plant and equipment	**-**	1,487
	507,151	151,009

6. Expenses

	2013 $	2012 $
(Loss) before income tax includes the following specific expenses:		
Employee Benefits		
Salaries and Wages	**1,504,695**	1,287,410
Superannuation	**145,270**	146,569
Redundancy payments	**4,088**	-
Payroll Tax	**27,638**	41,398
Workers Compensation	**22,546**	25,621
Total Employee Benefits	**1,704,237**	1,500,998
Depreciation		
Plant and Equipment	**16,149**	31,701
Motor Vehicles	**1,614**	5,122
Office Furniture and Equipment	**18,991**	21,334
Computer Software	**16,778**	16,448
Demonstration Equipment	**26,131**	23,838
Leasehold Property Improvements	**9,479**	10,118
XTclave	**38,985**	10,118
Total Depreciation	**128,127**	108,561
Operational Expenditure		
Accounting Fees	**13,807**	13,678
Audit Fees	**70,907**	73,848
Advertising and Conferences	**140,969**	105,393
Bank Charges	**8,682**	6,530
Consultancy Fees	**80,280**	89,497
Director Fees	**71,423**	109,992
Insurance	**108,722**	124,851
FBT	**20,575**	38,014
Legal Fees	**9,930**	6,471
Office Administrative Costs	**432,948**	436,253
Operating Lease Charges	**79,529**	74,215
Share Registry Fees	**29,163**	29,380
Travel and Entertainment	**81,412**	91,102
Staff Training	**18,813**	4,424
R&D Project Expenses	**16,029**	13,174
Net Foreign Currency Losses	**29,438**	5,634
Other Expenses	**83,697**	71,807
Total Operational Expenditure	**1,296,324**	1,294,263
Finance costs		
Interest and finance charges	**7,726**	30,909
Total Finance Costs	**7,726**	30,909

7. Income tax expense

	2013 $	2012 $
(a) *Income tax expense*		
The major components of income tax expense are:		
Statement of Comprehensive Income		
Current income tax		
Current income tax charge	**(338,948)**	(313,113)
Adjustment in respect of current income tax of previous years	**-**	-
Loss not recognised	**338,948**	313,113
Deferred income tax		
Relating to origination and reversal of temporary differences	**(10,212)**	(13,429)
Timing differences not recognised	**10,212**	13,429
Income tax expense reported in the statement of comprehensive income	**-**	-

(b) *Numerical reconciliation between aggregate tax expense recognised in the statement of comprehensive income and tax expense calculated per the statutory income tax rate*

A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Company's applicable income tax rate is as follows:

	2013 $	2012 $
Account loss before tax from operations	**(772,933)**	(1,087,370)
Total account loss before income tax	**(772,933)**	(1,087,370)
At the Company's statutory income tax rate of 30% (2012: 30%)	**(231,880)**	(326,211)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income		
Entertainment	**128**	215
Unrealised foreign exchange loss	**5,179**	(546)
Losses not brought to account	**198,836**	313,113
Timing differences not brought to account	**10,211**	13,429
Research and development expenditure	**140,112**	-
Research and development offsets	**(122,586)**	-
Aggregate income tax expense	**-**	-

(c) *Recognised deferred tax assets and liabilities*

Deferred income tax relates to the following:

	2013 $	2012 $
(i) Deferred tax liabilities		
Leased Assets (after impairment) and lease liabilities	**-**	5,002
Unrealised gains	**5,179**	547
Gross deferred tax liabilities	**5,179**	5,549
Set-off of deferred tax assets	**5,179**	5,549
Gross deferred tax liabilities	**-**	-
(ii) Deferred tax assets		
Accrued expenses	**24,594**	12,642
Provisions	**13,037**	13,739
Employee leave entitlements	**61,601**	52,015
Impaired assets	**259,878**	259,878
Potential tax losses	**5,481,604**	5,304,314
Potential capital tax losses	**488,457**	488,457
Deferred differences and losses not recognised	**(6,323,992)**	(6,125,496)
Gross deferred tax asset	**5,179**	5,549
Set-off of deferred tax assets	**5,179**	5,549
Net deferred tax assets	**-**	-

(d) Tax losses

The Company has capital tax losses for which no deferred tax asset is recognised on the balance sheet that arose in Australia of $1,628,190 (2012: $1,628,190) and are available indefinitely for offset against future capital gains of a similar nature subject to continuing to meet relevant statutory tests.

The Company has accumulated tax losses for which no deferred tax asset has been recognised of $17,804,973 (2012: $17,142,186). The deferred tax asset associated with the loss will only be realisable in the future in the event of sufficient taxable profits being available to utilise the losses, subject to loss recoupment rules.

(e) Unrecognised temporary differences

At 30 June 2013, there are no unrecognised temporary differences associated with the Company's investments in subsidiaries as the Company has no liability for additional taxation should unremitted earnings be remitted (2012: nil).

8. Operating Segments

For the twelve months ended 30 June 2013, 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 74% of external revenue (2012: 58%). The next most significant client accounts for 19% (2012: 16%) and this revenue relates to commercial customers.

Approximately 93% (2012: 94%) of external revenue was from clients in Australia with the balance 7% (2012: 6%) mainly from clients in New Zealand.

9. Cash and cash equivalents

	2013 $	2012 $
Cash at bank and in hand	**450,911**	206,704
	450,911	206,704

(a) Cash at bank and in hand

Cash at bank earns interest at floating rates based on daily bank deposit rates.

(b) Reconciliation to Statement of Cash Flows

For the purpose of the Statement of Cash Flows, cash and cash equivalents comprise of the above listed amounts.

10. Trade and other receivables

	2013 $	2012 $
Trade receivables	**764,933**	159,497
Other receivables	**213,310**	1,134
	978,243	160,631

(a) Terms and conditions

Trade and other receivables are non-interest bearing and generally on 30 day terms.

(b) Allowance for impairment losses

Trade receivables are non-interest bearing and are generally on 30 day terms. A provision for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. An impairment loss of $16,858 was recognised in 2013 (2012: $7,075).

At 30 June 2013, the ageing analysis of trade receivables is as follows:

	Total	**0-30 days**	**31-60 days**	**61-90 days PDNI ***	**+91 days PDNI ***
2013	764,933	715,428	45,758	-	3,747
2012	159,497	111,395	43,813	-	4,289

** Past due date not impaired ('PDNI')*

Receivables past due date but not considered impaired are $3,747 (2012: $4,289). The company trades predominantly with government agencies. The company has been in contact with the relevant debtors and is satisfied that payment will be received in full. As at the date of this report, none of the $3,747 has been received.

(c) Fair value and credit risk

Due to the short term nature of these receivables, their carrying value is assumed to approximate their fair value.

The maximum exposure to credit risk is the fair value of receivables. Collateral is not held as security, nor is it the Company's policy to transfer (on-sell) receivables to special purpose entities.

11. Inventories

	2013 $	2012 $
Products and spare parts	**579,692**	794,768
	579,692	794,768

(a) Inventory expense

There were $9,468 Inventory write-downs recognised as an expense for the year ended 30 June 2013 (2012: 27,616) for the Company. The 2013 expense has been included in the changes in inventories of finished goods and work in progress line in the Statement of Comprehensive Income.

12. Other

	2013 $	2012 $
Prepayments	**79,967**	165,729
	79,967	165,729

13. Financial risk management objectives and policies

The Company's principal financial instruments comprise receivables, payables, finance leases, short term loans, cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Company operations.

The Company manages its exposure to key financial risks, including interest rate risk and currency risk in accordance with the Company's financial risk management policy. The objective of the policy is to support the delivery of the Company's financial targets whilst protecting the future financial security.

The main risks arising from the Company's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Company uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate and foreign exchange risk and assessments of market forecasts for interest rate and foreign exchange rates. Ageing analysis and monitoring of specific credit allowances are undertaken to manage credit risk. Liquidity risk is monitored through the development of future rolling cashflow forecasts.

The Board reviews and agrees policies for managing each of these risks and they are summarised below:

(a) Foreign Currency Risk

The Company has transactional currency exposures. Such exposure arises from sales or purchases by the Company in currencies other than the Company's functional currency. Approximately 33% (2012: 32%) of the Company's purchases are denominated in currencies other than the functional currency of the operating entity making the purchase whilst almost 100% of sales are denominated in the unit's functional currency.

The following sensitivity analysis is based on the foreign currency risk exposures in existence at the statement of financial position date:

At 30 June 2013, had the Australian Dollar moved, as illustrated in the table below, with all other variables held constant, post tax (loss)/profit would have been affected as follows:

Post tax (loss)/profit higher/(lower)	**2013 $**	2012 $
AUD/GBP +10%	**1,455**	1,054
AUD/GBP -10%	**(1,779)**	(1,288)
AUD/EUR +10%	**47,259**	702
AUD/EUR -10%	**(57,761)**	(858)
AUD/USD +10%	**10,816**	1,787
AUD/USD -10%	**(13,220)**	(2,185)
AUD/CHF +10%	**6,043**	1,787
AUD/CHF -10%	**(7,386)**	(2,185)

(b) Credit Risk

Credit risk arises from the financial assets of the Company, which comprise cash and cash equivalents and trade and other receivables. The Company's exposure to credit risk arises from the potential default of the counter party, with a maximum exposure being equal to the carrying amount of these instruments. Exposure at statement of financial position date is addressed in each applicable note.

The Company trades only with recognised, creditworthy third parties, and as such collateral is not requested nor is it the Company's policy to securitise its trade and other receivables. The Company minimises concentrations of credit risk in relation to trade and other receivables by undertaking transactions with a large number of government entities. The majority of customers are concentrated in Australia.

It is the Company's policy that all non government customers who wish to trade on credit terms are subject to credit verification procedures including an assessment of their financial position, past experience and industry reputation.

In addition, receivables balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant.

(c) Interest Rate Risk

The Company's exposure to market interest rates relates primarily to the cash at bank. At reporting date, the company had financial assets comprising cash and cash equivalents totaling $450,911 (2012: $206,704) exposed to Australian variable interest rate risk that are not designated in cash flow hedges.

The following sensitivity analysis is based on the interest rate risk exposures in existence at reporting date. At 30 June 2013, if interest rates had moved, as illustrated in the table below, with all other variables held constant, the post tax net profit/(loss) for the period and equity would have been affected as follows:

Post tax (loss)/profit higher/(lower)	**2013 $**	2012 $
+1% (100 basis points)	**4,506**	2,063
-1% (100 basis points)	**(4,506)**	(2,063)

The movements in the post tax profit/(loss) for the period are due to higher/lower interest income from variable rate cash balances. The sensitivity is higher in 2013 than in 2012 because of an increase in cash balances in 2013.

XTEK pays interest at a fixed rate for loans from related parties. Therefore there is not exposure to market interest rates.

(d) Liquidity Risk

The company objective is to maintain a balance between continuity of funding and flexibility. The company's financial liabilities comprise trade and other payables, and short term loans.

The table below reflects all contractually fixed repayments and interest resulting from recognised financial liabilities. The amounts below reflect the undiscounted cash flows for the respective upcoming fiscal year.

The remaining contractual maturities of the Company's financial liabilities are:

	2013 $	2012 $
6 months or less	**935,507**	269,525
6-12 months	**-**	-
1-5 years	**-**	-
Over 5 years	**-**	-
	935,507	269,525

The carrying amounts of the Company's financial liabilities approximate their net fair value. There are no unrecognised financial instruments.

14. Government Grants

During the financial year, $277,112 of funds were received for government grants from AusIndustry's R&D Tax Incentive Regime which related to financial year 2012. There were no unfulfilled conditions or contingencies attached to this grant at the reporting date. Of the $277,112 received, $196,127 has been recognised as revenue and $80,985 has been recognised as deferred income consistent with the accounting policies of the Company. Income of $212,424 has also been recognised for AusIndustry's R&D Tax Incentive Regime in relation to R&D expenses incurred in financial year 2013.

15. Property, plant and equipment

	Demo Equip. $	Motor vehicles $	Office Furniture and Equip. $	Office Equip. under Lease $	Computer Software $	Plant and Equip. $	Property Imp. $	XTclave $	Total $
Year ended 30 June 2012									
Opening net book amount	60,074	13,769	75,884	10,049	58,071	60,697	54,282	335,020	667,846
Additions	-	-	2,266	-	1,500	920	-	281,380	286,066
Disposals	(7,171)	-	-	(1)	-	-	-	-	(7,172)
Depreciation charge for the year	(23,837)	(5,122)	(19,559)	(1,775)	(16,449)	(31,702)	(10,117)	-	(108,561)
Closing net book amount	29,066	8,647	58,591	8,273	43,122	29,915	44,165	616,400	838,179
At 30 June 2012									
Cost	145,188	79,263	168,705	23,607	67,114	172,365	91,404	616,400	1,364,046
Accumulated depreciation	(116,122)	(70,616)	(110,114)	(15,334)	(23,992)	(142,450)	(47,239)	-	(525,867)
Net book amount	29,066	8,647	58,591	8,273	43,122	29,915	44,165	616,400	838,179

(a) Key to above table headings

Demo Equip. (Demonstration Equipment),
Office Furniture and Equip. (Office Furniture and Equipment),
Office Equip. under Lease (Office Equipment under Lease),
Plant and Equip. (Plant and Equipment),
Property Imp. (Property Improvements),
XTclave (XTclave Commercialisation)

15. Property, plant and equipment (continued)

	Demo Equip. $	Motor vehicles $	Office Furniture and Equip. $	Office Equip. under Lease $	Computer Software $	Plant and Equip. $	Property Imp. $	XTclave $	Total $
Year ended 30 June 2013									
Opening net book amount	29,066	8,647	58,591	8,273	43,122	29,915	44,165	616,400	838,179
Additions	15,492	-	1,932	-	-	42,377	-	57,763	117,564
Transfers to and from assets	65,978	-	8,273	(8,273)	-	810	-	-	66,788
Disposals	-	-	-	-	-	-	-	(204,545)	(204,545)
Depreciation charge for the year	(26,131)	(1,614)	(18,991)	-	(16,778)	(16,149)	(9,479)	(38,985)	(128,127)
Closing net book amount	84,405	7,033	49,805	-	26,344	56,953	34,686	430,633	689,859
At 30 June 2013									
Cost	141,003	48,930	167,456	-	67,114	94,320	88,650	469,618	1,077,091
Accumulated depreciation	(56,598)	(41,897)	(117,651)	-	(40,770)	(37,367)	(53,964)	(38,985)	(387,232)
Net book amount	84,405	7,033	49,805	-	26,344	56,953	34,686	430,633	689,859

(a) Key to above table headings

Demo Equip. (Demonstration Equipment),
Office Furniture and Equip. (Office Furniture and Equipment),
Office Equip. under Lease (Office Equipment under Lease),
Plant and Equip. (Plant and Equipment),
Property Imp. (Property Improvements),
XTclave (XTclave Commercialisation)

16. Trade and other payables

	2013 $	2012 $
Trade creditors	**857,203**	164,676
Accrued expenses	**159,541**	120,423
Employee entitlements (annual leave)	**88,747**	80,903
GST payables	**119,878**	12,706
	1,225,369	378,708

17. Interest Bearing Liabilities (Current)

	2013 $	2012 $
Loan from a related party	**-**	50,000
	-	50,000

(a) During the financial year, $27,760 from the capital raised was offset against the loan repayment otherwise due to a related party, Vasey Pty Ltd, resulting in cash repaid to Vasey Pty Ltd of $22,240 which extinguished the loan outstanding.

(b) In November 2012 an unsecured loan of $125,000 was provided to the Company by a related party (UDB Pty Ltd) 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 December 2012.

(c) 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 is to fund any short term cash flow deficit and has been structured to allow for partial or full draw down by the Company during the term of the loan.

18. Provisions (Current)

	2013 $	2012 $
Employee benefits (long service leave)	**87,209**	54,897
	87,209	54,897

Nature and timing of provisions

Employee Benefits (Long Service Leave)

Refer to note 3 (q) for the relevant accounting policy and discussion of the significant estimations and assumptions applied in the measurement of this provision.

Employee benefits (long service leave)	**2013 $**
Carrying amount at start of year	**54,897**
Additional benefits recognised	**15,995**
Amounts transferred from Employee Benefits (long service leave – non-current)	**29,044**
Payments	**(12,727)**
Carrying amount at end of year	**87,209**

19. Deferred Income

(a) Deferred Income (Current)

	2013 $	2012 $
Customer Deposits	**81,415**	144,740
Government Grants	**8,832**	-
Deposit for sale of XTclave™	**-**	181,818
	90,247	326,558

(b) Deferred Income (Non-Current)

	2013 $	2012 $
Government Grants	**72,153**	-
	72,153	-

20. 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. The recognition of revenue from this transaction will be re-assessed upon expiration of the lease term. The terms and conditions relating to the operating lease are disclosed in Note 29(d)(ii).

21. Provisions (Non-Current)

	2013 $
Employee benefits (long service leave)	
Carrying amount at start of year	**37,583**
Additional benefits recognised	**20,843**
Amounts transferred to Employee Benefits (long service leave – current)	**(29,044)**
Carrying amount at end of year	**29,382**

22. Impairment Testing of Non-Current Assets

(a) Property, plant and equipment

Property, plant and equipment is reviewed twice yearly. In June 2013, management reviewed the carrying value of all XTEK property, plant and equipment. Following the review, management determined that there was no need for any impairment charges to be made to the carrying value of these assets.

(b) Leasehold Improvements

The company leases property in Adelaide, Canberra, and Sydney. There were no impairment charges made to the carrying values of leasehold improvements in 2013 (2012: nil).

23. Contributed equity

	2013 Shares	2012 Shares	**2013 $**	2012 $
(a) Share capital				
Ordinary shares fully paid				
Fully paid	**176,112,537**	145,919,196	**19,325,728**	**18,523,681**
	176,112,537	145,919,196	**19,325,728**	**18,523,681**

(b) Movements in ordinary share capital:

Date	**Details**	**Number of shares**	**$**
1 July 2011	Opening balance	113,492,556	17,826,840
	Shares issued	32,426,640	713,386
	Transaction costs on share issue	-	(16,545)
30 June 2012	Balance	145,919,196	18,523,681
1 July 2012	Opening balance	145,919,196	18,523,681
	Shares issued	30,193,341	784,719
	Transaction costs on shares issued	-	(55,739)
	Transfer between categories of equity *	-	73,067
30 June 2013	**Balance**	**176,112,537**	**19,325,728**

* The Company previously held convertible notes which were converted to ordinary shares upon maturity. The balance of $73,067 was reclassified from Other Equity Securities to Issued Capital in the current year.

(c) Capital Management

When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity.

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

24. Reserves and retained (losses)/profits

(a) Reserves	**2013 $**	2012 $
Balance at the beginning of the year	**514,228**	514,228
	514,228	514,228

Equity based payments reserve consists of share performance rights granted to Executives and Management during 2008 (options and share performance rights granted to Directors and Executives during 2007) credited against equity during the year.

(b) Accumulated losses

Movements in retained (losses)/profits were as follows:	**2013 $**	2012 $
Balance at the beginning of the year	**(17,992,711)**	(16,905,341)
Losses for the year	**(772,933)**	(1,087,370)
Balance at end of year	**(18,765,644)**	(17,992,711)

25. Dividends

(a) Ordinary shares

There were no dividends paid or proposed for the period to 30 June 2013 (2012: nil).

(b) Franked dividends

The franked portions of future dividends will be franked out of existing franking credits.

	2013 **$**	2012 $
Franking credits available for subsequent financial years based on a tax rate of 30% (2012 - 30%)	**981,110**	981,110

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

(a) franking credits that will arise from the payment of the amount of the provision for income tax

(b) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date, and

(c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

26. Key management personnel

(a) Key management personnel compensation

	2013 **$**	2012 $
Short-term employee benefits	**449,051**	476,495
Post-employment benefits	**32,415**	30,585
Other long term employee benefits	**10,054**	2,143
	491,520	509,223

(b) Holdings of Options and share performance rights for key management personnel

There were no new issues of share options or share performance rights during the 2012-2013 financial year and the 2011-2012 financial year.

All share options and share performance rights issued by the Company have lapsed.

(c) Shareholdings of key management personnel

The numbers of shares in the company held during the financial year by each director of XTEK Limited and other key management personnel of the Company, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

2012-2013	**Balance at the start of the year**	**Granted as part of remuneration**	**On exercise of options**	**Shares purchased**	**Balance at the end of the year**
Directors					
Uwe Boettcher (Appointed 28 April 2009 – Appointed Chairman 25 June 2009)	34,878,562	-	-	6,450,129	41,328,691
Lawrence Gardiner (Appointed Company Secretary 17 August 2004 and Director ((Executive) 3 December 2010)	253,000	-	-	-	253,000
Robert Quodling (Appointed 1 March 2013	-	-	-	-	-
Lawrence Broadbent (Appointed 28 May 2013)	-	-	-	-	-
Senior Executives					
Brian Malcolm (Commenced 4 February 2011 and Director ((Executive) Appointed 29 June 2012, resigned 1 March 2013)	100,000	-	-	40,000	140,000
Megan Burgmann (Commenced 12 October 2010)	-	-	-	-	-
Total Shares	**35,231,562**	**-**	**-**	**6,490,129**	**41,721,691**

2011-2012	**Balance at the start of the year**	**Granted as part of remuneration**	**On exercise of options**	**Shares purchased**	**Balance at the end of the year**
Directors					
Uwe Boettcher (Appointed 28 April 2009 – Appointed Chairman 25 June 2009)	26,058,470	-	-	8,820,092	34,878,562
Greg Thomas (Appointed 1 July 2009)	2,076,039	-	-	593,154	2,669,193
Lawrence Gardiner (Appointed Company Secretary 17 August 2004 and Director ((executive) 3 December 2010)	196,777	-	-	56,223	253,000
Brian Malcolm (Commenced 4 February 2011 and Director ((executive) 29 June 2012))	-	-	-	100,000	100,000
Senior Executives					
Megan Burgmann (Commenced 12 October 2010)	-	-	-	-	-
Total Shares	**28,331,286**	**-**	**-**	**9,569,469**	**37,900,755**

All equity transactions with KMP have been entered into under terms and conditions no more favourable than those the Company would have adopted if dealing at arm's length.

During the year no shares were issued as a result of the exercise of options or share performance rights.

(d) Loans to key management personnel

There were no loans held or issued to directors and executives during the year or as at the date of this report.

27. Remuneration of auditors

Amounts received or due and receivable by Ernst & Young for:

	2013	2012
(a) Assurance services	**$**	$
Audit services		
Ernst & Young Australian firm		
Audit and review of financial reports and other audit work under the *Corporations Act 2001*	**66,950**	75,705
Total remuneration for audit services	**66,950**	75,705

28. Commitments

(a.i) Operating leases (properties) –XTEK as lessee

	2013	2012
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:	**$**	$
Within one year	**264,339**	254,495
Later than one year but not later than five years	**77,632**	326,362
Later than five years	**-**	-
	341,971	580,857

(a.ii) Operating leases (properties) –XTEK as lessor

	2013	2012
Commitments for minimum lease payments in relation to non-cancellable operating leases expected to be received are as follows:	**$**	$
Within one year	**-**	26,688
Later than one year but not later than five years	**-**	-
Later than five years	**-**	-
	-	26,688

Income from leases relates only to property which is sub-let by the Company.

29. Related party transactions

(a) Entities

The entity is XTEK Limited and there are no subsidiaries.

(b) Directors

Details of all directors can be found in the Directors' Report.

(c) Key management personnel

Disclosures relating to key management personnel are set out in note 26.

(d) Transactions with related parties

(i) In June 2012 an unsecured loan of $50,000 was provided to the company by a related party (Vasey Pty Ltd) with an interest rate of 14.5% to fund a short term cash flow deficit. $27,760 from capital raised during the year was offset against the loan repayment otherwise due to a related party, Vasey Pty Ltd, resulting in cash repaid to Vasey Pty Ltd of $22,240 which extinguished the loan outstanding in August 2012. There are no covenants associated with this loan.

(ii) 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. The recognition of revenue from this transaction will be re-assessed upon expiration of the lease term.

(iii) In November 2012 an unsecured loan of $125,000 was provided to the Company by a related party (UDB Pty Ltd) 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 December 2012.

(iv) Prior to Robert Quodling becoming a Director he was engaged by XTEK for independent consulting in December 2012 and again in February 2013. These transactions were made on terms equivalent to those that prevail in arms length transactions.

(v) 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 is to fund any short term cash flow deficit and has been structured to allow for partial or full draw down by the Company during the term of the loan. A loan establishment fee of $23,900 was paid to UDB Pty Ltd at this time. At the reporting date no funds had been drawn down from this facility.

30. Events occurring after the statement of financial position date

(a) XTEK has been awarded a significant international contract to the total value of $1,502,166 over a two year period by the United States (US) Department of Defense Foreign Comparative Testing (FCT) Office. XTEK was notified of its success on 3 October 2012 and after successfully completing all stages of the FCT Process, was formally awarded the FCT contract to undertake development and testing works using XTclave™ technology on 1 July 2013. No revenue was recorded at 30 June 2013 for this contract.

(b) On 24 September 2013, the XTEK Board approved the Company to undertake a capital raising of up to $679,291 in H1 of FY 2013/2014. The Company intends to raise the capital through a Non – Renounceable Rights Issue to shareholders/investors.

(c) On 24 September 2013, Mr. Ivan Slavich was appointed as a Non Executive Director of the Company.

(d) All funds from the loan facility outlined in Note 29(d)(v) have been drawn upon.

(e) 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%.

31. Statement of cash flows reconciliation

(a) Reconciliation of losses after income tax to net cash flows used in operating activities

	2013 **$**	2012 $
Loss for the year	**(772,933)**	(1,087,370)
Adjustments for:		
Depreciation	**128,127**	108,561
Net (profit) on disposal of property, plant and equipment	**-**	(1,487)
Changes in assets and liabilities		
(Increase)/decrease in Trade debtors	**(817,611)**	609,943
Decrease in Inventory	**148,287**	474,447
Decrease in Prepayments and Other Assets	**85,762**	40,659
Increase/(decrease) in Trade and other payables	**846,661**	(835,161)
Increase/(decrease) in Deferred Income	**(164,158)**	164,021
Increase/(decrease) in Provisions	**24,111**	(31,653)
Net cash flow used in operating activities	**(521,754)**	(558,040)

(b) Non-cash financing activities

	2013 **$**	2012 $
Repayment of short term loan with shares (note 17)	**27,790**	119,698

32. Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the company (after declaring interest on the convertible redeemable preference shares) by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the company (after deducting interest on the convertible redeemable preference shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all potential shares into ordinary shares.

		2013 **$**	2012 $
(a)	***Basic loss per share***		
	(Loss) attributable to the ordinary equity holders of the company	**(0.005)**	(0.008)
(b)	***Diluted loss per share***		
	(Loss) attributable to the ordinary equity holders of the company	**(0.005)**	(0.008)

(c) Reconciliations of earnings used in calculating basic and diluted earnings per share

The following reflects the income and share data used in the basic and diluted earnings per share computations for both the basic and diluted earnings per share.

	2013 **$**	2012 $
Loss from continuing operations	**(772,993)**	(1,087,370)
Loss attributable to the ordinary equity holders of the company used in calculating basic earnings per share	**-**	-
	(772,993)	(1,087,370)

(d) Weighted average number of shares used as the denominator

	2013 Number	2012 Number
Weighted average number of ordinary shares used as the denominator in calculating diluted basic earnings per share	**162,022,007**	134,902,022
Adjustments for calculation of diluted earnings per share:		
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	**162,022,007**	134,902,022

(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. The options and share performance rights have not been included in the determination of basic earnings per share.

(ii) Share Issue

There have been no issues of new shares between balance date and the date of this report.

33. Share Based Payments

There were no expenses recognised for employee services received during the year. (2012: nil).

(a) Employee Share Ownership Plans

The Company provides 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 these benefits:

(i) The XTEK Long Term Incentive Performance Rights Plan (LTIPRP), this replaced the Senior Executive Share Ownership Plan (SESOP).

(ii) The Employee Share Ownership Plan (ESOP), which provides benefits to all employees.

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they were granted.

(b) Share options and share performance rights

There were no options or share performance rights issued at the start of financial year 2013 or the prior year. There were no options of share performance rights exercisable at the end of the year or any prior year. As at 30 June 2013, there were no unissued shares.

(c) Share options and share performance summary

There were no options or share performance rights exercisable at the end of the year or any prior year.

(d) Employee Share Issue

There were no shares issued to employees under the Employee Share Ownership Plan (ESOP) in 2012 or 2013.

(e) Weighted average share price

The weighted average market price at 30 June 2013 was 2.7 cents.

Directors' Declaration

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

1. In the opinion of the directors:

   (a) The financial statements and notes of the Company are in accordance with the *Corporations Act 2001,* including:

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

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

   (b) The financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 3 (b); and

   (c) Subject to matters described in note 2, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the *Corporations Regulations 2001* for the financial year ending 30 June 2013.

On behalf of the Board

Uwe Boettcher
Chairman

Canberra, 27 September 2012

Shareholder Information

The shareholder information set out below was applicable as at 30 June 2013.

a. Distribution of equity securities

Analysis of numbers of equity security holders by size of holding:

		Ordinary Shares
1 -	1000	9,439
1,001 -	5,000	369,670
5,001 -	10,000	533,857
10,001 -	100,000	5,740,231
100,001 and over		169,459,340
		176,112,537

b. Equity security holders

Twenty largest quoted equity security holders. The names of the twenty largest holders of quoted equity securities are listed below:

	Ordinary shares	
Name	Number held	Percentage of issued shares
UDB Pty Limited	41,328,691	23.47%
Fairlane Management Pty Ltd	20,960,969	11.90%
Advancer Pty Limited	16,253,589	9.23%
Mr. Berend John Philip Hoff and Mrs. Peta Lindsay Hoff	12,263,907	6.96%
Mr. Nick Weber	8,895,522	5.05%
Mr. Nigel French	6,853,000	3.89%
DWKSJK Pty Ltd	6,030,898	3.42%
ANWAT Marketing Pty Ltd	5,588,064	3.17%
Mr. Allen John Tapp and Ms.Maria Polymeneas	4,956,405	2.81%
Jarra Glen Pty Ltd	4,000,000	2.27%
Vasey Pty Ltd	3,736,871	2.12%
Chimaera Pty Ltd	3,000,000	1.70%
Mr David John Peachey and Mrs Sarah Peachey	2,674,136	1.52%
Boulevade Investments Pty Ltd	2,625,000	1.49%
Mr Thomas Bruessel	2,511,842	1.43%
Kalbagrove Pty Ltd	2,227,260	1.26%
Mr. John Glajz	2,057,143	1.17%
Apam Holdings Pty Ltd	1,667,209	0.95%
Kar & CN Stewart Pty Ltd	1,600,000	0.91%
Mr. Dimitrios Piliouras and Mrs. Konstantina Piliouras	1,600,000	0.91%

c. Substantial holders

Substantial holders in the company are set out below:

	Number held	Percentage
Ordinary shares		
UDB Pty Limited	41,328,691	23.47%
Fairlane Management Pty Ltd	20,960,969	11.90%
Advancer Pty Limited	16,253,589	9.23%
Mr. Berend John Philip Hoff and Mrs. Peta Lindsay Hoff	12,263,907	6.96%
Mr. Nick Weber	8,895,522	5.05%