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

27 September 2018

By Electronic Lodgement

Dear Sir/Madam,

LODGEMENT OF ANNUAL REPORT

In accordance with the Listing Rules, please find attached the Annual Report for XTEK Limited (XTE) for the financial year ended 30 June 2018.

Should you require any further information in respect to this matter please contact the Chairman, Mr. Uwe Boettcher at Uwe.Boettcher@xtek.net or (02) 6232 0601 in the first instance.

Yours sincerely,

Lawrence A. Gardiner
Company Secretary

Attachment: 2018 Annual Report for XTEK Limited (ABN 90 103 629 107)

Annual Report

XTEK LTD

PROTECT AND SUSTAIN

Financial Calendar

YEAR ENDED 30 JUNE 2018

23 NOVEMBER 2018
Annual General Meeting

28 FEBRUARY 2019*
Half year results

YEAR ENDING 30 JUNE 2019

31 AUGUST 2019*
Preliminary full year results

30 SEPTEMBER 2019*
Full year results

*These dates are subject to change

Content

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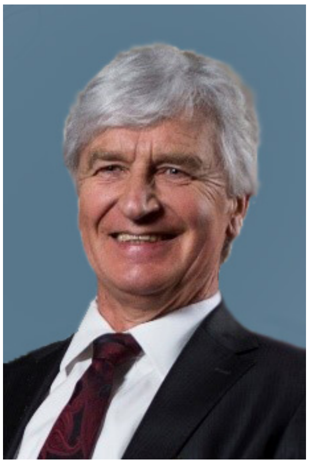
Corporate Directory

Directors	Uwe Boettcher (Appointed 28 April 2009 – Chairman from 25 June 2009) Philippe Odouard (Appointed 1 August 2016 – Managing Director from 4 October 2016) Robert Quodling (Appointed 1 March 2013) Ivan Slavich (Appointed 23 September 2013) Christopher Fullerton (Appointed 24 April 2018)
Secretary	Lawrence Gardiner (Appointed 17 August 2004)
Principal Registered Office in Australia	3 Faulding Street Symonston ACT 2609 Telephone: +61 2 6163 5588 Facsimile: +61 2 6280 6518 Website: www.xtek.net
Australian Securities Exchange Listing	Australian Securities Exchange Limited Level 3, Securities Exchange Centre 530 Collins Street Melbourne VIC 3000 Australia
Auditor	Hardwickes Chartered Accountants Hardwickes House Level 1, 6 Phipps Close Deakin 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

Chairman's Report



Dear Shareholders,

I am pleased to announce that XTEK has recorded a very strong result with revenue for FY18 increasing by 91% to $17.3m (2017: $9m) and net profit of $139,224. The significant rise in revenue reflects increased business sales for value-added OEM products including the initial deployment of SUAS with the Australian Defence Force.

I am confident XTEK has the platform to underpin execution on its broader strategy of commercialising its own proprietary technology products (XTatlas™ and XTclave™).

The company understands that Defence contract sale cycles can be lengthy and relationship based. Whilst OEM revenues and contracts have been the focus for the past few years, concurrently XTEK has been proving, testing and refining its XTatlas and XTclave technology with a number of potential customers.

During the year, the management team continued to work tirelessly to further develop these relationships and we have seen the results of this hard work with small proven commercial sales for XTclave product as well as our first commercial sales of XTatlas in September. We are laser focused on developing commercial sales for these products and believe, if successful, that this will result in the creation of substantial shareholder value.

Defence spending has been at the forefront of the Australian political landscape and I believe XTEK is positioned extremely well to capitalise on this. The government and current opposition parties have given strong public commitments to increased defence expenditure.

In January 2018, the Government released the Defence Export Strategy which provides a systematic plan to grow Australian defence exports and support Australian industry to achieve export success.

In March 2018, the Government released the expanded Australian Military Sales Catalogue showcasing a range of export ready Australian Defence industry capabilities. Furthermore, the Government has made Australian content commitments for recently announced Land200, Land400 and Future Frigate contracts. The mandated Australian industry content creates many opportunities for companies like XTEK to benefit from the very significant defence expenditure by the Australian Government.

A big thankyou to my fellow directors, XTEK staff and consultants for the tremendous effort which made possible the excellent results for last year.

The manufacturing supply chain to fulfil the Australian content commitment of the major overseas primes is fragmented and generally dominated by smaller enterprises, often smaller family owned businesses. XTEK is seeking out potential value accretive opportunities to grow and complement its product portfolio.

Finally, I would like to thank all my fellow shareholders on their continued support and look forward to keeping you updated on the company's progress over the coming year.

Uwe Boettcher
Chairman

Dated this 27th day of September 2018

Managing Director’s Operations Report

Dear Shareholders,

I am pleased to report that XTEK recorded a strong performance with revenue for Financial Year 2018 from the sale of goods and services increasing by 91% to $17.3m (2017: $9m) and a net profit of $139,224. The significant rise in revenue for Financial Year 2018 reflects increased business sales for both value-added reseller products and in-house manufactured products and is at the upper end of the Company’s earlier revenue guidance of between $11m and $18m. This strong net profit result was helped by a robust second half performance by the Group, with the revenue increase due to higher sales for both XTEK’s value added reseller and in-house manufactured products.

For the coming financial year, XTEK revenue guidance is between $20m and $26m excluding Land 129 maintenance, XTclave and XTatlas sales.

Principal Activities

During the year the principal activities the Group focused on were:

- The supply of products and services to Defence and Law Enforcement agencies throughout Australasia.
- The supply of Small Unmanned Aerial Systems to the Army (SUAS).
- The continued development and commercialisation of XTclave isostatic Composite Consolidation Technology (armour) and XTatlas contextual video and mosaic mapping technology.
- Securing a range of new and enhanced products to assist governments in countering the terror threat.

Operating Results

The net profit after tax for FY18 was A$139,224 while revenue for the full-year period increased to A$17.3million, reflecting increased sales for both XTEK’s value added reseller and in-house manufactured products. This result was achieved as the Company expensed $1.2m in R&D during the year in its new products, showing a higher underlying profitability than reflected by the reported net profit.

The simplified Income Statement for the financial year ended 30 June 2018 is outlined below:

	1st Half				2nd Half				Full Year			
	Dec-17	Dec-16	Change		Jun-18	Jun-17	Change		Jun-18	Jun-17	Change	
	$'000		$'000	%	$'000		$'000	%	$'000		$'000	%
Total revenue - goods and services	**5,284**	**1,130**	**4,154**	**368%**	**11,983**	**7,893**	**4,090**	**52%**	**17,267**	**9,023**	**8,244**	**91%**
Gross profit	**1,708**	**137**	**1,571**	**1147%**	**3,021**	**3,360**	**(339)**	**-10%**	**4,729**	**3,497**	**1,232**	**35%**
Gross profit %	32%	12%			25%	43%			27%	39%		
Other income	351	329	22	7%	245	267	(22)	-8%	596	596	-	0%
Total expenses	(2,718)	(1,806)	(912)	50%	(2,468)	(2,226)	(242)	11%	(5,186)	(4,032)	(1,154)	29%
Profit / (loss) before tax	**(659)**	**(1,340)**	**681**	**51%**	**798**	**1,401**	**(603)**	**-43%**	**139**	**61**	**78**	**128%**
Income tax	-	-	-	-	-	-	-	-	-	-	-	-
Total Profit / (loss) after tax	**(659)**	**(1,340)**	**681**	**51%**	**798**	**1,401**	**(603)**	**-43%**	**139**	**61**	**78**	**128%**

Financial Position

In addition to a successful share purchase plan and share placement which raised $2.5m during July 2017, the Group traded cash positive over the year. Cash at bank at 30 June 2018 was $5.9m, which is more than double the cash position as at 30 June 2017($2.8m). The Group also ended the financial year without debt.

Operations Report (continued)

A table highlighting the Group's overarching business trends from financial year 2016 to 2018 is shown below:

Performance Indicators	Financial Year 2016	2017	2018
Revenue from sale of goods and services $'000	3,353	9,023	17,267
Gross profit from sales of goods and services $'000	1,270	3,497	4,729
Gross profit %	38%	39%	27%
Net profit $'000	(1,588)	61	139
Return on sales %	(47%)	0.68%	0.81%
Net tangible asset backing per share $	0.076	0.193	0.190
Market Capitalisation @ 30 June $'000	8,871	18,921	17,976

Review of Operations

Product Sales and Services
The Group covers a range of products, equipment solutions and maintenance services including:

- **In-House Development and Manufactured Products**
  - Ballistic Plates and Helmets produced with XTclave
  - Software applications for exploitation of video from SUAS
  - Weapon systems (rifles)

- **Value Added Reseller Products**
  - Small Unmanned Aerial Systems
  - Explosive Ordnance Disposal (EOD) equipment
  - Tactical and protective equipment
  - Forensic equipment and products

- **Logistic Engineering and Maintenance**
  - Service and repairs
  - Training

Government agencies continued to upgrade their respective defence and homeland security requirements during the reporting period. The Company responded strongly to meet these ongoing demands, through the provision of specialist defence and homeland security equipment and the sale of EOD unmanned ground vehicles. This resulted in significantly increased sales during the reporting period,

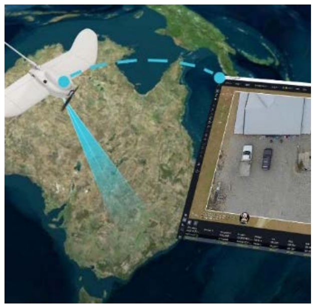
On 25 July 2017, the Company signed a $42m contract to supply SUAS to the Australian Army. The operational progress achieved in FY18 has placed the Company in a strong position to build on its momentum in FY19 with $38m of contracted revenue already in place.

XTEK Engineering Development

XTEK has continued to invest in its new products in order to prepare for the growth of the organisation. The R&D investment represents $1.2m and is similar to FY17. This amount demonstrates a larger underlying profitability in the operational activity of the company. These products will generate substantial revenues with high margins in the years to come as both XTatlas and XTclave have been recognized as unique and superior products from our target customers and are now ready to be delivered in quantities.

XTatlas

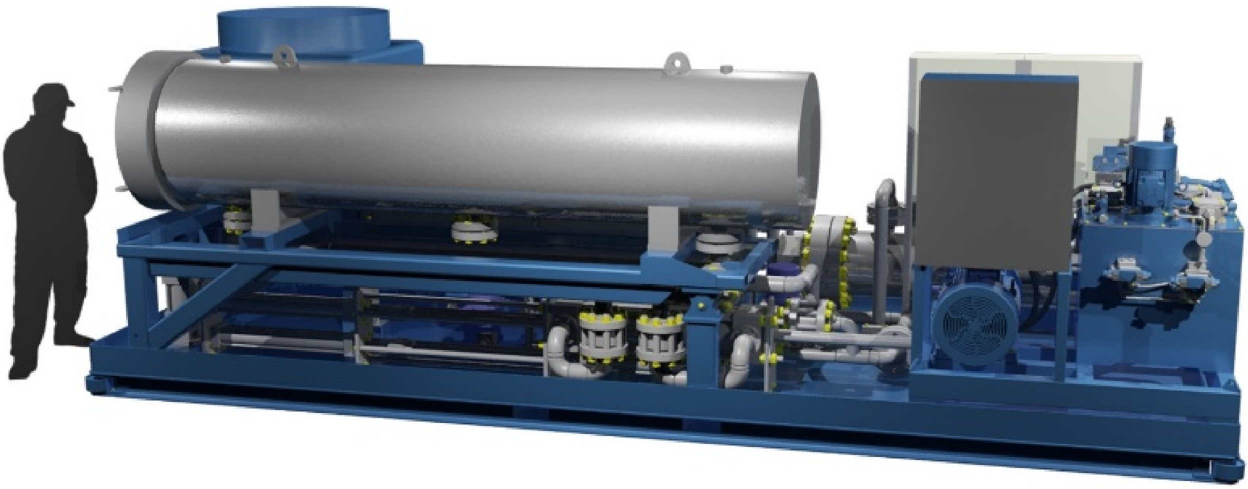
The Group finalised development of XTatlas extrapolation from live video to produce digital imaging and 3D models in near real time during the reporting period. Commercialisation pathways for XTatlas commenced in the second half, with global demand being identified from UAS operators, defence and homeland security agencies. This has stimulated significant interest from a range of potential clients. There were no XTatlas sales during the reporting period but a first purchase order for two licences was received in August 2018.



XTclave

The Group continued development and testing work on advanced lightweight hard armour body plate solutions for defence applications during the reporting period, utilising the XTclave technology. The Group is pleased to report that it is investing in a new manufacturing facility with a capacity to deliver $20m of ballistic products (plates and helmets) to be operational in the first half of CY19. Construction of the new commercial scale XTclave plant commenced in the second half of FY18 with a contract being signed for the production and delivery of the pressure vessels prior to the end of November 2018. Improvements in other equipment and processes have also progressed significantly towards starting the XTEK manufacturing plant.

Testing of plates with clients has intensified during the reporting period with two paying contracts from domestic and international sources for plates being signed. Good progress and results achieved on the testing of helmets with the Company’s BAA contract for the US agency CTTSO (Counter Terrorism Technical Support Office).



Operations Report (continued)

Significant changes in the state of affairs

Between 3 and 5 July 2017, the Parent Company raised $1.066m in capital through a share placement program and subsequently issued 2,318,266 new securities to sophisticated investors.

On 31 July 2017, the Parent Company raised $1.429m in capital through a share purchase plan and subsequently issued 3,216,438 new securities to eligible security holders.

On 24 April 2018, Mr. Christopher Fullerton was appointed as a Non-Executive Director of the Company.

In June 2018, the Parent Company completed the issue of new securities to Kentgrove Capital following their exercising of a total of 100,000 unlisted options prior to the expiry date of 15 July 2018

There were no other significant changes to the state of affairs in financial year 2018.

Matters subsequent to the end of the financial year

In July 2018, the Parent Company completed the issue of new securities to Kentgrove Capital following their exercising of a total of 400,000 unlisted options prior to the expiry date of 15 July 2018

Philippe Odouard
Managing Director

Dated this 27th day of September 2018

XTEK Limited and Controlled Entities
Directors' Report

Your Directors present their report on the consolidated entity consisting of XTEK Limited and its controlled entity for financial year ended 30 June 2018. The information in the preceding operating and financial review forms part of this Directors' report for the financial year ended 30 June 2018 and is to be read in conjunction with the following information:

Directors

The following persons were Directors of XTEK Limited during the financial year ending 30 June 2018:

- Mr. Uwe Boettcher
- Mr. Philippe Odouard
- Mr. Robert Quodling
- Mr. Ivan Slavich
- Mr. Christopher Fullerton

Particulars of each Director's experience and qualifications are set out later in this report.

Indemnifying Officers or Auditor

During the financial year, the Company has given an indemnity or entered into an agreement to indemnify, or paid or agreed to pay insurance premiums as follows:

- The Company has paid a premium of $23,000 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.

- No payment has been made to indemnify Hardwickes Chartered Accountants 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 but has not done so during this reporting period.

Directors' Report (continued)

During the year the following fees were paid or payable for services provided by the auditor of the Company, Hardwickes Chartered Accountants in 2018 (2017: Hardwickes Chartered Accountants):

Assurance services	**2018**	2017
	$	$
Audit and review of financial reports and other audit work under the Corporations Act 2001	**59,400**	57,318

Auditors Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2018 has been received and can be found on page 12 of the financial report.

Information relating to the Directors and Company Secretary during the reporting period

Mr. Uwe Boettcher	Director (Non-Executive & Chairman)
Experience	Mr. Boettcher is the Principal of the law firm, Boettcher Law, starting his career at the firm now known as King & Wood Mallesons. 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 2005 he was appointed a Fellow of the Australian Institute of Banking and Finance. In 1996/97 he was the Treasurer of the ACT Law Society. Mr. Boettcher has a special interest in commercialising new and innovative technologies, investing in them and bringing them to market.
Interest in Shares/Options	5,260,261 ordinary shares at 30 June 2018
Special Responsibilities	Chairman of the Nomination Committee
Other Directorships	Chairman of the Kord Defence Group of Companies, and Health-Innovate Pty Limited, Director of Lava Blue Limited, Greenmag Group Pty Ltd, Capital Angels Pty Limited and Manuka Corporate Pty Limited. He is an alternate Director of Mineral Carbonation International Pty Limited.
Mr. Philippe Odouard	Director (Executive)
Experience	Mr. Odouard has over 26 years in general management of Defence related companies in Australia and overseas. He developed Quickstep, an innovative ASX listed company from a start up to a leader in composite manufacture and technology with $50m revenue. He specialises in developing and commercialising new technology in a Defence environment.
Interest in Shares/Options	363,669 ordinary shares at 30 June 2018
Special Responsibilities	Managing Director
Other Directorships	None
Mr. Robert Quodling	Director (Executive)
Experience	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 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.
Interest in Shares/Options	325,022 ordinary shares at 30 June 2018
Special Responsibilities	Chief Operations Officer
Other Directorships	Director of Simmersion Holdings Pty Ltd and Asura Marketing Pty Ltd

Mr. Ivan Slavich — Director (Non-Executive)

Experience

Mr. Slavich has over 30 years of senior management and executive experience in the energy, banking, telecommunications and business consulting arena. He has a proven track record over numerous years of being an exceptional leader and motivator in developing and implementing strategic innovations, business process re-engineering and integration, resulting in substantial improvement of business sales and profitability. He is the CEO of Energy Action Limited (ASX:EAX) and has held an officers rank in the Australian Army Reserve. He is a Graduate and Fellow of the Australian Institute of Company Directors.

Interest in Shares/Options — 645,694 ordinary shares at 30 June 2018.

Special Responsibilities — Chairman of Human Resources and Remuneration Committee

Other Directorships — Director of Service One Members Banking.

Mr. Christopher Fullerton — Director (Non-Executive)

Experience

Mr. Fullerton has extensive experience in investment, management and investment banking and is a qualified chartered accountant. He worked in Hong Kong and Singapore for 15 years before returning to Australia in 1992. He is an investor in listed equities and private equity and has been a non-executive director of a number of ASX listed companies. He is currently a non-executive director of ASX listed Paradigm Biopharmaceuticals Limited and his unlisted company directorships cover companies in the property investment and agriculture sectors.

Interest in Shares/Options — 50,000 0rdinary shares at 30 June 2018

Special Responsibilities — Chairman of Finance, Audit and Risk Management Committee, effective 1 July 2018

Other Directorships — Director of Kador Group Holdings, and Paradigm Biopharmaceuticals

Mr. Lawrence Gardiner — Company Secretary (Resigned as Executive Director on 1 August 2016)

Experience

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 is a current member of the Australian Institute of Company Directors.

Interest in Shares/Options — 70,482 ordinary shares at 30 June 2018

Special Responsibilities — Corporate Governance

Other Directorships — None

Meetings of Directors	Directors' meetings		Finance, Audit and Risk Management Committee		Nomination Committee		Renumeration Committee	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Mr Uwe Boettcher	10	10	8	8	2	2	2	2
Mr Philippe Odouard	10	10	8	8	2	2	2	2
Mr Robert Quodling	10	10	8	8	2	2	2	2
Mr Ivan Slavich	10	10	8	8	2	2	2	2
Mr Christopher Fullerton	2	1	2	1	-	-	1	-

Remuneration Report

Table 1: Benefits and Payments for the Year Ended 30 June 2018

Key Management Personnel		Short-term Benefits				Post-Employment Benefits		Long-term Benefits		
		Salary, Fees and Leave *1	Bonus	Non-monetary Benefits	Share-based Pmts	Super-annuation	Other	LSL *2	Total	% Perf. Related
		$	$	$	$	$	$	$	$	%
Mr Uwe	2018	90,000	-	-	-	-	-	-	90,000	
Boettcher	2017	90,000	-	-	-	-	-	-	90,000	
Mr Philippe	2018	295,905	24,750	10,336	158,282	25,000	5,851	1,016	521,140	35%
Odouard	2017	219,498	-	-	-	21,265	12,024	-	252,787	
Mr Robert	2018	146,688	13,489	-	15,541	14,888	13,489	2,808	206,903	14%
Quodling	2017	138,623	-	-	-	13,229	-	1,516	153,368	
Mr Ivan	2018	45,000	-	-	-	-	-	-	45,000	
Slavich	2017	45,000	-	-	-	-	-	-	45,000	
Mr Chris	2018	6,514	-	-	-	-	-	-	6,514	
Fullerton	2017	-	-	-	-	-	-	-	-	
Mr Lawrence	2018	134,675	3,562	-	4,104	13,132	3,562	2,510	161,545	5%
Gardiner	2017	123,531	-	-	-	12,204	-	-15,735	120,000	
Mr Brian	2018	-	-	-	-	-	-	-	-	
Malcolm	2017	58,304	-	-	-	6,829	-	-	65,133	
Mr David	2018	141,566	3,987	-	4,598	13,828	-	980	164,959	5%
Brooking	2017	135,043	-	-	-	12,531	-	414	147,988	
Total KMP	2018	860,348	45,788	10,336	182,525	66,848	22,902	7,314	1,196,061	
	2017	809,999	0	0	0	66,058	12,024	-13,805	874,276	

*** Notes**

1. Salary, fees and leave 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. Amounts included for leave are movements in the accrued annual leave entitlements for the relevant twelve-month period.

2. Amounts included above for long service leave are movements in accrued entitlements for the relevant twelve month period.

a) Options Rights Granted as Remuneration

There were no new issues of share options or share performance rights during the 2017-18 or the 2016-17 financial years. All share options and share performance rights issued by the parent company have lapsed.

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

b) Service Agreements

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

Mr Philippe Odouard - Managing Director

- A written employment agreement is in place, salary level effective 1 July 2018.
- Base salary, exclusive of superannuation, to the value of $305,700 per annum.
- Rental Allowance, to the value of $252.83 per week.
- Eligibility for Company Long Term Incentive Plan.
- Eligibility for Company Short Term Incentive Plan.

Mr Robert Quodling - Chief Operating Officer

- A written employment agreement is in place, salary level effective 1 July 2018.
- Base salary, exclusive of superannuation, to the value of $185,000 per annum.
- Eligibility for Company Long Term Incentive Plan.
- Eligibility for Company Short Term Incentive Plan.

Mr Lawrence Gardiner - Company Secretary

- A written employment agreement is in place, salary level effective 1 July 2018.
- Base salary, exclusive of superannuation, to the value of $131,977 per annum.
- Eligibility for Company Long Term Incentive Plan
- Eligibility for Company Short Term Incentive Plan

Mr David Brooking - Chief Financial Officer

- A written employment agreement is in place, effective 1 July 2018.
- Base salary, exclusive of superannuation, to the value of $160,000 per annum.
- Eligibility for Company Long Term Incentive Plan.
- Eligibility for Company Short Term Incentive Plan.

This Directors' Report and Remuneration Report is signed in accordance with a resolution of the Board of Directors.

Uwe Boettcher Chairman

Dated this 27th day of September 2018

Auditor’s independence Declaration

Hardwickes
more than accounting

6 Phipps Close Deakin ACT 2600
PO Box 322 Curtin ACT 2605

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F 02 6282 5933
E info@hardwickes.com.au

www.hardwickes.com.au

Hardwickes
ABN 35 973 938 183

Hardwickes Partners Pty Ltd
ABN 21 008 401 536

Auditor's Independence Declaration under Section 307C of the Corporations Act 2001 to the Directors of XTEK Limited and the Controlled Entity

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2018, there have been:

(i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

Hardwickes

Hardwickes
Chartered Accountants

R Johnson

Robert Johnson
Partner

27 September 2018

Canberra

CHARTERED ACCOUNTANTS
AUSTRALIA • NEW ZEALAND

Consolidated Statement of Profit or Loss and Other Comprehensive Income for the Year Ended 30 June 2018

	Notes	2018 $	2017 $
Revenue	4(a)	**17,266,892**	9,023,483
Cost of sales		**(12,537,561)**	(5,525,918)
Gross profit		**4,729,331**	3,497,565
Other income	4(b)	**596,661**	596,261
Employee benefits expense	5(a)	**(3,116,875)**	(2,253,111)
Depreciation and amortization expense	5(b)	**(88,863)**	(75,172)
Operational expenditure	5(d)	**(1,977,191)**	(1,646,321)
Finance costs	5(c)	**(3,839)**	(57,997)
Profit / (loss) from operations before income tax		**139,224**	61,225
Income tax expense		**-**	-
Total comprehensive income for the year		**139,224**	61,225

Consolidated Statement of Financial Position as at 30 June 2018

	Notes	2018 $	2017 $
ASSETS			
Current assets			
Cash and cash equivalents	11	**5,944,620**	2,821,616
Trade and other receivables	12	**5,979,880**	2,558,524
Inventories	13	**1,466,734**	886,472
Other	14	**347,841**	659,568
Total current assets		**13,739,075**	6,926,180
Non-current assets			
Property, plant and equipment	15	**512,646**	324,438
Intangible assets	16	**96,614**	80,109
Total non-current assets		**609,260**	404,547
TOTAL ASSETS		**14,348,335**	7,330,727
LIABILITIES			
Current liabilities			
Trade and other payables	17	**5,785,405**	1,025,687
Employee Benefits	18	**287,459**	333,730
Other financial liabilities	19	**544,613**	196,556
Total current liabilities		**6,617,477**	1,555,973
Non-current liabilities			
Trade and other payables	17	**15,859**	24,922
Employee benefits	18	**44,551**	26,787
Other Financial liabilities	19	**102,794**	113,100
Total non-current liabilities		**163,204**	164,809
TOTAL LIABILITIES		**6,780,681**	1,720,782
NET ASSETS		**7,567,654**	5,609,945
EQUITY			
Contributed equity	21	**27,196,530**	25,378,045
Reserves	30(a)	**516,110**	516,110
Accumulated losses	30(b)	**(20,144,986)**	(20,284,210)
TOTAL EQUITY		**7,567,654**	5,609,945

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity for the Year Ended 30 June 2018

2018

	Note	Issued capital $	Equity-based payments reserve $	Accumulated losses $	Total $
Balance at 1 July 2017		**25,378,045**	**516,110**	**(20,284,210)**	**5,609,945**
Profit for the year		**-**	**-**	**139,224**	**139,224**
Shares issued during the year		**1,985,731**	**-**	**-**	**1,985,731**
Transaction costs		**(167,246)**	**-**	**-**	**(167,246)**
Balance at 30 June 2018	21	**27,196,530**	**516,110**	**(20,144,986)**	**7,567,654**

2017

	Note	Issued capital $	Equity-based payments reserve $	Accumulated losses $	Total $
Balance at 1 July 2016		21,569,000	516,110	(20,345,435)	1,739,675
(Loss) for the year		-	-	61,225	61,225
Shares issued during the year		4,113,000	-	-	4,113,000
Transaction costs		(303,955)	-	-	(303,955)
Reserve from acquisition of subsidiary		25,378,045	516,110	(20,284,210)	5,609,945
Balance at 30 June 2017	21	**25,378,045**	**516,110**	**(20,284,210)**	**5,609,945**

Statement of Cash Flows for the Year Ended 30 June 2018

	Note	2018 $	2017 $
Cash flows from/(used in) operating activities			
Receipts from customers		**16,292,504**	8,866,922
Payments to suppliers and employees		**(14,512,779)**	(10,218,712)
		1,779,725	(1,351,790)
Interest received		**46,187**	3,995
Finance costs		**(3,839)**	(57,997)
Net cash flows from operating activities	25	**1,822,073**	(1,405,792)
Cash flows (used in)/from investing activities			
Proceed from sale of property plant and equipment		**1,609**	-
Payment for intangible assets	16(a)	**(16,505)**	-
Payments for property, plant and equipment	15(a)	**(278,129)**	(131,154)
Net cash used by investing activities		**(293,025)**	(131,154)
Cash flows from financing activities			
Proceeds from issue of ordinary shares		**1,761,201**	4,113,000
Payment of transaction costs	21(a)	**(167,245)**	(303,955)
Net cash used by financing activities		**1,593,956**	3,809,045
Net increase (decrease) in cash and cash equivalents		**3,123,004**	2,272,099
Cash and cash equivalents at beginning financial year		**2,821,616**	549,517
Cash and cash equivalents at end of year	11	**5,944,620**	2,821,616

The accompanying notes form part of these financial statements.

Notes to the Financial Statements for the Year Ended 30 June 2018

The financial report covers XTEK Limited and the Controlled Entity ('the Group'). XTEK Limited and the Controlled Entity is a for-profit Company limited by shares, incorporated and domiciled in Australia.

Each of the entities within the Group prepare their financial statements based on the currency of the primary economic environment in which the entity operates (functional currency). The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

The financial report was authorised for issue by the Directors on 27 September 2018.

Comparatives are consistent with prior years, unless otherwise stated.

1 Basis of Preparation

The financial statements are general purpose financial statements that have been prepared in accordance with the Australian Accounting Standards and the *Corporations Act 2001.* Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied.

These financial statements comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

2 Summary of Significant Accounting Policies

(a) Basis for consolidation

The consolidated financial statements incorporate all of the assets, liabilities and results of XTEK Limited and its 100% owned subsidiary – Simmersion Holdings Pty Limited. Subsidiaries are entities the parent controls. The parent controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The assets, liabilities and results of all subsidiaries are fully consolidated into the financial statements of the Group from the date on which control is obtained by the Group. The consolidation of a subsidiary is discontinued from the date that control ceases. Intercompany transactions, balances and unrealised gains or losses on transactions between group entities are fully eliminated on consolidation. Accounting policies of subsidiaries have been changed and adjustments made where necessary to ensure uniformity of the accounting policies adopted by the Group.

(b) Income Tax

The income tax expense on 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

2 Summary of Significant Accounting Policies

(b) Income Tax

- 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 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 directly in equity are recognised in equity and not in the Statement of Comprehensive Income.

(c) 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.

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.

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.

(d) Revenue and other income

Revenue is recognised when the amount of the revenue can be measured reliably, it is probable that economic benefits associated with the transaction will flow to the Group and specific criteria relating to the type of revenue as noted below, has been satisfied.

Revenue is measured at the fair value of the consideration received or receivable and is presented net of returns, discounts and rebates.

All revenue is stated net of the amount of goods and services tax (GST).

Sale of goods

Revenue is recognised on transfer of goods to the customer as this is deemed to be the point in time when risks and rewards are transferred and there is no longer any ownership or effective control over the goods.

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.

Rendering of services

Revenue in relation to rendering of services is recognised depending on whether the outcome of the services can be estimated reliably. If the outcome can be estimated reliably then the stage of completion of the services is used to determine the appropriate level of revenue to be recognised in the period.

If the outcome cannot be reliably estimated then revenue is recognised to the extent of expenses recognised that are recoverable.

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(u).

(e) Finance costs

Finance cost includes all interest-related expenses, other than those arising from financial assets at fair value through profit or loss.

Notes to the Financial Statements (continued)

2 Summary of Significant Accounting Policies

(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 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 costs).

(g) Goods and services tax (GST)

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO).

Receivables and payables are stated inclusive of GST.

The net amount of GST recoverable from, or payable to, the ATO is included as part of receivables or payables in the statement of financial position.

Cash flows in the statement of cash flows are included 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 is classified as operating cash flows.

(h) 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.

(i) Property, plant and equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment.

Where the cost model is used, the asset is carried at its cost less any accumulated depreciation and any impairment losses. Costs include purchase price, other directly attributable costs and the initial estimate of the costs of dismantling and restoring the asset, where applicable.

Plant and equipment

Plant and equipment are measured using the cost model.

Depreciation

Property, plant and equipment, excluding freehold land, is depreciated on a straight-line basis over the assets useful life to the Group, commencing when the asset is ready for use.

Leased assets and leasehold improvements are amortised over the shorter of either the unexpired period of the lease or their estimated useful life.

The estimated useful lives used for each class of depreciable asset are shown below:

Fixed asset class	**Useful life**
Plant and Equipment	3 - 15 years

(i) Property, plant and equipment

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.

(j) Financial instruments

Financial instruments are recognised initially using trade date accounting, i.e. on the date that the Group becomes party to the contractual provisions of the instrument.

On initial recognition, all financial instruments are measured at fair value plus transaction costs (except for instruments measured at fair value through profit or loss where transaction costs are expensed as incurred).

Financial Assets

Financial assets are divided into the following categories which are described in detail below:

- loans and receivables;
- financial assets at fair value through profit or loss;
- available-for-sale financial assets; and
- held-to-maturity investments.

Financial assets are assigned to the different categories on initial recognition, depending on the characteristics of the instrument and its purpose. A financial instrument's category is relevant to the way it is measured and whether any resulting income and expenses are recognised in profit or loss or in other comprehensive income.

All income and expenses relating to financial assets are recognised in the statement of profit or loss and other comprehensive income in the 'finance income' or 'finance costs' line item respectively.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers but also incorporate other types of contractual monetary assets.

After initial recognition these are measured at amortised cost using the effective interest method, less provision for impairment. Any change in their value is recognised in profit or loss.

Notes to the Financial Statements (continued)

2 Summary of Significant Accounting Policies

(j) Financial instruments

The Group's trade and other receivables fall into this category of financial instruments.

In some circumstances, the Group renegotiates repayment terms with customers which may lead to changes in the timing of the payments, the Group does not necessarily consider the balance to be impaired, however assessment is made on a case-by-case basis.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets:

- acquired principally for the purpose of selling in the near future
- designated by the entity to be carried at fair value through profit or loss upon initial recognition or
- which are derivatives not qualifying for hedge accounting.

Assets included within this category are carried in the statement of financial position at fair value with changes in fair value recognised in finance income or expenses in profit or loss.

Any gain or loss arising from derivative financial instruments is based on changes in fair value, which is determined by direct reference to active market transactions or using a valuation technique where no active market exists.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity. Investments are classified as held-to-maturity if it is the intention of the Group's management to hold them until maturity.

Held-to-maturity investments are subsequently measured at amortised cost using the effective interest method, with revenue recognised on an effective yield basis. In addition, if there is objective evidence that the investment has been impaired, the financial asset is measured at the present value of estimated cash flows. Any changes to the carrying amount of the investment are recognised in profit or loss.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that do not qualify for inclusion in any of the other categories of financial assets or which have been designated in this category. The Group's available-for-sale financial assets comprise listed securities.

All available-for-sale financial assets are measured at fair value, with subsequent changes in value recognised in other comprehensive income.

Gains and losses arising from financial instruments classified as available-for-sale are only recognised in profit or loss when they are sold or when the investment is impaired.

In the case of impairment or sale, any gain or loss previously recognised in equity is transferred to the profit or loss.

Losses recognised in the prior period consolidated statement of profit or loss and other comprehensive income resulting from the impairment of debt securities are reversed through the statement of profit or loss and other comprehensive income, if the subsequent increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

Financial liabilities

Financial liabilities are classified as either financial liabilities ‘at fair value through profit or loss’ or other financial liabilities depending on the purpose for which the liability was acquired.

The Group‘s financial liabilities include trade and other payables (including finance lease liabilities), which are measured at amortised cost using the effective interest rate method.

Impairment of financial assets

At the end of the reporting period the Group assesses whether there is any objective evidence that a financial asset or group of financial assets is impaired.

(j) Financial instruments

Financial assets at amortised cost

If there is objective evidence that an impairment loss on financial assets 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 the estimated future cash flows discounted at the financial assets original effective interest rate.

Impairment on loans and receivables is reduced through the use of an allowance account, all other impairment losses on financial assets at amortised cost are taken directly to the asset.

Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

Available-for-sale financial assets

A significant or prolonged decline in value of an available-for-sale asset below its cost is objective evidence of impairment, in this case, the cumulative loss that has been recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. Any subsequent increase in the value of the asset is taken directly to other comprehensive income.

(k) Impairment of non-financial assets

At the end of each reporting period the Group determines whether there is evidence of an impairment indicator for non-financial assets.

Where an indicator exists and regardless for goodwill, indefinite life intangible assets and intangible assets not yet available for use, the recoverable amount of the asset is estimated.

Where assets do not operate independently of other assets, the recoverable amount of the relevant cash-generating unit (CGU) is estimated.

The recoverable amount of an asset or CGU is the higher of the fair value less costs of disposal and the value in use. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Where the recoverable amount is less than the carrying amount, an impairment loss is recognised in profit or loss.

Reversal indicators are considered in subsequent periods for all assets which have suffered an impairment loss, except for goodwill.

Notes to the Financial Statements (continued)

2 Summary of Significant Accounting Policies

(l) Intangibles

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 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.

(m) Cash and cash equivalents

Cash and cash equivalents comprises cash on hand, demand deposits and short-term investments which are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

Bank overdrafts also form part of cash equivalents for the purpose of the statement of cash flows and are presented within current liabilities on the statement of financial position.

(n) 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.

(n) Employee benefits

(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 twelve months after Statement of Financial Position date are discounted to present value.

(o) Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

Provisions are measured at the present value of management's best estimate of the outflow required to settle the obligation at the end of the reporting period. The discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the unwinding of the discount is taken to finance costs in the statement of profit or loss and other comprehensive income.

(p) Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the company by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share adjusts the basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(q) Contributed Equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options which vest immediately are recognised as a deduction from equity, net of any tax effects.

2 Summary of Significant Accounting Policies

(r) Foreign currency transactions and balances

Foreign currency transactions are recorded at the spot rate on the date of the transaction.

At the end of the reporting period:

- Foreign currency monetary items are translated using the closing rate;

Notes to the Financial Statements (continued)

- Non-monetary items that are measured at historical cost are translated using the exchange rate at the date of the transaction; and
- Non-monetary items that are measured at fair value are translated using the rate at the date when fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition or in prior reporting periods are recognised through profit or loss, except where they relate to an item of other comprehensive income or whether they are deferred in equity as qualifying hedges.

(s) Share Based Payment 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 in 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.

(t) 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.

(u) 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.

(v) 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.

(w) Dividends

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

2 Summary of Significant Accounting Policies

(x) 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.

(y) 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 thirty 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

Notes to the Financial Statements (continued)

raised when there is objective evidence that members of 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.

(z) New Accounting Standards and Interpretations

The AASB has issued new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods. The Group has decided not to early adopt these Standards. The following table summarises those future requirements, and their impact on the Group where the standard is relevant:

(i) AASB 9: Financial Instruments and associated Amending Standards (applicable to annual reporting periods beginning on or after 1 January 2018).

The Standard will be applicable retrospectively (subject to the provisions on hedge accounting outlined below) and includes revised requirements for the classification and measurement of financial instruments, revised recognition and derecognition requirements for financial instruments and simplified requirements for hedge accounting.

The key changes that may affect the Group on initial application include certain simplifications to the classification of financial assets, simplifications to the accounting of embedded derivatives, upfront accounting for expected credit loss, and the irrevocable election to recognise gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. AASB 9 also introduces a new model for hedge accounting that will allow greater flexibility in the ability to hedge risk, particularly with respect to hedges of non-financial items. Should the entity elect to change its hedge policies in line with the new hedge accounting requirements of the Standard, the application of such accounting would be largely prospective.

Although the directors anticipate that the adoption of AASB 9 may have an impact on the Group's financial instruments, including hedging activity, it is impracticable at this stage to provide a reasonable estimate of such impact.

(ii) AASB 15: Revenue from Contracts with Customers (applicable to annual reporting periods beginning on or after 1 January 2018, as deferred by AASB 2015-8 : Amendments to Australian Accounting Standards – Effective Date of AASB 15).

When effective, this Standard will replace the current accounting requirements applicable to revenue with a single, principles-based model. Apart from a limited number of exceptions, including leases, the new revenue model in AASB 15 will apply to all contracts with customers as well as non-monetary exchanges between entities in the same line of business to facilitate sales to customers and potential customers.

The core principle of the Standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. To achieve this objective, AASB 15 provides the following five-step process:

- identify the contract(s) with a customer;
- identify the performance obligations in the contract(s);
- determine the transaction price;
- allocate the transaction price to the performance obligations in the contract(s); and
- recognise revenue when (or as) the performance obligations are satisfied.

The transitional provisions of this Standard permit an entity to either: restate the contracts that existed in each prior period presented per AASB 108 : Accounting Policies, Changes in Accounting Estimates and Errors (subject to certain practical expedients in AASB 15); or recognise the cumulative effect of retrospective application to incomplete contracts on the date of initial application. There are also enhanced disclosure requirements regarding revenue.

Although the directors anticipate that the adoption of AASB 15 may have an impact on the Group's financial statements, it is impracticable at this stage to provide a reasonable estimate of such impact.

(iii) AASB 16: Leases (applicable to annual reporting periods beginning on or after 1 January 2019).

When effective, this Standard will replace the current accounting requirements applicable to leases in AASB 117 : Leases and related Interpretations. AASB 16 introduces a single lessee accounting model that eliminates the requirement for leases to be classified as operating or finance leases.

The main changes introduced by the new Standard are as follows:

- recognition of a right-of-use asset and liability for all leases (excluding short-term leases with less than 12 months of tenure and leases relating to low-value assets);
- depreciation of right-of-use assets in line with AASB 116 : Property, Plant and Equipment in profit or loss and unwinding of the liability in principal and interest components;
- inclusion of variable lease payments that depend on an index or a rate in the initial measurement of the lease liability using the index or rate at the commencement date;
- application of a practical expedient to permit a lessee to elect not to separate non-lease components and instead account for all components as a lease; and

The transitional provisions of AASB 16 allow a lessee to either retrospectively apply the Standard to comparatives in line with AASB 108 or recognise the cumulative effect of retrospective application as an adjustment to opening equity on the date of initial application.

Although the directors anticipate that the adoption of AASB 16 will impact the Group's financial statements, it is impracticable at this stage to provide a reasonable estimate of such impact.

3 Critical Accounting Estimates and Judgments

The directors make estimates and judgements during the preparation of these financial statements regarding assumptions about current and future events affecting transactions and balances.

These estimates and judgements are based on the best information available at the time of preparing the financial statements, however as additional information is known then the actual results may differ from the estimates.

The significant estimates and judgements made have been described below.

Key estimates - impairment of property, plant and equipment

The Group assesses impairment at the end of each reporting period by evaluating conditions specific to the Group that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value-in-use calculations which incorporate various key assumptions.

Key estimates - provisions

As described in the accounting policies, provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period. These estimates are made taking into account a range of possible outcomes and will vary as further information is obtained.

Notes to the Financial Statements (continued)

Key estimates - receivables

The receivables at reporting date have been reviewed to determine whether there is any objective evidence that any of the receivables are impaired. An impairment provision is included for any receivable where the entire balance is not considered collectible. The impairment provision is based on the best information at the reporting date.

4 Revenue and Other Income

(a) Revenue from operations

	2018 $	2017 $
Value added reseller	**12,817,081**	3,114,820
XTEK manufactured goods	**1,663,607**	2,440,352
Logistics engineering revenue	**2,576,154**	3,150,694
Other income	**210,050**	317,617
Total Revenue	**17,266,892**	9,023,483

(b) Other Income

	2018 $	2017 $
Interest income	**46,187**	3,995
R&D tax incentive	**534,570**	578,904
Other income	**15,904**	13,362
Total Other income	**596,661**	596,261
Total Revenue and Other Income	**17,863,553**	9,619,744

5 Expenses

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

(a) Employee Benefits

	2018 $	2017 $
Salaries and wages	**2,685,116**	1,928,307
Superannuation contributions	**278,193**	228,079
Redundancy payments	-	3,101
Payroll tax	**122,912**	69,611
Workers compensation	**30,654**	24,013
Total Employee Benefits	**3,116,875**	2,253,111

(b) Depreciation

	2018 $	2017 $
Plant and machinery	**42,394**	27,563
Motor vehicles	**908**	908
Demonstration equipment	**9,087**	10,985
Computer software	**3,883**	607
Office furniture and equipment	**28,488**	31,007
Leasehold improvements	**4,103**	4,102
Total Depreciation	**88,863**	75,172

(c) Finance costs

	2018 $	2017 $
Interest	**3,839**	57,997
Total Finance costs	**3,839**	57,997

Notes to the Financial Statements (continued)

(d) Operational expenditure

	2018 $	2017 $
Accounting fees	**41,232**	18,558
Audit fees	**63,268**	57,318
Advertising and conferences	**131,211**	106,998
Bank charges	**6,294**	5,120
Consultancy fees	**394,569**	220,019
Directors fees	**135,000**	147,500
Insurance	**142,213**	159,790
FBT	**9,166**	4,456
Legal fees	**-**	974
Office administrative costs	**592,769**	509,371
Operating lease charges	**34,754**	33,355
Share registry expenses	**63,798**	50,851
Travel and entertainment	**158,459**	74,958
Staff training	**11,036**	11,959
R&D project expenses	**79,279**	135,299
Net foreign currency (gains)/losses	**-**	4,032
Other expenses	**114,143**	105,763
Total Operational expenditure	**1,977,191**	1,646,321

6 Income Tax Expense

(a) The major components of tax expense (income) comprise:

	2018 $	2017 $
Current tax expense		
Current income tax charge	**192,582**	210,653
Loss used not recognised	**(192,582)**	(210,653)
Deferred tax expense		
Origination and reversal of temporary differences	**(1,286)**	(19,870)
Change in unrecognised deductible temporary difference	**1,286**	19,870
	-	-

(b) Reconciliation of income tax to accounting profit:

	2018 $	2017 $
Profit	**139,224**	61,225
Tax	**27.5%**	27.5%
	38,287	17,143
Add:		
Tax effect of amounts which are not deductible (taxable) in calculating taxable income		
- Capital raising cost amortised	**(38,666)**	(32,533)
- Entertainment	**736**	288
- Losses brought to account	**(192,582)**	(202,292)
- Timing differences not brought to account	**1,286**	19,870
- Research and development expenditure	**337,946**	349,600
- Research and development offsets	**(147,007)**	(152,076)
Income tax expense	**-**	-

(c) Recognised Deferred Tax Assets and Liabilities

	2018 $	2017 $
Deferred tax liabilities		
Unrealised gains	**-**	169
Gross deferred tax liabilities	**-**	169
Deferred tax liability not recognised	**-**	(169)
Total	**-**	-

	2018 $	2017 $
Deferred tax assets		
Accrued expenses	**10,676**	14,292
Superannuation	**18,907**	20,399
Employee leave entitlements	**91,303**	99,142
Unrealised foreign exchange losses	**14,064**	-
Impaired assets	**238,222**	238,222
Potential tax losses	**5,640,328**	4,728,028
Potential capital tax losses	**427,972**	447,752
Deferred differences and losses not recognised	**(6,441,472)**	(5,547,835)
Net deferred tax asset	**-**	-

Notes to the Financial Statements (continued)

(d) Tax Losses

The Parent Company and subsidiary are consolidated for taxation purposes.

The Group has capital tax losses for which no deferred tax asset is recognised on the Balance Sheet that arise in Australia of $1,556,260 (2017: $1,556,260) and are available indefinitely for offset against future capital gains of a similar nature subject to continuing to meet relevant statutory tests.

The Group has accumulated tax losses for which no deferred tax asset has been recognised of $20,510,285 (Parent company, 2017: $17,192,830). 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 2018, there are no unrecognised temporary differences associated with the Parent Company's investments in subsidiaries as the Parent has no liability for additional taxation should unremitted earnings be remitted (2017: nil).

7 Key Management Personnel Remuneration

Refer to the remuneration report in the Directors' report for details of remuneration paid or payable to each member of the Group's key management personnel (KMP) for the year ended 30 June 2018.

Key management personnel remuneration included within employee expenses for the year is shown below:

	2018 $	2017 $
Short-term employee benefits	**1,098,997**	809,999
Post-employment benefits	**89,750**	78,082
Other long-term benefits	**7,314**	(13,805)
	1,196,061	874,276

8 Auditor's Remuneration

	2018 $	2017 $
Remuneration of the auditor Hardwickes Chartered Accountants, for		
- Audit and review of financial reports and other audit work under the Corporations Act 2001	**59,400**	57,318
Total	**59,400**	57,318

9 Dividends

Ordinary shares

There were no dividends paid or proposed for the period to 30 June 2018 (2017: Nil).

Franking account

	2018 $	2017 $
The franking credits available for subsequent financial years at a tax rate of 27.5%	**981,110**	981,110

9 Dividends

Franking account

The above available balance is based on the dividend franking account at year-end adjusted for:

(a) Franking credits that will arise from the payment of the current tax liabilities;

(b) Franking debits that will arise from the payment of dividends recognised as a liability at the year end;

(c) Franking credits that will arise from the receipt of dividends recognised as receivables at the end of the year.

The ability to use the franking credits is dependent upon the Company's future ability to declare dividends.

10 Operating Segments

Segment information

Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision maker) in assessing performance and determining the allocation of resources.

The Group is managed primarily on the basis of product category and service offerings as the diversification of the Group's operations inherently have notably different risk profiles and performance assessment criteria. Operating segments are therefore determined on the same basis.

Reportable segments

The homeland security value added reseller business remains XTEK's major reportable segment (see note 4A) 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.

(a) Major customers

The Company has a number of customers to whom it provides both products and services. The Company supplies a number of Australian Government Agencies, which combined, account for 80% of revenue (2017: 91%). Sales to the federal, state and territory police forces account for 18% of the government agency revenue (2017: 14%).

(b) Geographical information

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers whereas segment assets are based on the location of the assets.

	2018	**2017**
	$	**$**
Australia	**17,035,025**	8,751,034
United States	**210,050**	220,030
New Zealand	**6,669**	52,419
Other	**15,147**	-
Total revenue	**17,266,891**	9,023,483

Notes to the Financial Statements (continued)

11 Cash and Cash Equivalents

	2018	2017
	$	$
Cash at bank and in hand	**5,944,620**	2,821,616
	5,944,620	2,821,616

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

Reconciliation of cash

Cash and Cash equivalents reported in the statement of cash flows are reconciled to the equivalent items in the statement of financial position as follows:

	2018	2017
	$	$
Cash and cash equivalents	**5,944,620**	2,821,616
Balance as per statement of cash flows	**5,944,620**	2,821,616

12 Trade and Other Receivables

	2018 $	2017 $
CURRENT		
Trade receivables	**767,537**	1,733,146
Other receivables	**5,212,343**	825,378
Total current trade and other receivables	**5,979,880**	2,558,524

Terms and conditions

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

A provision for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. There was no impairment loss recognised in 2018 (2017: Nil).

At 30 June 2018, the ageing analysis of trade receivables is as follows:

	Past due but not impaired (days overdue) Gross amount $	Past due but not impaired (days overdue) < 30 $	Past due but not impaired (days overdue) 31-60 $	Past due but not impaired (days overdue) 61-90 $	Past due but not impaired (days overdue) > 90 $
2018					
Trade receivables	**767,537**	**597,612**	**2,725**	**2,244**	**164,956**
Total	**767,537**	**597,612**	**2,725**	**2,244**	**164,956**
2017					
Trade receivables	1,733,146	1,733,146	-	-	-
Total	1,733,146	1,733,146	-	-	-

All overdue receivables at 30 June 2018 were received by August 2018.

The Group does not hold any financial assets with terms that have been renegotiated, but which would otherwise be past due or impaired.

The other classes of receivables do not contain impaired assets.

The carrying value of trade receivables is considered a reasonable approximation of fair value due to the short-term nature of the balances.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable in the financial statements.

13 Inventories

	2018 $	2017 $
CURRENT		
Work in progress	**725,411**	323,023
Products and spare parts	**741,323**	563,449
	1,466,734	886,472

There were no inventory write downs in financial year 2018 (2017: Nil). Any expense would be included in the changes in inventories of finished goods and work in progress in the Statement of Comprehensive Income.

Notes to the Financial Statements (continued)

14 Other Current Assets

	2018 $	2017 $
CURRENT		
Prepayments	**324,365**	638,831
Short term loan	**23,476**	20,737
	347,841	659,568

15 Property, plant and equipment

	2018 $	2017 $
PLANT AND EQUIPMENT		
Plant and equipment		
At cost	**497,500**	255,150
Accumulated depreciation	**(188,606)**	(150,431)
Total plant and equipment	**308,894**	104,719
Office Furniture and Equipment		
At cost	**256,792**	243,011
Accumulated depreciation	**(177,163)**	(147,727)
Total office furniture and equipment	**79,629**	95,284
Motor vehicles		
At cost	**42,554**	58,011
Accumulated depreciation	**(36,633)**	(51,181)
Total motor vehicles	**5,921**	6,830
Demonstration Equipment		
At cost	**144,208**	138,644
Accumulated depreciation	**(124,461)**	(115,374)
Total demonstration equipment	**19,747**	23,270
Computer software		
At cost	**82,824**	71,867
Accumulated depreciation	**(69,848)**	(67,114)
Total computer software	**12,976**	4,753
Leasehold Improvements		
At cost	**61,272**	61,272
Accumulated depreciation	**(57,105)**	(53,002)
Total leasehold improvements	**4,167**	8,270
UAS		
At cost	**81,312**	81,312
Total UAS	**81,312**	81,312
Total plant and equipment	**512,645**	324,438
Total property, plant and equipment	**512,646**	324,438

(a) Movements in carrying amounts of property, plant and equipment

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year:

	Plant and Equipment $	Office Furniture and Equipment $	Motor Vehicles $	Demonstration Equipment $
Year ended 30 June 2018				
Balance at the beginning of year	**104,719**	**95,284**	**6,830**	**23,270**
Additions	**246,571**	**15,037**	-	**5,564**
Disposals	**-**	**(1,058)**	-	**-**
Depreciation expense	**(42,396)**	**(29,634)**	**(909)**	**(9,087)**
Balance at the end of the year	**308,894**	**79,629**	**5,921**	**19,747**

	Computer Software $	Leasehold Improvements $	UAS $	Total $
Year ended 30 June 2018				
Balance at the beginning of year	**4,753**	**8,270**	**81,312**	**324,438**
Additions	**10,957**	**-**	**-**	**278,129**
Disposals	**-**	**-**	**-**	**(1,058)**
Depreciation expense	**(2,734)**	**(4,103)**	**-**	**(88,863)**
Balance at the end of the year	**12,976**	**4,167**	**81,312**	**512,646**

	Plant and Equipment $	Office Furniture and Equipment $	Motor Vehicles $	Demonstration Equipment $
Year ended 30 June 2017				
Balance at the beginning of year	114,260	96,646	7,738	19,858
Additions	18,021	30,251	-	14,398
Depreciation expense	(27,562)	(31,613)	(908)	(10,986)
Balance at the end of the year	104,719	95,284	6,830	23,270

	Computer Software $	Leasehold Improvements $	UAS $	Total $
Year ended 30 June 2017				
Balance at the beginning of year	-	12,373	26,465	277,340
Additions	4,753	-	54,847	122,270
Depreciation expense	-	(4,103)	-	(75,172)
Balance at the end of the year	4,753	8,270	81,312	324,438

Notes to the Financial Statements (continued)

16 Intangible Assets

	2018 $	2017 $
Patents		
Cost	**96,614**	80,109
Total Intangibles	**96,614**	80,109

During the full year ended 30 June 2018, the Company recognised $16,506 for patent application costs associated with the Intellectual Property of the process for the manufacture of multilayer articles (2017: $8,884). These costs have an indefinite useful life.

(a) Movements in carrying amounts of intangible assets

	Patents $	Total $
Year ended 30 June 2018		
Balance at the beginning of the year	**80,109**	**80,109**
Additions	**16,505**	**16,505**
Closing value at 30 June 2018	**96,614**	**96,614**

	Patents $	Total $
Year ended 30 June 2017		
Balance at the beginning of the year	71,225	71,225
Additions	8,884	8,884
Closing value at 30 June 2017	80,109	80,109

17 Trade and Other Payables

	2018 $	2017 $
Current		
Trade and other payables	**1,363,137**	756,013
GST payable	**55,929**	60,600
Sundry payable and accrued expenses	**4,306,136**	200,011
Derivative financial liability	**51,140**	-
Rent payable	**9,063**	9,063
	5,785,405	1,025,687

Trade and other payables are unsecured, non-interest bearing and are normally settled within 30 days. The carrying value of trade and other payables is considered a reasonable approximation of fair value due to the short-term nature of the balances.

	2018 $	2017 $
Non-Current		
Rent payable	**15,859**	24,922
	15,859	24,922

18 Employee Benefits

	2018 $	2017 $
Current liabilities		
Long service leave	**142,597**	163,687
Annual leave provision	**144,862**	170,043
	287,459	333,730

	2018 $	2017 $
Non-current liabilities		
Long service leave	**44,551**	26,787
	44,551	26,787

(a) Nature and timing of provisions

Refer to note 1(n) for the relevant accounting policy and discussion of the significant estimations and assumptions applied in the measurement of this provision.

19 Deferred Income

	2018 $	2017 $
CURRENT		
Customer deposits	**544,613**	196,556
Total	**544,613**	196,556

	2018 $	2017 $
NON-CURRENT		
Customer deposits	**102,794**	113,100
Total	**102,794**	113,100

20 Interest bearing liabilities

No loans were made to the Group during the course of 2017-18. The group finished the year without borrowings.

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.

21 Issued Capital

	2018 $	2017 $
39,947,678 (2017: 35,700,690) Ordinary shares	**27,196,530**	25,378,045
Total	**27,196,530**	25,378,045

400,000 unlisted share options were on issue at 30 June 2018, these were all exercised in July 2018.

Notes to the Financial Statements (continued)

21 Issued Capital

(a) Movement in ordinary shares

	2018 No.	2018 $	2017 No.	2017 $
Opening balance	35,700,690	25,378,045	25,713,393	21,569,000
Shares issued	4,246,988	1,985,730	9,987,297	4,113,000
Transaction cost in relation to capital	-	(167,245)	-	(303,955)
Total	**39,947,678**	**27,196,530**	**35,700,690**	**25,378,045**

(b) Expired options and share performance rights

There were 400,000 unlisted options on issue at 30 June 2018, these share options were exercised in July 2018. There were no share performance rights exercisable at the end of any prior year.

As at 30 June 2018 there were no unissued shares nor were there any at the end of any prior 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.

22 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.

	2018 $	2017 $
Basic profit per share	**0.004**	0.002
Dilutive profit per share	**0.004**	0.002

Reconciliations of earnings used in calculating basic and diluted earnings per share

(a) Reconciliation of earnings to profit or loss from continuing operations

	2018 $	2017 $
Profit from continuing operations	**139,224**	61,225
Earnings used in the calculation of dilutive EPS from continuing operations	**139,224**	61,225

(b) Earnings used to calculate overall earnings per share

	2018 $	2017 $
Earnings used to calculate overall earnings per share	**139,224**	61,225

(c) Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS

	2018 No.	2017 No.
Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	**39,375,685**	28,708,788
Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	**39,375,685**	28,708,788

(d) Options and share performance right

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.

(e) Share Issuance

The issued capital of XTEK Ltd & controlled entities at 30 June 2018 comprises 39,947,678 (2017: 35,700,690) fully paid Ordinary Shares with 400,000 (2017: 500,000) unlisted options on issue at 30 June 2018.

23 Capital and Leasing Commitments

	2018 $	2017 $
Minimum lease payments under non-cancellable operating leases:		
- not later than one year	**287,804**	279,229
- between one year and five years	**512,944**	626,890
- later than five years	**-**	-
	800,748	906,119

24 Government grants

(a) AusIndustry's R&D tax incentive

Income of $534,570 was recognised in FY 2018 from AusIndustry's R&D Tax Incentive (2017: $578,904).

25 Cash flow information

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

		2018 $	2017 $
Total profit for the year		**139,224**	61,225
Non-cash flows in profit:			
- depreciation	15(a)	**88,863**	75,172
- net gain on disposal of property, plant and equipment		**(551)**	-
- unrealised loss on derivative		**51,140**	-
- share issued as part of staff incentive plan	25(b)	**224,529**	-
Changes in assets and liabilities:			
- (increase) in trade and other receivables		**(3,421,356)**	(1,846,624)
- decrease/(Increase) in prepayments		**311,727**	(506,078)
- (increase) in inventory		**(580,527)**	(117,240)
- increase in deferred income		**337,751**	227,846
- increase in trade and other payables		**4,699,780**	679,142
- increase in employee benefits		**(28,507)**	20,765
Cashflows from operating activities		**1,822,073**	(1,405,792)

(b) Non-cash Financing and investing activities

During the year ended 30 June 2018, 419,681 new ordinary shares at the issue price of $0.46 per share were issued as part of staff incentive plans for FY 2017/18 in place for senior employees of the company.

Notes to the Financial Statements (continued)

26 Share-based Payments

During the year ended 30 June 2018, 419,681 new ordinary shares at the issue price of $0.46 per share were issued as part of staff incentive plans for FY 2017/18 in place for senior employees of the company.

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 approved by shareholders:

(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.

Share Options and Share Performance Rights

There were 400,000 unlisted options at 30 June 2018 (2017: 500,000). There were no options or share performance rights in the hands of staff issued at the start of financial year 2018 or the prior year. There were no options or share performance rights in the hands of staff exercisable at the end of the year or any prior year. As at 30 June 2018, there were no unissued shares.

Employee Share Issue

There were no shares issued to employees under the Employee Share Ownership Plan (ESOP) in 2018 or 2017.

The Board approved a bonus comprising cash and fully paid ordinary shares separate from the LTIP and ESOP: 419,681 fully paid ordinary shares were issued in accordance with a Board resolution of 27 September 2017.

Weighted Average Share Price

The weighted average market price at 30 June 2018 was 50.9 cents (2017: 39.6 cents)

27 Events Occurring After the Reporting Date

The financial report was authorised for issue on 27 September 2018 by the board of directors.

- In July 2018, the Company issued 400,000 fully paid ordinary shares at issue price of $0.45 per share following the exercised unlisted options.

Except for the above, no other matters or circumstances have arisen since the end of the financial year which significantly affected or could significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

28 Related Parties

(a) The Group's main related parties are as follows:

1. Entities

The entity is XTEK Limited and its wholly owned subsidiary Simmersion Holdings Pty Ltd. The financial details for the Parent entity are at Note 31.

2. Directors

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

3. Key management personnel

Disclosures relating to key management personnel are set out in the remuneration report.

28 Related Parties

(b) Transactions with related parties

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

The following transactions occurred with related parties:

2017-18
There were no loans made to the Group in 2017-18 year. The Group finished the year without borrowings.

2016-17
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.

29 Financial Risk Management

The Group is exposed to a variety of financial risks through its use of financial instruments.

The Group's overall risk management plan seeks to minimise potential adverse effects due to the unpredictability of financial markets.

The most significant financial risks to which the Group is exposed to are described below:

Specific risks

- Liquidity risk
- Credit risk
- Market risk - currency risk, interest rate risk and price risk

Financial instruments used

The principal categories of financial instrument used by the Group are:

- Trade receivables
- Cash at bank
- Trade and other payables

		2018 $	2017 $
Financial Assets			
Cash and cash equivalents	11	**5,944,620**	2,821,616
Trade and other receivables	12	**5,979,880**	2,558,524
		11,924,500	5,380,140
Financial liabilities			
Trade and other payables	17	**5,745,335**	990,008
		5,745,335	990,008

Notes to the Financial Statements (continued)

29 Financial Risk Management

Objectives, policies and processes

The Board of Directors has overall responsibility for the establishment of the Group's financial risk management framework. This includes the development of policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk and the use of derivatives.

Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The day-to-day risk management is carried out by the Group's finance function under policies and objectives which have been approved by the Board of Directors. The Chief Financial Officer has been delegated the authority for designing and implementing processes which follow the objectives and policies. This includes monitoring the levels of exposure to interest rate and foreign exchange rate risk and assessment of market forecasts for interest rate and foreign exchange movements.

The Board of Directors receives monthly reports which provide details of the effectiveness of the processes and policies in place.

The XTEK Group does not engage in the trading of financial assets for speculative purposes. Mitigation strategies for specific risks faced are described below.

Liquidity risk

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group could encounter difficulty in meeting its financial obligations as they fall due.

The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities as and when they fall due. The Group maintains cash and marketable securities to meet its liquidity requirements for up to 30-day periods. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities and the ability to sell long term financial assets.

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash-outflows due in day-to-day business.

Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a 180-day and a 360-day period are identified monthly.

At the reporting date, these reports indicate that the Group expected to have sufficient liquid resources to meet its obligations under all reasonably expected circumstances and will not need to draw down any of the financing facilities.

Financial guarantee liabilities are treated as payable on demand since the Group has no control over the timing of any potential settlement of the liabilities.

The timing of cash flows presented in the table to settle financial liabilities reflects the earliest contractual settlement dates and does not reflect management's expectations that banking facilities will be rolled forward. The amounts disclosed in the table are the undiscounted contracted cash flows and therefore the balances in the table may not equal the balances in the statement of financial position due to the effect of discounting.

The Group's liabilities have contractual maturities which are summarised below:

	Not later than 1 month		Total	
	2018	2017	2018	2017
	$	$	$	$
Trade payables	**5,745,335**	990,008	**5,745,335**	990,008
Total	**5,745,335**	990,008	**5,745,335**	990,008

Credit risk

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents and trade and other receivables. The Group'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 Group trades only with recognised, creditworthy third parties, and as such collateral is not requested nor is it the Group's policy to securitise its trade and other receivables. The Group 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 Group'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 Group's exposure to bad debts is not significant.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

(i) *Foreign exchange risk*

The Group has transactional currency exposures. Such exposure arises from sales or purchases by the Group in currencies other than the Group's functional currency. Approximately 57% (2017: 34%) of the Group's purchases are denominated in currencies other than the functional currency of the operating entity making the purchase whilst 76% 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 2018, had the Australian Dollar moved, with all other variables held constant, post-tax (loss)/profit would have been affected as follows:

	2018		2017	
	+10%	-10%	+10%	-10%
USD	$	$	$	$
Net results	**126,493**	**(154,602)**	62,283	(76,123)
EUR				
Net results	**7,188**	**(11,329)**	2,077	(2,539)
GBP				
Net results	**65**	**(80)**	651	(796)

Notes to the Financial Statements (continued)

29 Financial Risk Management

Market risk

(i) Foreign exchange risk

Exposure to foreign exchange rates vary during the year depending on the volume of overseas trading transactions. Nonetheless, the analysis able is considered to be representative of the Group's exposure to foreign currency risk.

(ii) Interest rate risk

The Group'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 $5,944,620 (2017: $2,821,616) 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 2018, 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:

The calculations are based on the financial instruments held at each reporting date. All other variables are held constant.

	2018		**2017**	
	+1.00%	**-1.00%**	**+1.00%**	**-1.00%**
	$	**$**	**$**	**$**
Net results	**59,446**	**(59,446)**	28,216	(28,216)
Equity	**59,446**	**(59,446)**	28,216	(28,216)

There is no exposure to market interest rates as there is no current finance.

30 Reserves and retained (losses)/profits

Equity Based Payment reserve

Equity based payments reserve consists of:

- premium paid on the purchase of Simmersion Holdings Pty Ltd during 2016;
- share performance rights granted to Executives and Management during 2008, and
- options and share performance rights granted to Directors and Executives during 2007 credited against equity during the year.

(a) Movement in reserves

	2018	**2017**
	$	**$**
Balance at the beginning of the year	**516,110**	516,110
Movements	**-**	-
Balance at the end of the year	**516,110**	516,110

(b) Accumulated Losses

Movement in accumulated profit/(losses) were as follows:

	2018 $	2017 $
Balance at the beginning of the year	**(20,284,210)**	(20,345,435)
Profit/(losses) for the year	**139,224**	61,225
Balance at the end of the year	**(20,144,986)**	(20,284,210)

31 Parent entity

The following information has been extracted from the books and records of the parent, XTEK Limited and has been prepared in accordance with Accounting Standards.

The financial information for the parent entity, XTEK Limited has been prepared on the same basis as the consolidated financial statements except as disclosed below.

	2018 $	2017 $
Statement of Financial Position		
Assets		
Current assets	**13,827,647**	6,963,860
Non-current assets	**606,751**	400,891
Total Assets	**14,434,398**	7,364,751
Liabilities		
Current liabilities	**6,598,403**	1,536,571
Non-current liabilities	**163,203**	164,809
Total Liabilities	**6,761,606**	1,701,380
Net Assets	**7,672,792**	5,663,371
Equity		
Issued capital	**27,196,530**	25,378,045
Retained earnings	**(20,037,966)**	(20,228,902)
Reserves	**514,228**	514,228
Total Equity	**7,672,792**	5,663,371
Statement of Profit or Loss and Other Comprehensive Income		
Total profit or loss for the year	**190,936**	92,741
Total comprehensive income	**190,936**	92,741

Contingent liabilities

The parent entity did not have any contingent liabilities as at 30 June 2018 or 30 June 2017.

Contractual commitments

The parent entity did not have any commitments as at 30 June 2018 or 30 June 2017.

32 Contingencies

In the opinion of the Directors, the Group did not have any contingencies at 30 June 2018 (30 June 2017:None).

33 Statutory Information

The registered office of and principal place of business of the company is:

XTEK Limited and the Controlled Entity
3 Faulding Street
Symonston ACT 2609

Directors' Declaration

In accordance with a resolution of the Directors of XTEK Limited, the Directors declare that:

1. The financial statements and notes are in accordance with the Corporations Act 2001 and:

   (a) Comply with Australian Accounting Standards, which as stated in accounting policy Note 1 to the financial statements, constitutes compliance with International Financial Reporting Standards (IFRS) and;

   (b) Give a true and fair view of the financial position as at 30 June 2018 and of the performance for the year ended on that date for the consolidated group;

2. In the Directors' opinion there are reasonable grounds to believe that the Group will be able to pay its debts as and when they fall due; and

3. The Directors have been given the declarations required by s 295A of the Corporations Act 2001 from the Managing Director and Chief Financial Officer.

On behalf of the Board

Uwe Boettcher
Chairman

Dated this 27th day of September 2018

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XTEK Limited and the Controlled Entity

Independent Audit Report to the members of XTEK Limited and the Controlled Entity

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of XTEK Limited and its subsidiaries (the Group), which comprises the statement of financial position as at 30 June 2018, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year ended; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

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XTEK Limited and the Controlled Entity

Independent Audit Report to the members of XTEK Limited and the Controlled Entity

Key Audit Matters

The directors have adopted the "Going concern basis of accounting" in the preparation of financial statements. In addressing the Key audit matters in our audit of the financial statements, we concur with this treatment.

We have arrived at this position based on our assessment of:

- the continued support of shareholders through the capital raising program demonstrated by the capital raised during the year;
- the growth in turnover during the year & continued strength of forward sales contracts negotiated;
- from our review of the future cash flows and budgets prepared by management to predict the timing of cash outflows and the possible requirement for future capital injections; and
- managements demonstrated ability to operate within set budgets.

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The financial report does not include any adjustments or qualification relating to the recoverability and classification of recorded amounts or the amounts and classification of liabilities that might be necessary should the entity not continue as a going concern.

Responsibilities of Directors 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 control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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XTEK Limited and the Controlled Entity

Independent Audit Report to the members of XTEK Limited and the Controlled Entity

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Hardwickes

Hardwickes
Chartered Accountants

R Johnson

Robert Johnson
Partner

Canberra
27 September 2018

CHARTERED ACCOUNTANTS
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Additional Information

The following information set out below was applicable as at 25 September 2018:

1. Shareholding

(a) Distribution of Shareholders

Category (size of holding)	Number Ordinary Shares
1 – 1,000	97,058
1,001 – 5,000	905,279
5,001 – 10,000	1,382,655
10,001 – 100,000	10,945,160
100,001 and over	27,017,526
	40,347678

(b) 20 Largest Shareholders – Ordinary Shares

Rank	Name	Number of Ordinary Fully Paid Shares No.	% Held of Issued Ordinary Capital %
1	UDB PTY LIMITED <THE BOETTCHER FAMILY A/C>	4,027,296	9.98
2	MRS WENDY WING LIN LO	2,529,022	6.27
3	FAIRLANE MANAGEMENT PTY LTD	2,096,097	5.20
4	MR PETER ALFFRED TERNES <CLOUD THIRTY SUPER FUND A/C>	1,525,000	3.78
5	UDB PTY LIMITED <BOETTCHER SUPER FUND ACCOUNT>	1,232,965	3.06
6	BISSAPP SOFTWARE PTY LTD <BISAPP SOFTWARE SF A/C>	859,506	2.13
7	BISSAPP SOFTWARE PTY LTD <SUPER FUND ACCOUNT>	679,000	1.68
8	MR NICHOLAS HENRY WEBER <MAJURA FAMILY A/C>	675,804	1.67
9	MR IVAN SLAVICH	645,694	1.60
10	DWKSJK PTY LTD <SEAWEED INVESTMENT A/C>	603,090	1.49
11	ANWAT MARKETING PTY LTD	558,807	1.38
12	CHIMAERA PTY LTD <CHIMAERA SUPER FUND A/C>	519,348	1.29
13	APAM HOLDINGS PTY LTD <HECTOR SUPER FUND A/C>	481,024	1.19
14	RACCOLTO INVESTMENTS PTY LTD <MAPLELEAF SUPER FUND A/C>	430,000	1.07
15	ATECH GROUP PTY LIMITED <ATECH GROUP SUPER FUND A/C>	404,900	1.00
16	KENTGROVE CAPITAL PTY LTD <KENTGROVE GROWTHTECH A/C>	400,000	0.99
17	O R SUPER PTY LTD <OR SYSTEMS SUPER FUND A/C>	387,260	0.96
18	BRUESSEL-LAWIN PTY LTD <CANBERRA COAST HAMBURGSF A/C>	381,202	0.94
19	MR PHILIPPE ODOUARD	363,669	0.90
20	MR DAVID JOHN PEACHEY + MRS SARAH PEACHEY <THE PEACHEY SBF A/C>	357,241	0.89
Totals: Top 20 holders of ORDINARY SHARES		**19,156,925**	**47.48**
Total Remaining Holders Balance		**21,190,753**	**55.52**

2. The name of the Company Secretary is Mr. Lawrence Gardiner.

3. The address of the Principal Registered Office of XTEK Limited in Australia is 3 Faulding Street, Symonston, ACT, 2609, Telephone +61 2 6163 5588.

XTEK LIMITED AND CONTROLLED ENTITIES
CORPORATE GOVERNANCE STATEMENT

XTEK Limited and controlled entities 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 security holder 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 and recommendations for Corporate Governance (3rd Edition).

PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Council Recommendation 1.1: A listed entity should disclose the respective roles and responsibilities of Board and Management and those matters expressly reserved to the Board and those delegated to Management

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

Role of Managing Director

The Managing Director'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 Chief Financial Officer) 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 of 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 Company's financial position, strategies, operations and risk management policies. Also, 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 Managing Director, Company Secretary Chief Financial Officer (CFO) and the Chief Operating Officer as well as reviewing the performance of the Managing Director 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 Managing Director 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 and Risk Management Committee;
- Human Resources and 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 matters expressly reserved for the Board of Directors

The following matters and responsibilities have been expressly reserved for the Board:

- 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 corporate risks that arise are identified, assessed, appropriately managed and monitored;
- Ensuring appropriate resources are available to senior executives; and
- Reporting to security holders.

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. The Company complies with Recommendation 1.1.

Council Recommendation 1.2: A listed entity should undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election as a Director and in addition should disclose all material information in its possession relevant to a decision on whether or not to elect or re-elect a Director.

The Company has adopted a policy as developed by the Nomination Committee for the selection and appointment of Directors. This policy defines procedural processes for the appointment of new Directors and the re-election of incumbent Directors. As part of this process, the Company undertakes appropriate background checks on all candidates being considered for appointment. Directors are appointed based on the specific governance skills required by the Company to fill Board vacancies when they arise. The Company discloses all material information to security holders in its possession relevant to a decision on whether or not to elect or re-elect a Director. This is achieved primarily through the release of information contained within the Notice of Annual General Meeting of the Company covering motions on the election and re-election of Directors. The Company complies with Recommendation 1.2.

Council Recommendation 1.3: A listed entity should have a written agreement with each director and senior executive setting out the terms of their appointment

All new Directors and Senior Executives are provided with a letter of appointment setting out terms of the appointment, which include the Company's expectations, their individual responsibilities, rights and terms and conditions of their employment. By way of induction, new Directors and Executives meet with the Chairman and Company Secretary upon appointment. These briefings cover the operation of the Board and its Committees and financial, strategic, operations and risk management issues. The Company complies with Recommendation 1.3.

Council Recommendation 1.4: The Company Secretary of a listed entity should be accountable directly to the Board, through the Chair, on all matters to do with the proper functioning of the Board.

The Board has designated the Company Secretary as the Officer responsible for oversighting all governance matters 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. In addition, the Company Secretary is also responsible for the following matters:

- advising the Board and its Committees on all governance matters;
- monitoring of Board policy and procedures to ensure compliance standards are met by the Company;
- ensuring the business of the Board/Committee meetings are accurately recorded in official Minutes and disseminated in a timely manner;
- overseeing and coordinating information disclosure to the ASX, security holders, analysts, brokers, the media and the public;
- advising Directors and staff on the Company's governance and disclosure policies and raising awareness of the principles underlying continuous disclosure; and
- facilitating the induction and professional development of new Directors and Executives.

The Company complies with Recommendation 1.4.

Council Recommendation 1.5: A listed entity should have a disclosable diversity policy which includes requirements to set measurable objectives for achieving gender diversity.

The Company is committed to providing a safe working environment and equal employment opportunities for all Directors, executives and employees at all levels within the Company. Whilst the Company is not subject to the provisions of The Workplace Gender Equality Act, in that it employs less than 100 employees, it does recognise the importance of diversity within the workplace.

The Company operates as an equal opportunity Employer and selects personnel based upon the principle of the best person for the role/job, irrespective of gender, age, sexual orientation, ethnicity, marital or family status and religious or cultural background. The Company Code of Conduct defines that discrimination, harassment, vilification and victimisation cannot and will not be tolerated. Recruitment and selection practices at all levels are appropriately structured to ensure all candidates are considered and that no conscious or unconscious biases are applied against certain candidates.

The Company is a small business enterprise with less than 30 personnel overall (inclusive of the Board). None-the-less, the Company has successfully employed a number of women to management roles in recent years. Whilst the Company does not comply with Recommendation 1.5 fully, it nonetheless applies many of the core principles through its Code of Conduct provisions.

Council Recommendation 1.6: A listed entity should have and disclose a process for periodically evaluating the Board, Committees and individual Directors.

The Nomination Committee of the Board is responsible for the conduct of a performance review of the Board (both collectively and individually) and the Managing Director. 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 Nomination Committee, with the Chairman meeting privately with each Director to discuss their annual assessment. The Company complies with Recommendation 1.6.

Council Recommendation 1.7: A listed entity should have and disclose a process for periodically evaluating the performance of its senior executives.

The performance of senior executives is reviewed regularly through the application of a Performance Appraisal Program (PAP) that defines appropriate evaluation measures to be applied in the assessment process. Each year senior executives establish a set of performance targets. These targets are aligned to overall business goals and the Company's requirements of the position. The PAP is administered annually for all senior executives with the Managing Director 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 Managing Director 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.

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. The Company complies with Recommendation 1.7.

PRINCIPLE 2: STRUCTURE OF THE BOARD TO ADD VALUE

Council Recommendation 2.1: The Board of a listed entity should have a Nomination Committee

Nomination Committee

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. Under the Company's Constitution, the Board shall be comprised of not less than three and no more than twelve Directors, unless otherwise determined by a general meeting. 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.

Members of the Nomination Committee during the reporting period were:

- Mr. Uwe Boettcher (Chair);
- Mr. Chris Fullerton;
- Mr. Philippe Odouard;
- Mr. Robert Quodling; and
- Mr. Ivan Slavich.

Role of Nomination Committee

The role of the Nomination Committee is to:

- Review the structure, size and composition of the Board;
- Identify, consider and select candidates with appropriate capabilities, to fill Board vacancies when they arise;
- Ensure that candidates have adequate time available to fulfil their role as a Director;
- Undertake or arrange for annual performance evaluation of the Board, its committees and Directors, and
- Review 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.

Director Selection and Appointment

The Board has adopted a policy as developed by the Nomination Committee for the 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. If the need for a new Board member is identified, 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 security holders.

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. The Company complies with Recommendation 2.1.

Council Recommendation 2.2: A listed entity should have and disclose a Board skills matrix setting out the mix of skills and diversity that the Board currently has or is seeking to achieve in its membership.

The current Board is comprised of five Directors who possess a wide range of background skills, expertise and knowledge deemed appropriate for the Company's industry type. 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 on the Board of Directors page of XTEK's website. The Company complies with Recommendation 2.2.

Council Recommendation 2.3: A listed entity should disclose the names of the Directors considered by the Board to be independent.

The Board considers independent decision-making as critical to effective governance and to meet the ASX Corporate Governance Council Recommendations. Independent Directors are identified by their profiles in the 2017 Annual Report. These profiles detail 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, 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 m ember, 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 Director (Non-executive) and Chairman of the Company. Mr. Boettcher, as a Director of a major shareholder of the Company, does not meet the Company's criteria for independence. 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 Directors, Messrs. Fullerton and Slavich also met the criteria for independence during the reporting period for FY2018. The Company partially complies with Recommendation 2.3.

Council Recommendation 2.4: A majority of a Board of a listed entity should be independent Directors

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 currently consists of three Non-executive Directors and two Executive Directors.

To add value to the Company, the Board has been formed so that it has effective composition, size and commitment to adequately discharge its responsibilities and duties. The names of the Directors and their qualifications and experience are stated in their Director Profiles that form part of the 2018 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, Fullerton and Slavich served as Non-Executive Directors during the full reporting period for FY2017. 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. Fullerton and Slavich also met the criteria for independence during the reporting period for FY2018.

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 Company currently does not comply with Recommendation 2.4.

Council Recommendation 2.5: The Chairperson of a listed entity should be an independent Director and, in particular should not be the same person as the Managing Director of the entity.

Independence of Chairman

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

Roles of Chairman and Managing Director

The roles of Chairman and the Managing Director are not exercised by the same individual.

The Company complies with this independence requirement.

Council Recommendation 2.6: A listed entity should have a program for inducting new Directors and provide appropriate professional development opportunities for Directors to develop and maintain skills and knowledge needed to perform their role as Directors effectively.

The Board has designated the Company Secretary as the Officer responsible for facilitating the induction and professional development of new Directors. By way of induction, new Directors meet with the Chairman and Company Secretary upon appointment, whereby briefings are given on the operation of the Board and its Committees and financial, strategic, operations and risk management issues applicable to the Company. The Company Secretary provides all new Directors with a comprehensive induction package covering Company policies and procedures that are applicable to all Directors and employees. As part of their ongoing professional development, new Directors may be required to complete a Company Directors Course as conducted by the Australian Institute of Company Directors. The Company complies with Recommendation 2.6

PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING

Council Recommendation 3.1: A listed entity should have and disclose a code of conduct for its Directors, senior executives and employees.

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. All Directors, senior executives and employees are made aware 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 the following.

- *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 is committed to providing a safe workplace environment 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 its 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. The Company complies with Recommendation 3.1.

PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

Council Recommendation 4.1: The Board of a listed entity should have an Audit Committee.

Finance, Audit and 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.

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 continuously improve 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 Securities 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.

Composition

The Finance, Audit and Risk Management (FARM) Committee currently consists of five members. Members are appointed by the Board from amongst the Directors. Members of the FARM Committee during the reporting period were Messrs. Boettcher, Fullerton, Odouard, Quodling and Slavich. Mr. Fullerton 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.

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 together with procedures for the selection and appointment of external auditors and rotation of engagement partners and is posted on the Company's web site.

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 Hardwickes Chartered Accountants.

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. The Company complies with Recommendation 4.1.

Council Recommendation 4.2: The Board of a listed entity should before it approves the entity's financial statements for a financial period, receive assurance from the Managing Director and Chief Financial Officer that the declaration provided in accordance with section 295A of the *Corporations Act 2001* 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.

Management Attestation

At the time the Board reviews the draft half year and full year financial statements and reports, the Managing Director 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 2018, the Managing Director and the Chief Financial Officer 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. The Company complies with Recommendation 4.2.

Council Recommendation 4.3: A listed entity that has an AGM should ensure that its external Auditor attends the AGM and is available to answer questions from security holders relevant to the audit.

The Company ensures the external Auditor is available to attend the Annual General Meeting (AGM) of the Company and is available to answer security holder questions about the conduct of the audit and the preparation and content of the Auditor's Report. The Company complies with Recommendation 4.3.

PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURES

Council Recommendation 5.1: A listed entity should have and disclose its written policy for complying with continuous disclosure obligations under ASX Listing Rules.

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 to fulfil the Company's disclosure requirements, all Business Unit Heads are responsible for immediately communicating to the Managing Director and Company Secretary any possible continuous disclosure matter concerning their business unit. The Head of each business unit 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
- advising 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.

The Company's Continuous Disclosure policy is posted on the Company's web site at the Corporate Governance Section. The Company complies with Recommendation 5.1.

PRINCIPLE 6: RESPECT THE RIGHTS OF SECURITY HOLDERS

Council Recommendation 6.1: A listed entity should provide information about itself and its governance to investors via its website.

The Company aims to ensure that investors are kept informed of all major developments affecting the state of affairs of the Company and its governance regime via its website. Information currently available to investors through the Company's website, which has a dedicated investor relations section, includes the following:

- the names and brief biographical information of Directors and senior executives;
- the Company Constitution, Board/Committee Charters and corporate governance polices;
- the Annual Report and the Interim Report;
- disclosures made to the Australian Securities Exchange;
- notices and explanatory memoranda of annual and extraordinary general meetings; and
- regular newsletters to security holders where appropriate.

The Company complies with Recommendation 6.1.

Council Recommendation 6.2: A listed entity should design and implement an investor relations program to facilitate effective two-way communications with investors.

The Company recognises the importance of effective communications with investors and recently introduced a new Investor Relation program to facilitate enhanced communication with both security holders and investors. The Board has subsequently appointed a Managing Director, who is now responsible for managing this program. Mr. Philippe Odouard is currently appointed to this position. To facilitate the effective communication with investors, the Company is committed to:

- communicating effectively with investors and security holders through releases to the market via ASX, the Company's website and information mailed to security holders and the general meetings of the Company; and
- providing investors and security holders with ready access to balanced and relevant information about the Company and corporate proposals.

The Company website also includes a feedback mechanism and an option for investors and security holders to register their email address for direct email updates of Company matters. The Company complies with Recommendation 6.2.

Council Recommendation 6.3: A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.

The Company encourages full participation of security holders 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 security holders as single resolutions at general meetings. In order to make it easy for security holders to participate in general meetings of the Company, a direct voting facility has been put in place so as to allow security holders to vote ahead of the meeting without having to attend or appoint a proxy. This service is currently provided through the Company's security registry. The Company complies with Recommendation 6.3.

Council Recommendation 6.4: A listed entity should give security holders the options to receive communications from, and send communications to, the entity and its security registry electronically.

The Company encourages all security holders to exercise their option of receiving communications electronically from the Company and its security registry. This allows for the dissemination of Company information to security holders in a timely and cost effective manner. The Company in conjunction with its contracted security registry routinely issues newsletters, notices and financial reports electronically to those security holders that have registered for this service. The Company has developed formal policy for promoting communication with shareholders. The Company complies with Recommendation 6.4.

PRINCIPLE 7: RECOGNISING AND MANAGING RISK

Council Recommendation 7.1: The Board of a listed entity should have a committee to oversight material business risks and disclose the charter and policies of such a committee.

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. The Company complies with Recommendation 7.1.

Council Recommendation 7.2: The Board or a committee of the Board should review the entity's risk management framework at least annually to satisfy itself that it continues to be sound and subsequently disclose findings of the review

Board Review

The Board has delegated the responsibilities of conducting an annual review of the entity's risk management to the Finance Audit and Risk Management Committee. All such reviews are conducted in accordance with established risk management policy and take into account the formal Management Statement as provided by the Managing Director and the Chief Financial Officer on an annual basis.

Management Statement

The Managing Director and the Chief Financial Officer are required to provide a signed Management Statement to the Board on an annual basis with regard to the risk management and internal control systems of the Company. This statement requires the Managing Director and the Chief Financial Officer 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 come to their attention that would indicate any material change to the statements as made in relation to risk management and compliance.

On 27 September 2018, the Managing Director and the Chief Financial Officer 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. The Company complies with Recommendation 7.2.

Council Recommendation 7.3: A listed entity should disclose if it has an internal audit function, how the function is structured and what role it performs.

The Company has established an internal audit function that applies a systematic and disciplined approach to evaluating and continually improving the effectiveness of quality systems covering risk management and internal control measures. All internal audit functions are conducted throughout the year on a program authorised by the Managing Director. Findings and observations from internal audits are reported to the Managing Director and Company Secretary for subsequent corporate and Board action as required. Internal audits performed by the Company are subject to an annual quality systems assurance review by an external service provider. Failure to meet the requisite audit standards could result in a loss of quality systems accreditation by the Company. The Company complies with Recommendation 7.3.

Council Recommendation 7.4: A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and how it manages or intends to manage those risks.

The Company manages material exposure concerns associated with economic, environmental and social sustainability risks as part of its overall risk management strategies as defined in relevant risk policy and procedures. In the course of conducting its business as a listed entity and recognising the legitimate interests of stakeholders, the Company also utilises policy contained within its Code of Conduct Policy to guide compliance with legal and other obligations to legitimate stakeholders. These stakeholders include security holders, Directors, employees, customers, government authorities, creditors and the community as whole. The Company's Code of Conduct gives guidance on the following.

- *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 security holders and the financial community:* The Company complies with the spirit as well as the letter of all laws and regulations that govern business operations. 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.
- *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.
- *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.

The Company has developed a formal policy for recognising and managing risk, this policy is publically available and published on the Company's website. The Company complies with Recommendation 7.4

PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

Council Recommendation 8.1: The Board of a listed entity should have a Remuneration Committee.

Remuneration Committee

The role of the Committee is to review and make recommendations to the Board on remuneration packages for the Managing Director, Executive Directors, Company Secretary and other senior executives. 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 human resource 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 suitably qualified and experienced directors and senior executives. The Committee may obtain independent advice on the appropriateness of remuneration packages.

Composition

The Human Resource and Remuneration Committee currently consists of the Board. Mr. Slavich is the current Chair. The details of the member's qualifications may be found in their Director profiles published on the Company's website. The Company complies with Recommendation 8.1

Council Recommendation 8.2: A listed entity should clearly distinguish the structure of Non-Executive Directors remuneration from that of Executive Directors and Senior Executives.

Remuneration Practice

The 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 security holders, 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 Human Resources 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 security holders in a general meeting. This is currently set at $320,000 per annum.

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 Human Resource and Remuneration Committee and the Board and subject to security holder approval.

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, performance based bonus 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, Chief Operating Officer and the Chief Financial Officer may be remunerated by fixed salary and performance based bonuses. Remuneration packages will generally be set to be competitive to both retain 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 Managing Director 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 security holders in the current period.

The total cost of directors and senior executive remuneration packages for FY 2018, including the fair value of options, is listed in the Directors Report and Financial Statements of the 2018 XTEK Annual Report. The Company complies with Recommendation 8.2

Council Recommendation 8.3: A listed entity which has an equity-based remuneration scheme should have and disclose policy on participation in such a scheme.

The Company has approved equity-based incentive schemes in place to remunerate directors, senior executives and staff. The Board has determined that all approved issues of securities made to directors and employees of the Company under equity-based incentive schemes are disclosed to security holders and investors as part of its continuous disclosure obligations.

Policy pertaining to participation in equity-based incentive schemes by directors and employees in contained within the Human Resources and Remuneration Committee Policy, this policy is publically available and published on the Company's website. The Company complies with Recommendation 8.3.

XTEK Limited is Australia's homeland security specialist, providing high-quality protective security, tactical and forensics solutions to government, law enforcement, military and commercial sectors.

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