

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

26 September 2019

By Electronic Lodgement

Dear Sir/Madam,

LODGE MENT OF 2019 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 2019.

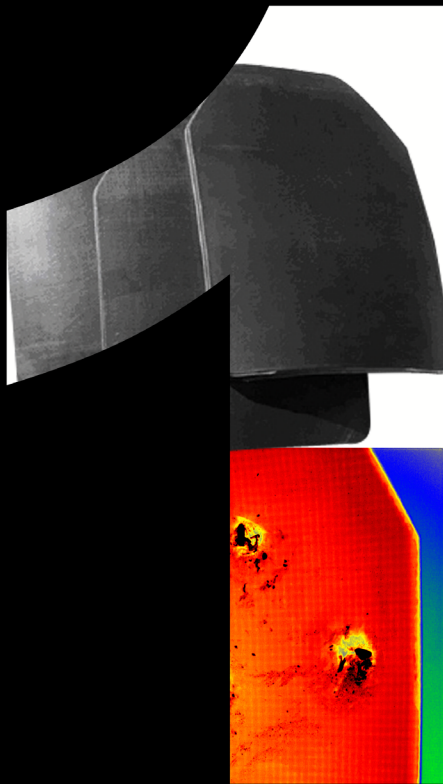
Should you require any further information in respect to this matter please contact the Chairman, Mr. Uwe Boettcher at Uwe.Boettcher@xtek.net or (02) 6232 0601 in the first instance.

Yours sincerely,

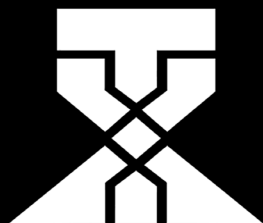


Lawrence A. Gardiner
Company Secretary

Attachment: 2019 Annual Report for XTEK Limited (ABN 90 103 629 107)



Annual Report



XTEK LTD
PROTECT AND SUSTAIN

Financial Calendar

YEAR ENDED 30 JUNE 2019

29 NOVEMBER 2019*
Annual General Meeting

28 FEBRUARY 2020*
Half Year Results

YEAR ENDING 30 JUNE 2020

31 AUGUST 2020*
Preliminary full year results

30 SEPTEMBER 2020*
Full year results

*These dates are subject to change

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Corporate Governance Statement

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



Chairman's Report

Dear Shareholders,

It is with great pleasure that I present to you the FY19 Annual Report for XTEK Limited ("XTEK"). This year has been significant for the Company, delivering record financial performance and achieving key operational milestones.

Favourable trends continue in the global and domestic defence industry, underpinned by the highest level of global defence expenditure in over 25 years. Defence spending remains at the forefront of the political landscape, with approximately 2% of global GDP attributed to military expenditure. Defence expenditure is expected to continue growing at approximately 5% to 7% annually in XTEK's key target markets including US, Europe and Australia / New Zealand. The Australian government has committed approximately A\$39bn to defence in 2019-2020, with a focus on increasing domestic content and intellectual property. This places XTEK in a strong position to capitalise on the increased emphasis on innovation in the Australian defence sector.



XTEK is targeting global orders as it continues to advance the commercialisation of its high value soldier solutions, including its proprietary XTclave™ and XTatlas™ technologies. Over the last year, several major international defence customers have progressed through the comprehensive evaluation and testing stages of XTclave enabled ballistic solutions, primarily plates and helmets. In parallel, XTEK's new commercial-scale XTclave manufacturing facility is expected to be completed in the near term, providing a pathway to delivering on commercial and export orders.

Following a successful FY19, XTEK is well positioned to expand into key target markets and continue to execute on its commercialisation strategy. The new financial year has seen the highly complementary acquisition of HighCom, accompanied by a successful placement and share purchase plan. XTEK now has better access to the lucrative US market and the ability to capture the high unmet demand for high quality and lightweight ballistic products. We are focused on accelerating the ballistic solutions commercialisation strategy, with manufacturing capability coming online in the near term and leveraging the relationships and networks across the US. This is expected to result in a product mix with a greater proportion of high value soldier solutions, which should see XTEK capture increasing gross margins.

Major expected events to look forward to in FY20 are:

- Completion of factory in Adelaide
- Completion of US acquisition with factory in USA
- Further sales of Small Unmanned Aerial Systems (SUAS)
- Entry into maintenance contract for whole SUAS fleet
- Increased profitability
- Increased gross margins
- Maintaining a strong cash balance

I would like to take this opportunity to thank our shareholders for their continued support of the Company and I look forward to sharing XTEK's journey in the coming year.

Sincerely,

A handwritten signature in black ink, appearing to read 'Uwe Boettcher'. The signature is fluid and cursive, written over a light blue background.

Uwe Boettcher
Chairman

Dated this 25th day of September 2019

Managing Director's Operations Report

Dear Shareholders,

I am pleased to present XTEK's Annual Report for FY19. XTEK demonstrated strong financial and operational performance with record results, including a record revenue of A\$37.8m, up 119% (FY18: A\$17.3m). This represents a significant increase to XTEK's initial FY19 revenue guidance of between A\$20m and A\$26m.

The FY19 revenue was underpinned by the delivery of SUAS during the year. With the recent completion of the Canberra SUAS maintenance facility, XTEK now has the capability to provide higher margin repair and maintenance services and also provide value added solutions. Further, the existing distribution agreements enable XTEK to leverage global networks for the sale of other market leading soldier solutions and services.



I am proud of what we have achieved in FY19 and look forward to sharing more significant operational milestones with you in FY20.

Principal Activities

During FY19, XTEK focused on the following key activities:

- Continued development and commercialisation of XTclave enabled ballistic solutions, and XTatlas actionable intelligence software – with potential customers progressing through comprehensive evaluation and testing phases on both technologies
- Professionalisation of XTEK workforce, adding engineering (software, hardware and system), manufacturing and management skills necessary to address the development and manufacture of new products as well as growth of the organisation
- Supply of SUAS to the ADF and strengthening XTEK's full service solution by building the capability to provide ongoing repair, maintenance, training and high value services
- Supply of a range of market leading products and services to government, defence and law enforcement agencies throughout Australasia

Operating Results

In FY19, the XTEK Group achieved record revenue of A\$37.8m, gross profit of A\$6.9m and net profit of A\$168k. FY19 performance was underpinned by a very strong second half performance. The strong result was achieved as XTEK expensed A\$1.6m in research and design activities, illustrating a higher underlying profit (A\$1.8m) than reported profit. XTEK achieved strong operational cash flow and held A\$5.3m cash as at 30 June 2019 – and has no debt. Following the recent placement and SPP that raised ~A\$3.6m in August 2019, XTEK remains well funded to execute on its commercialisation strategy and entrance into the US market.

Operations Report (continued)

The simplified Income Statement for the financial year ended 30 June 2019 is outlined below:

	1 st Half			2 nd Half			Full Year					
	Dec-18 \$'000	Dec-17 \$'000	Change %	Jun-19 \$'000	Jun-18 \$'000	Change %	Jun-19 \$'000	Jun-18 \$'000	Change %			
Total Revenue—goods and services	8,413	5,284	3,129	59%	29,448	11,983	17,465	146%	37,861	17,267	20,594	119%
Gross profit	1,765	1,708	57	3%	5,087	3,021	2,066	68%	6,852	4,729	2,123	45%
Gross profit %	21%	32%			17%	25%			18%	27%		
Other income	32	351	(319)	(91%)	23	245	(222)	(91%)	55	596	(541)	(91%)
Total expenses	(3,570)	(2,718)	(852)	31%	(3,169)	(2,468)	(701)	28%	(6,739)	(5,186)	(1,553)	30%
Profit / (loss) before tax	(1,773)	(659)	(1,114)	169%	1,941	798	1,143	143%	168	139	29	21%
Income Tax	-	-			-	-			-	-		
Total profit / (loss) after tax	(1,773)	(659)	(1,114)	169%	1,941	798	1,143	143%	168	139	29	21%

Financial Position

The FY19 gross margin was impacted by a significant proportion of SUAS sales during the year. Increasing margin trends are expected in FY20 underpinned by higher margin revenue streams. The recent acquisition of the HighCom business provides a material portion of proprietary product sales. Commercialisation of high value soldier solutions and increased repair and maintenance services will also contribute to high margin sales.

A table highlighting the Group's overarching business trends from financial year 2017 to 2019 is shown below:

Performance Indicators	Financial Year		
	2017	2018	2019
Revenue from sale of goods and services \$'000	9,023	17,267	37,861
Gross profit from sales of goods and services \$'000	3,497	4,729	6,852
Gross profit %	39%	27%	18%
Net profit \$'000	61	139	168
Market Capitalisation @ 30 June \$'000	8,871	17,976	17,449

XTEK focused on the commercialisation of its high value soldier solutions

Ballistic solutions: accelerating commercialisation strategy for XTclave enabled products

XTEK continues to advance the commercialisation of its advanced XTclave enabled ballistic solutions, primarily the Small Arms Protective Insert (SAPI) plates and combat ballistic helmets. In addition, XTEK has been progressing the evaluation of the Company's helmet shells' performance, in conjunction with the US Government's Combating Terrorism Technical Support Office (CTTSO). XTEK's new commercial-scale XTclave manufacturing facility has been fitted out with a number of machines and is on track to be completed in the second half of calendar year 2019. It will feed products to the US Law Enforcement market immediately after commissioning and generate revenue in FY20.



Actionable intelligence: XTatlas commercialisation, underpinned by SUAS business activities

In October 2018, XTEK received its first commercial order from the ADF for its proprietary XTatlas SUAS technology. In May 2019, XTEK received its first international order for XTatlas, validating the growing commercialisation of XTEK's technology in global markets.



The commercialisation of the XTatlas application is supported by XTEK's existing SUAS distribution business and global networks. XTEK is the exclusive distributor for AeroVironment in Australia and New Zealand and has completed large deliveries of SUAS to the ADF representing in excess of \$22m. XTEK also received additional purchase orders totaling A\$6.3m for spare parts and maintenance to support the ADF SUAS fleet under the Land 129 Phase 4a Contract. Further, the installation of the state-of-the-art SUAS repair and maintenance facility in Canberra has been completed during the

year, positioning XTEK as a full-service SUAS solutions and services provider.



Other products and services

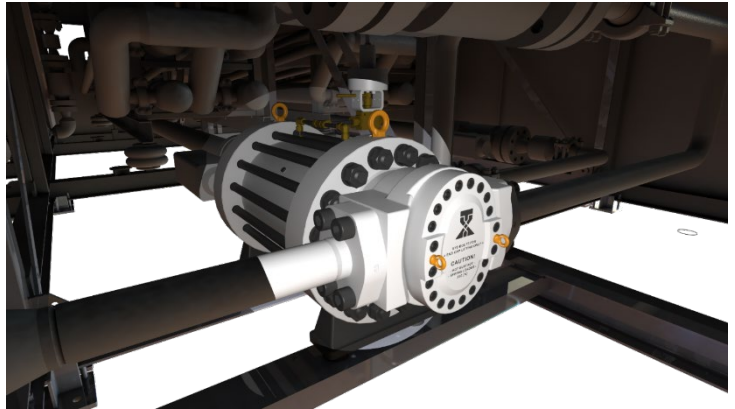
The XTEK business covers a range of other distribution products, solutions and maintenance services. Key assets under development include:

- **Other soldier solutions**
 - Lightweight systems and components
 - Exclusive value-added reseller for Heckler & Koch in Australia
 - Tactical and protective equipment
- **Explosive ordnance disposal equipment and robots**
- **Forensics equipment and products**
- **Logistics engineering and maintenance**
 - Services, repairs and training
- **Advanced composite solutions**
 - Carbon fibre composites
 - Parts for spacecraft satellite and launcher systems



Advanced composite solutions for space applications

In June 2019, XTEK announced that it had entered into a memorandum of understanding with Skykraft Pty Limited for the co-engineering and potential manufacture of small spacecraft and launcher systems. XTEK's XTclave technology has unique advantages in space applications and presents an interesting opportunity to capture other market segments and diversify product development.



Significant changes in the state of affairs

Matters subsequent to the end of the financial year

On 17 July 2019, the Company announced the strategic acquisition of HighCom, a US based provider of body armour and personal protective equipment, for ~A\$3.6m. XTEK concurrently announced an oversubscribed placement of ~A\$2.7m, and a share purchase plan which closed on 5 August 2019, raising ~A\$0.85m

In July 2019, XTEK entered into a Joint Statement of Strategic Intent with the Australian Space Agency to develop and produce advanced composite materials with unique advantages for applications in space.



Outlook

The FY19 gross margin was impacted by a product mix heavily weighted to SUAS distribution. Looking forward, XTEK expects increasing margins, underpinned by a shift towards higher margin proprietary product sales, supported by the recent acquisition of the HighCom business and the associated higher proportion of ballistic solution sales in the new financial year.

A key focus in the near term is finalising and integrating the HighCom acquisition. The acquisition enables XTEK to enter the US market while leveraging existing business, capabilities, relationships and networks already in place across the US. XTEK is targeting quick orders on the US Law Enforcement side with Highcom and later, large and high value orders with the US and European military for XTclave enabled products, with major customers nearing the end of the comprehensive evaluation and testing cycle. XTEK is currently actively engaged in discussions with selected distributors and partners in USA and in Europe to offer XTclave produced armour products within these markets. This increasing interest combined with the Company's commercial-scale XTclave manufacturing facility, which is expected to be completed by the end of this calendar year, ensures XTEK is well positioned to expand sales of its high value ballistic products. Domestic and export orders are expected in FY20, which will support XTEK's expansion into the US and global markets. XTatlas continues to attract attention from leading SUAS manufacturers and operators, specifically among first responder teams in both the military and commercial sectors.

Philippe Odouard
Managing Director

Dated this 25th day of September 2019



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 2019. The information in the preceding operating and financial review forms part of this Directors' report for the financial year ended 30 June 2019 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 2019:

- 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 \$25,000 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 2019 (2018 Hardwickes Chartered Accountants):

Assurance services	2019	2018
	\$	\$
Audit and review of financial reports and other audit work under the Corporations Act 2001	54,000	59,400

Auditors Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2019 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 Experience	Director (Non-Executive & Chairman) 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	5,360,261 ordinary shares at 30 June 2019
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, Deputy Chairman of Capital Angels Pty Limited and Manuka Corporate Pty Limited, and a Director of Mineral Carbonation International Pty Limited.
Mr. Philippe Odouard Experience	Director (Executive) Mr. Odouard has over 27 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	420,517 ordinary shares at 30 June 2019
Special Responsibilities	Managing Director
Other Directorships	None
Mr. Robert Quodling Experience	Director (Executive) 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	362,907 ordinary shares at 30 June 2019
Special Responsibilities	Chief Operating 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 has held an officers rank in the Australian Army Reserve and is a Graduate and Fellow of the Australian Institute of Company Directors.
Interest in Shares	645,694 ordinary shares at 30 June 2019
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	50,000 ordinary shares at 30 June 2019
Special Responsibilities	Chairman of Finance, Audit and Risk Management Committee, effective 1 July 2018
Other Directorships	Director of Kador Group Holdings Ltd, and Director of Paradigm Biopharmaceuticals Ltd

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	87,154 ordinary shares at 30 June 2019
Special Responsibilities	Corporate Governance
Other Directorships	None

Meetings of Directors	Directors' meetings		Finance, Audit and Risk Management Committee		Nomination Committee		Remuneration 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	12	12	5	5	2	2	3	3
Mr Philippe Odouard	12	12	5	5	2	2	-	-
Mr Robert Quodling	12	12	5	5	2	2	-	-
Mr Ivan Slavich	12	11	5	5	2	2	3	3
Mr Christopher Fullerton	12	12	5	5	2	2	3	3

Remuneration Report

Table 1: Benefits and Payments for the Year Ended 30 June 2019

Key Management Personnel		Short-term Benefits				Post-Employment Benefits		Long-term Benefits	Total	% Perf. Related
		Salary, Fees and Leave *1	Bonus	Non-monetary Benefits	Share-based Pmts	Super-annuation	Other	LSL *2		
		\$	\$	\$	\$	\$	\$	\$		
Mr Uwe Boettcher	2019	130,000	-	-	-	-	-	-	130,000	
	2018	90,000	-	-	-	-	-	-	90,000	
Mr Philippe Odouard	2019	331,296	22,455	24,806	22,455	25,000	4,041	591	430,643	10%
	2018	295,905	24,750	10,336	158,282	25,000	5,851	1,016	521,140	
Mr Robert Quodling	2019	179,801	7,356	-	14,712	17,575	7,356	358	227,158	13%
	2018	146,688	13,489	-	15,541	14,888	13,489	2,808	206,903	
Mr Ivan Slavich	2019	65,000	-	-	-	-	-	-	65,000	
	2018	45,000	-	-	-	-	-	-	45,000	
Mr Chris Fullerton	2019	65,000	-	-	-	-	-	-	65,000	
	2018	6,514	-	-	-	-	-	-	6,514	
Mr Lawrence Gardiner	2019	136,948	-	-	6,586	12,538	6,586	1,277	163,935	8%
	2018	134,675	3,562	-	4,104	13,132	3,562	2,510	161,545	
Mr David Brooking	2019	161,755	7,984	-	7,984	15,200	-	2,472	195,395	8%
	2018	141,566	3,987	-	4,598	13,828	-	980	164,959	
Total KMP	2019	1,069,800	37,795	24,806	51,737	70,313	17,983	4,698	1,277,131	
	2018	860,348	45,788	10,336	182,525	66,848	22,902	7,314	1,196,061	

*** Notes**

- 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. Amounts included for leave are movements in the accrued annual leave entitlements for the relevant twelve-month period.
- 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 2018-19 FY or the 2017-18 FY. Any share options or 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 2019.
- Base salary, exclusive of superannuation, to the value of \$355,700 per annum.
- Rental Allowance, to the value of \$288 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 2019.
- Base salary, exclusive of superannuation, to the value of \$200,000 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 2019.
- Base salary, exclusive of superannuation, to the value of \$140,000 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 2019.
- Base salary, exclusive of superannuation, to the value of \$180,000 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 25th day of September 2019

Auditor's independence Declaration



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

T 02 6282 5999

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

Liability limited by a scheme
approved under Professional
Standards Legislation

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 2019, 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
Chartered Accountants

Bhaumik Bumia
Partner

26 September 2019

Canberra



The accompanying notes form part of these financial statements.

Consolidated Statement of Profit or Loss and Other

	Notes	2019 \$	2018 \$
Revenue	5(a)	37,860,848	17,266,892
Changes in inventories of finished goods and work in progress		(31,008,759)	(12,537,561)
Gross profit		6,852,089	4,729,331
Other income	5(b)	54,647	596,661
Corporate and administrative expenses	6	(5,123,699)	(3,957,872)
Research and development expenses	6	(1,614,604)	(1,228,896)
Profit/(loss) from operations before income tax		168,433	139,224
Income tax expenses		-	-
Total comprehensive income/(loss) for the period		168,433	139,224

Comprehensive Income for the Year Ended 30 June 2019

The accompanying notes form part of these financial statements.

Consolidated Statement of Financial Position as at 30 June 2019

	Notes	2019 \$	2018 \$
ASSETS			
Current assets			
Cash and cash equivalents	12	5,349,874	5,944,620
Trade and other receivables	13	19,858,111	5,979,880
Inventories	14	1,750,673	1,466,734
Other	15	989,543	347,841
Total current assets		27,948,201	13,739,075
Non-current assets			
Property, plant and equipment	16	2,308,194	512,646
Intangible assets	17	155,891	96,614
Total non-current assets		2,464,085	609,260
TOTAL ASSETS		30,412,286	14,348,335
LIABILITIES			
Current liabilities			
Trade and other payables	18	18,773,301	5,785,405
Provisions	19	348,035	287,459
Deferred income	20	1,963,855	544,613
Total current liabilities		21,085,191	6,617,477
Non-current liabilities			
Trade and other payables	18	1,077,931	15,859
Provisions	19	31,857	44,551
Deferred income	20	521,366	102,794
Total non-current liabilities		1,631,154	163,204
TOTAL LIABILITIES		22,716,345	6,780,681
NET ASSETS		7,695,941	7,567,654
EQUITY			
Contributed equity	22	27,312,482	27,196,530
Reserves	30(a)	8,775	516,110
Accumulated losses	30(b)	(19,625,316)	(20,144,986)
TOTAL EQUITY		7,695,941	7,567,654

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity for the Year Ended 30 June 2019

	Issued capital \$	Equity-based payments reserve \$	Accumulated losses \$	Total Equity \$
Balance at 1 July 2017	25,378,045	516,110	(20,284,210)	5,609,945
Profit for the year	-	-	139,224	139,224
Total income and expense for the period	-	-	139,224	139,224
Issues of ordinary shares during the year:				
Issue of share capital	1,985,730	-	-	1,985,730
Transaction costs associated with share capital	(167,245)	-	-	(167,245)
Balance at 30 June 2018	27,196,530	516,110	(20,144,986)	7,567,654
Balance at 1 July 2018	27,196,530	516,110	(20,144,986)	7,567,654
Restatement due to adoption of AASB 16	-	-	(162,991)	(162,991)
Balance at 1 July 2018 restated	27,196,530	516,110	(20,307,977)	7,404,663
Profit for the year	-	-	168,433	168,433
Total income and expense for the period	-	-	168,433	168,433
Issues of ordinary shares during the year:				
Transferred to retained earnings		(514,228)	514,228	-
Issue of share capital	249,736	-	-	249,736
Transaction costs associated with share capital	(133,784)	-	-	(133,784)
Share based payment reserve	-	6,893	-	6,893
Balance at 30 June 2019	27,312,482	8,775	(19,625,316)	7,695,941

The Group has not restated comparatives when initially applying AASB 9 and AASB 16.

The accompanying notes form part of these financial statements.

Statement of Cash Flows for the Year Ended 30 June 2019

	Note	2019 \$	2018 \$
Cash flows from/(used in) operating activities			
Receipts from customers		28,395,763	16,292,504
Payments to suppliers and employees		(27,850,955)	(14,512,779)
		544,808	1,779,725
Interest received		52,252	46,187
Finance costs		(2)	(3,839)
Net cash flows from operating activities	25	597,058	1,822,073
Cash flows (used in)/from investing activities			
Proceed from sale of property plant and equipment		-	1,609
Payments for property plant and equipment	16,17	(994,207)	(294,634)
Net cash flows (used in) investing activities		(994,207)	(293,025)
Cash flows from financing activities			
Proceeds from issue of ordinary shares		180,000	1,761,201
Payment of transaction costs associated with issued share capital	22(a)	(133,784)	(167,245)
Repayment of Lease liabilities		(243,813)	
Net cash flows (used in)/from financing activities		(197,597)	1,593,956
Net increase (decrease) in cash and cash equivalents		(594,746)	3,123,004
Cash and cash equivalents at beginning financial year		5,944,620	2,821,616
Cash and cash equivalents at end of year	12	5,349,874	5,944,620

The accompanying notes form part of these financial statements.

Notes to the Financial Statements for the Year Ended 30 June 2019

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 25 September 2019.

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 Change in Accounting Policy

a. Financial Instruments - Adoption of AASB 9

The Group has adopted AASB 9 *Financial Instruments* for the first time in the current year with a date of initial adoption of 1 July 2018.

As part of the adoption of AASB 9, the Group adopted consequential amendments to other accounting standards arising from the issue of AASB 9 as follows:

- AASB 101 Presentation of Financial Statements requires the impairment of financial assets to be presented in a separate line item in the statement of profit or loss and other comprehensive income. In the comparative year, this information was presented as part of other expenses.
- AASB 7 Financial Instruments: Disclosures requires amended disclosures due to changes arising from AASB 9, these disclosures have been provided for the current year.

The key changes to the Group's accounting policy and the impact on these financial statements from applying AASB 9 are described below.

Changes in accounting policies resulting from the adoption of AASB 9 have been applied retrospectively except the Group has not restated any amounts relating to classification and measurement requirements including impairment which have been applied from 1 July 2018.

Classification of financial assets

The financial assets of the Group have been reclassified into one of the following categories on adoption of AASB 9 based on primarily the business model in which a financial asset is managed and its contractual cash flow characteristics:

- Measured at amortised cost
- Fair value through profit or loss (FVTPL)
- Fair value through other comprehensive income - equity instruments (FVOCI - equity).

The accompanying notes form part of these financial statements.

Notes to the Financial Statements (continued)

Impairment of financial assets

The incurred loss model from AASB 139 has been replaced with an expected credit loss model in AASB 9 for assets measured at amortised cost, contract assets and fair value through other comprehensive income. This has resulted in the earlier recognition of credit loss (bad debt provisions).

Classification of financial assets and financial liabilities

The table below illustrates the classification and measurement of financial assets and liabilities under AASB 9 and AASB 139 at the date of initial application.

	Classification under AASB 139	Classification under AASB 9	Carrying amount under AASB 139 \$	Carrying amount under AASB 9 \$
Financial assets				
Trade and other receivables	Loans and receivables	Amortised cost	5,979,880	5,979,880
Cash and cash equivalents	Loans and receivables	Amortised cost	5,944,620	5,944,620
Total financial assets			11,924,500	11,924,500
Financial liabilities				
Trade payables	Other financial liabilities	Other financial liabilities	5,745,335	5,745,335
Total financial liabilities			5,745,335	5,745,335

b. Revenue from contract with customers

The Group has adopted AASB 15 *Revenue from Contracts with Customers* for the first time in the current year with a date of initial application of 1 July 2018.

The key changes to the Group's accounting policies and the impact on these financial statements from applying AASB 15 are described below.

The Group has applied AASB 15 using the cumulative effect method which means the comparative information has not been restated and continues to be reported under AASB 111, AASB 118 and related interpretations. All adjustments on adoption of AASB 15 have been taken to retained earnings at 1 July 2018.

Timing of revenue recognition based on transfer of control of performance obligations

Prior to the adoption of AASB 15, the Group recognised revenue when the risks and rewards associated with the transfer of goods had transferred to the buyer which was when there was an unconditionally exchanged contract and the product was practically complete.

AASB 15 requires revenue from these products to be recognised when the performance obligations to transfer goods and services have been satisfied. The Group considers that performance obligations are satisfied when the physical transfer of the goods has occurred as this is when control transfers to the customer.

Consequently, the timing of revenue recognition and profit has changed and revenue previously recognised in prior years (in accordance with the previous standards) has now been recognized in the current year (in accordance with AASB 15).

This change in timing of revenue has a consequential impact on a number of other financial statement line items including inventories, receivables and taxation.

Transfer of control to a customer - over time or at a point in time

AASB 15 has specific criteria regarding whether control is transferred over time or at a point in time. The Group has reviewed its contracts and concluded that the criteria for recognition over time is not met in some circumstances. In such cases, revenue and related production costs will be recognised at the delivery of each separate performance obligation instead of over the contract using a single margin.

(c) Leases – Adoption of AASB 16

The Group has early adopted AASB 16 Leases for the first time in the current period with a date of initial adoption of 1 July 2018.

The adoption of this new Standard has resulted in the Company recognising a right-of-use asset and related lease liability in connection with all former operating leases except for those identified as low-value or having a remaining lease term of less than 12 months from the date of initial application.

The new Standard has been applied using the modified retrospective approach, with the cumulative effect of adopting AASB 16 being recognised in equity as an adjustment to the opening balance of retained earnings for the current period. Prior periods have not been restated.

The following is a reconciliation of the financial statement line items from AASB 117 to AASB 16 at 1 July 2018:

	Carrying amount as at 30 June 2018 \$	Remeasurement \$	Carrying amount as at 1 July 2018 \$
Right to use	-	1,170,300	1,170,300
Lease liabilities	-	(1,333,290)	(1,333,290)
Impact on Opening Retained Earnings	-	162,991	162,991

3 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:

The accompanying notes form part of these financial statements.

Notes to the Financial Statements (continued)

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

(b) Income Tax

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

For comparative year

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.

For current year

Lease payments for operating leases, where substantially all of the risks and benefits remain with the lessor, are charged as expenses on a straight-line basis over the life of the lease term.

For any new contracts entered into on or after 1 July 2018, the Entity considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition the Entity assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Entity
- the Entity has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract
- the Entity has the right to direct the use of the identified asset throughout the period of use. The Entity assesses whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

At lease commencement date, the Entity recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Entity depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Entity also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Entity measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Entity's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

Notes to the Financial Statements (continued)

The Entity has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, right-of-use assets have been included in plant and equipment and lease liabilities have been included in trade and other payables.

Lease incentives

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

(d) Revenue and other income

For comparative year

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.

Revenue from contracts with customers - from 1 July 2018

For current year

The core principle of AASB 15 is that revenue is recognised on a basis that reflects the transfer of promised goods or services to customers at an amount that reflects the consideration the Group expects to receive in exchange for those goods or services. Revenue is recognised by applying a five-step model as follows:

1. Identify the contract with the customer
2. Identify the performance obligations

The accompanying notes form part of these financial statements.

3. Determine the transaction price
4. Allocate the transaction price to the performance obligations
5. Recognise revenue as and when control of the performance obligations is transferred

Specific revenue streams

The revenue recognition policies for the principal revenue streams of the Group are:

Timing of revenue recognition based on transfer of control of performance obligations

Prior to the adoption of AASB 15, the Group recognised revenue when the risks and rewards associated with the transfer of goods had transferred to the buyer which was when there was an unconditionally exchanged contract and the product was practically complete.

AASB 15 requires revenue from these products to be recognised when the performance obligations to transfer goods and services have been satisfied. The Group considers that performance obligations are satisfied when the physical transfer of the goods has occurred as this is when control transfers to the customer.

Consequently, the timing of revenue recognition and profit has changed and revenue previously recognised in prior years (in accordance with the previous standards) has now been recognised in the current year (in accordance with AASB 15).

This change in timing of revenue has a consequential impact on a number of other financial statement line items including inventories, receivables and taxation.

Transfer of control to a customer - over time or at a point in time

AASB 15 has specific criteria regarding whether control is transferred over time or at a point in time. The Group has reviewed its contracts and concluded that the criteria for recognition over time is not met in some circumstances. In such cases, revenue and related production costs will be recognised at the delivery of each separate performance obligation instead of over the contract using a single margin.

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 as the ownership of the goods is transferred to the customer. In the case of Government grants, grants are recognised in accordance with the accounting policy outlined in note 3 (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)

(f) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (i.e. an asset that necessarily takes a substantial period of time to get ready for its intended use or sale) are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. XTEK does not currently hold any qualifying assets but, if it did, the borrowing costs directly associated with this asset would be capitalised (including any other associated costs directly attributable to the borrowing and temporary investment income earned on the borrowing).

(g) 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

Cost and valuation

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

Depreciation

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows.

Major depreciation periods are:

- plant and equipment 3 - 15 years

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

The accompanying notes form part of these financial statements.

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

For comparative year

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.

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 Group to be carried at fair value through profit or loss upon initial recognition or
- which are derivatives not qualifying for hedge accounting.

Notes to the Financial Statements (continued)

The Group has some derivatives which are designated as financial assets at fair value through profit or loss. 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 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.

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 borrowings, 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.

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.

The accompanying notes form part of these financial statements.

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.

For current year

Financial instruments are recognised initially 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

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Classification

On initial recognition, the Group classifies its financial assets into the following categories, those measured at:

- amortised cost
- fair value through profit or loss - FVTPL
- fair value through other comprehensive income - equity instrument (FVOCI - equity)

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets.

Amortised cost

Assets measured at amortised cost are financial assets where:

- the business model is to hold assets to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Group's financial assets measured at amortised cost comprise trade and other receivables and cash and cash equivalents in the statement of financial position.

Subsequent to initial recognition, these assets are carried at amortised cost using the effective interest rate method less provision for impairment.

Interest income, foreign exchange gains or losses and impairment are recognised in profit or loss. Gain or loss on derecognition is recognised in profit or loss.

Fair value through other comprehensive income

Notes to the Financial Statements (continued)

Equity instruments

The Group has no investments in listed and unlisted entities over which they do not have significant influence nor control.

Financial assets through profit or loss

All financial assets not classified as measured at amortised cost or fair value through other comprehensive income as described above are measured at FVTPL.

The Group does not hold any assets that fall into this category.

Impairment of financial assets

Impairment of financial assets is recognised on an expected credit loss (ECL) basis for the following assets:

- financial assets measured at amortised cost

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Group's historical experience, informed credit assessment and includes forward looking information.

The Group uses the presumption that an asset which is more than 30 days past due has seen a significant increase in credit risk.

The Group uses the presumption that a financial asset is in default when:

- the other party is unlikely to pay its credit obligations to the Group in full, without recourse of the Group to actions such as realising security (if any is held); or
- the financial assets are more than 90 days past due.

Credit losses are measured as the present value of the difference between the cash flows due to the Group in accordance with the contract and the cash flows expected to be received. This is applied using a probability weighted approach.

Trade receivables and contract assets

Impairment of trade receivables and contract assets have been determined using the simplified approach in AASB 9 which uses an estimation of lifetime expected credit losses. The Group has determined the probability of non-payment of the receivable and contract asset and multiplied this by the amount of the expected loss arising from default.

The amount of the impairment is recorded in a separate allowance account with the loss being recognised in finance expense. Once the receivable is determined to be uncollectable then the gross carrying amount is written off against the associated allowance.

Where the Group renegotiates the terms of trade receivables due from certain customers, the new expected cash flows are discounted at the original effective interest rate and any resulting difference to the carrying value is recognised in profit or loss.

Other financial assets measured at amortised cost

Impairment of other financial assets measured at amortised cost are determined using the expected credit loss model in AASB 9. On initial recognition of the asset, an estimate of the expected credit losses for the next 12 months is recognised. Where the asset has experienced significant increase in credit risk then the lifetime losses are estimated and recognised.

The accompanying notes form part of these financial statements.

Financial liabilities

The Group measures all financial liabilities initially at fair value less transaction costs, subsequently financial liabilities are measured at amortised cost using the effective interest rate method.

The financial liabilities of the Group comprise trade payables, bank and other loans and finance lease liabilities.

(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.

(l) Intangibles

Research and development

Development expenditure incurred on an individual project is expensed. Expenditure is only capitalised when it is probable that future economic benefits associated with the item will flow to the entity and the costs incurred can be reliably measured. On recognising that there is an asset with a future economic benefit to the Group 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 in the Statement of Financial Position comprise cash at bank and in hand and short term deposits with an original maturity of three months or less. For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and equivalents as defined above, net of outstanding bank overdrafts.

Notes to the Financial Statements (continued)

(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.

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 present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Statement of Comprehensive Income net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

The accompanying notes form part of these financial statements.

(p) Earnings per share

i. Basic earnings per share

Basic EPS is calculated as net profit attributable to members, adjusted to exclude costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

ii. Diluted earnings per share

Diluted EPS is calculated as net profit attributable to members, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after-tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary charges in revenues or expenses during the period that would result from the dilution of potential ordinary shares;
- divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(q) Contributed Equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

(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;
- 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 Group has an ability to provide benefits to employees (including key management personnel) in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares ('equity settled transactions').

Notes to the Financial Statements (continued)

There are currently two plans in place to provide such benefits:

- the XTEK Long Term Incentive Performance Rights Plan (LTIPRP); and
- the Employee Tax Exempt Share Plan, 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 ('market conditions') if applicable.

The cost of equity settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled (the vesting period), ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

At each subsequent reporting date until vesting, the cumulative charge to the Statement of Comprehensive Income is the product of (i) the grant date fair value of the award, (ii) the current best estimate of the awards that will vest, taking into account such factors as the likelihood of employee turnover during the vesting period and the likelihood of non-market performance conditions being met; and (iii) the expired portion of the vesting period. The charge to the Statement of Comprehensive Income for the period is the cumulative amount as calculated above less the amounts already charged in previous periods. There is also a corresponding credit to equity.

Until an award has vested, any amounts recorded are contingent and will be adjusted if more or fewer awards vest than were originally anticipated to do so. Any award subject to a market condition is considered to vest irrespective of whether or not the market condition is fulfilled, provided that all other conditions are satisfied.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it has vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

(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.

The accompanying notes form part of these financial statements.

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 the 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.

(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 thirty 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 raised when there is objective evidence that the Group will not be able to collect the debt.

Receivables from related parties are recognised and carried at amortised cost, with interest recognised using the effective interest rate method.

(z) Adoption of New and Revised Accounting Standards

The Company has adopted all standards which became effective for the first time at 30 June 2019, the adoption of these standards has not caused any material adjustments to the reported financial position, performance or cash flow of the Company. Refer to Note 2 for details of the changes due to standards adopted.

Notes to the Financial Statements (continued)

4 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.

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.

5 Revenue and Other Income

(a) Revenue from operations

	2019	2018
	\$	\$
Value added reseller products	31,282,847	12,817,081
In-house development and manufactured products	1,607,633	1,663,607
Logistic engineering maintenance	4,970,368	2,576,154
Grant and other revenue	-	210,050
Total Revenue	37,860,848	17,266,892

(b) Other Income

	2019	2018
	\$	\$
Interest	52,252	46,187
R&D tax incentive*	-	534,570
Other	2,395	15,904
Total Other income	54,647	596,661
Total Revenue and Other Income	37,915,495	17,863,553

(*The Group's revenue exceeded \$20m for the first time, as such the R&D incentive will not be received as a cashback. Consequently, the reported profit and anticipated cashflow are diminished in comparison to previous years.)

The accompanying notes form part of these financial statements.

6 Expenses

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

(a) Employee Benefits

	2019	2018
	\$	\$
Salaries and wages	3,005,202	2,685,116
Superannuation contributions	332,274	278,193
Payroll tax	146,635	122,912
Other employee expenses	61,580	-
Workers compensation	15,557	30,654
Total Employee Benefits	3,561,248	3,116,875

(b) Depreciation

	2019	2018
	\$	\$
Plant and machinery	61,285	42,394
Motor vehicles	908	908
Demonstration equipment	10,041	9,087
Computer software	18,281	2,734
Office furniture and equipment	43,316	29,634
Leasehold improvements	25,022	4,103
Right to use assets	150,827	-
Total Depreciation	309,680	88,860

(c) Finance costs

	2019	2018
	\$	\$
Interest on lease liabilities	122,710	-
Other interest expense	2	3,839
Total Finance costs	122,712	3,839

(The "Interest on lease liabilities" refers not to borrowings but is the application of AASB16. It refers to the internal interest component of the lease on rented properties.)

(The application of AASB16 has decreased the profit in 2018-19 by \$29,723)

Notes to the Financial Statements (continued)

Expenses

(d) Operational expenditure

	2019	2018
	\$	\$
Accounting fees	35,459	41,232
Audit fees	55,500	63,268
Bank charges	6,171	6,294
Consultancy fees	559,936	394,569
Directors fees	260,000	135,000
Insurance	182,244	142,213
FBT	21,720	9,166
Legal fees	4,421	-
Office administrative costs	509,391	592,769
Minor operating lease	16,430	34,754

7 Income Tax Expense

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

		2019	2018
		\$	\$
Current tax expense			
Current income tax charge	7(b)	528,911	192,582
Loss used not recognised		-	(192,582)
R&D tax offset		(528,911)	-
Deferred tax expense			
Origination and reversal of temporary differences		(71,463)	(1,286)
Change in unrecognised deductible temporary difference		71,463	1,286
		-	-

(b) Reconciliation of income tax to accounting profit:

	2019	2018
	\$	\$
Profit	168,433	139,224
Tax	27.5%	27.5%
	46,319	38,287
Add:		
Tax effect of amounts which are not deductible (taxable) in calculating taxable income		
- Capital raising cost amortised	(35,247)	(38,666)
- Entertainment	2,360	736
- Losses brought to account	-	(192,582)
- Timing differences not brought to account	71,463	1,286
- Research and development expenditure	444,016	337,946
- Research and development offsets	(528,911)	(147,007)
Income tax expense	-	-

(c) Recognised Deferred Tax Assets and Liabilities

	2019	2018
	\$	\$
Deferred tax liabilities		
Accrued interest	2,681	-
Gross deferred tax liabilities	2,681	-
Deferred tax liability not recognized	(2,681)	-
Total	-	-
Deferred tax assets		
Accrued expenses	16,089	10,676
Superannuation	22,984	18,907
Employee leave entitlements	104,470	91,303
Unrealised foreign exchange losses	57,375	14,064
Lease assets	52,996	-
Impaired assets	238,222	238,222
Potential tax losses	5,640,328	5,640,328
Potential capital tax losses	427,972	427,972
Deferred differences and losses not recognised	(6,560,437)	(6,441,472)
Net deferred tax asset	-	-

The accompanying notes form part of these financial statements.

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 (2018: \$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, 2018: \$20,510,285). 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 2019, 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 (2018: nil).

8 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 2019.

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

	2019	2018
	\$	\$
Short-term employee benefits	1,184,137	1,098,997
Post-employment benefits	88,296	89,750
Other long-term benefits	4,698	7,314
	<u>1,277,131</u>	<u>1,196,061</u>

9 Auditor's Remuneration

	2019	2018
	\$	\$
Remuneration of the auditor Hardwickes Chartered Accountants, for - Audit and review of financial reports and other audit work under the Corporations Act 2001	54,000	59,400
Total	<u>54,000</u>	<u>59,400</u>

10 Dividends

Ordinary shares

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

Franking account

	2019	2018
	\$	\$
The franking credits available for subsequent financial years	<u>981,110</u>	<u>981,110</u>

The accompanying notes form part of these financial statements.

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.

11 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 5A) 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 units on a monthly basis.

Operating Segments

(a) Major customers

The Group has a number of customers to whom it provides both products and services. The Group supplies the agencies of a number of Australian governments, which combined, account for 96% of revenue (2018: 80%).

(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.

	2019	2018
	\$	\$
Australia	36,764,623	17,035,025
United States	-	210,050
New Zealand	1,089,163	6,669
Other	7,062	15,147
Total revenue	37,860,848	17,266,891

The accompanying notes form part of these financial statements.

Notes to the Financial Statements (continued)

12 Cash and Cash Equivalents

	2019	2018
	\$	\$
Cash at bank and in hand	5,349,874	5,944,620
	<u>5,349,874</u>	<u>5,944,620</u>

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:

	2019	2018
	\$	\$
Cash and cash equivalents	5,349,874	5,944,620
Balance as per statement of cash flows	<u>5,349,874</u>	<u>5,944,620</u>

13 Trade and Other Receivables

	2019	2018
	\$	\$
CURRENT		
Trade receivables	2,696,230	767,537
Other receivables *	17,161,881	5,212,343
Total current trade and other receivables	<u>19,858,111</u>	<u>5,979,880</u>

Terms and conditions

Trade and other receivables are non-interest bearing and generally on thirty 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 2019 (2018: Nil).

* "Other receivables" are significantly increased on the previous year due a provision for receivables on a major delivery of SUAS vehicles around this time.

At 30 June 2019, the ageing analysis of trade receivables is as follows:

	Not impaired Gross amount \$	Not impaired < 30 days \$	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 \$
2019					
Trade receivables	2,696,230	2,424,101	272,129	-	-
Total	<u>2,696,230</u>	<u>2,424,101</u>	<u>272,129</u>	<u>-</u>	<u>-</u>
2018					
Trade receivables	767,537	597,612	2,725	2,244	164,956
Total	<u>767,537</u>	<u>597,612</u>	<u>2,725</u>	<u>2,244</u>	<u>164,956</u>

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 receivables in the financial statements.

14 Inventories

	2019 \$	2018 \$
CURRENT		
Work in progress	1,178,759	725,411
Products and spare parts	571,914	741,323
	<u>1,750,673</u>	<u>1,466,734</u>

There were no inventory write downs in financial year 2019 (2018: Nil). Any expense would be included in the changes in inventories of finished goods and work in progress in the Statement of Comprehensive Income.

15 Other Current Assets

	2019 \$	2018 \$
CURRENT		
Prepayments	964,454	324,365
Short term loan	25,089	23,476
	<u>989,543</u>	<u>347,841</u>

The accompanying notes form part of these financial statements.

Notes to the Financial Statements (continued)

16 Property, plant and equipment

	2019	2018
	\$	\$
PROPERTY, PLANT AND EQUIPMENT		
Plant and equipment		
At cost	723,127	497,500
Accumulated depreciation	(249,891)	(188,606)
Total plant and equipment	<u>473,236</u>	<u>308,894</u>
Office Furniture and Equipment		
At cost	388,325	256,792
Accumulated depreciation	(209,840)	(177,163)
Total office furniture and equipment	<u>178,485</u>	<u>79,629</u>
Motor vehicles		
At cost	42,554	42,554
Accumulated depreciation	(37,540)	(36,633)
Total motor vehicles	<u>5,014</u>	<u>5,921</u>
Demonstration Equipment		
At cost	194,231	144,208
Accumulated depreciation	(134,503)	(124,461)
Total demonstration equipment	<u>59,728</u>	<u>19,747</u>
Computer software		
At cost	195,222	82,824
Accumulated depreciation	(87,046)	(69,848)
Total computer software	<u>108,176</u>	<u>12,976</u>
Leasehold Improvements		
At cost	229,828	61,272
Accumulated depreciation	(82,127)	(57,105)
Total leasehold improvements	<u>147,701</u>	<u>4,167</u>
Composite plant		
At cost	235,070	-
Total composite plant	<u>235,070</u>	<u>-</u>
UAS		
At cost	81,312	81,312
Total UAS	<u>81,312</u>	<u>81,312</u>
Right of use, lease assets		
At cost	1,170,299	-
Accumulated depreciation	(150,827)	-
Total right of use, lease assets	<u>1,019,472</u>	<u>-</u>
Total property, plant and equipment	<u><u>2,308,194</u></u>	<u><u>512,646</u></u>

The accompanying notes form part of these financial statements.

(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 \$	Computer Software \$
Year ended 30 June 2019					
Balance at the beginning of year	308,894	79,629	5,921	19,747	12,976
Additions	225,627	142,172	-	50,023	113,481
Disposals	-	-	-	-	-
Depreciation expense	(61,285)	(43,316)	(908)	(10,042)	(18,281)
Balance at the end of the year	473,236	178,485	5,014	59,728	108,176

	Leasehold Improvements \$	UAS \$	Composite Repair Facility \$	Right of Use, Lease Assets \$	Total \$
Year ended 30 June 2019					
Balance at the beginning of year	4,167	81,312	-	-	512,646
Additions	168,556	-	235,070	1,170,299	2,105,228
Disposals	-	-	-	-	-
Depreciation expense	(25,022)	-	-	(150,827)	(309,680)
Balance at the end of the year	147,701	81,312	235,070	1,019,472	2,308,194

	Plant and Equipment \$	Office Furniture and Equipment \$	Motor Vehicles \$	Demonstratic Equipment \$	Computer Software \$
Year ended 30 June 2018					
Balance at the beginning of year	104,719	95,284	6,830	23,270	4,753
Additions	246,571	15,037	-	5,564	10,957
Disposals	-	(1,058)	-	-	-
Depreciation expense	(42,396)	(29,634)	(909)	(9,087)	(2,734)
Balance at the end of the year	308,894	79,629	5,921	19,747	12,976

	Leasehold Improvements \$	UAS \$	Composite Plant \$	Right of Use, Lease Assets \$	Total \$
Year ended 30 June 2018					
Balance at the beginning of year	8,270	81,312	-	-8	324,43
Additions	-	-	*	-	278,129
Disposals	-	-	-	-	(1,058)
Depreciation expense	(4,103)	-	-	-	(88,863)
Balance at the end of the year	4,167	81,312	-	-	512,646

The accompanying notes form part of these financial statements.

Notes to the Financial Statements (continued)

17 Intangible Assets

	2019 \$	2018 \$
Patents		
Cost	155,891	96,614
Total Intangibles	155,891	96,614

During the full year ended 30 June 2019, the Company recognised \$59,277 for patent application costs associated with the Intellectual Property of the process for the manufacture of multilayer articles (2018: \$16,505). These costs have an indefinite useful life.

(a) Movements in carrying amounts of intangible assets

	Patents \$	Total \$
Year ended 30 June 2019		
Balance at the beginning of the year	96,614	96,614
Additions	59,277	59,277
Closing value at 30 June 2019	155,891	155,891
	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

18 Trade and Other Payables

	2019 \$	2018 \$
Current		
Trade and other payables*	16,014,663	1,363,137
GST payable	216,724	55,929
Sundry payable and accrued expenses	349,920	4,306,136
Derivative financial liability	208,638	51,140
Lease liability: AASB16	1,974,293	-
Rent payable	9,063	9,063
	18,773,301	5,785,405

* "Other payables" are significantly increased on the previous year due a provision for payables on a major delivery of SUAS vehicles around this time.

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.

	2019	2018
	\$	\$
Non-Current		
Rent payable	6,797	15,859
Lease liability: AASB 16	1,071,134	-
	<u>1,077,931</u>	<u>15,859</u>

19 Employee Benefits

	2019	2018
	\$	\$
Current liabilities		
Long service leave	161,650	142,597
Annual leave provision	186,385	144,862
	<u>348,035</u>	<u>287,459</u>
Non-current liabilities		
Long service leave	31,857	44,551
	<u>31,857</u>	<u>44,551</u>

Nature and timing of provisions

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

20 Deferred Income

	2019	2018
	\$	\$
CURRENT		
Customer deposits	1,963,855	544,613
Total	<u>1,963,855</u>	<u>544,613</u>
NON-CURRENT		
Customer deposits	81,366	102,794
Government grant	440,000	-
Total	<u>521,366</u>	<u>102,794</u>

21 Interest bearing liabilities

No loans were made to the Group during the course of 2018-19 (FY18 nil). The group finished the year without borrowings.

The accompanying notes form part of these financial statements.

Notes to the Financial Statements (continued)

22 Issued Capital

	2019	2018
	\$	\$
40,579,906 (2018: 39,947,678) Ordinary shares	27,312,482	27,196,530
Total	27,312,482	27,196,530

There were no options on issue at 30 June 2019. 400,000 unlisted share options were on issue at 30 June 2018, these were all exercised in July 2018.

22 Issued Capital

(a) Movement in ordinary shares

	2019	2019	2018	2018
	No.	\$	No.	\$
Opening balance	39,947,678	27,196,530	35,700,690	25,378,045
Shares issued	632,228	249,736	4,246,988	1,985,730
Transaction cost in relation to capital	-	(133,784)	-	(167,245)
Total	40,579,906	27,312,482	39,947,678	27,196,530

(b) Expired options and share performance rights

There were no options on issue at 30 June 2019.

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 2019 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.

23 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.

	2019	2018
	\$	\$
Basic profit per share	0.004	0.004
Dilutive profit per share	0.004	0.004

The accompanying notes form part of these financial statements.

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

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

	2019	2018
	\$	\$
Profit from continuing operations	168,433	139,224
Earnings used in the calculation of dilutive EPS from continuing operations	168,433	139,224

(b) Earnings used to calculate overall earnings per share

	2019	2018
	\$	\$
Earnings used to calculate overall earnings per share	168,433	139,224

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

	2019	2018
	No.	No.
Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	40,447,495	39,375,685
Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	40,447,495	39,375,685

(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 2019 comprised 40,579,906 (2018: 39,947,678) fully paid Ordinary Shares. There were no issued option as at 30 June 2019 (400,000 options on issue at 30 June 2018).

24 Government grants

(a) AusIndustry's R&D tax incentive

No income was recognised in FY 2019 from the AusIndustry's R&D Tax Incentive (2018: \$534,570). The Group spent approximately \$1.6m on R&D activities in the period under review. As the Group's revenue was greater than \$20m, however, it was no longer entitled to a cash back receipt of the corresponding incentive amount.

Notes to the Financial Statements (continued)

25 Cash flow information

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

	2019	2018
	\$	\$
Profit for the year	168,433	139,224
<i>Adjustments for:</i>		
Depreciation	16 309,680	88,863
Bonus issue of shares to employees	69,736	224,529
Share based payment to employee	6,893	-
Loss on derivative	-	51,140
(Gain) on sale of property, plant and equipment	-	(551)
Finance cost on lease	122,710	-
<i>Changes in assets and liabilities</i>		
(Increase) in trade debtors	(13,878,231)	(3,421,356)
Decrease / (Increase) in inventory	(284,204)	(580,527)
(Increase) / Decrease in prepayments and other assets	(641,702)	311,727
Increase in trade and other payables	12,838,047	4,529,737
Increase in deferred income	1,837,814	337,751
Increase in employee provisions	47,882	141,536
Net cash flows from/(used in) operating activities	597,058	1,822,073

(b) Non-cash Financing and investing activities

During the year ended 30 June 2019, 232,228 new ordinary shares were issued at \$0.395 per share, as part of staff incentive plans for FY 2018-19 for employees of the company (FY18 419,681 new ordinary shares at \$0.46 per share).

26 Share-based Payments

During the year ended 30 June 2019, 232,228 new ordinary shares at the issue price of \$0.395 per share were issued as part of staff incentive plans for FY 2018-19 for employees of the company (FY18 419,681 new ordinary shares at the issue price of \$0.46 per share).

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); and
- (ii) The Employee Tax Exempt Share Plan, which provides benefits to all eligible 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 no unlisted options at 30 June 2019 (2018: 400,000). There were no options or share performance rights in the hands of staff issued at the start of financial year 2019 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 2019, there were no unissued shares.

Employee Share Issue

The Board approved a bonus comprising cash and fully paid ordinary shares separate from the LTIP:

232,228 fully paid ordinary shares were issued in accordance with a Board resolution of 22 November 2018 (FY18 419,681 fully paid ordinary shares).

Weighted Average Share Price

The weighted average market price at 30 June 2019 was 44.8 cents (2018: 50.9 cents).

27 Events Occurring After the Reporting Date

The financial report was authorised for issue on 27 September 2019 by the Board of Directors.

No 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.

(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:

2018-19

There were no related party transactions in the 2018-19 year.

2017-18

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

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.

Notes to the Financial Statements (continued)

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

Summary Table

	2019	2018
	\$	\$
Financial assets		
Cash and cash equivalents	-	5,944,620
Trade and other receivables	-	5,979,880
Held at amortised cost		
Cash and cash equivalents	5,349,874	-
Trade and other receivables	19,858,111	-
Total financial assets	<u>25,207,985</u>	<u>11,924,500</u>
Financial liabilities		
Trade and other payables	-	5,745,335
Financial liabilities at fair value		
Trade and other payables	19,851,232	5,781,877
Total financial liabilities	<u>19,851,232</u>	<u>11,527,212</u>

The Group has not restated comparatives when initially applying AASB 9, the comparative information has been prepared under AASB 139 *Financial Instruments: Recognition and Measurement*.

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

The accompanying notes form part of these financial statements.

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 establish a 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	
	2019	2018	2019	2018
	\$	\$	\$	\$
Trade payables	16,135,443	5,745,335	16,135,443	5,745,335
Total	16,135,443	5,745,335	16,135,443	5,745,335

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.

Notes to the Financial Statements (continued)

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 70% (2018: 57%) of the Group's purchases are denominated in currencies other than the functional currency of the operating entity, whilst 52% of sales are denominated in the Group's functional currency (2018: 76%).

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

At 30 June 2019, had the Australian Dollar moved, with all other variables held constant, post-tax (loss)/profit would have been affected as follows:

	2019		2018	
	+10%	-10%	+10%	-10%
USD	\$	\$	\$	\$
Net results	3,895	(4,761)	126,493	(154,602)
EUR				
Net results	4,592	(5,613)	7,188	(11,329)
GBP				
Net results	274	(335)	65	(80)
NZD				
Net results	153,053	(187,065)	-	-

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 table 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 \$5,349,874 (2018: \$5,944,620) 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

The accompanying notes form part of these financial statements.

June 2019, 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 below.

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

	2019		2018	
	+1.00%	-1.00%	+1.00%	-1.00%
	\$	\$	\$	\$
Net results	53,494	(53,494)	59,446	(59,446)
Equity	53,494	(53,494)	59,446	(59,446)

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

	2019	2018
	\$	\$
Balance at the beginning of the year	516,110	516,110
Transfer to Retained Earnings	(514,228)	-
Share Premium Account	6,893	-
Balance at the end of the year	8,775	516,110

(b) Accumulated Losses

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

	2019	2018
	\$	\$
Balance at the beginning of the year	(20,144,986)	(20,284,210)
Profit/(losses) for the year	168,433	139,224
Restatement due to adoption of AASB16	(162,991)	-
Transfer to Retained Earnings	514,228	-
Balance at the end of the year	(19,625,316)	(20,144,986)

Notes to the Financial Statements (continued)

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.

	2019	2018
	\$	\$
Statement of Financial Position		
Assets		
Current assets	27,999,981	13,827,647
Non-current assets	2,462,660	606,751
Total Assets	<u>30,462,641</u>	<u>14,434,398</u>
Liabilities		
Current liabilities	21,457,535	6,598,403
Non-current liabilities	1,191,153	163,203
Total Liabilities	<u>22,648,688</u>	<u>6,761,606</u>
Net Assets	<u>7,813,953</u>	<u>7,672,792</u>
Equity		
Issued capital	27,312,482	27,196,530
Retained earnings	(19,505,422)	(20,037,966)
Reserves	6,893	514,228
Total Equity	<u>7,813,953</u>	<u>7,672,792</u>
Statement of Profit or Loss and Other Comprehensive Income		
Total profit or loss for the year	<u>181,306</u>	190,936
Total comprehensive income	<u>181,306</u>	<u>190,936</u>
Contingent liabilities		

The parent entity did not have any contingent liabilities as at 30 June 2019 or 30 June 2018.

Contractual commitments

The parent entity did not have any commitments as at 30 June 2019 or 30 June 2018.

32 Contingencies

In the opinion of the Directors, the Group did not have any contingencies at 30 June 2019 (30 June 2018: None).

33 Statutory Information

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

XTEK Limited
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 2019 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 25th day of September 2019



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Liability limited by a scheme
approved under Professional
Standards Legislation

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 2019, 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 2019 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:



The accompanying notes form part of these financial statements.



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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. However, future conditions for which there is currently no indication, might cause the Group to cease to continue as a going concern.
- 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

Bhaumik Bumia
Partner

Canberra
26 September 2019



Additional Information

1. The following information set out below was applicable as at 24 September 2019:

2. Shareholding

(a) Distribution of Shareholders

Category (size of holding)	Number Ordinary Shares
1 – 1,000	88,478
1,001 – 5,000	1,009,226
5,001 – 10,000	1,330,879
10,001 – 100,000	12,555,186
100,001 and over	33,750,973
	48,734,742

(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>	4,360,630	8.95
2	MRS WENDY WING LIN LO	2,529,022	5.19
3	MARK PHILIP RACK <ALL OTHERS AC>	2,193,659	4.50
4	FAIRLANE MANAGEMENT PTY LTD	2,096,097	4.30
5	EMALYN HOLDINGS <JOHN KENNEDY TESTAMENTARY AC>	1,666,666	3.42
6	UDB PTY LIMITED <BOETTCHER SUPER FUND ACCOUNT>	1,266,299	2.60
7	BISSAPP SOFTWARE PTY LTD <BISAPP SOFTWARE SF A/C>	1,135,958	2.33
8	BNP PARIBAS NOMINEES PTY LTD	984,244	2.02
9	MR IVAN SLAVICH	679,028	1.39
10	BISSAPP SOFTWARE PTY LTD <SUPER FUND ACCOUNT>	679,000	1.39
11	MR NICHOLAS HENRY WEBER <MAJURA FAMILY A/C>	675,804	1.39
12	ALTOR CAPITAL MANAGEMENT PTY LTD <ALTOR ALPHA FUND>	605,000	1.24
13	DWKSJK PTY LTD <SEAWEED INVESTMENT A/C>	603,090	1.24
14	ANWAT MARKETING PTY LTD	558,807	1.15
15	ROEJO INVESTMENTS PTY LTD	526,993	1.08
16	APAM HOLDINGS PTY LTD <HECTOR SUPER FUND A/C>	481,024	0.99
17	RACCOLTO INVESTMENTS PTY LTD <MAPLELEAF SUPER FUND A/C>	455,000	0.93
18	MR PHILIPPE ODOUARD	453,851	0.93
19	BAJKOR NOMINEES PTY LTD	453,334	0.93
20	ATECH GROUP PTY LIMITED <ATECH GROUP SUPER FUND A/C>	444,035	0.91
Totals: Top 20 holders of ORDINARY SHARES		22,847,541	46.88
Total Remaining Holders Balance		25,887,201	53.12

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

4. 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). Adoption of the revised 4th Edition Principles and Recommendations will be implemented effective from 1st January 2020.

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 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 overseeing 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 50 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, nonetheless applies some of the core principles.

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 2019 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 member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- has a material contractual relationship with the Company other than as a Director of the Company;
- has served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company; and
- is not free from any interest and any business or other relationship which could, or could reasonably be perceived to materially interfere with the Director's ability to act in the best interests of the Company.

Similarly, the Board has adopted a policy that the Chair should be an independent Director. However due to changes to the Board in 2009, Mr. Boettcher was appointed as a 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 FY2019. 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 2019 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 FY2019. 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 FY2019.

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. Where there is a conflict of interest, this must be declared to the organisation. Board meetings have a standing agenda item to disclose when a Director has a conflict of interest. In circumstances where there is a conflict of interest, the Director or employee will not participate in any material, discussion and/or decisions being made by the organisation in relation to the conflicted organisation or interest.
- *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 2019 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 Hardwikes 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 25 September 2019, 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 policies;
- 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 overseeing, 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 25 September 2019, 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 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.
- *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 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.

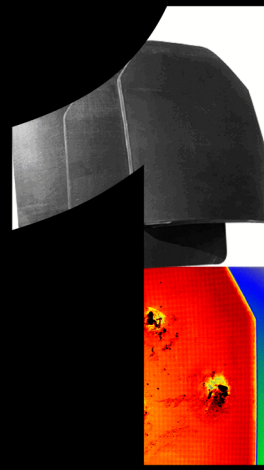
Where packages comprise a fixed element and variable incentive components, the variable components will depend on Company and personal performance. Short term incentives may include annual cash incentives on meeting specific profit and performance criteria that have been agreed in plans set with the 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 2019, including the fair value of options, is listed in the Directors Report and Financial Statements of the 2019 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 is contained within the Human Resources and Remuneration Committee Policy, this policy is available and published on the Company's website. The Company complies with Recommendation 8.3.



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