

Release to the Australian Securities Exchange

STRONG PLATFORM FOR GROWTH **Managing Director's Letter to Shareholders**

Canberra – Monday 19 December 2016: XTEK Limited (ASX: XTE, 'the Company') would like to provide investors with a business update.

Dear Shareholders,

I am pleased to be writing to you in what is my first official correspondence as Managing Director of XTEK since joining the Company in October and I would like to take this opportunity to wish you and your family a Merry Christmas and Happy New Year.

The past 12 months have been an exciting period for XTEK. We have achieved a number of key milestones that have set us up for a gradually improving 2017 with a number of very significant potential developments we can look forward to.

We have not only built a solid platform to grow sales of our traditional agency business but we have also made significant progress in commercialising our own products such as the patented composite manufacturing technology, XTclave™, our sniper rifle, the XTEK Tac 2 and our real-time contextual mapping solution, XTAtlas™. Some of our key achievements for the year and outlook are detailed below.

Agency Business on a strong footing

During 2016, XTEK has significantly strengthened its agency business on a number of fronts. Our agency business supplies cutting-edge security and military equipment made by the world's leading manufacturers, such as AeroVironment and Telerob often through exclusive distribution agreements.

Our efforts to grow this business were rewarded in April when the Australian Defence Force (ADF) appointed XTEK as the preferred tenderer to supply AeroVironment Small Unmanned Aerial Systems (SUASs) to the Australian Army under the LAND 129 Phase 4 program.

Securing this contract should be very significant financially for XTEK. Commercial negotiations between the Company and the ADF are expected to conclude in FY2017 with delivery of the SUASs commencing in 18 months' time. The contract should include additional Australian software for image processing and substantial repair and upgrade capability providing substantial value adding for XTEK in the future. It will continue to cement our image of prime contractor and system integrator in this high priority area for Defence.

We have also expanded our portfolio of specialised equipment in the counter terrorism space in anticipation of growing demand for high-tech solutions from government and private enterprises. This includes the world's first intelligent threat detection platform, RONIN, which can be discreetly mounted in doorways and thoroughfares to detect weapons and threats carried by people walking past. RONIN can also pinpoint on which part of the body the threat is detected and associate it with the suspect picture.

XTEK is expecting further new orders in the short-term for a range of other agency products it distributes. This includes robots for bomb disposal and tactical surveillance, as well as forensic equipment and consumables.

XTclave™ facing a big 2017

The trial of XTclave™ consolidated armour under the US-government sponsored Foreign Comparative Testing (FCT) program is close to completion. XTEK is currently delivering the final batch of hard armour inserts (used in body armour) to an independent evaluator to be tested at a firing range in Australia. We should be in a position to send the final results to the US Department of Defence early in the New Year.

While we will not be able to release detailed results from the FCT trial due to a confidentiality agreement, we are confident that inserts manufactured in the XTclave™ will be of superior quality. Further tests done outside the FCT with different materials also presented substantial improvement compared to existing ballistic plates in

terms of weight and protection, which we will be presenting to a number of new customers in the first half of 2017.

The patented XTclave™ system uses a hot recirculating liquid at high pressure to bond materials together to create lighter and more durable composites as it can exert a lot more pressure than autoclaves. The finished product from our system will also not have weak points like hydraulic press and autoclave produced composites as pressure in XTclave™ is more uniformly applied.

Contrary to hydraulic presses, XTclave™ can produce complex shapes and do batch manufacturing. These properties and further applications beyond ballistics will continue to be explored in the next few months.

XTclave™ is already used in commercial operations. XTEK manufactures the XTEK Tac 2 sniper rifles for the Australian Army and some components used in the manufacture of the rifle chassis are made using XTclave™.

XTEK will undertake a significant commercialisation effort in the next few months to bring this technology to markets in the US, Europe and Asia Pacific. Potential applications include ballistic protection for armoured vehicles and there are a number of opportunities in Australia's defence Land 400 project, which has now been shortlisted to 2 contenders.

XTEK TAC 2 Sniper Rifle

XTEK recently received a contract to supply further TAC 2 Sniper Rifle Systems to the Australian Army representing \$2.5m of turnover for this financial year. Some parts have been delivered in the last few months. The XTEK Tac 2 rifle has undergone substantial design improvements by XTEK. The platform is based on a German made, exceptionally high precision Blaser rifle action. The XTEK Tac 2 is now in full production in Australia and will substantially contribute to the turnover of the next half of FY2017.

Sales endeavours to overseas customers have begun. The XTEK Tac2 should experience good uptake as it is one of the most modern, innovative and accurate systems available on the world market.

XTatlas™ ready for commercial take off next year

We have also made big strides in the development of the XTatlas™ system, which is a real-time geospatial video overlay and mapping solution. We have successfully trialled the system using a commercial UAS with a fixed camera and have received expressions of interest from a number of potential clients and technology partners.

XTatlas™ allows users to accurately superimpose a live video feed from an aircraft/drone flying overhead onto a legacy digital map. This gives users better orientation / context while conducting surveillance operations, which is particularly useful for emergency services, law enforcement and military clients.

We plan to make further upgrades to XTatlas™ in 2017 to allow users to use airborne cameras on a gimbal (a device that allows cameras to keep focused on one point independently of the aircraft movement) and to update legacy maps on the fly.

Simmersion puts XTviz™ on map to success

Our XTviz™ is receiving more and more interest from potential clients and partners as a unique software package, and there are good prospects that the Simmersion business will contribute materially to group revenue down the track following the recent launch of a new version of its software - XTviz™.

XTviz™ is a proprietary simulation software that allows users to navigate around a spatially accurate 3D environment. Users such as architects and city planners can conduct visual impact analysis for new developments and projects.

This business is an important part of our strategy to create a more diversified customer base and increase the proportion of recurring revenue, through modelling services and software licenses

You can watch a demonstration video and try the software yourself at:
<http://www.xtek.net/simmersion/#.WE9fsKJ96qB>.

Outlook

The next 12 months is promising to be an exciting period for shareholders given our strong pipeline of potential contracts and commercialisation milestones for XTclave™, XTEK Tac 2, XTatlas™ and XTviz™. These innovations will diversify the company into providing products we have developed, in markets we understand, that will provide higher margins than agency products and higher turnover for the company.

Our order intake has continued to grow and is at \$6 million since the beginning of the financial year. These orders are to be delivered before the end of the year and more orders are about to be signed. This order book will underpin a strong second half turnover for the financial year

The path to success for any emerging company is never smooth and I would like to take this opportunity to thank you for your patience and support over the years. Once again, I wish you and your family the very best for the holidays and I look forward to bringing you further updates in the New Year.

Philippe Oduard
Managing Director
19 December 2016

About XTEK Limited

XTEK Limited is a leading company in the Australian Homeland Security Market. XTEK's knowledge and expertise is focused on the delivery of protection and sustainment solutions for the government, law enforcement, military and commercial sectors.

The supply and maintenance of Small Unmanned Aerial Systems (SUAS) is becoming a major focus for XTEK.

In addition, XTEK has developed a range of new technologies which it is now commercialising for the international market. XTclave™ composite protection products and XTatlas™ real time contextual video provide novel solutions for western military forces.

For more information visit the XTEK website at www.xtek.net

Signed for and on behalf of XTEK Limited:



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