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

30 September 2014

By Electronic Lodgement

Dear Sir/Madam,

LODGEMENT OF ANNUAL REPORT

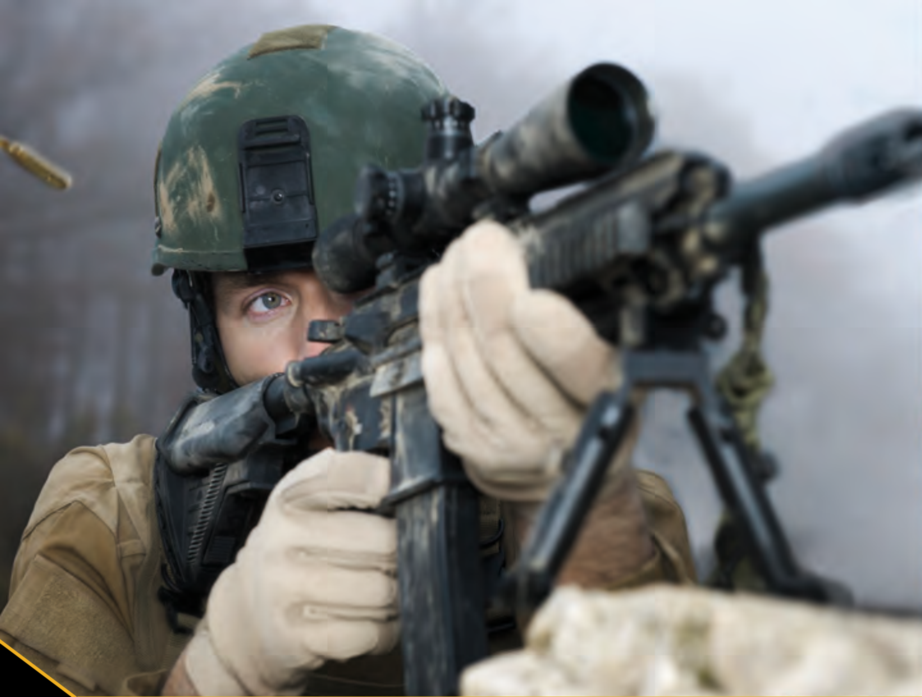
In accordance with the Listing Rules, please find attached the Annual Report for XTEK Limited (XTE) for the financial year ended 30th June 2014.

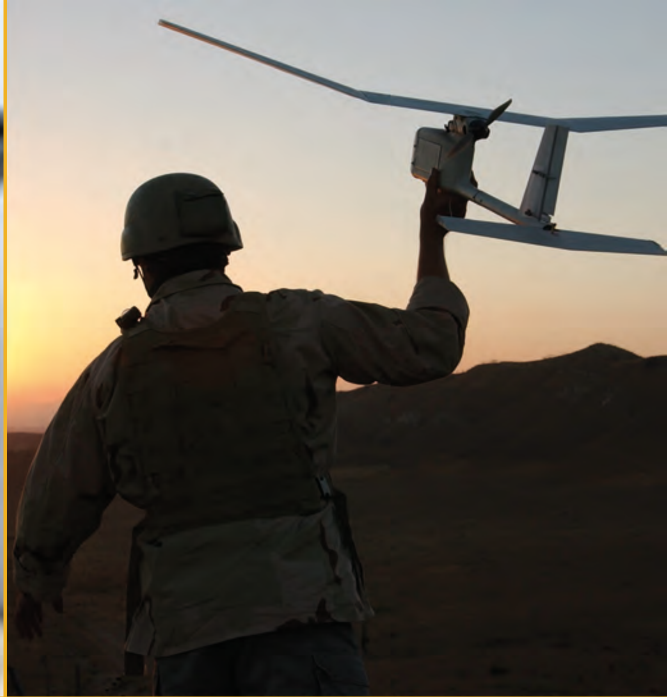
Should you require any further information in respect to this matter please contact the Chairman, Mr. Uwe Boettcher at Uwe.Boettcher@xtek.net or (02) 6232 0601 in the first instance.

Yours sincerely,

Lawrence A. Gardiner
Company Secretary

Attachment: 2014 Annual Report for XTEK Limited (ABN 90 103 629 107)





2014 ANNUAL REPORT

XTEK LTD

PROTECT AND SUSTAIN

www.xtek.net | 1800 500 032

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28 NOVEMBER 2014	Annual general meeting
YEAR ENDED 30 JUNE 2015 *	
27 FEBRUARY 2015	Half year results
28 AUGUST 2015	Preliminary full year results
30 SEPTEMBER 2015	Full year results

* These dates are subject to change

CORPORATE DIRECTORY

Directors	Uwe Boettcher (Appointed 28 April 2009 - Appointed Chairman 25 June 2009)
	Lawrence Gardiner (Appointed 3 December 2010)
	Robert Quodling (Appointed 1 March 2013)
	Ivan Slavich (Appointed 23 September 2013)
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
Australian Securities Exchange Listing	Australian Securities Exchange Limited Level 3, Securities Exchange Centre 530 Collins Street Melbourne VIC 3000 Australia
Auditor	Hardwickes Chartered Accountants Hardwickes House Level 1 6 Phipps Close Deakin ACT 2600 Australia
Share Registry	Computershare Investor Services Pty Limited Yarra Falls 452 Johnston Street Abbotsford VIC 3067 Australia
Solicitors	Minter Ellison Level 23, Rialto Towers 525 Collins Street Melbourne VIC 3000 Australia
Bankers	Bendigo Bank 161 London Circuit Canberra ACT 2600 Australia
Website Address	www.xtek.net

OPERATING AND FINANCIAL REVIEW FROM OUR CHAIRMAN

Principal Activities

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

There were no significant changes in the nature of the principal activities during the financial year.

Operating Results

A simplified Income Statement for XTEK Limited for financial year ended 30 June 2014 is outlined below:

	1st Half				2nd Half				Full Year			
	Dec-13	Dec-12	Change		Jun-14	Jun-13	Change		Jun-14	Jun-13	Change	
	$'000		$'000	%	$'000		$'000	%	$'000		$'000	%
Revenue from sale of goods and services												
Agency sales	716	841	(125)	(15%)	2,593	2,129	464	22%	3,309	2,970	339	11%
Logistics engineering revenue	325	767	(442)	(58%)	407	589	(182)	(31%)	732	1,356	(624)	(46%)
Unmanned arial vehicle (UAV)	114	-	114		-	-	-		114	-	114	
FCT funding	339	-	339		305	-	305		644	-	644	
R&D income (including XTclave)	-	-	-		519	-	519		519	-	519	
Total revenue	**1,494**	**1,608**	**(113)**	**(7%)**	**3,824**	**2,718**	**1,106**	**41%**	**5,318**	**4,326**	**993**	**23%**
Gross profit	**843**	**783**	**60**	**8%**	**1,645**	**1,073**	**572**	**53%**	**2,488**	**1,856**	**632**	**34%**
Gross profit %	**56%**	**49%**		**8%**	**43%**	**39%**		**4%**	**47%**	**43%**		**4%**
Other income	47	252	(205)	(81%)	344	255	89	35%	391	507	(116)	(23%)
Total expenses	(1,499)	(1,548)	49	3%	(1,603)	(1,588)	(15)	(1%)	(3,102)	(3,136)	34	1%
Agency (loss)/profit before tax	**(609)**	**(513)**	**(96)**	**(19%)**	**386**	**(260)**	**646**	**248%**	**(223)**	**(773)**	**550**	**71%**
Income tax	-	-	-	-	-	-	-		-	-	-	
Total (loss)/profit after tax	**(609)**	**(513)**	**(96)**	**(19%)**	**386**	**(260)**	**646**	**248%**	**(223)**	**(773)**	**550**	**71%**

Revenue for financial year 2014 from the sale of goods and services for the Company increased by 23% to $5.3m (2013: $4.3m) and total income has increased by 18% to $5.7m (2013: $4.8m).

The Company's loss position improved by 71% from $773k for financial year 2013 to a loss of $223k for the financial year 2014. This was achieved despite continued budget constraints on Government expenditure in the Defence and Homeland Security sectors. The recorded loss for the financial year 2014 was largely due to slippage in manufacturing schedules which resulted in an inability to deliver significant Defence orders to the value of some $587k by 30 June 2014. Whilst this slippage of orders had an impact on financial year 2014 results, it has provided a healthy start to financial year 2015 with purchase orders to the value of $3.4m already on hand. The Company ends the financial year without debt.

A table highlighting the Company's overarching business trends from financial year 2012 to 2014 is shown below:

Performance Indicators	Financial Year		
	2012	2013	2014
Revenue from sale of goods and services $'000	4,366	4,326	5,318
Gross profit from sales of goods and services $'000	1,697	1,856	2,488
Gross profit %	39%	43%	47%
Net profit $'000	(1,087)	(773)	(223)
Return on sales %	(25%)	(18%)	(4%)
Market Capital @ 30 June $'000	3,925	4,227	8,856

OPERATING AND FINANCIAL REVIEW (continued)

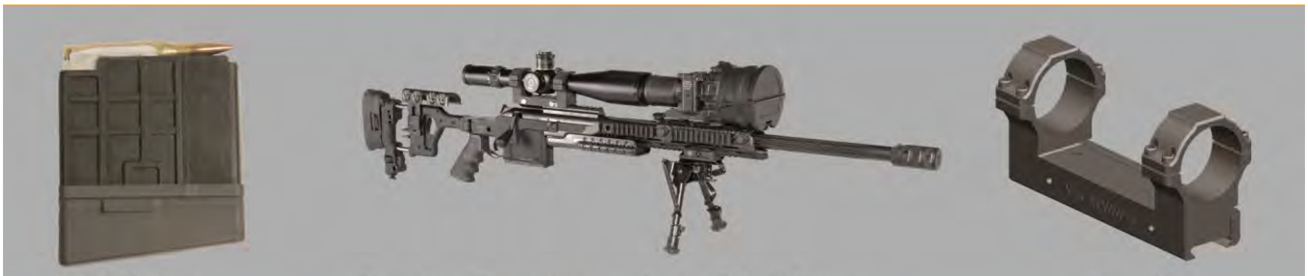
Review of Operations

i. Agency Business

The Agency business continued to grow in strength throughout the reporting period, with key portfolios improving on financial year 2013 results. Of particular note, Weapons and Ancillaries sales continued to increase for the second consecutive year. The Company was also able to successfully strengthen existing Agency lines with additional leading-edge products and innovative sales initiatives to meet contemporary client requirements.

ii. XTEK Designed and Manufactured Weapon Ancillaries

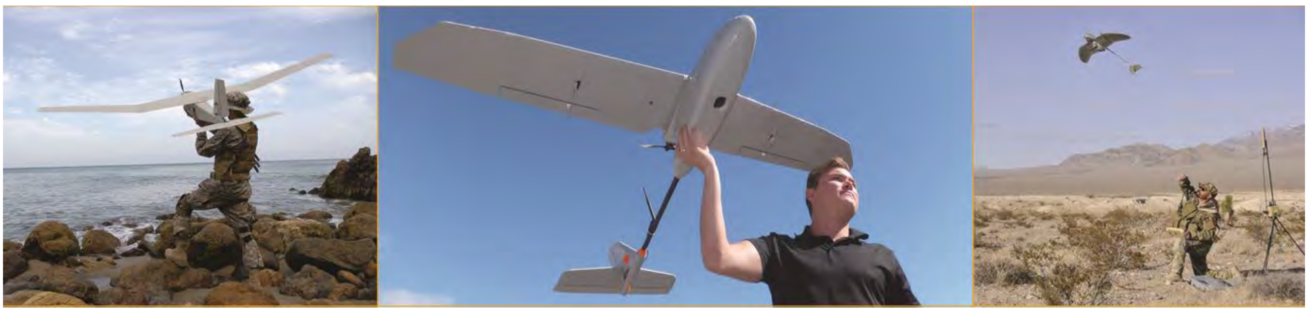
In addition to traditional product lines, the Company successfully brought to market its own unique range of tactical weapon accessories for use by specialist Defence and Police Agencies. In recognition of successfully meeting exacting and stringent user technical requirements, XTEK was awarded significant Defence orders for the supply of bespoke tactical weapon accessories.



XTEK Magazine *Blaser Long Range Weapons System Folding Chassis* *Scope Mount*

iii. Unmanned Aerial Vehicle Capability

The Company continued to invest in the development of its operational Unmanned Aerial Vehicle capability for use by a range of Government and private sector organisations. This included the development of a suite of Unmanned Aerial Vehicle solutions and the integration of geographic information systems. The investment in this unique capability has placed the Company in a strong position to meet the many and varied requests now being received from an increasingly technically sophisticated client base. A concerted sales effort, meanwhile, culminated in the Company successfully tendering for the supply of an AeroVironment unmanned aerial system for use by an Australian Law Enforcement Agency. Delivery of this system is scheduled for the second half of financial year 2015.



iv. Commercialisation of IP

Significant XTclave™ development and testing work on advanced lightweight hard armour plate solutions for the United States Department of Defense Foreign Comparative Testing (FCT) Office has been undertaken during the reporting period. Progress with this project in FY14 has resulted in the FCT Office formally exercising its option with XTEK to continue the armour project work for a further 12 month period. XTclave™ product development opportunities continue to be investigated by the Company across the lucrative Global Composites Market.

v. Relocation

The XTEK Head Office moved to new premises at 3 Faulding Street, Symonston, ACT in early May. The fully integrated facility at Symonston combines modern office space with a purpose built secure electronics workshop to provide XTEK with the state-of-the-art premises expected of today's advanced technical solutions providers without increasing costs.

vi. Joint Venture

The Company successfully concluded an Equipment Sale (Hydroclave plant) and Software Licence Agreement with Armour Australia on 25 June 2014. The Agreement provides for the termination of the Hydroclave Joint Venture Agreement between XTEK and Armor Australia and for the subsequent sale of the remaining half share of the Joint Venture Hydroclave plant to Armor Australia.

Financial Position

The net assets of XTEK Limited have increased by $394,452 from June 2013 to $1,468,764 in 2014. This is increase is largely due to the following factors:

- Improved operating performance; and
- Proceeds from share issues raising $617,128.

The Company's stronger financial position has enabled the Company to extinguish the liability of $200,000 relating to the sale and leaseback arrangement for a Remote Positioning Vehicle while improving the Company's working capital ratio. The Company ended the year with no debt and the Company's working capital has improved from $485,988 in 2013 to $1,112,317 in 2014.

Significant Changes in State of Affairs

i. On 24 September 2013, Mr. Ivan Slavich was appointed as a Non-Executive Director of the Company.

ii. On 21 November 2013, Mr. Lawrence Broadbent resigned as a Non-Executive Director of the Company.

Events after the Reporting Period

i. On 2 July 2014, the Company received a Purchase Order for the supply of weapon ancillaries, to the value of $376,000 AUD, from the Australian Defence Force.

ii. On 3 July 2014, the Company received a Purchase Order for the supply of one (1) AeroVironment Unmanned Aerial Vehicle System, inclusive of operational spares and training, to the value of approximately $831k from an Australian Law Enforcement agency.

iii. On 17 July 2014, the Company was formally invited by the Australian Defence Force to respond to a Request for Quotation (RFQ) for the supply of Body Armour, Explosive Ordnance Disposal Bomb Suits as part of a Standing Offer Panel. The Company has responded to the RFQ by offering the Morgan Advanced Materials ERGOTECH bomb suits.

iv. On 21 August 2014, the Company was formally invited by the Australian Defence Force to respond to a Request for Quotation (RFQ) for the supply of Light Weight X-ray Imagers as part of a Standing Offer Panel. The Company has responded to the RFQ by offering a suite of the NeX-Ray x-ray imagers.

Future Developments, Prospects and Business Strategies

On the back of its recent success in achieving sales in a range of high quality weapon ancillaries, the Company continues to work closely with end users in order to better understand their tactical requirements. This will enable further development and expansion of the range of XTEK precision weapon ancillaries to meet future Defence and Law Enforcement needs.

It is anticipated that customer demands for specialist Unmanned Aerial Vehicle services will increase throughout financial year 2015 and the Company believes that it is in a strong position to benefit from any such procurement/lease opportunities.

The Company considers itself well placed to secure increased sales of its diverse and sophisticated range of Agency equipment / service solutions in financial year 2015. This assumption is based on significant orders in hand, a perception of client requirements, anticipated Government tenders due for release in financial year 2015 and the positive interest and feedback received from end users regarding XTEK products and services.

Uwe Boettcher
Chairman

CORPORATE GOVERNANCE STATEMENT

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

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

PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

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

Role of the Board

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

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

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

Role of Chief Executive Officer and Executive

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

- Formulating and reviewing, with the Board, the vision and strategy and developing actions and plans to achieve the vision and implement the strategy. Reporting to the Board on the progress against those plans;

- Appointing a management team and negotiating terms and conditions for approval by the Human Resource and Remuneration Committee or the Board. Providing leadership to and overseeing the senior management team, ensuring employees are properly instructed to achieve a safe workplace and ensuring compliance with laws and Company policies and that a high level of ethical behaviour is practiced;

- Reporting to the Board on various matters, including all matters requiring review or approval, significant changes to the risk profile, certification (with the CFO) to the Board on the fairness of the financial statements and adequacy of policies as regards risk management, monthly reporting on performance of businesses and continual education of Directors of the Company, its business environment and relevant changes of law;

- Acting within delegated authority levels for capital expenditure, sale of assets, appointment and termination of executives; and

- All other matters necessary for the day-to-day management of the Company and not reserved for the Board.

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

- The Company's financial position, strategies, operations and risk management policies; and

- The respective rights, duties, responsibilities and roles of the Board and senior executives.

Responsibilities of the Board of Directors

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

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

- Leadership of the Organisation: overseeing the Company and establishing codes that reflect the values of the Company and guide the conduct of the Board, management and employees.

- Strategy Formulation: working with senior management to set and review the overall strategy and goals for the Company and ensuring that there are policies in place to govern the operation of the Company.

- Overseeing Planning Activities: overseeing the development of the Company's strategic plan and approving that plan as well as the annual and long-term budgets.

- Shareholder Liaison: ensuring effective communications with shareholders through an appropriate communications policy and promoting participation at general meetings of the Company.

- Monitoring, Compliance and Risk Management: overseeing the Company's risk management, compliance, control and accountability systems and reviewing the effectiveness and directing the financial and operational performance of the Company.

- Company Finances: approving expenses in excess of those approved under the Company authorisations process and approving and monitoring acquisitions, divestitures and financial and other reporting.

- Human Resources: appointing, and, where appropriate, removing the Chief Executive Officer (CEO), Company Secretary and Chief Financial Officer (CFO) as well as reviewing the performance of the CEO and monitoring the performance of senior management in their implementation of the Company's strategy.

- Ensuring the Health, Safety and Well-Being of Employees: in conjunction with the senior management team, developing, overseeing and reviewing the effectiveness of the Company's occupational health and safety systems to ensure the well-being of all employees.

- Delegation of Authority: delegating appropriate powers to the CEO to ensure the effective day-to-day management of the Company and establishing and determining the powers and functions of the Committees of the Board.

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

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

- Finance, Audit & Risk Management Committee;

- Human Resources & Remuneration Committee; and

- Nomination Committee

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

- Board approval of strategic plans designed to meet stakeholders' needs and manage business risk;

- Reviewing, ratifying and monitoring systems of risk management and internal control, codes of conduct and legal compliance;

- Ongoing development of strategic plans and approving initiatives and strategies designed to ensure the continued growth and success of the entity; and

- Implementation of budgets by management and monitoring progress against budget. This is achieved by the establishment and reporting of both financial and non-financial key performance indicators.

Other functions reserved to the Board include:

- Approval of the annual and half-yearly financial reports;
- Approving and monitoring the progress of major capital expenditure, capital management, and acquisitions and divestitures;
- Ensuring that any significant risks that arise are identified, assessed, appropriately managed and monitored;
- Ensuring appropriate resources are available to senior executives; and
- Reporting to shareholders.

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

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

Evaluating the performance of senior executives

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

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

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

PRINCIPLE 2: STRUCTURE OF THE BOARD TO ADD VALUE

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

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

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

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

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

Council Recommendation 2.2: The chairperson should be an independent Director

Independence of Chairman

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

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

Roles of Chairman and Chief Executive Officer

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

Council Recommendation 2.4: The Board should establish a Nomination Committee

Nomination Committee

In consideration of the size of the Company and the Board, the Directors have resolved that the Board as a whole shall comprise the Nomination Committee. The members of the Nomination Committee during the year and their attendance at meetings of the Committee are disclosed in the Directors' Report in the Annual Report.
In this role, the Board as Nomination Committee:

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

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

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

Disclosure of the process for evaluating the performance of the Board

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

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

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

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

Independence

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

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

- is a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
- is employed, or within the last three years, has been employed in an executive capacity by the Company, and there has not been a period of at least three years between ceasing such employment and serving on the Board;
- has within the last three years, 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. Mr. Boettcher, as a Director of a major shareholder of the Company, does not meet the Company's criteria for independence, consequently the Company does not comply with Recommendation 2.2. Since different individuals hold the positions of Chairman and Chief Executive Officer, the Company does comply with Recommendation 2.3.

Nomination Committee

The 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.

Members of the Nomination Committee during the reporting period were:

- Mr. Uwe Boettcher (Chair);
- Mr. Lawrence Broadbent;
- Mr. Lawrence Gardiner;
- Mr. Robert Quodling; and
- Mr. Ivan Slavich.

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.

Access to independent Professional Advice

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

Performance Evaluations

The Board considers the evaluation of its own performance as fundamental to establishing a culture of performance and accountability within the Company. It considers the ongoing development and improvement of its own performance as a critical input to effective governance. As a result, the Nomination Committee will meet and undertake annual performance evaluation of the Board, individual Directors and the CEO. This review is based on a number of goals for the Board, the individual Directors and the CEO that have been established in the previous year. The performance evaluation process will be formalised and then passed to the Chairman of the Nomination Committee for subsequent discussion of the assessment outcomes with the individual Director or Executive concerned.

PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING

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

Company Code of Conduct

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

- *Ethical Standards:* All Directors, senior executives and employees are expected to act with the utmost honesty and integrity, striving at all times to enhance the reputation and performance of the Company.

- *Responsibilities to Shareholders and the Financial Community Generally:* The Company complies with the spirit as well as the letter of all laws and regulations that govern shareholders' rights. The Company has processes in place designed to ensure the truthful and factual presentation of the Company's financial position and prepares and maintains its accounts fairly and accurately in accordance with the generally accepted accounting and financial reporting standards.

- *Responsibilities to Clients, Customers and Consumers:* Each employee has an obligation to use their best efforts to deal in a fair and responsible manner with each of the Company's clients, customers and consumers. The Company for its part is committed to providing clients, customers and consumers with fair value.

- *Employment Practices*: The Company 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 it employees to strive to do the same.

- *Responsibilities to the Community:* As part of the community the Company:

  - is committed to conducting its business in accordance with applicable environmental laws and regulations and encourages all employees to have regard for the environment when carrying out their jobs; and
  - encourages all employees to engage in activities beneficial to their local community.

- *Responsibility to the Individual*: The Company is committed to keeping private information from employees, clients, customers, consumers and investors confidential and protected from uses other than those for which it was provided.

- *Conflicts of Interest:* Employees and Directors must avoid conflicts as well as the appearance of conflicts between personal interests and the interests of the Company.

- *How the Company Complies with Legislation:* Within Australia, the Company strives to comply with the spirit and the letter of all legislation affecting its operations. Outside Australia, the Company will abide by local laws in all countries in which it operates. Where those laws are not as stringent as the Company's operating policies, particularly in relation to the environment, workplace practices, intellectual property and the giving of "gifts", Company policy will prevail.

- *How the Company Monitors and Ensures Compliance with its Code of Conduct:* The Board, management and all employees of the Company are committed to implementing this Code of Conduct and each individual is accountable for such compliance. Disciplinary measures may be imposed for violating the Code.

- *Whistleblower Protection:* The Company Code of Conduct provides for the reporting of unlawful and unethical behaviour by Directors, Senior Executives and Employees of the Company. These provisions allow for whistleblower protection in accordance with legislative requirements and good practice recommendations. The policy aims to provide a working environment that enables employees to voice genuine concerns in relation to:

    - breaches of relevant legislation;
    - breaches of the Company's Vision and Values;
    - financial misconduct or impropriety or fraud;
    - failure to comply with legal obligations;
    - danger to health and safety or the environment;
    - criminal activity; and
    - attempts to conceal any of the above.

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

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

Trading in Company Securities

The Company has a Securities Trading Policy under which Directors, members of senior management (Designated Officers) and their associates likely to be in possession of unpublished price sensitive information, may only trade in the Company's securities during a 12 week period commencing immediately after each of the following ("Trading Windows"):

- the release by the Company of its half-yearly results to the ASX;

- the release by the Company of its annual results to the ASX: and

- the release of an announcement to the ASX together with a resolution of the Board that a Trading Window is open from the time of the announcement.

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

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

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

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

PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

Council Recommendation 4.1: The Board should establish an Audit Committee.

Finance, Audit & Risk Management Committee

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

Responsibilities

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

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

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

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

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

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

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

Composition

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

Council Recommendation 4.3: The Finance Audit and Risk Management Committee shall have a formal charter

Charter

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

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

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

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

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

PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURES

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

Continuous Disclosure

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

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

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

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

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

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

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

The Company Secretary's role includes:

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

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

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

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

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

PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS

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

Shareholder communication and participation

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

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

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

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

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

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

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

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

PRINCIPLE 7: RECOGNISING AND MANAGING RISK

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

Risk Management

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

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

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

Management Statement

The Chief Executive Officer and the Senior Executive are required to provide a signed Management Statement to the Board with regard to the risk management and internal control systems of the Company for the year ended 30 June 2014. This statement requires the CEO and Senior Executive to confirm or declare otherwise:

- that the risk management and internal compliance and control systems in all material respects implements the policies adopted by the Directors;

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

On 30 September 2014, Mr. Brian Malcolm (CEO) and Ms. Megan Burgmann (CFO) provided the Board with a written assurance that the risk management and internal compliance and control systems were operating efficiently and effectively in all material respects. Their statement has assured the Board that risk management and internal compliance and control systems are sound.

Council Recommendation 7.3: The Board should disclose whether it has received assurance from the Chief Executive Officer and Chief Financial Officer that the declaration provided in accordance with section 295A of the *Corporations Act 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.

CEO and CFO Attestation

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

On 30 September 2014, Mr. Brian Malcolm (CEO) and Ms. Megan Burgmann (CFO) declared to the Board that the risk management and internal compliance and control systems were operating efficiently and effectively in all material respects. Their statement has assured the Board that the financial statements are founded on a sound system of risk management and internal compliance.

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

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

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

PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

Council Recommendation 8.1: The Board should establish a Remuneration Committee.

Remuneration Committee

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

Composition

The HR and Remuneration Committee currently consists of the Board. Mr. Robert Quodling is the current Chair. The details of the member's qualifications may be found in their Director Profiles that form part of this report.

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

Remuneration Practice

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

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

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

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

Remuneration of Non-Executive Directors

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

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

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

Executive Directors and Senior Executives.

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

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

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

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

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

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

DIRECTORS REPORT

Your Directors present their report on the Company, XTEK Limited for financial year ended 30 June 2014. The information in the preceding operating and financial review forms part of this Directors' report for the financial year ended 30 June 2014 and is to be read in conjunction with the following information:

Directors

The following persons were Directors of XTEK Limited during or since the end of the financial year up to the date of this report:

- Mr. Uwe Boettcher
- Mr. Lawrence Broadbent (resigned 21 November 2013)
- Mr. Lawrence Gardiner
- Mr. Robert Quodling
- Mr. Ivan Slavich (appointed 24 September 2013)

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 had paid a premium $12,325 to insure the Directors and Officers of the Company. The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the Company, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful 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.

During the year the following fees were paid or payable for services provided by the auditor of the Company, Hardwickes Chartered Accountants in 2014 (2013: Ernst and Young):

Assurance services	**2014**	2013
	$	$
Audit and review of financial reports and other audit work under the *Corporations Act 2001.*	**47,564**	66,950

Auditors Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2014 has been received and can be found on page 30 of the financial report.

Information Relating to the Directors and Company Secretary

Mr. Uwe Boettcher	-	Chairman (Non-executive Director)
Experience	-	Mr. Boettcher is the Principal of the law firm, Boettcher Law, starting his career at the firm now known as King & Wood Mallesons and more recently having been a partner at Abbott Tout Lawyers. He is a Fellow of the Australian and New Zealand College of Notaries. In 2011 he was appointed as a Foundation Fellow of the Australian Association of Angel Investors. In 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. He is a past Chairman of the National Health Sciences Centre Limited and the Australasian Legal Alliance.
Interest in Shares and Options	-	47,806,967 ordinary shares at 30 June 2014
Special Responsibilities	-	Chairman of the Nomination Committee
Other Directorships	-	Chairman of Kord Defence Group of Companies, Greenmag Group Pty Ltd, Director of Capital Angels Pty Limited; and Manuka Corporate Pty Limited. He is an alternate Director of Mineral Carbonation International Pty Limited.
Mr. Lawrence Broadbent	-	Director (Non-executive) (Resigned 21 November 2013)
Experience	-	Mr. Broadbent is a Certified Practicing Accountant (CPA Australia) with some 34 years' experience in the industry as a practicing accountant. In addition, he holds a Bachelor of Business and Accounting Degree from the Monash University in Melbourne. Mr. Broadbent started his professional career in the early seventies in Melbourne in the era of large manufacturing organisations. Mr. Broadbent has over the years gained extensive financial accounting experience with commercial and government organisations.
Interest in Shares and Options	-	Nil ordinary shares at 30 June 2014
Special Responsibilities	-	Chairman of the Finance, Audit and Risk Management Committee (up to 21 November 2013)
Other Directorships	-	None

Mr. Lawrence Gardiner	-	Director (Executive) and Company Secretary
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 served as a Director of the International Association of Bomb Technicians and Investigators for over 11 years and is a current member of the Australian Institute of Company Directors.
Interest in Shares and Options	-	253,000 ordinary shares at 30 June 2014
Special Responsibilities	-	Corporate Governance
Other Directorships	-	None
Mr. Robert Quodling	-	Director (Non-executive)
Experience	-	Mr. Quodling has extensive experience as a leader and motivator of high performance commerce teams in the defence and aerospace sectors at the operational and executive level. His skills have been gained in a diverse range of activities including corporate governance, corporate planning, financial planning, project management, marketing, sales and business development. Mr. Quodling as a former Army Officer held a range of command and operational appointments in the Australian Army between 1975 and 1994. He was awarded a Conspicuous Service Medal (CSM) for conspicuous service with the Special Air Service Regiment.
Interest in Shares and Options	-	100,000 ordinary shares at 30 June 2014
Special Responsibilities	-	Chairman of the Remuneration and Human Resource Committee
Other Directorships	-	Director of Simmersion Holdings Pty Ltd and Director of Asura Marketing Pty Ltd.
Mr. Ivan Slavich	-	Director (Non-executive) (Commenced 24 September 2013)
Experience	-	Mr. Slavich has over 25 years of senior management experience in the energy, government, banking and telecommunications industries. 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. Mr. Slavich is the Chairman of TransACT Communications Pty Ltd and associated Group of Companies (all of whom are wholly owned subsidiaries of iiNet, an ASX 200 $1bn Company). Mr. Slavich recently launched Trident Corporate Services, a B2B Company providing full turn-key services to business and Government.
Interest in Shares and Options	-	2,851,852 ordinary shares at 30 June 2014
Special Responsibilities	-	Chairman of Finance, Audit and Risk Management Committee
Other Directorships	-	Director of TransACT Communications Pty Ltd, Director of Trident Corporate Services Pty Ltd and Director of Service One Members Banking.

Meetings of Directors

	Directors Meetings		Audit 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	2	2	1	1	1	1
Mr. Lawrence Broadbent	6	5	2	2	1	1	-	-
Mr. Lawrence Gardiner	12	12	2	2	1	1	1	1
Mr. Robert Quodling	12	12	2	2	1	1	1	1
Mr. Ivan Slavich	9	7	1	1	-	-	1	-

REMUNERATION REPORT

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

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

Details of key management personnel

a) Directors

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

- Mr. Uwe Boettcher – Director (Non-executive) (Chairman)
- Mr. Lawrence Broadbent – Director (Non-executive) (resigned 21 November 2013)
- Mr. Lawrence Gardiner – Director (Executive) and Company Secretary
- Mr. Ivan Slavich – Director (Non-executive) (appointed 24 September 2013)
- Mr. Robert Quodling – Director (Non-executive)

b) Executives

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

- Mr. Brian Malcolm – Chief Executive Officer
- Ms. Megan Burgmann – Chief Financial Officer

Remuneration Committee

The remuneration committee of the board of Directors of the Company is responsible for determining and reviewing remuneration arrangements for the Directors and executives.

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

Remuneration Philosophy

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

Remuneration Structure

In accordance with best practice corporate governance, the structure of Non-executive Director and Executive remuneration is separate and distinct.

Remuneration Report

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

a) Principles used to determine the nature and amount of remuneration

b) Details of remuneration

c) Details of options and rights issued as remuneration

d) Service agreements

e) KMP Shareholdings

a) Principles used to Determine the Nature and Amount of Remuneration

The objective of the Company's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders, and conforms with market best practice for delivery of reward.

The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

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

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

Alignment to shareholders' interests:

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

Alignment to program participants' interests:

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

Non-executive Director Remuneration

Objective

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

Structure

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

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

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

The remuneration of Non-executive Directors for the year ended 30 June 2013 and 30 June 2014 is detailed in table 1 of this report.

Executive Remuneration

Objective

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

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

Structure

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

The remuneration committee has entered into a detailed contract of employment with the Chief Executive Officer and a standard contract with other executives. Details of these contracts are provided on page 27.

Remuneration consists of the following key elements:

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

The proportion of fixed remuneration and variable remuneration (potential short term and long term incentives) for each executive in 2014 and 2013 is set out in table 1.

Fixed Remuneration

Objective

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

Structure

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

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

Variable Remuneration — Short Term Incentive (STI)

Objective

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

Structure

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

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

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

STI bonus for 2013 and 2014 financial years

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

For the 2014 financial year, no STI cash bonuses were accrued or payable.

Variable Remuneration — Long Term Incentives (LTI)

Objective

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

Structure

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

Share options and share performance rights

Information on XTEK Limited options and share performance rights is set out in (c), (d) and (e) of the remuneration report.

Options

All options issued to Directors in the past have lapsed.

Share performance rights

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

Market-based performance hurdles

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

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

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

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

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

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

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

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

Lapse of Performance Rights

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

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

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

Any performance rights held by a participant will lapse, whether or not they have become exercisable, if the Board determines that the participant has acted fraudulently or dishonestly or is in serious breach of duty to the Company.
It is intended that the shares required for the Plan will be provided either by issuing new shares or by acquiring shares on market.

Service Conditions

Where a participant ceases employment prior to the vesting of their share options, the share options are forfeited unless cessation of employment is due to termination initiated by the Company or death. In the event of a change of control of the Company, the performance period end date will be brought forward to the date of the change of control and awards will vest subject to performance over this shortened period. All share performance rights that had been issued by the Company to date lapsed on 30 June 2010.

b) Details of Remuneration

Table 1: Benefits and Payments for the Year Ended 30 June 2014

		Short-term Benefits			Post-Employment Benefits		Long-term Benefits			
		Salary, Fees and Leave *1 $	Bonus $	Non-monetary Benefits $	Super-annuation $	Other $	LSL *2 $	Share-based Pmts $	Total $	% Perf. Related $
KMP										
Mr. Uwe Boettcher	2014	60,000	-	-	-	-	-	-	60,000	-
	2013	60,000	-	-	-	-	-	-	60,000	-
Mr. Robert Quodling *5	2014	32,110	-	-	2,970	-	-	-	35,080	-
	2013	10,480	-	-	943	-	-	-	11,423	-
Mr. Lawrence Broadbent *4	2014	-	-	6,250	-	-	-	-	6,250	-
	2013	-	-	-	-	-	-	-	-	-
Mr. Ivan Slavich *3	2014	22,500	-	-	-	-	-	-	22,500	-
	2013	-	-	-	-	-	-	-	-	-
Mr. Lawrence Gardiner	2014	116,276	-	3,699	10,499	-	2,612	-	133,086	-
	2013	94,639	-	25,000	8,197	-	2,590	-	130,426	-
Mr, Brian Malcolm *6	2014	178,025	-	-	16,163	-	-	-	194,188	-
	2013	164,320	-	-	14,706	-	-	-	179,026	-
Ms. Megan Burgmann	2014	98,378	-	-	9,049	-	4,219	-	111,646	-
	2013	94,612	-	-	8,569	-	7,464	-	110,645	-
Total KMP	**2014**	**507,289**	**-**	**9,949**	**38,681**	**-**	**6,831**	**-**	**562,750**	**-**
	2013	**420,178**	**-**	**25,000**	**32,415**	**-**	**10,054**	**-**	**491,520**	**-**

*** Notes**

1. Salary, fees and leave are per payroll summary or actual invoices received. These payments may vary to contract due to employee benefits, voluntary salary reductions, additional pay, back pay and annual leave paid out. Amounts included for leave are movements in the accrued annual leave entitlements for the relevant 12 month period.

2. Amounts included above for long service leave are movements in accrued entitlements for the relevant 12 month period.

3. On 24 September 2013, Mr. Ivan Slavich was appointed as Director (Non-executive).

4. On 28 May 2013, Mr. Lawrence Broadbent was appointed as Director (Non-executive). On 21 November 2013 Mr. Broadbent resigned as Director (Non-executive). In lieu of payment of Director fees XTEK Limited paid for Mr. Broadbent to undertake a Company Directors Course through the Australian Institute of Company Directors. The cost for this is shown in the non-monetary benefits column in the above table.

5. On 1 March 2013, Mr. Robert Quodling was appointed as a Director (Non-executive).

6. On 1 March 2013, Mr. Brian Malcolm, Chief Executive Officer, resigned as Director (Executive).

c) Options Rights Granted as Remuneration

There were no new issues of share options or share performance rights during the 2013-2014 or the 2012-2013 financial years. All share options and share performance rights issued by the Company have lapsed.

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

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

d) Service Agreements

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

Mr. Brian Malcolm – Chief Executive Officer

- A written employment agreement is in place, effective from 4 February 2014.
- Base salary, inclusive of superannuation, to the value of $200,000 per annum.
- Eligibility for Company Long Term Incentive Performance Rights Plan (LTIPRP).
- Eligibility for Company Short Term Incentive Plan (STIP).
- Qantas Club membership.

Mr. Lawrence Gardiner – Director (Executive) and Company Secretary

- A written employment agreement is in place, effective from 3 September 2011.
- Base salary, exclusive of superannuation, to the value of $116,142 per annum.
- Eligibility for Company Long Term Incentive Performance Rights Plan (LTIPRP).
- Eligibility for Company Short Term Incentive Plan (STIP).
- Qantas Club membership.

Ms. Megan Burgmann – Chief Financial Officer

- A written employment agreement in place, effective from 12 October 2010.
- Base salary, exclusive of superannuation, to the value of $97,695 per annum.
- Eligibility for Company Long Term Incentive Performance Rights Plan (LTIPRP).
- Eligibility for Company Short Term Incentive Plan (STIP).

e) KMP Shareholdings

The number of ordinary shares in XTEK Limited held by each KMP of the Company during the financial year are as follows:

	Balance at Beginning of year $	Granted as Remuneration during the year $	Issued on Exercise of Options during the year $	Other Changes during the year $	Total $
Mr. Uwe Boettcher	41,328,691	-	-	6,478,276	47,806,967
Mr. Robert Quodling	-	-	-	100,000	100,000
Mr. Lawrence Broadbent	-	-	-	-	-
Mr. Ivan Slavich	-	-	-	2,851,852	2,851,852
Mr. Lawrence Gardiner	253,000	-	-	-	253,000
Mr, Brian Malcolm	140,000	-	-	-	140,000
Ms. Megan Burgmann	-	-	-	-	-
	41,721,691	**-**	**-**	**9,430,128**	**51,151,819**

Loans to KMP

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

REMUNERATION REPORT (continued)

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

Uwe Boettcher
Chairman
Canberra, 30 September 2014

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Hardwickes
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Hardwickes Partners Pty Ltd
ABN 21 008 401 536

Auditors Independence Declaration under Section 307C of the Corporations Act 2001 To the Directors of XTEK LTD

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2014, there have been:

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

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

Hardwickes

Hardwickes
Chartered Accountants

Robert Johnson FCA
Partner

30 September 2014

Canberra

Chartered Accountants

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2014

	Notes	2014 $	2013 $
Revenue	2	**5,318,161**	4,325,840
Changes in inventories of finished goods and work in progress		**(2,829,622)**	(2,469,510)
Gross profit		**2,488,539**	1,856,330
Other income	2	**390,576**	507,151
Employee benefits expense	3	**(1,645,331)**	(1,704,237)
Depreciation	3	**(154,010)**	(128,127)
Operational expenditure	3	**(1,192,134)**	(1,296,324)
Additional expenditure	3	**(65,276)**	-
Finance costs	3	**(45,040)**	(7,726)
(Loss) from operations before income tax		**(222,676)**	(772,933)
Income tax expenses	4	**-**	-
Total comprehensive (loss) for the period		**(222,676)**	(772,933)

Loss per share attributable to the ordinary equity holders of the company

	Notes	2014 $	2013 $
Basic (loss) per share	8	**(0.001)**	(0.005)
Diluted (loss) per share	8	**(0.001)**	(0.005)

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2014

	Notes	2014 $	2013 $
ASSETS			
Current assets			
Cash and cash equivalents	10	**649,773**	450,911
Trade and other receivables	11	**1,012,687**	978,243
Inventories	12	**744,667**	579,692
Other current assets	13	**111,929**	79,967
Total current assets		**2,519,056**	2,088,813
Non-current assets			
Property, plant and equipment	14	**340,102**	689,859
Intangible assets	15	**47,259**	-
Total non-current assets		**387,361**	689,859
TOTAL ASSETS		**2,906,417**	2,778,672
LIABILITIES			
Current liabilities			
Trade and other payables	16	**620,508**	1,225,369
Provisions	17	**140,124**	87,209
Deferred income	18	**646,108**	90,247
Other current liabilities	20	**-**	200,000
Total current liabilities		**1,406,739**	1,602,825
Non-current liabilities			
Other payables	16	**26,734**	-
Provisions	17	**4,180**	29,382
Deferred income	18	**-**	72,153
Total non-current liabilities		**30,914**	101,535
TOTAL LIABILITIES		**1,437,653**	1,704,360
NET ASSETS		**1,468,764**	1,074,312
EQUITY			
Contributed equity	22	**19,942,856**	19,325,728
Reserves	30	**514,228**	514,228
Accumulated losses	30	**(18,988,320)**	(18,765,644)
TOTAL EQUITY		**1,468,764**	1,074,312

The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2014

	Notes	2014 $	2013 $
Cash flows from/(used in) operating activities			
Receipts from customers		**5,961,834**	3,914,681
Payments to suppliers and employees		**(6,148,756)**	(4,725,840)
		(186,922)	(811,159)
Receipt of grants	24	**264,995**	291,549
Interest received		**13,539**	5,584
Borrowing costs		**(45,040)**	(7,726)
Net cash flows from/(used in) operating activities	25	**46,572**	(521,753)
Cash flows (used in)/from investing activities			
Payments for property plant and equipment	14	**(264,838)**	(117,565)
Proceeds from sale of demonstration equipment		**-**	204,545
Net cash flows (used in)/from investing activities		**(264,838)**	86,980
Cash flows from financing activities			
Proceeds from issue of ordinary shares	22 & 25	**655,296**	756,959
Payment of transaction costs associated with issued capital	22	**(62,168)**	(55,739)
Proceeds from short term loans	19	**450,000**	125,000
Payment of sale and leaseback	20	**(200,000)**	-
Repayments of short term loans	25	**(426,000)**	(147,240)
Net cash flows from financing activities		**417,128**	678,980
Net increase in cash and cash equivalents		**198,862**	244,207
Cash and cash equivalents at beginning financial year		**450,911**	206,704
Cash and cash equivalents at end of year	10	**649,773**	450,911

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2014

	Issued capital (note 22) $	Other equity securities (note 22) $	Equity-based payments reserve (note 30) $	Accumulated losses (note 30) $	Total Equity $
Balance at 1July 2012	18,523,681	73,067	514,228	(17,992,711)	1,118,265
Loss for the year	-	-	-	(772,933)	(772,933)
Total income and expense for the period	-	-	-	(772,933)	(772,933)
Issues of ordinary shares during the year:					
Issue of share capital	784,719	-	-	-	784,719
Transaction costs associated with issued share capital	(55,739)	-	-	-	(55,739)
Transfer between categories of equity	73,067	(73,067)	-	-	-
Balance at 30 June 2013	19,325,728	-	514,228	(18,765,644)	1,074,312
Balance at 1July 2013	**19,325,728**	**-**	**514,228**	**(18,765,644)**	**1,074,312**
Loss for the year	**-**	**-**	**-**	**(222,676)**	**(230,063)**
Total income and expense for the period	**-**	**-**	**-**	**(222,676)**	**(230,063)**
Issues of ordinary shares during the year:					
Issue of share capital	**679,296**	**-**	**-**	**-**	**679,296**
Transaction costs associated with issued share capital	**(62,168)**	**-**	**-**	**-**	**(62,168)**
Transfer between categories of equity	**-**	**-**	**-**	**-**	
Balance at 30 June 2014	**19,942,856**	**-**	**514,228**	**(18,988,320)**	**1,468,764**

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

These consolidated financial statements and notes represent those of XTEK Limited.

The financial statements were authorised for issue on 30 September 2014 by the Directors of the Company.

1. Summary of Significant Accounting Policies

Basis of Preparation

These general purpose financial statements have been prepared in accordance with the *Corporations Act 2001*, Australian Accounting Standards and Interpretations of the Accounting Standards Board and International Financial Reporting Standards as issued by the International Accounting Standards Board. The Company is a for-profit entity for financial reporting purposes under Australian Accounting Standards. Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless otherwise stated.

(a) Going Concern Basis of Accounting

This report has been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and settlement of liabilities in the normal course of business.

The Company has incurred a loss of $222,676 for the year ended 30 June 2014 (full year ended 30 June 2013: loss of $772,933 and half-year ended 31 December 2013: loss of $609,401). Accumulated losses to 30 June 2014 total $18,988,320 (accumulated losses to 30 June 2013 of 18,765,644 and accumulated losses to 31 December 2013 total $19,375,045). The balance of cash and cash equivalents was $649,773 as at 30 June 2014 (as at 30 June 2013: $450,911 and as at 31 December 2013: $1,248,092).

The ability of the company to continue as a going concern is dependent on:

i. the ability to meet projected revenue levels;
ii. timing of cash receipts;
iii. retention of overheads at budgeted levels;

The Directors have reviewed the Company's financial position and cash flow forecasts for the next twelve months, which show that the Company will be able to meet its debts as and when they fall due and payable and are, therefore, of the opinion that the use of the going concern basis of accounting is appropriate. This is based on the belief that the Company will meet projected revenue from its Agency and product development businesses, and that the Company will be able to retain overheads at budgeted levels.

Should the Company not achieve the matters set out above, there is uncertainty whether the Company will continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. The financial report does not include any adjustments to assets and liabilities that may be necessary if the Company is unable to continue as a going concern.

(b) New Accounting Standards and Interpretations

i. Changes in accounting policy and disclosures.

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

ii. Adoption of new Australian Accounting Standard requirements

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

iii. Future Australian Accounting Standard requirements

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Company for the annual reporting period ended 30 June 2014. It is anticipated that the new requirements will have no material financial impact on future reporting periods.

(c) Significant Accounting Judgment, Estimates and Assumptions

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

1. Summary of Significant Accounting Policies (continued)

(d) Foreign Currency Translation

i. Functional and presentation currency

The financial statements are presented in Australian dollars, which is XTEK Limited's functional and presentation currency.

ii. Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

(e) Property, Plant and Equipment

i. Cost and valuation

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

ii. Depreciation

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

- plant and equipment 3 - 15 years

i. Impairment

The carrying values of plant and equipment are reviewed for impairment when events or changes in the circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of comprehensive income.

(f) Borrowing Costs

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

(g) Intangible Assets

i. Research and development

Research costs are expensed as incurred.

Development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured. Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure carried forward is amortised over the period of expected future sales from the related project.

The carrying value of development costs is reviewed for impairment annually when the asset is not yet in use, or more frequently when an indicator of impairment arises during the reporting year indicating that the carrying value may not be recoverable. Where recognition criteria are not met, development costs are recognised in the statement of comprehensive income as incurred.

1. Summary of Significant Accounting Policies (continued)
(g) Intangible Assets (continued)

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

(h) Recoverable Amount of Assets

At each reporting date, the Company assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Company makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

The recoverable amount is the greater of fair value less costs to sell and value in use for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(i) Inventories

Inventories are valued at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- Raw materials - purchase cost on a first in, first out basis; and

- Finished goods and work-in-progress cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

(j) Trade Receivables

Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectable amounts. Receivables are non-interest bearing and are generally on 30 day terms, unless otherwise agreed with the customer. Collectability of trade receivables is reviewed on an ongoing basis. Debts that are known to be uncollectable are written off when identified. An allowance for doubtful debts is raised when there is objective evidence that the Company will not be able to collect the debt.

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

(k) Cash and Cash Equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short term deposits with an original maturity of three months or less. For the purposes of the Statement of Cash flows, cash and cash equivalents consist of cash and equivalents as defined above, net of outstanding bank overdrafts.

(l) Provisions

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

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

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

1. Summary of Significant Accounting Policies (continued)

(m) Share Based Payment Transactions

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

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

- the XTEK Long Term Incentive Performance Rights Plan (LTIPRP); and
- the Employee Share Ownership Plan (ESOP), which provides benefits to all employees.

The cost of these equity settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by reference to either the Black Scholes valuation or by an external valuer using a binomial model.

In valuing equity settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of XTEK Limited ('market conditions') if applicable.

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

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

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

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

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

The dilutive effect, if any, of outstanding options is reflected as an additional share dilution in the computation of diluted earnings per share.

(n) Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

i. Sale of Goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards of ownership are considered passed to the buyer at the time of delivery of the goods to the customer.

1. Summary of Significant Accounting Policies (continued)
(n) Revenue Recognition (continued)

i. Rendering of Services

Revenue is recognised by reference to the stage of completion of a contract.

Stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours for each contract. When the contract outcome cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

ii. 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.

iii. Deferred Income

Deferred income consists of customer deposits received and government grants. Deferred income relating to customer deposits is not recognised as revenue until such time when the ownership of the goods is transferred to the customer. In the case of Government grants, grants are recognised in accordance with the accounting policy outlined in Note 1(x).

(o) Taxes

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred income tax is provided on all temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.
Deferred income tax liabilities are recognised for all taxable differences:

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

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax assets and unused tax losses can be utilised:

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

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

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

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

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

1. Summary of Significant Accounting Policies (continued)

(p) Employee Benefits

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

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

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

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

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

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

i. Long service leave

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

ii. Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after statement of financial position date are discounted to present value.

(q) Earnings Per Share

i. Basic earnings per share

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

ii. Diluted earnings per share

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

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

1. Summary of Significant Accounting Policies (continued)

(r) Interest Bearing Loans and Borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised and as well as through the amortisation process.

(s) Trade and Other Payables

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

(t) Contributed Equity

Ordinary shares are classified as equity.

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

(u) Dividends

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

(v) Other Taxes

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

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

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

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

(w) Loans and receivables

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

i. Impairment of Loans

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

1. Summary of Significant Accounting Policies (continued)

(x) Government grants

Government grants are recognised when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. They are not credited directly to shareholders equity.

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

(y) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

i. Company as a lessee

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term. Lease incentives are recognised in the statement of comprehensive income as an integral part of the total lease expense.

ii. Company as a lessor

Leases in which the Company retains substantially all the risks and benefits of ownership of the leased asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as rental income. Income from leases relates only to property which is sub-let by the Company.

2. Revenue and Other Income

	2014	2013
	$	$
(a) Revenue from Continuing Operations		
Sales revenue	**4,585,776**	2,969,474
Revenue from repairs	**681,835**	1,332,326
Revenue from services	**50,550**	24,040
	5,318,161	4,325,840
(b) Other Income		
Rental income	**2,995**	70,777
Interest	**13,539**	5,584
R&D tax incentive (refer Note 24)	**360,426**	408,551
Grant income	**11,906**	14,437
Other	**1,710**	7,802
	390,576	507,151

3. Expenses

(Loss) before income tax from continuing operations includes the following specific expenses:

		2014	2013
		$	$
(a)	**Employee Benefits**		
	Salaries and wages	**1,421,879**	1,504,695
	Superannuation	**163,485**	145,270
	Redundancy payments	**-**	4,088
	Payroll tax	**38,162**	27,638
	Workers compensation	**21,805**	22,546
	Total Employee Benefits	**1,645,331**	1,704,237
(b)	**Depreciation**		
	Plant and equipment	**22,197**	16,149
	Motor vehicles	**1,319**	1,614
	Office furniture and equipment	**18,779**	18,991
	Computer software	**16,778**	16,778
	Demonstration equipment	**43,590**	26,131
	Leasehold property improvements	**8,245**	9,479
	XTclave	**43,102**	38,985
	Total Depreciation	**154,010**	128,127
(c)	**Operational Expenditure**		
	Accounting fees	**15,100**	13,807
	Audit fees	**47,564**	70,907
	Advertising and conferences	**64,660**	140,969
	Bank charges	**4,162**	8,682
	Consultancy fees	**98,988**	80,280
	Directors fees	**123,291**	71,423
	Insurance	**104,465**	108,722
	FBT	**10,422**	20,575
	Legal fees	**1,451**	9,930
	Office administrative costs	**440,225**	432,948
	Operating lease charges	**42,337**	79,529
	Share registry fees	**30,710**	29,163
	Travel and entertainment	**81,174**	81,412
	Staff training	**7,661**	18,813
	R&D project expenses	**14,705**	16,029
	Net foreign currency losses	**25,577**	29,438
	Other expenses	**79,642**	83,697
	Total Operational Expenditure	**1,192,134**	1,296,324
(d)	**Additional Expenditure**		
	Relocation costs	**46,994**	-
	Impairment of assets due to relocation	**18,282**	-
	Total Additional Expenditure	**65,276**	**-**

3. Expenses (continued)

	2014	2013
	$	$
(e) Finance Costs		
Interest	**21,140**	7,726
Finance charges	**23,900**	-
Total finance costs	**45,040**	7,726

4. Tax Expense

	2014	2013
	$	$

(a) Income Tax Expense

The major components of the income tax expense are:

	2014	2013
Statement of Comprehensive Income		
Current income tax		
– Current income tax charge	**(133,150)**	(338,948)
– Adjustment in respect to income tax of previous years	**-**	-
– Loss not recognised	**133,150**	338,948
Deferred income tax		
– Relating to origination and reversal of temporary differences	**24,329**	(10,211)
– Timing differences not recognised	**(24,329)**	10,211
Income tax expense in the Statement of Comprehensive Income	**-**	-

(b) Numerical Reconciliation between Aggregate Tax Expense Recognised in the Statement of Comprehensive Income and Tax Expense Calculated per the Statutory Income Tax Rate

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

	2014	2013
	$	$
Account loss before tax from operations	**(222,676)**	(772,933)
Total account loss before income tax	**(222,676)**	(772,933)
At the Company's statutory income tax rate of 30% (2013: 30%)	**(66,803)**	(231,880)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income		
– Capital raising cost amortised	**(7,074)**	-
– Entertainment	**231**	128
– Unrealised foreign exchange loss	**(3,666)**	5,179
– Losses not brought to account	**(39,127)**	198,836
– Timing differences not brought to account	**(27,994)**	10,211
– Research and development expenditure	**161,452**	140,112
– Research and development offsets	**(83,822)**	(122,586)
Aggregate income tax expense	**-**	-

4. Tax Expense (continued)

(c) Recognised Deferred Tax Assets and Liabilities

Deferred income tax relates to the following:

	2014	2013
	$	$
i. Deferred tax liabilities		
Unrealised gains	**(3,666)**	5,179
Gross deferred tax liabilities	**(3,666)**	5,179
Deferred tax liability not recognised	**(3,666)**	5,179
Gross deferred tax liabilities	**-**	-
ii. Deferred tax assets		
Accrued expenses	**40,952**	24,594
Provisions	**14,582**	13,037
Employee leave entitlements	**71,427**	61,601
Impaired assets	**259,878**	259,878
Potential tax losses	**5,474,642**	5,481,604
Potential capital tax losses	**488,457**	488,457
Deferred differences and losses not recognised	**(6,346,272)**	(6,323,992)
Gross deferred tax asset	**3,666**	5,179
Deferred tax assets not recognised	**3,666**	5,179
Net deferred tax assets	**-**	-

(d) Tax Losses

The Company has capital tax losses for which no deferred tax asset is recognised on the balance sheet that arise in Australia of $1,628,190 (2013: $1,628,190) and are available indefinitely for offset against future capital gains of a similar nature subject to continuing to meet relevant statutory tests.

The Company has accumulated tax losses for which no deferred tax asset has been recognised of $18,248,806 (2013: $17,804,973). 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 2014, there are no unrecognised temporary differences associated with the Company's investments in subsidiaries as the Company has no liability for additional taxation should unremitted earnings be remitted (2013: nil).

5. Key Management Personnel

Refer to the remuneration report in the Directors' report for details of remuneration paid or payable to each member of the groups key management personnel (KMP) for the year ended 30 June 2014.

The totals of remuneration paid to KMP of the Company during the year are as follows:

	2014	2013
	$	$
Short-term employee benefits	**517,238**	449,051
Post-employment benefits	**38,681**	32,415
Other long-term employee benefits	**6,831**	10,054
Total KMP compensation	**562,750**	491,520

6. Remuneration of Auditors

Amounts received or due and receivable by Hardwickes Chartered Accountants in 2014 and Ernst & Young in 2013 for assurance services are as follows:

	2014	2013
Audit Services	**$**	$
Audit and review of financial reports and other audit work under the *Corporations Act 2001*	**47,564**	66,950
Total remuneration for audit services	**47,564**	66,950

7. Dividends

Ordinary shares

There were no dividends paid or proposed for the period to 30 June 2014 (2013: nil).

Franked dividends

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

	2014	2013
	$	$
Franking credits available for subsequent financial years based on a Tax rate of 30% (2013: 30%)	**981,110**	981,110

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

i. franking credits that will arise from the payment of the amount of the provision for income tax;
ii. franking debits that will arise from the payment of dividends recognised as a liability at the reporting date; and
iii. franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

8. 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.

	2014	2013
	$	$
Basic loss per share		
(Loss) attributable to the ordinary equity holders of the Company	**(0.001)**	(0.005)
Diluted loss per share		
(Loss) attributable to the ordinary equity holders of the Company	**(0.001)**	(0.005)

8. Earnings per Share (continued)

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

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

	2014	2013
	$	$
(Loss) from continuing operations	**(222,676)**	(772,933)
Loss attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	**-**	-
	(222,676)	(772,933)

Weighted average number of shares used as the denominator

	2014	2013
	Number	Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	192,634,408	162,022,007
Adjustments for calculation of diluted earnings per share:		
Options and share performance rights	-	-
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	192,634,408	162,022,007

i. *Options and share performance rights*

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

ii. *Share Issue*

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

9. Operating Segments

Identification of reportable segments

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

The Company is managed primarily on the basis of product category and service offerings as the diversification of the Company's operations inherently have different risk profiles and performance assessment criteria.

Reportable Segment

The homeland security agency business remains XTEK's major reportable segment and includes the supply of homeland security equipment and services to predominantly government customers in the Australasian region. The CEO reviews internal management reports for the strategic business unit on a monthly basis.

9. Operating Segments (continued)
Reportable Segment (continued)

i. Revenue by geographical region

Revenue attributable to external customers is disclosed below, based on the location of the external customer.

	2014	2013
	$	$
Australia	**3,659,258**	4,026,103
New Zealand	**896,040**	278,103
United States of America	**759,588**	20,862
Other	**3,275**	772
Total revenue	**5,318,161**	4,325,840

ii. Major Customers

The Company has a number of customers to whom it provides both products and services. The Company supplies a number of Australian Government Agencies that combined account for 68% of external revenue (2013: 74%). The next most significant client accounts for 17% (2013: 19% combined commercial customers) and this revenue relates to a combination of New Zealand Government Agencies.

10. Cash and Cash Equivalents

	2014	2013
	$	$
Cash at bank and in hand	**649,773**	450,911
	649,773	450,911

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

Reconciliation of Cash

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

11. Trade and Other Receivables

	2014	2013
	$	$
Trade receivables	**573,180**	764,933
Other receivables	**439,507**	213,310
Total trade and other receivables	**1,012,687**	978,243

Terms and conditions

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

Allowance for impairment losses

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 2014 (2013: $16,858).

11. Trade and Other Receivables (continued)
Allowance for impairment losses (continued)

At 30 June 2014, the ageing analysis of trade receivables is as follows:

				Past Due but Not Impaired	
		(Days)			
	Total	**< 30**	**31-60**	**60-90**	**> 90**
	$	**$**	**$**	**$**	**$**
2014	573,180	409,191	98,489	65,500	-
2013	764,933	715,428	45,758	-	3,747

Receivables past due date but not considered impaired are $65,500 (2013: $3,747). The Company trades predominantly with government agencies. The Company has been in contact with the relevant debtors and is satisfied that payment will be received in full. As at the date of this report, all of the $65,500 has been received.

Fair value and credit risk

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

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

12. Inventories

	2014	2013
	$	$
Products and spare products	**592,378**	568,131
Work in progress	**152,289**	11,561
	744,667	579,692

Inventory expense

There were no Inventory write downs recognised as an expense for the year ended 30 June 2014 for the Company (2013: $9,468). The 2013 expense has been included in the changes in inventories of finished goods and work in progress line in the Statement of Comprehensive Income.

13. Other Current Assets

	2014	2013
	$	$
Prepayments	**111,929**	79,967
	111,929	79,967

14. Property, Plant and Equipment

	2014	2013
	$	$
Plant and Equipment		
Demonstration Equipment:		
At cost	**119,971**	141,003
Accumulated depreciation	**(85,432)**	(56,598)
	34,539	84,405
Motor Vehicles:		
At cost	**48,929**	48,930
Accumulated depreciation	**(43,215)**	(41,897)
	5,714	7,033
Office Furniture and Equipment:		
At cost	**140,017**	167,456
Accumulated depreciation	**(61,946)**	(117,651)
	78,071	49,805
Computer Software:		
At cost	**67,114**	67,114
Accumulated depreciation	**(57,548)**	(40,770)
	9,566	26,344
Plant and Equipment:		
At cost	**234,724**	94,320
Accumulated depreciation	**(43,588)**	(37,367)
	191,136	56,953
Property Improvements:		
At cost	**73,440**	88,650
Accumulated depreciation	**(52,364)**	(53,964)
	21,076	34,686
Hydroclave:		
At cost	**-**	469,618
Accumulated depreciation	**-**	(38,985)
	-	430,633
Total Plant and Equipment:		
At cost	**684,195**	1,077,091
Accumulated depreciation	**(344,093)**	(387,232)
	340,102	689,859

14. Property, Plant and Equipment (continued)

(a) Movements in Carrying Amounts

	Demonstration Equipment $	Motor Vehicles $	Office Furniture and Equipment $	Office Furniture and Equipment Under Lease $	Computer Software $	Plant and Equipment $	Leasehold Property Improvements $	Hydroclave *1 $	Total $
Balance at 1 July 2012	29,066	8,647	58,591	8,273	43,122	29,915	44,165	616,400	838,179
Additions	15,492	-	1,932	-	-	42,377	-	57,763	117,564
Transfers to and from assets	65,978	-	8,273	(8,273)	-	810	-	-	66,788
Disposals	-	-	-	-	-	-	-	(204,545)	(204,545)
Depreciation expense	(26,131)	(1,614)	(18,991)	-	(16,778)	(16,149)	(9,479)	(38,985)	(128,127)
Balance at 30 June 2013	84,405	7,033	49,805	-	26,344	56,953	34,686	430,633	689,859
Additions	500	-	57,318	-	-	159,761	-	-	217,579
Transfers to and from assets	(6,776)	-	-	-	-	-	-	(387,531)	(394,307)
Disposals	-	-	(10,273)	-	-	(3,381)	(5,365)	-	(19,019)
Depreciation expense	(43,590)	(1,319)	(18,779)	-	(16,778)	(22,197)	(8,245)	(43,102)	(154,010)
Balance at 30 June 2014	34,539	5,714	78,071	-	9,566	191,136	21,076	-	340,102

*** Notes**

1. In June 2014, XTEK Limited transferred the carrying amount ($387,531) of its 50% ownership of the Joint Venture Hydroclave to inventory held for sale. The associated Hydroclave Joint Venture Agreement was terminated in June 2014 with Armor Australia purchasing XTEK's share of the Joint Venture Hydroclave plant.

15. Intangible Assets

	2014	2013
	$	$
Patents:		
At cost	**47,260**	-
	47,260	-

During the full year ended 30 June 2014, the Company recognised $47,260 for patent application costs associated with the Intellectual Property of the process for the manufacture of multilayer articles (2013: $0). These costs have an indefinite useful life.

Movements in Carrying Amounts

	Patents
	$
Balance at 30 June 2013	-
Additions	47,260
Balance at 30 June 2014	47,260

16. Trade and Other Payables

	2014	2013
	$	$
CURRENT		
Trade creditors	**260,972**	857,203
Accrued expenses	**228,059**	159,541
Employee entitlements (annual leave)	**93,788**	88,747
Rent payable	**9,063**	-
GST payable	**28,626**	119,878
	620,508	1,225,369
NON-CURRENT		
Rent payable	**26,734**	-
	26,734	-

17. Provisions

	$
CURRENT	
Employee benefits (long service leave):	
Balance at 1 July 2013	87,209
Additional provisions	19,481
Amounts used	(3,390)
Amounts transferred from Employee Benefits (long service leave - non-current)	36,824
Balance at 30 June 2014	140,124
NON-CURRENT	
Employee benefits (long service leave):	
Balance at 1 July 2013	29,382
Additional provisions	11,622
Amounts transferred to Employee Benefits (long service leave - current)	(36,824)
Balance at 30 June 2014	4,180

17. Provisions (continued)

Nature and timing of provisions

(a) Employee Benefits (long service leave)

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

18. Deferred Income

	2014 $	2013 $
CURRENT		
Customer Deposits	**646,108**	81,415
Government Grants	**-**	8,832
	646,108	90,247
NON-CURRENT		
Government Grants (note 24)	**-**	72,153

19. Interest bearing liabilities

On 11 April 2013, a secured loan facility of $300,000 was made available to the Company by a related party (UDB Pty Ltd) for a twelve month period with an interest rate of 12.5%. This loan facility was to fund any short term cash flow deficit and was structured to allow for partial or full draw down by the Company during the term of the loan. There was an establishment fee for this loan of $23,900 which was recognised as an expense during the first half of financial year 2014. In August 2013, $250,000 of this loan was drawn upon and in September 2013, the balance of $50,000 was drawn upon. The full amount drawn upon was repaid in November 2013; $276,000 was repaid in cash and the remaining $24,000 was offset from the capital raised.

On 26 September 2013, a short term unsecured loan of $150,000 was provided to the Company by a related party (Mr. Lawrence Gardiner) with an interest rate of 14.5% to fund a short term cash flow deficit. There were no covenants associated with this loan and full repayment was made in November 2013.

20. Other Current Liabilities

In financial year 2012, the Company entered into a contractual arrangement that is in the legal form of a sale and operating leaseback arrangement with a related party (UDB Pty Ltd) associated with a Remote Positioning Vehicle. However, the substance of the arrangement and the relationship between the parties meant that revenue from the transaction was not recognised, but rather deferred within other current liabilities, to the amount of $200,000. In November the Remote Positioning Vehicle was purchased by the Company from UDB Pty Ltd and the liability has been extinguished.

21. Impairment Testing of Non-Current Assets

All non-current assets are reviewed twice yearly. In June 2014, management reviewed the carrying value of all XTEK non-current assets. Following the review, management determined the following impairment charges.

	2014 $	2013 $
Office Furniture and Equipment	**10,273**	-
Plant and Equipment	**3,381**	-
Leasehold property improvements	**5,365**	-
	19,019	-

22. Issued Capital

	2014 $	2013 $
201,271,652 (2013: 176,112,537)		
Fully paid ordinary shares	**19,942,856**	19,325,728

Movements in ordinary shares

	2014 No.	2014 $	2013 No.	2013 $
Opening balance	**176,112,537**	**19,325,728**	145,919,196	18,523,681
Shares issued	**25,159,115**	**679,296**	30,193,341	784,719
Transaction costs on shares issued	**-**	**(62,168)**	-	(55,739)
Transfer between categories of equity*	-	**-**	-	73,067
Balance	**201,271,652**	**19,942,856**	176,112,537	19,325,728

* The Company previously held convertible notes which were converted to ordinary shares upon maturity. The balance of $73,067 was reclassified from Other Equity Securities to Issued Capital in financial year 2013.

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. Commitments

Operating Lease Commitments

Non-cancellable operating leases contracted for but not recognised in the financial statements

	2014 $	2013 $
Payable – minimum lease payments		
– not later than 12 months	**256,243**	264,339
– between 12 months and 5 years	**605,917**	77,632
– later than 5 years	**505,096**	-
Minimum lease payments	**1,367,256**	341,971

24. Government Grants

AusIndustries R&D tax incentive

Income of $360,426 was recognised in financial year 2014 from AusIndustry's R&D Tax Incentive Regime. Of this $238,776 was recognised in relation to R&D expenses incurred in financial year 2014 and $40,665 was recognised in relation to R&D expenses incurred in financial year 2013. A further $80,985 was recognised in financial year 2014 from the funds received from AusIndustry's R&D Tax Incentive Regime for financial year 2012 consistent with the accounting policies of the Company.

Funds of $253,089 were received from AusIndustry's R&D Tax Incentive Regime and related to R&D expenses for financial year 2013. There were no unfulfilled conditions or contingencies attached to this grant at the reporting date. Of the $253,089 received, $212,424 was recognised as income in financial year 2013 and the balance of $40,665 was recognised in financial year 2014.

24. Government Grants (continued)

Other grants

Income was recognised and funds were received to the value of $11,906 from the Austrades Export Marketing and Development Grant in financial year 2014.

25. Cash Flow Information

Reconciliation of Cash Flow from/(used in) Operations with (Loss) after Income Tax

	Note	2014	2013
		$	$
(Loss) for the year		**(222,676)**	(772,933)
Adjustments for:			
Depreciation	3(b)	**154,010**	128,127
Net loss on disposal of property plant and equipment	3(d)	**18,292**	-
Changes in assets and liabilities			
(Increase) in trade debtors		**(34,444)**	(817,611)
Decrease in inventory		**230,060**	148,288
(Increase)/decrease in prepayments and other assets		**(31,962)**	85,762
(Decrease)/increase in trade and other payables		**(578,126)**	846,661
Increase/(decrease) in deferred income		**483,707**	(164,158)
Increase in provisions		**27,711**	24,111
Net cash flows from/(used in) operating activities		**46,572**	(521,753)

Non-cash Financing and Investing Activities

	2014	2013
Repayment of short term loan with shares	**24,000**	27,790

i. During the financial year, $24,000 from the capital raised was offset against the loan repayment otherwise due to a related party, UDB Pty Ltd, resulting in cash repaid to UDB Pty Ltd of $276,000 which extinguished the loan outstanding.

ii. During financial year 2013, $27,760 from the capital raised was offset against the loan repayment otherwise due to a related party, Vasey Pty Ltd, resulting in cash repaid to Vasey Pty Ltd of $22,240 which extinguished the loan outstanding.

26. Share-based Payments

There were no expenses recognised for employee services received during the year. (2013: nil).

Employee Share Ownership Plans

The Company provides benefits to employees (including key management personnel) in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

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

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

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

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

26. Share-based Payments (continued)

Share Options and Share Performance Rights

There were no options or share performance rights issued at the start of financial year 2014 or the prior year. There were no options of share performance rights exercisable at the end of the year or any prior year. As at 30 June 2014, there were no unissued shares.

Share Options and Share Performance Summary

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

Employee Share Issue

There were no shares issued to employees under the Employee Share Ownership Plan (ESOP) in 2013 or 2014.

Weighted Average Share Price

The weighted average market price at 30 June 2014 was 4.1 cents (2013: 2.7 cents).

27. Events after the Reporting Period

i. On 2 July 2014, the Company received a Purchase Order for the supply of weapon ancillaries, to the value of $376,000 AUD, from the Australian Defence Force.

ii. On 3 July 2014, the Company received a Purchase Order for the supply of one (1) AeroVironment Unmanned Aerial Vehicle System, inclusive of operational spares and training, to the value of approximately $831k from an Australian Law Enforcement agency.

iii. On 17 July 2014, the Company was formally invited by the Australian Defence Force to respond to a Request for Quotation (RFQ) for the supply of Body Armour, Explosive Ordnance Disposal Bomb Suits as part of a Standing Offer Panel. The Company plans to respond to the RFQ by offering the Morgan Advanced Materials ERGOTECH bomb suits.

iv. On 21 August 2014, the Company was formally invited by the Australian Defence Force to respond to a Request for Quotation (RFQ) for the supply of Light Weight X-ray Imagers as part of a Standing Offer Panel. The Company has responded to the RFQ by offering a suite of the NeX-Ray x-ray imagers.

28. Related Party Transactions

Related Parties

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

i. Entities

The entity is XTEK Limited and there are no subsidiaries.

ii. Directors

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

iii. Key management personnel

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

(b) Transactions with Related Parties

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

28. Related Party Transactions (continued)
(b) Transactions with Related Parties (continued)

The following transactions occurred with related parties:

i. On 11 April 2013, a secured loan facility of $300,000 was made available to the Company by a related party (UDB Pty Ltd) for a twelve month period with an interest rate of 12.5%. This loan facility was to fund any short term cash flow deficit and was structured to allow for partial or full draw down by the Company during the term of the loan. In August 2013 $250,000 of this loan was drawn upon and in September 2013 the balance of $50,000 was drawn upon. The full amount drawn upon was repaid in November 2013, $276,000 was repaid in cash and the remainder $24,000 was offset from the capital raised.

ii. On 26 September 2013, a short term unsecured loan of $150,000 was provided to the Company by a related party (Mr. Lawrence Gardiner) with an interest rate of 14.5% to fund a short term cash flow deficit. There were no covenants associated with this loan and full repayment was made in November 2013.

iii. In financial year 2012, the Company entered into a contractual arrangement that is in the legal form of a sale and operating leaseback arrangement with a related party (UDB Pty Ltd) associated with a Remote Positioning Vehicle. However, the substance of the arrangement and the relationship between the parties meant that revenue from the transaction was not recognised, but rather deferred within other current liabilities, to the amount of $200,000. During the half-year the Remote Positioning Vehicle was purchased by the Company from UDB Pty Ltd and the liability has been extinguished.

iv. An amount of $30,000 was paid to related party (UDB Pty Ltd) for the underwriting fee of the share offer in November 2013.

v. In February 2014 the Company's Key Management Personnel attended a two day strategic planning workshop conducted by related party (Trident Corporate Services). The cost of this course was $6,000.

29. Financial Risk Management

Financial Risk Management Policies

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

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

Specific Financial Risk Exposures and Management

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

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

(a) Interest Rate Risk

The Company's exposure to market interest rates relates primarily to the cash at bank. At reporting date, the Company had financial assets comprising cash and cash equivalents totalling $649,773 (2013: $450,911) exposed to Australian variable interest rate risk that are not designated in cash flow hedges.

The following sensitivity analysis is based on the interest rate risk exposures in existence at reporting date. At 30 June 2014, if interest rates had moved, as illustrated in the table below, with all other variables held constant, the post-tax net profit/(loss) for the period and equity would have been affected as follows:

	2014	2013
	$	$
Post tax (loss)/profit higher/(lower)		
+1% (100 basis points)	**6,491**	4,506
-1% (100 basis points)	**(6,491)**	(4,506)

29. Financial Risk Management (continued)
(a) Interest Rate Risk (continued)

The movements in the post-tax profit/(loss) for the period are due to higher/lower interest income from variable rate cash balances. The sensitivity is higher in 2014 than in 2013 because of an increase in cash balances in 2014.

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

(b) Liquidity Risk

The Company objective is to maintain a balance between continuity of funding and flexibility. The Company's financial liabilities comprise trade and other payables.

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

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

	2014	2013
	$	$
6 months or less	**399,189**	935,507
6-12 months	**4,531**	-
1-5 years	**-**	-
Over 5 years	**-**	-
	403,720	935,507

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

(c) Foreign Currency Risk

The Company has transactional currency exposures. Such exposure arises from sales or purchases by the Company in currencies other than the Company's functional currency. Approximately 32% (2013: 33%) of the Company's purchases are denominated in currencies other than the functional currency of the operating entity making the purchase whilst 83% of sales are denominated in the unit's functional currency.

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

At 30 June 2014, had the Australian Dollar moved, as illustrated in the table below, with all other variables held constant, post-tax (loss)/profit would have been affected as follows:

	2014	2013
	$	$
Post tax (loss)/profit higher/(lower)		
AUD/GBP +10%	**10**	1,455
AUD/GBP -10%	**(13)**	(1,779)
AUD/EUR +10%	**2,619**	47,259
AUD/EUR -10%	**(3,202)**	(57,761)
AUD/USD +10%	**(3,700)**	10,816
AUD/USD -10%	**4,522**	(13,220)
AUD/CHF +10%	**-**	6,043
AUD/CHF -10%	**-**	(7,386)
AUD/SEK +10%	**59**	-
AUD/SEK -10%	**(72)**	-

29. Financial Risk Management (continued)

(d) Credit Risk

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

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

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

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

30. Reserves and retained (losses)/profits

Equity Based Payment reserve

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

Movement in reserves:

	2014	2013
	$	$
Balance at the beginning of the year	**514,228**	514,228
Movements	**-**	-
Balance at the end of the year	**514,228**	514,228

Accumulated Losses

Movement in accumulated (losses) were as follows:

	2014	2013
	$	$
Balance at the beginning of the year	**(18,765,644)**	(17,992,711)
Losses for the year	**(222,676)**	(772,933)
Balance at the end of the year	**(18,988,320)**	(18,765,644)

DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of XTEK Limited, the Directors of the Company 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 2014 and of the performance for the year ended on that date of the Company;

2. In the Directors' opinion there are reasonable grounds to believe that the Company 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 Chief Executive Officer and Chief Financial Officer

On behalf of the Board

Uwe Boettcher
Chairman

Date this 30th day of September 2014

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Hardwickes Partners Pty Ltd
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Independent Audit Report to the members of XTEK LTD

Report on the Financial Report

We have audited the accompanying financial report of XTEK LTD, which comprises the statement of financial position as at 30 June 2014, the statement of profit or loss and other comprehensive income, statement of changes in equity for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal 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 Note 1, the directors also state, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards (IFRS).

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of XTEK LTD, would be in the same terms if given to the directors as at the time of this auditor's report.

Chartered Accountants

Hardwickes
more than accounting

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Hardwickes
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Hardwickes Partners Pty Ltd
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Independent Audit Report to the members of XTEK LTD

Opinion

In our opinion:

(a) the financial report of XTEK LTD is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the company's financial position as at 30 June 2014 and of its performance for the year ended on that date; and

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

(b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Material Uncertainty Regarding Continuation as a Going Concern

Without qualification to the opinion expressed above, attention is drawn to the following matter. As a result of the matters described in Note 1(a): *"Going Concern Basis of Accounting"* to the financial statements there is uncertainty whether the entity will be able to continue as a going concern, and therefore whether it will be able to pay its debts as and when they fall due and realise its assets and extinguish its liabilities in the normal course of business and at the amount stated in the financial statements. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the entity not continue as a going concern.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 22 to 29 of the directors' report for the year ended 30 June 2014. The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of XTEK LTD for the year ended 30 June 2014 complies with section 300A of the *Corporations Act 2001*.

Hardwickes

Hardwickes
Chartered Accountants

R Johnson

Robert Johnson FCA
Partner

Canberra

30 September 2014

Chartered Accountants

ADDITIONAL INFORMATION

The following information set out below was applicable as at 30 June 2014:

1. **Shareholding**

(a) Distribution of Shareholders

Category (size of holding)	Number Ordinary Shares
1 – 1,000	10,078
1,001 – 5,000	374,814
5001 – 10,000	518,497
10,001 – 100,000	7,729,014
100,001 and over	192,639,249
	201,271,652

(b) 20 Largest Shareholders – Ordinary Shares

		Number of Ordinary Fully Paid Shared Held	% Held of Issued Ordinary Capital
1.	UDB Pty Ltd – The Boettcher Family A/C	36,219,344	18.00%
2.	Fairlane Management Pty Ltd	20,960,969	10.41%
3.	Berend Hoff Super Fund	16,519,868	8.21%
4.	Advancer Pty Ltd – The Genco S/F A/C	15,253,589	7.58%
5.	UDB Pty Ltd – Boettcher Super Fund Account	11,587,623	5.76%
6.	Mr. Allen John Tapp & Ms. Maria Polymeneas – Super Account	7,707,688	3.83%
7.	Mr. Nicolas Henry Weber – Majura Family A/C	6,758,031	3.36%
8.	DWKSJK Pty Ltd – Seaweed Investment	6,030,898	3.00%
9.	ANWAT Marketing Pty Ltd	5,588,064	2.78%
10.	Mr. Nigel James French	5,353,000	2.66%
11.	Chimaera Pty Ltd – Chimaera Super Fund	4,000,000	1.99%
12.	Mr. Thomas Brussel	3,000,000	1.49%
13.	Mr. Ivan Slavich – Slavich Super Fund	2,851,852	1.42%
14.	Mr. D J Peachey & Mrs. S Peachey – The Peachey SBF A/C	2,674,136	1.33%
15.	Boulevade Investments Pty Ltd	2,500,000	1.24%
16.	Kalbagrove Pty Ltd – The Annabel Super Fund A/C	2,227,260	1.11%
17.	Mr. J Glajz & Mrs. K Glajz – Glajz Pty Ltd S/F A/C	2,057,143	1.02%
18.	Apam Holdings – Hector Super Fund A/C	2,056,189	1.02%
19.	Mr. D Piliouras & Mrs. P Piliouras – Energia Super Fund A/C	2,000,000	0.99%
20.	Dr. I Pryor & Mrs. P Pryor – Pryor Super Fund A/C	2,000,000	0.99%
		159,345,654	79.17%

2. The name of the Company secretary is Mr Lawrence A Gardiner.

3. The address of the principle registered off in Australia is 3 Faulding Street, Symonston ACT 2609. Telephone (02) 6163 5588.

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

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2014