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

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

31 August 2017

By Electronic Lodgement

Dear Sir/Madam,

LODGEMENT OF 2017 PRELIMINARY FINAL REPORT (APPENDIX 4E)

In accordance with the Listing Rules, please find attached the Preliminary Final Report (Appendix 4E) for XTEK Limited (XTE) for the financial year ended 30 June 2017.

Should you require any further information in respect to this matter please contact the Managing Director, Mr Philippe Odouard at Philippe@xtek.nett or 02 61635588 in the first instance.

Yours sincerely,

Lawrence A. Gardiner
Company Secretary

Attachment: Appendix 4E – 2017 Preliminary Final Report for XTEK Limited.

XTEK Limited
and
Controlled Entities

ABN 90 103 629 107

APPENDIX 4E

PRELIMINARY FINAL REPORT
FOR THE YEAR ENDED 30 JUNE 2017

GIVEN TO THE ASX UNDER LISTING RULE 4.3A

Current period:	1July 2016 to 30 June 2017
Prior corresponding period:	1July 2015 to 30 June 2016

RESULTS FOR ANOUNCEMENT TO THE MARKET

Key Information	2017 $'000	2016 $'000		Change %
Revenue from ordinary activities	9,023	3,353	↑	169%
Profit/(loss) after tax from ordinary activities	61	(1,588)	↑	104%
Net Profit/(loss) attributable to members	61	(1,588)	↑	104%

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

Profit/(loss) per share attributable to the ordinary equity holders of the company	Notes	2017 $	2016 $
Basic profit/(loss) per share	5	0.002	(0.073)
Diluted profit/(loss) per share	5	0.002	(0.073)

Net tangible asset backing per share	Notes	2017 $	2016 $
Net tangible asset backing per share	5	0.193	0.076

OPERATING RESULTS

Key Points:

- **XTEK Group returns to profitability in FY17**
- **Group revenue of $9.023 million – a $5.7m increase from FY16**
- **Group net profit of $61,225 – a $1.6m increase from FY16 results**

XTEK is pleased to announce that it has recorded a very strong second half performance. Revenue for Financial Year 2017 from the sale of goods and services increased by 166% to $9m (2016: $3.3m) and a net profit of $61,225 compared to a loss of $1.5m in FY16 and a loss of $1.3m in the first half of FY17. The significant rise in revenue for FY17, reflects increased business sales for both Value Added Reseller Products and In-house Products.

The simplified Income Statement for the financial year ended 30 June 2017 is outlined below:

	1st Half				2nd Half				Full Year			
	Dec-16	Dec-15	Change		Jun-17	Jun-16	Change		Jun-17	Jun-16	Change	
	$'000		$'000	%	$'000		$'000	%	$'000		$'000	%
Revenue: sale of goods and services												
- Reseller products	187	1,099	(912)	-83%	2,928	430	2,498	581%	3,115	1,529	1,586	104%
- In-house products	609	391	218	56%	1,832	106	1,726	1628%	2,441	497	1,944	391%
- Logistics engineering & maintenance	293	355	(62)	-17%	2,857	463	2,394	517%	3,150	818	2,332	285%
Grants and other revenue	41	313	(272)	-87%	276	196	80	41%	317	509	(192)	-38%
Total revenue	1,130	2,158	(1,028)	-48%	7,893	1,195	6,698	561%	9,023	3,353	5,670	169%
Gross profit	137	626	(489)	-78%	3,360	644	2,716	422%	3,497	1,270	2,227	175%
Gross profit %	12%	29%	17%	58%	43%	54%	11%	21%	39%	38%	-1%	-2%
Other income	329	264	65	25%	267	265	2	1%	596	529	67	13%
Total expenses	(1,806)	(1,598)	(208)	13%	(2,226)	(1,789)	(437)	24%	(4,032)	(3,387)	(645)	19%
(Loss) / profit before tax	(1,340)	(708)	(632)	89%	1,401	(880)	2,281	259%	61	(1,588)	1,649	104%
Income tax	-	-	-	-	-	-	-	-	-	-	-	-
Total (loss)/profit after tax	(1,340)	(708)	(632)	89%	1,401	(880)	2,281	259%	61	(1,588)	1,649	104%

The Group had a successful capital raise of $3.1m during June 2017. The Group also ended the financial year without debt as a result of its successful trading performance. Please refer to the commentary on results for the period and preliminary financial statements for further explanation regarding the above results.

COMMENTARY ON THE RESULTS FOR THE PERIOD

Agency Sales

The XTEK business covers a range of products, equipment solutions and maintenance services:

- **Value Added Reseller Products**
  - Unmanned Aerial Systems (UAS)
  - Explosive Ordnance Disposal (EOD) equipment
  - Tactical weapons and protective equipment
  - Forensic equipment and products
- **In–House Development and Manufactured Products**
  - XTatlas™ digital imagery
  - Ballistic Plates and Helmets produced with XTclave™
  - Weapon systems (rifles)
- **Logistic Engineering and Maintenance**
  - Service and repairs
  - Training

There was an increase in capital expenditure during the second half, by Federal and State Governments to meet upgraded defence and homeland security requirements. The Group responded strongly to meet these new demands of Government, through the provision of specialist defence and homeland security products and services. Accordingly, this resulted in significant sales of EOD equipment and tactical weapon systems over the reporting period, through the sale of unmanned ground vehicles, bomb response equipment and Tac2 Sniper Rifle Systems.

COMMENTRY ON RESULTS FOR THE PERIOD (continued)

In House Product Development and Manufacture

During the reporting period, the Company continued development of the XTatlas™ digital imagery technology (a UAV sub-system) to display a real-time video feed as a moving georeferenced image over a digital map and to create a mosaic mapping capability. Commercialisation pathways for XTatlas™ commenced in the second half, with global demand being identified from UAV operators, defence and homeland security agencies. This has stimulated interest from a range of potential clients. There were no XTatlas™ sales during the reporting period but sales are expected in FY18.

Significant XTclave™ development and testing work on advanced lightweight hard armour body plate solutions for defence applications was undertaken during the reporting period, mainly with the USDoD. The Company is pleased to report that further independent testing has confirmed that up to 30% weight reduction has been achieved for polyethylene plates, whilst still providing a similar level of ballistic protection as provided by plates manufactured by traditional means. The Company is building of a new commercial scale XTclave™ plant in FY18.

Simmersion Holdings Pty Ltd

Simmersion Holdings Pty Ltd (Simmersion), a wholly owned subsidiary of XTEK, produced a gross profit of $11,478, but a net loss of $31,514. The loss was primarily from the development of new software – XTviz ™

A table highlighting the Group's overarching business trends from financial year 2014 to 2017 is shown below:

Performance Indicators	Financial Year			
	2014	2015	2016	2017
Revenue from sale of goods and services $'000	5,318	12,044	3,353	9,023
Gross profit from sales of goods and services $'000	2,488	2,748	1,270	3,497
Gross profit %	47%	23%	38%	39%
Net profit $'000	(223)	231	(1,588)	61
Return on sales %	(4%)	2%	(47%)	0.68%
Net tangible asset backing per share $	0.0710	0.0799	0.076	0.193
Market Capital @ 30 June $'000	8,856	7,850	8,871	18,921

Significant changes in the state of affairs

- On 1 August 2016, Philippe Odouard was appointed as a Non- Executive Director of the Company.
- On 2 August 2016, Lawrence Gardiner resigned as an Executive Director of the Company, however continued as Company Secretary.
- On 28 September 2016, Brian Malcolm resigned as Chief Executive Officer of the Company.
- On 4 October 2016, Philippe Odouard was appointed as Managing Director of the Company.
- On 4 October 2016, Robert Quodling was appointed Chief Operating Officer of the Company.
- In June 2017, the Company raised $2,865,000 in capital and issued 6,228,261 new securities as a result of a successful placement to sophisticated investors.

There were no other significant changes to the state of affairs in financial year 2017.

Matters subsequent to the end of the financial year

1) On 25 July 2017, the Company formally signed an acquisition contract with the Commonwealth of Australia to the value of $40m, for the supply of WASP AE Small Unmanned Aerial Systems to the Australian Army.
2) In July 2017, the Company raised $1,716,200 in capital and issued 3,730,869 new securities to additional sophisticated investors and eligible security holders who participated in a Share Purchase Plan.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2017

	Notes	2017 $	2016 $
Revenue	2	**9,023,483**	3,353,400
Changes in inventories of finished goods and work in progress		**(5,525,918)**	(2,083,366)
Gross profit		**3,497,565**	1,270,034
Other income	2	**596,261**	529,271
Employee benefits expense	3	**(2,253,111)**	(1,893,954)
Depreciation	3	**(75,172)**	(83,220)
Operational expenditure	3	**(1,646,321)**	(1,367,474)
Additional expenditure	3	**-**	(20,343)
Finance costs	3	**(57,997)**	(22,497)
Profit/(loss) from operations before income tax		**61,225**	(1,588,183)
Income tax expenses		**-**	-
Total comprehensive income/(loss) for the period		**61,225**	(1,588,183)

Profit/(loss) per share attributable to the ordinary equity holders of the company

	Notes	2017 $	2016 $
Basic profit/(loss) per share	5	**0.002**	(0.073)
Diluted profit/(loss) per share	5	**0.002**	(0.073)

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2017

	Notes	2017 $	2016 $
ASSETS			
Current assets			
Cash and cash equivalents		**2,821,616**	549,517
Trade and other receivables		**2,558,524**	711,900
Inventories		**886,472**	769,232
Other		**659,568**	153,490
Total current assets		**6,926,180**	2,184,139
Non-current assets			
Property, plant and equipment	6	**404,547**	348,565
Total non-current assets		**404,547**	348,565
TOTAL ASSETS		**7,330,727**	2,532,704
LIABILITIES			
Current liabilities			
Trade and other payables		**1,195,730**	507,526
Provisions		**163,687**	154,395
Deferred income		**196,556**	2,910
Total current liabilities		**1,555,973**	664,831
Non-current liabilities			
Trade and other payables		**24,922**	33,984
Provisions		**26,787**	15,314
Deferred income		**113,100**	78,900
Total non-current liabilities		**164,809**	128,198
TOTAL LIABILITIES		**1,720,782**	793,029
NET ASSETS		**5,609,945**	1,739,675
EQUITY			
Contributed equity	11	**25,378,045**	21,569,000
Reserves		**516,110**	516,110
Accumulated losses		**(20,284,210)**	(20,345,435)
TOTAL EQUITY		**5,609,945**	1,739,675

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2017

	Notes	2017 $	2016 $
Cash flows from/(used in) operating activities			
Receipts from customers		**8,866,922**	4,120,090
Payments to suppliers and employees		**(10,218,712)**	(6,068,998)
		(1,351,790)	(1,948,908)
Receipt of grants		**-**	45,013
Interest received		**3,995**	8,640
Borrowing costs		**(57,997)**	(22,498)
Net cash flows from operating activities	4	**(1,405,792)**	(1,917,753)
Cash flows (used in)/from investing activities			
Cash acquired from Simmersion		**-**	51,178
Payments for property plant and equipment	6	**(131,154)**	(65,918)
Net cash flows (used in) investing activities		**(131,154)**	(14,740)
Cash flows from financing activities			
Proceeds from issue of ordinary shares	11	**4,113,000**	1,799,982
Payment of transaction costs associated with issued share capital		**(303,955)**	(208,286)
Proceeds from short term loans	9	**-**	550,000
Repayments of short term loans	9	**-**	(550,000)
Net cash flows (used in)/from financing activities		**3,809,045**	1,591,696
Net increase (decrease) in cash and cash equivalents		**2,272,099**	(340,797)
Cash and cash equivalents at beginning financial year		**549,517**	890,314
Cash and cash equivalents at end of year		**2,821,616**	549,517

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2017

	Issued capital (note 11) $	Equity-based payments reserve $	Accumulated losses $	Total Equity $
Balance at 1 July 2015	19,907,301	514,228	(18,757,252)	1,664,277
Loss for the year	-	-	(1,588,183)	(1,588,183)
Total income and expense for the period	-	-	(1,588,183)	(1,588,183)
Issues of ordinary shares during the year:				
Issue of share capital	1,970,067	-	-	1,970,067
Transaction costs associated with issued share capital	(308,368)	-	-	(308,368)
Transfer between categories of equity	-	1,882	-	1,882
Balance at 30 June 2016	21,569,000	516,110	(20,345,435)	1,739,675
Balance at 1 July 2016	**21,569,000**	**516,110**	**(20,345,435)**	**1,739,675**
Profit for the year	-	-	61,225	61,225
Total income and expense for the period	**-**	**-**	**61,225**	**61225**
Issues of ordinary shares during the year:				
Issue of share capital	**4,113,000**	**-**	**-**	**4,113,000**
Transaction costs associated with share capital	**(303,955)**	**-**	**-**	**(303,955)**
Transfer between categories of equity	-	-	-	-
Balance at 30 June 2017	**25,378,045**	**516,110**	**(20,284,210)**	**5,609,945**

NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS

1. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the preliminary final report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The preliminary final report includes the financial statements for the XTEK Group, including its wholly owned subsidiary.

a. Corporate information

The preliminary financial report of XTEK for the year ended 30 June 2017 was authorised for issue in accordance with a resolution of the Directors on 30 August 2017.

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

b. New accounting standards and interpretations

i. Changes in accounting policy and disclosures.

The same accounting policies and methods of computation have been followed in this preliminary final report as were applied in the most recent annual financial statements, subject to the following changes:

Derivative financial instruments

The Group uses forward currency contracts to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value. Changes in fair value are recognised immediately in profit or loss in income or expenses. Forward currency contracts are recognised as an asset when their value is positive and as a liability when their value is negative. At 30 June 2017 there were no open forward exchange contracts.

ii. Adoption of new Australian Accounting Standard requirements

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

iii. Future Australian Accounting Standard requirements

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ended 30 June 2017. It is anticipated that the new requirements will have no material financial impact on future reporting periods.

c. Significant accounting judgment, estimates and assumptions

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

d. Foreign currency translation

i. Functional and presentation currency

The financial statements are presented in Australian dollars, which is the functional and presentation currency of the Group.

NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS (continued)
1. Summary of significant accounting policies (continued)
d. Foreign currency translation (continued)

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.

e. Property, plant and equipment

i. Cost and valuation

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

ii. Depreciation

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

- plant and equipment 3 - 15 years

iii. Impairment

The carrying values of plant and equipment are reviewed for impairment when events or changes in the circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, 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.

f. 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 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).

g. Intangible assets

Research and development

Development expenditure on an individual project is expensed. Expenditure is only capitalised when it is probable that future economic benefits associated with the item will flow to the entity and the costs incurred can be reliably measured. On recognising that there is an asset with a future economic benefit to the company 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.

NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS (continued)
1. Summary of significant accounting policies (continued)
g. Intangible assets (continued)

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

h. Recoverable amount of assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group 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.

i. 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.

j. 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 Group 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.

k. 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.

l. Provisions

Provisions are recognised when the Group 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.

NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS (continued)
1. Summary of significant accounting policies (continued)
l. Provisions (continued)

Where the Group 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.

m. Share based payment transactions

The Group 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.

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 ('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.

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

n. 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 1(x).

o. 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:

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

- except where the deferred income tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

p. Employee benefits

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

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

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

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

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

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

i. Long service leave

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

NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS (continued)
1. Summary of significant accounting policies (continued)
p. Employee benefits (continued)

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 Group 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.

q. 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.

r. 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, as well as through the amortisation process.

s. Trade and other payables

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

t. 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.

u. Dividends

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

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

v. Other Taxes

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

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

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

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

w. Loans and receivables

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

Impairment of Loans

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

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. They are not credited directly to shareholders equity.

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

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 fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS (continued)
1. Summary of significant accounting policies (continued)
y. Leases (continued)

i. Company as a lessee

Finance leases, which transfer to the Group 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 Group 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 Group 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 Group.

2. Revenue and other income

a. Revenue from operations

	2017	2016
	$	$
Value added reseller products	**3,114,820**	1,528,408
In-house development and manufactured products	**2,440,352**	496,534
Logistic engineering maintenance	**3,150,695**	818,479
Grant and other revenue	**317,617**	509,979
	9,023,484	3,353,400

b. Other income

	2017	2016
	$	$
Interest	**3,995**	8,640
R&D tax incentive (refer note 7a)	**578,904**	468,479
Grant income (refer note 7b)	**-**	45,013
Other	**13,362**	7,139
	596,261	529,271

NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS (continued)

3. Expenses

Profit/(loss) before income tax includes the following specific expenses:

	2017	2016
Employee Benefits	**$**	$
Salaries and wages	**1,928,307**	1,615,342
Superannuation	**228,079**	187,128
Redundancy payments	**3,101**	29,597
Payroll tax	**69,611**	46,167
Workers compensation	**24,013**	15,720
Total employee benefits	**2,253,111**	1,893,954

	2017	2016
Depreciation	**$**	$
Plant and equipment	**27,563**	41,264
Motor vehicles	**908**	911
Office furniture and equipment	**31,007**	28,034
Computer software	**607**	538
Demonstration equipment	**10,985**	8,342
Leasehold property improvements	**4,102**	4,131
Total depreciation	**75,172**	83,220

	2017	2016
Operational expenditure	**$**	**$**
Accounting fees	**18,558**	19,496
Audit fees	**57,318**	54,900
Advertising and conferences	**106,998**	50,451
Bank charges	**5,120**	8,653
Consultancy fees	**220,019**	240,136
Directors fees	**147,500**	99,167
Insurance	**159,790**	134,246
FBT	**4,456**	4,423
Legal fees	**974**	1,604
Office administrative costs	**509,371**	503,570
Operating lease charges	**33,355**	16,081
Share registry fees	**50,851**	47,856
Travel and entertainment	**74,958**	82,569
Staff training	**11,959**	4,166
R&D project expenses	**135,299**	4,393
Net foreign currency (gains)/losses	**4,032**	21,342
Other expenses	**105,763**	74,421
Total operational expenditure	**1,646,321**	1,367,474

NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS (continued)

3. Expenses (continued)

	2017	2016
Additional expenditure	$	$
Loss on disposal of asset	-	20,343
Total additional expenditure	-	20,343

	2017	2016
Finance costs	$	$
Interest	57,997	22,497
Total finance costs	57,997	22,497

4. Reconciliation of cash flow from operations with profit/(loss) after income tax

	2017	2016
	$	$
Profit / (loss) for the year	61,225	(1,588,183)
Adjustments for:		
Depreciation	75,172	83,220
Increase in provisions	20,765	144,741
Loss on derivative	-	5,698
Loss on sale of asset	-	20,343
Changes in assets and liabilities		
(Increase) in trade debtors	(1,846,624)	671,341
(Increase)/decrease in inventory	(117,240)	(159,363)
(Increase) in prepayments and other assets	(506,078)	15,775
Increase/(decrease) in trade and other payables	679,142	(260,861)
Increase in deferred income	227,846	(850,465)
Net cash flows from/(used in) operating activities	(1,405,792)	(1,917,754)

5. Earnings per share

a. Basic profit/(loss) per share

	2017	2016
	$	$
Profit/(loss) attributable to the ordinary equity holders of the Company	0.002	(0.073)

b. Diluted profit/(loss) per share

	2017	2016
	$	$
Profit/(loss) attributable to the ordinary equity holders of the Company	0.002	(0.073)

NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS (continued)
5. Earnings per share (continued)

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.

	2017	2016
	$	$
Profit/(loss) from continuing operations	61,225	(1,588,183)
Loss attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	-	-
	61,225	(1,588,183)

d. Weighted average number of shares used as the denominator

	Notes	2017	2016
		Number	Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	11	28,708,788	21,850,707
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		28,708,788	21,850,707

i. Options and share performance rights

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

The issued capital of XTEK Ltd at 30 June 2017 comprises 35,700,690 fully paid Ordinary Shares with 500,000 unlisted options currently on issue.

6. Property plant and equipment

During the full year ended 30 June 2017, the Group acquired assets with a cost of $131,153, which includes $8,885 for patent application costs associated with the Intellectual Property of the process for the manufacture of multilayer articles.

7. Government grants

a. AusIndustry's R&D tax incentive

Income of $578,903 was recognised in financial year 2017 from AusIndustry's R&D Tax Incentive. Of this $553,003 was recognised for the sake of the parent company and $25,900 for the subsidiary, Simmersion. These numbers are consolidated for accounting but not for taxation purposes.

NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS (continued)

8. Share based payments

a. Expired options and share performance rights

There were 500,000 unlisted options on issue at 30 June 2017, there were no options or share performance rights exercisable at the end of any prior year. As at 30 June 2017 there were no unissued shares.

b. Weighted average share price

The weighted average market price at 30 June 2017 was 39.6 cents.

9. Interest bearing liabilities

During the course of 2016-17, a series of loans were made available to the Group by related parties and investors. These loans were used to fund short term cash flow deficits and also to fund trading stock. They were: $300,000 in the first half of the year (of which $100,000 was repaid in that period) and $900,000 in the second half of the year. All loans were repaid before 30 June 2017 from the proceeds of ordinary business trading.

In FY 2015-16 (April 2016), an unsecured loan of $300,000 was made available to the Group by related parties and in May 2016 an additional $250,000 was made available. These loans were to fund a short term cash flow deficit. The full amount of $550,000 was repaid in June 2016.

10. Other current liabilities

There were no other Current Liabilities

11. Contributed equity

a. Share capital

Movement in ordinary shares on issue	**No. of Shares**	**$**
At 1 July 2016	25,713,393	21,569,000
Shares issued	9,987,297	4,113,000
Transaction cost in relation to capital	-	(303,955)
Balances as at 30 June 2017	35,700,690	25,378,045

b. Ordinary Shares

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

12. Contingent liabilities

There are no contingent liabilities at 30 June 2017.

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

13. Wholly owned subsidiary

On 9 November 2015 XTEK Ltd bought 100% of issued shares of Simmersion Pty Ltd. It did so in consideration of 175,000 ordinary XTEK shares.

The accounts of Simmersion Pty Ltd are fully consolidated into the Group accounts of 30 June 2017

The following information relates to the subsidiary's trading for the year ended 30 June 2017.

Profit and Loss for the year ended 30 June 2017

	30 June 2017 $	30 June 2016 $
Revenue	55,706	61,867
Cost of sales	(44,228)	(34,849)
Gross Profit	11,478	27,018
Trading and administration costs	(72,072)	(30,844)
Other income	29,081	376
Loss on disposal of assets	-	(20,343)
Net Profit / (Loss)	(31,513)	(23,793)

At 30 June 2017 Simmersion Pty Ltd had the following Statement of Financial Position

	30 June 2017 $	30 June 2016 $
Current and Non-current Assets		
Cash & cash equivalents	7,928	42,076
Trade debtors and prepayments	36,900	34,683
Plant and Equipment	3,656	1,933
Total Assets	48,484	78,692
Current Liabilities		
Trade and other creditors	31,909	30,604
Total Liabilities	31,909	30,604
Net (Liability) / Assets	16,575	48,089

14. Events occurring after the balance sheet date

No events occurred after the Balance Sheet date other than those listed in the Commentary on the Results for the Period, page 3, “Matters subsequent to the end of the financial year”.

COMPLIANCE

1 - This report is based on accounts which are in the process of being audited.

2 - The entity has a formally constituted finance, audit and risk management committee.

Signed

Printed Name: Uwe Boettcher (Chairman)
Date: 31 August 2017