

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

28 September 2012

By Electronic Lodgement

Dear Sir/Madam,

LODGE MENT 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 2012.

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: 2012 Annual Report for XTEK Limited (ABN 90 103 629 107)



2012 XTEK LTD ANNUAL REPORT PROTECT AND SUSTAIN

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Corporate Directory

Directors

Uwe Boettcher (Appointed 28 April 2009 - Appointed Chairman 25 June 2009)

Brigadier Greg Thomas (Appointed 1 July 2009 – Resigned 29 June 2012)

Lawrence Gardiner (Appointed 3 December 2010)

Brian Malcolm (Appointed 29 June 2012)

Secretary

Lawrence Gardiner (Appointed 17 August 2004)

Principal Registered Office in Australia

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Fyshwick ACT 2609
Australia

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Australian Securities Exchange Listing

Australian Securities Exchange Limited
Level 3, Securities Exchange Centre
530 Collins Street
Melbourne VIC 3000
Australia



Auditor

Ernst & Young
121 Marcus Clarke Street
Canberra 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

Chairman's Report

Dear Shareholders,

In 2009 the Government released the Defence Capability Plan. It was estimated that Defence expenditure for the next few years would be 3% of GDP. Defence expenditure has now slipped to approximately 1.56% of GDP. With significantly reduced Government expenditure on Defence and Homeland Security, it has been a particularly challenging year for the Company with a recorded loss of \$1.087m for the financial year.

Despite these difficult trading conditions the Company and the shareholders have kept the faith and continued to invest in the XTclave™ Composite Consolidation Technology (CCT).

Agency Business

The Company has continued to review its business practices in light of the changing fiscal environment and not only continued to drive down recurring operational expenditure but it has also reinvigorated a number of its agency lines with cutting edge products and highly-proficient Sales managers. We have refreshed our product lines to ensure that the merchandise being offered meets the most demanding current and future operational requirements of our customers.

Defence and Homeland Security expenditure cannot remain at this depressed level for long as it will impact on capability. We have done all we can to reduce expenditure. We believe that XTEK's agency business is well positioned to benefit from any upturn in Defence expenditure.

Commercialisation of Intellectual Property (IP)

In addition to revitalizing the agency lines, XTEK is continuing to focus on commercialising its in-house developed intellectual property.

Milestones that have been achieved with our XTclave™ technology since 1 July 2011:

- Entered into Joint Venture Agreement with Armor Australia Pty Limited (Armor Australia) to produce and sell body armour;
- Produced small commercial quantities and or samples of body armour for a number of international and Australian clients;
- Designed and produced specialised complex carbon composite products using the XTclave™;
- SIG SAUER Inc, a major US arms manufacturer, displayed the XTEK-designed Sniper Rifle Folding Chassis, incorporating components manufactured with XTclave™, at the largest and most comprehensive trade show in the world for those associated with the firearms, ammunition and Law Enforcement industries;
- Completed and installed the commercial scale XTclave™ at our joint ventures' factory in Sydney;
- Imminent substantial order for our joint venture to make and supply body armour for an overseas Defence client; and
- Applied for Foreign Comparative Testing funding to assess XTclave™ technology as part of its program to develop future personal body armour solutions for a US Defence program.

The development and trialing of our in-house developed weapon components for the Blaser Tactical 2 Sniper Rifle is continuing and it is anticipated that some sales will be made to the Australian Defence/Law Enforcement community this year.

While it is unlikely that there will be significant short term revenues from the commercialisation of XTEK's IP there is no doubt that the medium and long term prospects for the commercialisation of this intellectual property internationally are very exciting.



Uwe Boettcher
 Chairman
 28 September 2012



Directors' Report

Your Directors present their report on the Company, XTEK Limited for the year ended 30 June 2012.

Directors

The following persons were Directors of XTEK Limited during the whole of the financial year and up to the date of this report unless otherwise indicated:

Mr. Uwe Boettcher
 Brigadier Greg Thomas (Resigned 29 June 2012)
 Mr. Brian Malcolm (Appointed 29 June 2012)
 Mr. Lawrence Gardiner

Principal Activities

During the year the principal activities of the Company consisted of the supply of Homeland Security products and services to Defence and Law Enforcement agencies throughout Australia and the region.

Operating and Financial Review

Company Overview

With significantly reduced Government expenditure on Defence and Homeland Security, there was a reduction in agency sales revenue

resulting in a recorded loss of \$1.087m for this financial year compared with a loss of \$0.816m in 2011. On an earnings per share basis this is a loss of approximately 1 cent which is similar to the loss in 2011.

Agency Business

Agency sales declined by 32% on the corresponding period from \$6.403m in 2011 to \$4.366m in 2012. Discretionary expenditure by Defence and Law Enforcement Agencies has been significantly reduced and as a result, Company sales have been affected. Whilst gross sales were down this year, gross margins remained in line with the prior year and operational expenditure decreased significantly.

The Company has continued to review its business practices in light of the changing fiscal environment. Not only has it continued to drive down recurring operational expenditure but it has reinvigorated a number of its agency lines with cutting edge products and highly-proficient Sales Managers. It is believed that this will better position the Company and allow it to focus on initiatives that will reaffirm XTEK as the leading company in the Australian Homeland Security Market.

Details of the agency sales of equipment and services are included in the business analysis table below.

XTEK Ltd Business Analysis

	1st Half Dec 11 \$'000	1st Half Dec 10 \$'000	%	2nd Half Jun 12 \$'000	2nd Half Jun 11 \$'000	%	Full Year Jun 12 \$'000	Full Year Jun 11 \$'000	%
Agency Sales									
EOD/IEDD General	207	406	(49%)	190	1,283	(85%)	397	1,689	(76%)
High Risk Response	289	154	88%	241	149	61%	530	303	75%
Forensics	887	477	86%	307	1,166	(74%)	1,194	1,643	(27%)
Weapons and Ammunition	454	625	(27%)	734	928	(21%)	1,188	1,553	(24%)
Logistics Engineering Revenue	390	622	(37%)	485	389	25%	875	1,011	(13%)
Other Product/Service sales	-	145	(100%)	-	59	(100%)	-	204	(100%)
Environmental products	182	136	34%	-	(136)	(100%)	182	-	100%
Total Sales	2,409	2,565	(6%)	1,957	3,838	(49%)	4,366	6,403	(32%)
Gross Profit	865	987	(12%)	832	1,535	(46%)	1,697	2,522	(33%)
Gross Profit %	36%	38%		43%	40%		39%	39%	
Other Income	66	101	(35%)	85	47	83%	151	148	2%
Agency Expenses	(1,524)	(1,916)	(20%)	(1,411)	(1,570)	(10%)	(2,935)	(3,486)	(16%)
Agency (loss)/profit before tax and restructure costs	(593)	(828)		(494)	12		(1,087)	(816)	
Restructure costs	-	-		-	(9)		-	14	
(Loss)/Profit before Tax	(593)	(805)		(494)	3		(1,087)	(802)	
Income Tax	-	-		-	-		-	-	
Total (Loss)/Profit after Tax	(593)	(805)		(494)	3		(1,087)	(802)	

Agency Loss before tax

The agency loss before tax and restructure costs was \$1,087m compared with a loss of \$0.816m in 2011.

Commercialisation of IP

Despite the difficult trading conditions the Company has successfully commercialised the XTclave™ Composite Consolidation Technology (CCT) and completed the large scale XTclave™ CCT plant on schedule. This is a significant achievement for the Company and positions the Company for a future that will now include XTclave™ CCT revenue. The XTclave™ production plant is now ready to satisfy an order to supply a substantial quantity of body armour plates to a foreign Government Agency as part of the Company's Joint Venture with Armor Australia. The XTclave™ production plant will be capable of processing more than 1,000 high tech body armour plates per day using the novel and patented XTclave™ technology process.



Looking forward, the focus of the Board and Management will be on the market development of the XTclave™ CCT. The Company, in conjunction with Armor Australia, has already manufactured and delivered quantities of high end body armour plates utilising XTclave™. The Company is also working with Armor Australia to develop an advanced XTclave™ armour

solution for the Protection Elements of the LAND 125 Phase 3B project for body armour for the Australian Defence Force. Further analysis of other market sectors in which XTclave™ technology may have potential is now required to ensure that we capitalise on the true value of our IP in a global composites market estimated to reach over US\$60bn in 2012.

XTEK Designed Precision Weapon Ancillaries

The Company continues to develop a range of precision weapon ancillaries for the Blaser Tactical 2 Sniper Rifle and other weapon systems currently in service with the Australian Defence Force and Government Agencies. The Company has already enjoyed considerable success with its specialist Tactical 2 Sniper Rifle folding chassis, with the rights for potential global sales having recently been secured by SIG SAUER Inc. from the United States.



Significant changes in the state of affairs

- (a) On 29 June 2012, Brigadier Gregory Thomas (Rtd) resigned as a Director of the Company.
- (b) On 29 June 2012, Mr. Brian Malcolm was appointed as an Executive Director of the Company.

Matters subsequent to the end of the financial year

- (a) On 3 July 2012, the Company announced that the Company has successfully completed manufacture of its first large scale XTclave™ composite consolidation technology production plant in Adelaide.

- (b) On 18 July 2012, the Company announced it's intention to proceed with a pro-rata Non-Renounceable Rights Issue of up to 58,302,610 New Shares to raise up to approx \$1,515,868.
- (c) On 30 July 2012, the Company issued Non-Renounceable Rights Issue Offer Document to all eligible Shareholders and preserved the right to make presentations to Exempt Investors under section 708 of the Corporations Act 2001.
- (d) On 19 August 2012, the large XTclave™ composite consolidation technology production plant was transported from the XTEK Engineering Development Facility in Adelaide to Armor Australia production facilities in Sydney in preparation for the manufacture of significant quantities of high end body armour plates under the Joint Venture arrangements in place with Armor Australia.
- (e) On 20 August 2012, the Company announced that Non-Renounceable Rights Issue had been completed, with a total of 19,893,341 new ordinary shares issued at an issue price of \$0.026 per ordinary share, for a total value of \$517,226.00 (before issue costs). Following the allotment and issue of the 19,893,341 new ordinary shares, the issued capital of XTEK comprises 165,812,537 fully paid ordinary shares.
- (f) On 23 August 2012, the Company received an application from a major shareholder who for timing reasons was unable to participate in the Rights Issue, for the placement and issue of 7,700,000 New Shares at an issue price of \$0.026 per ordinary share in December 2012 to the value of \$200,200.

Likely future developments

The Company has developed an aggressive and focused strategy to reinvigorate its core agency business throughout FY12/13. This includes introducing new and innovative products and services to meet specified client requirements and ceasing distribution of any underperforming business lines. This strategy is currently being implemented as a managerial priority across the Sales Division. It is anticipated that this strategy will complement the recent appointment of new, highly specialist Sales Managers and underlines XTEK's determination to consolidate its sales capability whilst providing its clients with the very highest levels of contemporary technical advice, support and assistance.

The Company believes that its novel XTclave™ composite consolidation technology has significant potential beyond the manufacture of ballistic armour systems and will actively investigate opportunities to diversify into further technical fields. The Company expects to realise a share of profit from XTclave™ armour products through its Joint Venture Agreement with Armor Australia over the coming 12 months. XTEK is also working with Armor Australia to develop an advanced, lightweight XTclave™ body armour solution to satisfy the requirements of the Australian Defence Force Land 125 Phase 3B Protection Elements Project.

Following on from positive discussions held with the United States Office of the Secretary of Defense, Comparative Testing Office (CTO) towards the end of last year, the Company expects confirmation in Quarter 2 that the United States Army has secured Foreign Comparative Testing funding to assess XTclave™ technology as part of its program to develop future personal body armour solutions.

Information on Directors

Mr. Uwe Boettcher - Chairman and Non Executive Director.

Experience and expertise

Mr. Boettcher is the Principal of the law firm, Boettcher Law, starting his career at the firm now known as King & Wood Mallesons and most recently having been a partner at Abbott Tout Lawyers. He is a Fellow of the Australian and New Zealand College of Notaries and a practicing Notary Public. He was appointed as a Fellow of the Australian Institute of Banking and Finance in 2005 and of FINSIA in 2007. Last year he was appointed as a Foundation Fellow of the Australian Association of Angel Investors. 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.

Other Directorships

Chairman of Kord Defence Pty Limited, KordTech Pty Limited and Wet PC Pty Limited;
 Chairman of GPSports Systems Pty Limited;
 Director of Capital Angels Pty Limited; and
 Director of Manuka Corporate Pty Limited.

Special responsibilities

Chairman of the Nomination Committee.

Interests in shares and options

34,878,562 ordinary shares at 30 June 2012.

Brigadier Gregory Thomas AM (Rtd.) - Non Executive Director (Resigned on 29 June 2012).

Experience and expertise

Prior to his retirement in 1998, Brigadier Thomas had a distinguished career in the Australian Defence Force including overseas operational planning, responsibility for the management of logistic procurement for Army and subsequently, contributing to the Governments' Defence and Industry policy. He is a graduate of the Royal Military College Duntroon, the Royal Military College of Science (UK), Command and Staff College, Joint Services Staff College, and the Australian College of Defence and Strategic Studies. He holds a Bachelor of Arts, a Graduate Diploma in Strategic Studies. He is a Member of the Order of Australia, a Fellow of the Australian College of Defence and Strategic Studies and a member of the Australian Institute of Company Directors.

Other Directorships

Integrated Solutions Consultancy Group Pty Ltd;
 Vasey Pty Ltd.

Special responsibilities

Chairman of the Remuneration and Human Resource Committee and Chairman of the Audit, Finance and Risk Committee.

Interests in shares and options

2,669,193 ordinary shares at 30 June 2012.

Mr. Lawrence Gardiner - Executive Director and Company Secretary.

Experience and expertise

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. He resigned from the AFP in 2003 to take up a senior management position with XTEK. 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, the Australian Institute of Management.

Special responsibilities

Corporate Governance

Interests in shares and options

253,000 ordinary shares at 30 June 2012.

Mr. Brian Malcolm - Executive Director. (Appointed Director 29 June 2012)

Experience and expertise

Mr. Malcolm is a highly accomplished Defence specialist with extensive military operational experience in the fields of ammunition and explosives management, explosive ordnance disposal, logistics and counter-terrorism. He is a graduate of the Royal Military Academy Sandhurst, and served with the British Army for some 17 years before accepting a commission in the Australian Army in 2007. Mr. Malcolm has a Master of Arts degree in Defence Studies from Cranfield University and holds a Graduateship of the City and Guilds Institute of London in Military Technology. Mr. Malcolm also holds a Managing Successful Programs Qualification from the Bristol Management Centre.

Special responsibilities

Chief Executive Officer & Managing Director

Interests in shares and options

100,000 ordinary shares at 30 June 2012

Directors Meetings

The numbers of meetings of the Company's Board of Directors and of each Board committee held during the year ended 30 June 2012, and the numbers of meetings attended by each officer were:

	Full meetings of directors		Meetings of committees		Audit		Nomination		Remuneration	
	A	B	A	B	A	B	A	B	A	B
Mr. Uwe Boettcher	14	15	5	7	2	2	3	3		
Mr. Lawrence Gardiner	15	15	7	7	1	2	3	3		
Mr. Greg Thomas	15	15	7	7	2	2	3	3		

A = Number of meetings attended

B = Number of meetings held during the time the Officer held office or was a member of the committee during the year

Insurance of Directors and Officers

During the financial year, XTEK Limited paid a premium of \$13,923 to insure the Directors and Officers of the Company and the divisional directors of each of the divisions of the Company.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the Company, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a willful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

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*.

During the year the following fees were paid or payable for services provided by the auditor of the company, its related practices and non-related audit firms:

Assurance services

Audit services

Ernst & Young Australian firm

Audit and review of financial reports and other audit work under the *Corporations Act 2001*

Total remuneration for audit services

	2012 \$	2011 \$
	75,705	72,100
	<u>75,705</u>	<u>72,100</u>

Remuneration Report (Audited)

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.

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.

Details of the amounts paid or payable to the auditor for audit and non-audit services provided during the year are set out below.

The Board of Directors has considered the position and, in accordance with the advice received from the audit committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor
- none of the services undermine the general principles relating to auditor independence as set out in Professional Statement F1, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risk and rewards.

Details of key management personnel

(a) Directors

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

Uwe Boettcher - Chairman (non-executive).

Brigadier Greg Thomas - Director (non-executive) (resigned 29 June 2012).

Lawrence Gardiner - Director (executive) and Company Secretary.

Brian Malcolm - Director (executive) and Chief Executive Officer (Appointed Director (executive) 29 June 2012)

(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:

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 Service agreements
- D Share-based compensation

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.

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 Board has also agreed to the advice of independent remuneration consultants to ensure non-executive Directors' fees and payments are appropriate and in line with the market. 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 2011 and 30 June 2012 is detailed in table 2 and 1 respectively 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 12.

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 2012 is set out in table 1 and 2011 in table 2.

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 2011 and 2012 financial years

For the 2011 financial year, no STI cash bonuses were accrued or payable.

For the 2012 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 tables 1, 2, and in note 32.

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 lapsed by 30 June 2010.

B Details of remuneration Remuneration Report (Audited) (continued)
Table 1: Remuneration of key management personnel

2012	Short-term benefits				Post-employment benefits		Share-based payment	Other long term employee benefits	Total	% Perf. Related
Name	Cash salary and fees	Cash Bonus or Comm	Employee Entitlements Annual Leave	Non-monetary benefits	Super-annuation	Other	Options or shares	Employee Entitlements Long Service Leave		
	\$	\$	\$	\$	\$	\$	\$	\$	\$	
<i>Non-Executive Directors</i>										
Uwe Boettcher	60,000	-	-	-	-	-	-	-	60,000	-
Brigadier Greg Thomas	49,992	-	-	-	-	-	-	-	49,992	-
Sub-total Non-Executive Directors	109,992	-	-	-	-	-	-	-	109,992	
<i>Other key management personnel</i>										
Lawrence Gardiner (Company Secretary and Executive Director)	89,998	-	569	25,000	8,100	-	-	2,143	125,810	-
Brian Malcolm (Chief Executive Officer and Executive Director) * 3	161,807	-	(520)	-	14,563	-	-	-	175,850	-
Megan Burgmann (Chief Financial Officer)	88,027	-	1,622	-	7,922	-	-	-	97,571	-
Sub-total key management personnel	339,832	-	1,671	25,000	30,585	-	-	2,143	399,231	
Totals	449,824	-	1,671	25,000	30,585	-	-	2,143	509,223	

*** Notes**

- 1 Cash salary and fees 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.
- 2 Amounts included above for annual leave and long service leave are movements in accrued entitlements for the relevant 12 month period. Where the movement is negative, the employee has taken more hours than the annual entitlement or has had leave entitlements paid out.
- 3 On 29 June 2012, Brian Malcolm, Chief Executive Officer was also appointed Executive Director.

B Details of remuneration (continued) Remuneration Report (Audited) (continued)
Table 2: Remuneration of key management personnel

2011	Short-term benefits				Post-employment benefits		Share-based payment	Other long term employee benefits	Total	% Perf. Related
Name	Cash salary and fees	Cash Bonus or Comm	Employee Entitlements Annual Leave	Non-monetary benefits	Super-annuation	Other	Options or shares	Employee Entitlements Long Service Leave		
	\$	\$	\$	\$	\$	\$	\$	\$	\$	
<i>Non-Executive Directors</i>										
Uwe Boettcher	60,000	-	-	-	-	-	-	-	60,000	-
Brigadier Greg Thomas	44,997	-	-	-	-	-	-	-	44,997	-
Craig Higgins * 5	6,140	-	-	-	553	-	-	-	6,693	-
Sub-total Non-Executive Directors	111,137	-	-	-	553	-	-	-	111,690	
<i>Other key management personnel</i>										
Charles O'Neil (Sales Director) * 4	24,554	-	-	1,052	-	-	-	-	25,606	-
Stephen Wilde (Chief Financial Officer) * 6	43,293	-	-	-	3,132	-	-	-	46,425	-
Lawrence Gardiner (Company Secretary and Executive Director) * 1 * 3	89,939	-	3,061	20,000	8,095	-	-	2,899	123,994	-
Robert Sykes (Chief Executive Officer) * 3	77,629	-	6,986	-	6,987	-	-	-	91,602	-
Brian Malcolm (Chief Executive Officer) * 3	62,668	-	4,756	-	5,640	-	-	-	73,064	-
Megan Burgmann (Chief Financial Officer) * 6	87,697	-	(1,266)	-	7,893	-	-	-	94,324	-
Sub-total key management personnel	385,780	-	13,537	21,052	31,747	-	-	2,899	455,015	
Totals	496,917	-	13,537	21,052	32,300	-	-	2,899	566,705	

*** Notes**

- Cash salary and fees 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. Cash salary and fees for Lawrence Gardiner include payment for a fee of \$4,800 for his costs on a security project that was billed to a customer and approved additional days worked above the agreed contract.
- Amounts included above for annual leave and long service leave are movements in accrued entitlements for the relevant 12 month period. Where the movement is negative, the employee has taken more hours than the annual entitlement or has had leave entitlements paid out.
- On 12 July 2010, Robert Sykes was appointed as interim Chief Executive officer and on 25 August 2010 was also appointed Executive Director. My Sykes unexpectedly passed away on 2 December 2010. On 3 December 2010, Lawrence Gardiner was appointed Executive Director. On 2 February 2011, Brian Malcolm was appointed Chief Executive Officer.
- On 16 August 2010, the contract with Charles O'Neil was terminated.
- On 23 August 2010, Craig Higgins resigned as a non-executive director.
- On 30 September 2010, Stephen Wilde resigned as Chief Financial Officer. On 12 October 2010, Megan Burgmann was appointed Acting Chief Financial Officer and on 4 April 2011, was appointed Chief Financial Officer.

C Service agreements Remuneration Report (Audited) (continued)

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. Lawrence Gardiner – Executive Director and Company Secretary

- A written employment agreement is in place, effective from 3 September 2011.
- Base salary, inclusive of superannuation, to the value of \$ 65,520 per annum (part time only, three days per week). This was subsequently increased to four days per week effective from 3 December 2011.
- Motor vehicle allowance (Novated Lease vehicle fully maintained) to the value of \$20,000 per annum.
- Eligibility for Company Long Term Incentive Performance Rights Plan (LTIPRP).
- Eligibility for Company Short Term Incentive Plan (STIP).
- Qantas Club membership.

Mr. Brian Malcolm – Executive Director and Chief Executive Officer

- A written employment agreement is in place, effective from 4 February 2011.
- Base salary, inclusive of superannuation, to the value of \$176,000 per annum (after completion of probationary period).
- 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, inclusive of superannuation, to the value of \$95,000 per annum.
- Eligibility for Company Long Term Incentive Performance Rights Plan (LTIPRP).
- Eligibility for Company Short Term Incentive Plan (STIP).

All agreements expiring after balance date are in the process of being renegotiated or have been renewed.

D Share-based compensation (audited)

There were no new issues of share options or share performance rights during the 2011-2012 financial year and the 2010-2011 financial year.

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.

Auditors' Independence Declaration

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 22.

Auditor

Ernst and Young continues in office in accordance with section 327 of the *Corporations Act 2001*.

Signed in accordance with a resolution of the Directors.



Uwe Boettcher
Chairman
Canberra, 28 September 2012

Corporate Governance Statement

Approach to Corporate Governance

XTEK Limited (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 and the Chief Financial Officer and 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 on 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 Companies 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 formal 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 with their superior.

These targets are aligned to overall business goals and the Company's requirements of the position. The PAP is administered annually (October) 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 one Non Executive Director and two Executive Directors (Company Secretary and CEO).

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. Both Mr. Boettcher and Brigadier Thomas 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, Brigadier Thomas also met the criteria for independence adopted by the Company. Since the resignation of Brigadier Thomas, the majority of Directors are now executive and not independent. The Board intends to appoint a further non executive and independent Director in the future.

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 major shareholder of the Company, does not meet the Company's criteria for independence as a Non-Executive Director and Chairman. Although Mr. Boettcher has a substantial interest as 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 fulfill 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 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. In line with the ASX Corporate Governance Council Recommendation 2.1, the majority of Board members were independent until 28 April 2009. 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, has 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 Non-Executive Director and Chairman. Mr. Boettcher, as 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 Nomination Committee was formed by resolution of the Board on 4 September 2006. 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.

The current members of the Nomination Committee are:

- **Mr. Boettcher (Chair);**
- **Mr. Brian Malcolm; and**
- **Mr. Lawrence Gardiner**

Whilst the Nomination Committee did not hold any formal and separate meetings throughout the year, business was conducted and recorded within the auspices of normal Board of Directors meetings.

Director Selection and Appointment

The Board has adopted policy as developed by the Nomination Committee for 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 Board undertakes an annual performance evaluation of the Board and individual Directors. This review is based on a number of goals for the Board and the individual Directors that have been established in the proceeding 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.

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. The Company Code of Conduct was adopted by resolution of the Board on 4th September 2006. 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 endeavours to provide a safe workplace in which there is equal opportunity for all employees at all levels of the Company. The Company does not tolerate the offering or acceptance of bribes or the misuse of Company assets or resources.
- **Obligations Relative to Fair Trading and Dealing:** The Company aims to conduct its business fairly and to compete ethically and in accordance with relevant competition laws. The Company strives to deal fairly with the Company's customers, suppliers, competitors and other employees and encourages its employees to strive to do the same.
- **Responsibilities to the Community:** As part of the community the Company:
 - is committed to conducting its business in accordance with applicable environmental laws and regulations and encourages all employees to have regard for the environment when carrying out their jobs; and
 - encourages all employees to engage in activities beneficial to their local community.
- **Responsibility to the Individual:** The Company is committed to keeping private information from employees, clients, customers, consumers and investors confidential and protected from uses other than those for which it was provided.
- **Conflicts of Interest:** Employees and Directors must avoid conflicts as well as the appearance of conflicts between personal interests and the interests of the Company.
- **How the Company Complies with Legislation:** Within Australia, the Company strives to comply with the spirit and the letter of all legislation affecting its operations. Outside Australia, the Company will abide by local laws in all countries in which it operates. Where those laws are not as stringent as the Company's operating policies, particularly in relation to the environment, workplace practices, intellectual property and the giving of "gifts", Company policy will prevail.
- **How the Company Monitors and Ensures Compliance with its Code of Conduct:** The Board, management and all employees of the Company are committed to implementing this Code of Conduct and each individual is accountable for such compliance. Disciplinary measures may be imposed for violating the Code.
- **Whistleblower Protection:** The Company Code of Conduct provides for the reporting of unlawful and unethical behaviour by Directors, Senior Executives and Employees of the Company. These provisions allow for whistleblower protection in accordance with legislative requirements and good practice recommendations. The policy aims to provide a working

environment that enables employees to voice genuine concerns in relation to:

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

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

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 6 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 lodgment 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 Committee consists currently of three members. Members are appointed by the Board from amongst the Directors. The current members of the Audit Committee are Mr. Boettcher, Mr. Gardiner and Mr. Malcolm. All members can read and understand financial statements and are otherwise financially literate. Mr. Gardiner was appointed the Interim Chairman on 29 June 2012 following the resignation of Brigadier Thomas. The details of the member's qualifications may be found in their Director Profiles that form part of the Annual Report. The company does not currently comply with this recommendation but intends to appoint a new independent Director who will chair this committee.

The Finance, Audit and Risk Management Committee held four meetings throughout the year.

Council Recommendation 4.3: The Audit 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 in the Annual 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 Ernst and Young.

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 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 fulfill 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 publicly 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;
- occasional letters 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 overseeing, assessing and managing risk. The Board has delegated certain responsibilities in these matters to the Finance Audit and Risk Management Committee. In compliance with the Board's approach, the Company has established specific policies and procedures to identify, assess and manage critical areas of financial and operating risk.

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

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 2012. 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.

The Board advises that on 31 August 2012, 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 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.

The Board advises that on 31 August 2012, 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 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 Board established a formal Human Resources (HR) and Remuneration Committee by a resolution of the Board on 4 September 2006. The role of this 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 consists currently of three members. Members are appointed by the Board from amongst the Directors. The current members of the Committee are Mr. Boettcher, Mr Gardiner and Mr Malcolm. Mr Gardiner 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 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.

Independent auditor's report to the members of XTEK Limited

Report on the financial report

We have audited the accompanying financial report of XTEK Limited, which comprises the statement of financial position as at 30 June 2012, the statement of comprehensive income, statement of changes in equity and statement of cash flows 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 controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 3 (b), 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*.

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 judgment, 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 controls relevant to the entity'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 entity's internal controls. 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 have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

Opinion

In our opinion:

- a. the financial report of XTEK Limited 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 2012 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 3(b).

Material Uncertainty Regarding Continuation as a Going Concern

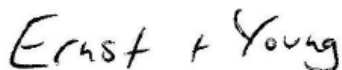
Without qualification to the opinion expressed above, attention is drawn to the following matter. As a result of the matters described in Note 2: "Going concern basis of accounting" to the financial statements there is material uncertainty whether the entity will be able to continue as a going concern, 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 amounts 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

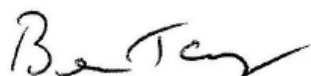
We have audited the Remuneration Report included in pages 6 to 12 of the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

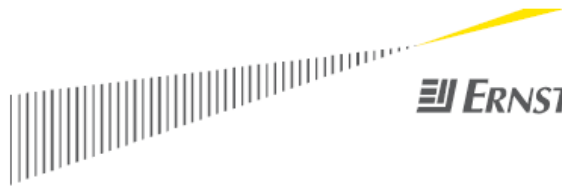
In our opinion, the Remuneration Report of XTEK for the year ended 30 June 2012 complies with section 300A of the *Corporations Act 2001*.



Ernst & Young



Ben Tansley
Partner
Canberra
28 September 2012



ERNST & YOUNG

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Auditor's Independence Declaration to the Directors of XTEK Limited

In relation to our audit of the financial report of XTEK Limited for the financial year ended 30 June 2012, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

Ben Tansley

Ben Tansley
Partner
28 September 2012

Liability limited by a scheme approved
under Professional Standards Legislation

Statement of Comprehensive Income for the year ended 30 June 2012

	Notes	2012 \$	2011 \$
Revenue from operations	4	4,365,750	6,402,950
Other income	5	151,009	148,495
Changes in inventories of finished goods and work in progress		(2,669,398)	(3,872,346)
Employee benefits expense	6	(1,500,998)	(1,720,977)
Depreciation	6	(108,561)	(128,842)
Operational expenditure	6	(1,294,263)	(1,603,491)
Additional income	6	-	8,726
Finance costs	6	(30,909)	(27,942)
Loss from operations before income tax		(1,087,370)	(802,153)
Income tax expense	7	-	-
Loss from operations after tax		(1,087,370)	(802,153)
Loss after tax attributable to members		(1,087,370)	(802,153)
Other comprehensive income		-	-
TOTAL COMPREHENSIVE (LOSS) FOR THE PERIOD		(1,087,370)	(802,153)
Earnings per share for (loss) for the year attributable to the ordinary equity holders of the company:			
Basic loss per share	31	(0.008)	(0.007)
Diluted loss per share	31	(0.008)	(0.007)

Notes:

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Statement of Financial Position as at 30 June 2012

	Notes	2012 \$	2011 \$
ASSETS			
Current assets			
Cash and cash equivalents	9	206,704	295,312
Trade and other receivables	10	160,631	770,573
Inventories	11	794,768	1,269,214
Other	12	165,729	206,389
Total current assets		<u>1,327,832</u>	<u>2,541,488</u>
Non-current assets			
Property, plant and equipment	14	<u>838,179</u>	<u>667,846</u>
Total non-current assets		<u>838,179</u>	<u>667,846</u>
Total assets		<u>2,166,011</u>	<u>3,209,334</u>
LIABILITIES			
Current liabilities			
Trade and other payables	15	378,708	1,213,870
Interest bearing liabilities	16	50,000	200,000
Provisions	17	54,897	95,314
Deferred income	18	326,558	162,537
Other current liabilities	19	200,000	-
Total current liabilities		<u>1,010,163</u>	<u>1,671,721</u>
Non-current liabilities			
Provisions	20	<u>37,583</u>	<u>28,819</u>
Total non-current liabilities		<u>37,583</u>	<u>28,819</u>
Total liabilities		<u>1,047,746</u>	<u>1,700,540</u>
Net assets		<u>1,118,265</u>	<u>1,508,794</u>
EQUITY			
Contributed equity	22	18,596,748	17,899,907
Reserves	23	514,228	514,228
Accumulated losses	23	(17,992,711)	(16,905,341)
Total equity		<u>1,118,265</u>	<u>1,508,794</u>

Notes:

The above statement of financial position should be read in conjunction with the accompanying notes.

Statement of Cash Flows for the year ended 30 June 2012

	Notes	2012 \$	2011 \$
Cash flows used in operating activities			
Receipts from customers		5,594,278	6,900,687
Payments to suppliers and employees		(6,157,241)	(7,523,636)
		<u>(562,963)</u>	<u>(622,949)</u>
Receipt of grants		29,804	
Interest received		6,028	3,751
Borrowing costs		(30,909)	(27,942)
Net cash flows used in operating activities	30	<u>(558,040)</u>	<u>(647,140)</u>
Cash flows used in investing activities			
Payments for property, plant and equipment		(286,066)	(427,903)
Proceeds from sale of property, plant and equipment		8,658	4,696
Net cash outflow used in investing activities		<u>(277,408)</u>	<u>(423,207)</u>
Cash flows from financing activities			
Proceeds from issue of ordinary shares		593,417	525,077
Payment of transaction costs associated with the issue of capital	22	(16,545)	(42,481)
Proceeds from short term loans	16	100,000	200,000
Proceeds from sale and leaseback	19	200,000	-
Repayments of short term loans	16	(130,032)	-
Net cash inflow from financing activities		<u>746,840</u>	<u>682,596</u>
Net decrease in cash and cash equivalents		<u>(88,608)</u>	<u>(387,751)</u>
Cash and cash equivalents at the beginning of the financial year		295,312	683,063
Cash and cash equivalents at end of year	9	<u><u>206,704</u></u>	<u><u>295,312</u></u>

Notes:

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

For the year ended 30 June 2012

	Issued Capital (Note 22) \$	Other Equity Securities (Note 22) \$	Equity-based payments reserve \$	Accumulated losses \$	Total equity \$
At 1 July 2010	17,344,244	73,067	514,228	(16,103,188)	1,828,351
Loss for the year	-	-	-	(802,153)	(802,153)
Total income and expense for the period	-	-	-	(802,153)	(802,153)
Issues of ordinary shares during the year:					
Issue of share capital	525,077	-	-	-	525,077
Transaction costs associated with issue of share capital	(42,481)	-	-	-	(42,481)
At 30 June 2011	17,826,840	73,067	514,228	(16,905,341)	1,508,794
At 1 July 2011	17,826,840	73,067	514,228	(16,905,341)	1,508,794
Loss for the year	-	-	-	(1,087,370)	(1,087,370)
Total income and expense for the period	-	-	-	(1,087,370)	(1,087,370)
Issues of ordinary shares during the year:					
Issue of share capital	713,386	-	-	-	713,386
Transaction costs associated with issue of share capital	(16,545)	-	-	-	(16,545)
At 30 June 2012	18,523,681	73,067	514,228	(17,992,711)	1,118,265

Notes to the Financial Statements

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes the financial statements for XTEK Limited as an individual entity.

1. Corporate Information

The financial report of XTEK Limited for the year ended 30 June 2012 as authorised for issue in accordance with a resolution of the directors on 28 September 2012.

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

The nature of the operations and principal activities of the Company are described in the Directors' Report.

2. Going Concern basis of Accounting

The final report has been prepared on the going concern basis. The company has made a loss of \$1,087,370 for the year ended 30 June 2012 (year ended 30 June 2011: loss of \$802,153). Accumulated losses to 30 June 2012 total \$17,792,711 (accumulated losses to 30 June 2011: \$16,905,341). The balance of cash and cash equivalents was \$206,704 as at 30 June 2012 (as at 30 June 2011: \$295,312). The ability of the company to continue as a going concern is dependent on its ability to meet its debts as and when they fall due. The Directors have prepared cash flow forecasts for the next twelve months which suggest that the company will be able to meet its debts as and when they fall due and payable.

The cash flow forecasts assume that the company will raise additional capital in the period to December 2012. This capital is needed for the company to remain a going concern. Refer to Note 29 for further details.

The cash flow forecasts are also based on a number of operating assumptions, in particular about the company's ability to meet projected revenue levels, timing of cash receipts and retention of overheads at budgeted levels.

The company has no committed finance facility in place to fund any unforeseen shortfall in forecast cash flows.

The Directors are of the opinion that there are reasonable grounds to believe that the company will raise sufficient additional capital through the existing non-renounceable rights issue that is still open to shareholders and the placement described in note 29(c) and 29 (f) respectively; meet projected revenue levels, timing of cash receipts and retain overheads at budget levels. On this basis the directors believe the adoption of the going concern basis of accounting is justified.

However, achievement of the assumptions underlying the cash flow forecasts is uncertain, and if actual cash flows are materially less than forecast, there is significant uncertainty whether the company may not be able to pay its debts as and when they fall due and may be required to raise additional equity or debt or realise assets and extinguish liabilities other than in the normal course of business and at amounts different from those stated in the financial statements. The final report does not include any adjustment relating to the recoverability and classification of recorded asset amounts nor to the amount and classification of liabilities that might be necessary should the company not continue as a going concern.

3. Summary of significant accounting policies

(a) Basis of Preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes financial statements for XTEK Limited as an individual entity.

(b) Compliance Statement

The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

(c) New accounting standards and interpretations

Changes in accounting policy and disclosures.

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following additional accounting policy:

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.

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 2012. It is anticipated that the new requirements will have no material financial impact on future reporting periods.

(d) Significant accounting judgment, estimates and assumptions

No accounting judgments, 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.

(e) 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.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary

items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(f) 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
- Office furniture & equipment - 3 - 20 years
- Computer software - 4 years
- Property improvements - 4 - 13 years

(iii) Impairment

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

(g) 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).

(h) 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.

Gains or losses from derecognition 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.

(i) 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.

(j) 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.

(k) 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.

(l) 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.

(m) 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.

(n) Share-based payment transactions

(i) Equity-settled transactions

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:

- the XTEK Long Term Incentive Performance Rights Plan (LTIPRP), this replaced the Senior Executive Share Ownership Plan (SESOP); 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 (see note 31).

(o) Revenue recognition

Revenue is recognised to the extent that it is probable that the

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

(i) Sale of Goods

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

(ii) Rendering of Services

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

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

(iii) Interest revenue

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

(iv) Deferred income

Deferred income consists of customer deposits received. Deferred income is not recognised as revenue until such time when the ownership of the goods is transferred to the customer.

(p) 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 balance 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.

(q) **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 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.

(r) **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.

(s) **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.

(t) **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.

(u) **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.

(v) **Dividends**

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

(w) **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.

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.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(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.

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

(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 fulfillment 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.

4.a Revenue

From operations

Sales revenue
Sale of goods
Revenue from repairs
Revenue from services

2012	2011
\$	\$
3,485,748	5,010,191
789,447	970,374
90,555	422,385
4,365,750	6,402,950

4.b Revenue by Product Category

From Agency Sales

EOD/IEDD General
High Risk Response
Forensics
Weapons and Ammunition
Logistics Engineering Revenue
Other Product/Services Sales
Environmental Products

2012	2011
\$	\$
396,984	1,688,973
529,396	303,819
1,194,452	1,642,363
1,187,516	1,553,079
875,202	1,010,851
-	203,865
182,200	-
4,365,750	6,402,950

5. Other income

	2012 \$	2011 \$
Rental income	95,269	110,132
Interest	6,028	3,751
Grant income	29,804	-
Other	18,421	33,197
Profit on sale of property, plant and equipment	1,487	1,415
	<u>151,009</u>	<u>148,495</u>

6. Expenses

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

Employee Benefits

Salaries and Wages	1,287,410	1,461,095
Superannuation	146,569	158,347
Redundancy payments	-	23,471
Payroll Tax	41,398	54,379
Workers Compensation	25,621	23,685
Total Employee Benefits	<u>1,500,998</u>	<u>1,720,977</u>

Depreciation

Plant and Equipment	31,701	32,361
Motor Vehicles	5,122	6,252
Office Furniture and Equipment	21,334	24,521
Computer Software	16,448	7,543
Demonstration Equipment	23,838	48,093
Leasehold Property Improvements	10,118	10,072
Total Depreciation	<u>108,561</u>	<u>128,842</u>

Operational Expenditure

Accounting Fees	13,678	17,162
Audit Fees	73,848	70,000
Advertising and Conferences	105,393	174,659
Bank Charges	6,530	7,810
Consultancy Fees	89,497	81,491
Director Fees	109,992	104,055
Insurance	124,851	143,808
FBT	38,014	32,833
Legal Fees	6,471	12,199
Office Administrative Costs	436,253	570,438
Operating Lease Charges	74,215	79,504
Share Registry Fees	29,380	37,416
Travel and Entertainment	91,102	134,851
Staff Training	4,424	9,218
R&D Project Expenses	13,174	42,925
Net Foreign Currency Losses	5,634	10,529
Other Expenses	71,807	74,593
Total Operational Expenditure	<u>1,294,263</u>	<u>1,603,491</u>

Additional Expenses

Restructure Costs (written back)/expensed	-	(8,726)
Total Additional Expenses	<u>-</u>	<u>(8,726)</u>

Finance costs

Interest and finance charges	30,909	27,942
Total Finance Costs	<u>30,909</u>	<u>27,942</u>

7. Income tax expense

	2012 \$	2011 \$
(a) Income tax expense		
The major components of income tax expense are:		
Statement of Comprehensive Income		
<i>Current income tax</i>		
Current income tax charge	(313,113)	(317,889)
Adjustment in respect of current income tax of previous years	-	-
Loss not recognised	313,113	317,889
<i>Deferred income tax</i>		
Relating to origination and reversal of temporary differences	(13,429)	67,769
Timing differences not recognised	13,429	(67,769)
Income tax expense reported in the statement of comprehensive income	-	-

	2012 \$	2011 \$
(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:		
Account (loss)/profit before tax from operations	(1,087,370)	(802,153)
Total account loss before income tax	(1,087,370)	(802,153)
At the Company's statutory income tax rate of 30% (2011: 30%)	(326,211)	(240,646)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income		
Entertainment	215	812
Unrealised foreign exchange loss	(546)	(10,286)
Losses not brought to account	313,113	317,889
Timing differences not brought to account	13,429	(67,769)
Aggregate income tax expense	-	-

(c) Recognised deferred tax assets and liabilities

Deferred income tax at 30 June 2010 relates to the following:

	2012 \$	2011 \$
(i) Deferred tax liabilities		
Leased Assets (after impairment) and lease liabilities	5,002	7,071
Unrealised gains	547	649
Gross deferred tax liabilities	5,549	7,720
Set-off of deferred tax assets	5,549	7,720
Gross deferred tax liabilities	-	-
(ii) Deferred tax assets		
Accrued expenses	12,642	13,542
Provisions	13,739	16,899
Employee leave entitlements	52,015	62,148
IPO Costs deductible over 5 years	-	1,223
Other costs deductible over 5 years	-	513
Impaired assets	259,878	259,878
Potential tax losses	5,304,314	4,991,201
Potential capital tax losses	488,457	488,457
Deferred differences and losses not recognised	(6,125,496)	(5,826,141)
Gross deferred tax asset	5,549	7,720
Set-off of deferred tax assets	5,549	7,720
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 arose in Australia of \$1,628,190 (2011: \$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 \$17,681,046 (2011: \$16,367,335). 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 2012, 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.

8. Operating Segments

For the twelve months ended 30 June 2012, XTEK Ltd had one major reportable segment, the homeland security agency business. This segment is the company's strategic business unit 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.

Major customers

The Company has a number of customers to which it provides both agency products and services. The Company supplies a number of Australian Government Agencies that combined account for 58% of external revenue (2011: 71%). The next most significant client accounts for 16% (2011: 11%) and this revenue relates to commercial customers.

Approximately 94% (2011: 94%) of external revenue was from clients in Australia with the balance 6% (2011: 3%) mainly from clients in New Zealand.

9. Cash and cash equivalents

	2012 \$	2011 \$
Cash at bank and in hand	206,704	295,312
	<u>206,704</u>	<u>295,312</u>

(a) Cash at bank and in hand

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

(b) Reconciliation to Statement of Cash Flows

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

10. Trade and other receivables

	2012 \$	2011 \$
Trade receivables	159,497	770,573
Other receivables	1,134	-
	<u>160,631</u>	<u>770,573</u>

(a) Terms and conditions

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

(b) Allowance for impairment losses

Trade receivables are non-interest bearing and are generally on 30 day terms. A provision for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. An impairment loss of \$7,075 was recognised in 2012 (2011: \$6,194).

At 30 June 2012, the ageing analysis of trade receivables is as follows:

	Total	0-30 days	31-60 days	61-90 days PDNI *	+91 days PDNI *
2012	159,497	111,395	43,813	-	4,289
2011	770,573	705,588	26,343	8,164	30,478

* Past due date not impaired ('PDNI')

Receivables past due date but not considered impaired are \$4,289 (2011: \$38,642). 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, none of the \$4,289 has been received.

(c) 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.

11. Inventories

	2012 \$	2011 \$
Products and spare parts	794,768	1,269,214
	<u>794,768</u>	<u>1,269,214</u>

(a) Inventory expense

There were \$27,616 Inventory write-downs recognised as an expense for the year ended 30 June 2012 (2011: nil) for the Company. The 2012 expense has been included in the changes in inventories of finished goods and work in progress line in the Statement of Comprehensive Income.

12. Other

	2012 \$	2011 \$
Prepayments	165,729	200,157
Rental Bonds	-	6,232
	<u>165,729</u>	<u>206,389</u>

13. Financial risk management objectives and policies

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.

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 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 cashflow forecasts.

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

(a) 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% (2011: 38%) of the Company's purchases are denominated in currencies other than the functional currency of the operating entity making the purchase whilst almost 100% of sales are denominated in the unit's functional currency.

The Company uses forward currency contracts where possible to eliminate material currency exposures on individual transactions. At 30 June 2012, the Company had hedged none of its foreign currency purchases (2011: 0%). The following sensitivity analysis is based on the foreign currency risk exposures in existence at the statement of financial position date:

At 30 June 2012, 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:

Post tax (loss)/profit higher/(lower)	2012 \$	2011 \$
AUD/GBP +10%	1,054	28,812
AUD/GBP -10%	(1,288)	(35,214)
AUD/EUR +10%	702	3,555
AUD/EUR -10%	(858)	(4,345)
AUD/USD +10%	1,787	9,271
AUD/USD -10%	(2,185)	(11,331)

(b) 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.

(c) 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 totaling \$206,704 (2011: \$295,312) 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 2012, 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:

Post tax (loss)/profit higher/(lower)	2012 \$	2011 \$
+1% (100 basis points)	2,063	2,950
-1% (100 basis points)	(2,063)	(2,950)

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 lower in 2012 than in 2011 because of a decrease in cash balances in 2011.

XTEK pays interest at a fixed rate for loans from related parties. Therefore there is not exposure to market interest rates.

(d) 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, and short term loans.

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:

	2012 \$	2011 \$
6 months or less	269,525	1,038,498
6-12 months	-	175,000
1-5 years	-	-
Over 5 years	-	-
	269,525	1,213,498

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

14. Property, plant and equipment

	Demo Equip. \$	Motor vehicles \$	Office Furniture and Equip. \$	Office Equip. under Lease \$	Computer Software \$	Plant and Equip. \$	Property Imp. \$	Hydroclave \$	Total \$
Year ended 30 June 2011									
Opening net book amount	86,185	20,021	98,028	11,820	-	92,796	63,218	-	372,068
Additions	21,982	-	3,196	-	65,614	955	1,136	335,020	427,903
Disposals	-	-	(2,590)	-	-	(693)	-	-	(3,283)
Depreciation charge for the year	(48,093)	(6,252)	(22,750)	(1,771)	(7,543)	(32,361)	(10,072)	-	(128,842)
Closing net book amount	60,074	13,769	75,884	10,049	58,071	60,697	54,282	335,020	667,846
At 30 June 2011									
Cost	278,791	79,263	191,631	23,607	65,614	201,623	91,404	335,020	1,266,953
Accumulated depreciation	(218,717)	(65,494)	(115,747)	(13,558)	(7,543)	(140,926)	(37,122)	-	(599,107)
Net book amount	60,074	13,769	75,884	10,049	58,071	60,697	54,282	335,020	667,846

(a) Key to above table headings

Demo Equip. (Demonstration Equipment),
Office Furniture and Equip. (Office Furniture and Equipment),
Office Equip. under Lease (Office Equipment under Lease),
Plant and Equip. (Plant and Equipment),
Property Imp. (Property Improvements),
Hydroclave (Hydroclave Commercialisation)

14. Property, plant and equipment (continued)

	Demo Equip. \$	Motor vehicles \$	Office Furniture and Equip. \$	Office Equip. under Lease \$	Computer Software \$	Plant and Equip. \$	Property Imp. \$	XTclave \$	Total \$
Year ended 30 June 2012									
Opening net book amount	60,074	13,769	75,884	10,049	58,071	60,697	54,282	335,020	667,846
Additions	-	-	2,266	-	1,500	920	-	281,380	286,066
Disposals	(7,171)	-	-	(1)	-	-	-	-	(7,172)
Depreciation charge for the year	(23,837)	(5,122)	(19,559)	(1,775)	(16,449)	(31,702)	(10,117)	-	(108,561)
Closing net book amount	29,066	8,647	58,591	8,273	43,122	29,915	44,165	616,400	838,179
At 30 June 2012									
Cost	145,188	79,263	168,705	23,607	67,114	172,365	91,404	616,400	1,364,046
Accumulated depreciation	(116,122)	(70,616)	(110,114)	(15,334)	(23,992)	(142,450)	(47,239)	-	(525,867)
Net book amount	29,066	8,647	58,591	8,273	43,122	29,915	44,165	616,400	838,179

(a) **Key to above table headings**

Demo Equip. (Demonstration Equipment),
Office Furniture and Equip. (Office Furniture and Equipment),
Office Equip. under Lease (Office Equipment under Lease),
Plant and Equip. (Plant and Equipment),
Property Imp. (Property Improvements),
XTclave (XTclave Commercialisation)

15. Trade and other payables

	2012 \$	2011 \$
Trade creditors	164,676	871,358
Accrued expenses	120,423	156,125
Employee entitlements (annual leave)	80,903	108,857
GST Payables	12,706	77,530
	378,708	1,213,870

16. Interest Bearing Liabilities (Current)

	2012 \$	2011 \$
Loan from a related party	50,000	200,000
	50,000	200,000

In June 2012 an unsecured loan of \$50,000 was provided to the Company by a related party (Vasey Pty Ltd) with an interest rate of 14.5% to fund a short term cash deficit. There were no covenants associated with this loan which was repaid on 28 August 2012.

\$119,968 from the capital raised in November 2011 was offset against the loan repayment otherwise due to UDB Pty Ltd resulting in cash paid to UDB Pty Ltd of \$80,032 which extinguished the loan outstanding.

The unsecured loan of \$50,000 provided to the Company on 28 July 2011 by (related party Integrated Solutions Consultancy Group Pty Ltd) was repaid on 29 November 2011.

17. Provisions (Current)

	2012 \$	2011 \$
Employee benefits (long service leave)	54,897	69,484
Restructure costs	-	9,857
Warranty provision	-	15,973
	54,897	95,314

Nature and timing of provisions
Employee Benefits (Long Service Leave)

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

	2012 \$
Employee benefits (long service leave)	
Carrying amount at start of year	69,484
Additional benefits recognised	8,153
Unused amounts reversed	(21,012)
Payments	(1,728)
Carrying amount at end of year	54,897

	2012 \$
Restructure Costs	
Carrying amount at start of year	9,857
Payments	(9,857)
Carrying amount at end of year	-

The amount in restructure costs relates to the balance of the Melbourne Office lease provided for in the 2010 Financial Year.

18. Deferred income

	2012 \$	2011 \$
Customer Deposits	144,740	62,537
Deposit for sale of XTclave	181,818	100,000
	326,558	162,537

19. Other Current Liabilities

During the current financial year, 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. The recognition of revenue from this transaction will be re-assessed upon expiration of the lease term. The terms and conditions relating to the operating lease are disclosed in Note 28 (d).

20. Provisions (Non-Current)

	2012 \$
Employee entitlements (long service leave)	
Carrying amount at start of year	28,819
Additional benefits recognised	17,259
Unused amounts reversed	(8,495)
Carrying amount at end of year	37,583

21. Impairment Testing of Non-Current Assets
(a) Property, plant and equipment

Property, plant and equipment is reviewed twice yearly. In June 2012, management reviewed the carrying value of all XTEK property, plant and equipment. Following the review, management determined that there was no need for any impairment charges to be made to the carrying value of these assets.

(b) Leasehold Improvements

The company leases property in Adelaide, Canberra, and Sydney. There were no impairment charges made to the carrying values of leasehold improvements in 2012.

22. Contributed equity

	2012 Shares	2011 Shares	2012 \$	2011 \$
(a) Share capital				
Ordinary shares fully paid				
Fully paid	145,919,196	113,492,556	18,523,681	17,826,840
	145,919,196	113,492,556	18,523,681	17,826,840

(b) Other equity securities
Movement in other equity securities

At 1 July 2011 and at 30 June 2012

Total contributed equity	73,067	73,067
	18,596,748	17,899,907

(c) Movements in ordinary share capital:

Date	Details	Number of shares	\$
1 July 2010	Opening balance	93,297,269	17,344,244
	Issued on 1 September 2010	20,195,287	525,077
	Transaction costs on share issue	-	(42,481)
30 June 2011	Balance	113,492,556	17,826,840
1 July 2011	Opening balance	113,492,556	17,826,840
	Issued on 2 November 2011	32,426,640	713,386
	Transaction costs on share issue	-	(16,545)
30 June 2012	Balance	145,919,196	18,523,681

(d) 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. Reserves and retained (losses)/profits

(a) Reserves

	2012	2011
	\$	\$
Balance at the beginning of the year	514,228	514,228
Equity Based Payments Reserve	-	-
	<u>514,228</u>	<u>514,228</u>

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.

(b) Accumulated losses

Movements in retained (losses)/profits were as follows:

	2012	2011
	\$	\$
Balance at the beginning of the year	(16,905,341)	(16,103,188)
Losses for the year	(1,087,370)	(802,153)
Balance at end of year	<u>(17,992,711)</u>	<u>(16,905,341)</u>

24. Dividends

(a) Ordinary shares

There were no dividends paid or proposed for the period to 30 June 2012.

(b) Franked dividends

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

	2012	2011
	\$	\$
Franking credits available for subsequent financial years based on a tax rate of 30% (2011 - 30%)	<u>981,110</u>	<u>981,110</u>

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

- (a) franking credits that will arise from the payment of the amount of the provision for income tax
- (b) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date, and
- (c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

25. Key management personnel

(a) Key management personnel compensation

	2012	2011
	\$	\$
Short-term employee benefits	476,495	531,506
Post-employment benefits	30,585	32,300
Other long term employee benefits	2,143	2,899
	<u>509,223</u>	<u>566,705</u>

(b) Holdings of Options and share performance rights for key management personnel

There were no new issues of share options or share performance rights during the 2011-2012 financial year and the 2010-2011 financial year.

All share options and share performance rights issued by the Company have lapsed.

(c) Shareholdings of key management personnel

The numbers of shares in the company held during the financial year by each director of XTEK Limited and other key management personnel of the Company, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

2011-2012

Directors

Uwe Boettcher (Appointed 28 April 2009 – Appointed Chairman 25 June 2009)
 Greg Thomas (Appointed 1 July 2009)
 Lawrence Gardiner (Appointed Company Secretary 17 August 2004 and Director ((executive) 3 December 2010)
 Brian Malcolm (Commenced 4 February 2011 and Director ((executive) 29 June 2012))

Senior Executives

Megan Burgmann (Commenced 12 October 2010)

Total Shares

Balance at the start of the year	Granted as part of remuneration	On exercise of options	Shares purchased	Balance at the end of the year
26,058,470	-	-	8,820,092	34,878,562
2,076,039	-	-	593,154	2,669,193
196,777	-	-	56,223	253,000
-	-	-	100,000	100,000
-	-	-	-	-
28,331,286	-	-	9,569,469	37,900,755

2010-2011

Directors

Uwe Boettcher (Appointed 28 April 2009 – Appointed Chairman 25 June 2009)
 Greg Thomas (Appointed 1 July 2009)
 Robert Sykes (Appointed 25 August 2010, deceased 2 December 2010)
 Lawrence Gardiner (Appointed Company Secretary 17 August 2004 and Director ((executive) 3 December 2010)

Senior Executives

Charles O'Neil (Contract terminated 16 August 2010)
 Steve Wilde (Resigned 29 September 2010)
 Brian Malcolm (Commenced 4 February 2011)
 Megan Burgmann (Commenced 12 October 2010)

Total Shares

Balance at the start of the year	Granted as part of remuneration	On exercise of options	Shares purchased	Balance at the end of the year
16,577,478	-	-	9,480,992	26,058,470
2,076,039	-	-	-	2,076,039
8,900,915	-	-	7,352,674	16,253,589
196,777	-	-	-	196,777
215,000	-	-	-	215,000
14,000	-	-	-	14,000
-	-	-	-	-
-	-	-	-	-
27,980,209	-	-	16,833,666	44,813,875

All equity transactions with KMP have been entered into under terms and conditions no more favourable than those the Company would have adopted if dealing at arm's length.

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

(d) Loans to key management personnel

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

26. Remuneration of auditors

Amounts received or due and receivable by Ernst & Young for:

	2012	2011
	\$	\$
(a) Assurance services		
<i>Audit services</i>		
Ernst & Young Australian firm		
Audit and review of financial reports and other audit work under the <i>Corporations Act 2001</i>	75,705	72,100
Total remuneration for audit services	75,705	72,100

27. Commitments

(a.i) Operating leases (properties) –XTEK as lessee

	2012	2011
	\$	\$
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	254,495	234,452
Later than one year but not later than five years	326,362	406,806
Later than five years	-	-
	580,857	641,258

(a.ii) Operating leases (properties) –XTEK as lessor

	2012	2011
	\$	\$
Commitments for minimum lease payments in relation to non-cancellable operating leases expected to be received are as follows:		
Within one year	26,688	79,221
Later than one year but not later than five years	-	13,344
Later than five years	-	-
	26,688	92,565

Income from leases relates only to property which is sub-let by the Company.

28. Related party transactions

(a) Entities

The entity is XTEK Limited and there are no subsidiaries.

(b) Directors

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

(c) Key management personnel

Disclosures relating to key management personnel are set out in note 25.

(d) Transactions with related parties

As disclosed in the 2011 annual report, In February 2011 an unsecured loan of \$200,000 was provided to the company by a related party (UDB Pty Ltd) with an interest rate of 14.5% to fund a short term cash flow deficit. There are no covenants associated with this loan and repayment was made in November 2011.

In July 2011 an unsecured loan of \$50,000 was provided to the company by a related party (Integrated Solutions Consultancy Group Pty Ltd) with an interest rate of 14.5% to fund a short term cash flow deficit. There are no covenants associated with this loan and full repayment was made in November 2011.

In June 2012 an unsecured loan of \$50,000 was provided to the company by a related party (Vasey Pty Ltd) with an interest rate of 14.5% to fund a short term cash flow deficit. There are no covenants associated with this loan and full repayment was made in August 2012.

During the current financial year, 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. The recognition of revenue from this transaction will be re-assessed upon expiration of the lease term.

During the financial year there was \$2,752 (\$9,149 in June 2011) in legal fees invoiced to XTEK by a related party, Boettcher Law the Chairman's legal firm. These fees were in relation to legal matters. These transactions were on normal terms and conditions.

29. Events occurring after the statement of financial position date

- (a) On 3 July 2012, the Company announced that the Company has successfully completed manufacture of its first large scale XTclave™ composite consolidation technology production plant in Adelaide.
- (b) On 18 July 2012, the Company announced its intention to proceed with a pro-rata Non-Renounceable Rights Issue of up to 58,302,610 New Shares to raise up to approx \$1,515,868.
- (c) On 30 July 2012, the Company issued Non-Renounceable Rights Issue Offer Document to all eligible Shareholders and preserved the right to make presentations to Exempt Investors under section 708 of the Corporations Act 2001.
- (d) On 19 August 2012, the large XTclave™ composite consolidation technology production plant was transported from the XTEK Engineering Development Facility in Adelaide to Armor Australia production facilities in Sydney in preparation for the manufacture of significant quantities of high end body armour plates under the Joint Venture arrangements in place with Armor Australia.
- (e) On 20 August 2012, the Company announced that Non-Renounceable Rights Issue had been completed, with a total of 19,893,341 new ordinary shares issued at an issue price of \$0.026 per ordinary share, for a total value of \$517,226.00 (before issue costs). The Rights Issue was partially underwritten by UDB Pty Ltd (related party) to the value of \$500,000, for which it was paid a fee of \$30,000. This fee was discharged by the issue of share script. Following the allotment and issue of the 19,893,341 new ordinary shares, the issued capital of XTEK comprises 165,812,537 fully paid ordinary shares. The ability to issue Shortfall Shares remains open until 20 November 2012.
- (f) On 23 August 2012, the Company received an application from a major shareholder who for timing reasons was unable to participate in the Rights Issue, for the placement and issue of 7,700,000 New Shares at an issue price of \$0.026, total value of \$200,200.

30. Statement of cash flows reconciliation

(a) Reconciliation of losses after income tax to net cash flows used in operating activities

	2012 \$	2011 \$
Loss for the year	(1,087,370)	(802,153)
Adjustments for:		
Depreciation	108,561	128,842
Net (profit) on disposal of property, plant and equipment	(1,487)	(1,415)
Changes in assets and liabilities		-
Decrease/(increase) in Trade debtors	609,943	(270,072)
Decrease/(increase) in Inventory	474,447	(70,026)
Decrease/(increase) in Prepayments and Other Assets	40,659	(18,590)
(Decrease)/increase in Trade and other payables	(835,161)	418,642
Increase in Deferred Income	164,021	57,771
Decrease in Provisions	(31,653)	(90,139)
Net cash flow used in operating activities	(558,040)	(647,140)

(b) Non-cash financing activities

	2012 \$	2011 \$
Repayment of short term loan with shares (note 16)	119,698	-

31. 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 deducting 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.

	2012 \$	2011 \$
(a) Basic loss per share		
(Loss) attributable to the ordinary equity holders of the company	(0.008)	(0.007)
(b) Diluted loss per share		
(Loss) attributable to the ordinary equity holders of the company	(0.008)	(0.007)

(c) Reconciliations of earnings used in calculating basic and diluted earnings per share

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

	2012 \$	2011 \$
Loss from continuing operations	(1,087,370)	(802,153)
Loss attributable to the ordinary equity holders of the company used in calculating basic earnings per share	-	-
	<u>(1,087,370)</u>	<u>(802,153)</u>

(d) Weighted average number of shares used as the denominator

	2012 Number	2011 Number
Weighted average number of ordinary shares used as the denominator in calculating diluted basic earnings per share	134,902,022	110,052,699
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	<u>134,902,022</u>	<u>110,052,699</u>

(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.

32. Share Based Payments

There were no expenses recognised for employee services received during the year. (2011: nil).

(a) 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.

(b) Share options and share performance rights

There were no options or share performance rights exercisable at the end of the year or any prior year. As at 30 June 2012, there were no unissued shares.

(c) 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.

(d) Employee Share Issue

There were no shares issued to employees under the Employee Share Ownership Plan (ESOP) in 2011 or 2012.

(e) Weighted average share price

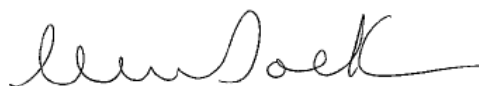
The weighted average market price at 30 June 2012 was 2.4 cents.

Directors' Declaration

In accordance with a resolution of the directors of XTEK Limited, I state that:

1. In the opinion of the directors:
 - (a) The financial statements and notes of the Company are 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 2012 and of the performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and *Corporations Regulations 2001*; and
 - (b) The financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 3 (b); and
 - (c) Subject to matters described in note 2, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the *Corporations Regulations 2001* for the financial year ending 30 June 2012.

On behalf of the Board



Uwe Boettcher
Chairman

Canberra, 28 September 2012

Shareholder Information

The shareholder information set out below was applicable as at 30 June 2012.

a. Distribution of equity securities

Analysis of numbers of equity security holders by size of holding:

		Ordinary Shares
1 -	1000	9,257
1,001 -	5,000	384,365
5,001 -	10,000	533,951
10,001 -	100,000	5,820,710
100,001 and over		<u>139,170,913</u>
		<u>145,191,196</u>

b. Equity security holders

Twenty largest quoted equity security holders. The names of the twenty largest holders of quoted equity securities are listed below:

Name	Ordinary shares	
	Number held	Percentage of issued shares
UDB Pty Limited	34,878,562	23.90%
Advancer Pty Limited	16,253,589	11.14%
Fairlane Management Pty Ltd	13,260,969	9.09%
Mr. Nick Weber	10,395,522	7.12%
Mr. Berend John Philip Hoff & Mrs. Peta Lindsay Hoff	8,759,933	6.00%
Mr. Nigel French	6,853,000	4.70%
DWKSJK Pty Ltd	6,030,898	4.13%
ANWAT Marketing Pty Ltd	5,588,064	3.83%
Jarra Glen Pty Ltd	4,211,430	2.89%
Mr. Allen John Tapp + Ms. Maria Polymeneas	3,000,000	2.06%
Vasey Pty Ltd	2,669,193	1.83%
Chimaera Pty Ltd	2,571,429	1.76%
Mr. John Glajz	2,057,143	1.41%
Mr David John Peachey and Mrs Sarah Peachey	1,910,097	1.31%
Kalbagrove Pty Ltd	1,590,900	1.09%
Mr Thomas Bruessel	1,517,450	1.04%
Mr. John Henderson and Mrs. Susan Henderson	1,485,000	1.02%
Ms. Anne Margaret McGrath	1,309,396	0.90%
Luigi Staltari and Jenny Toni Staltari	1,250,000	0.86%
Boulevade Investments Pty Ltd	1,200,000	0.82%

c. Substantial holders

Substantial holders in the company are set out below:

	Number held	Percentage
Ordinary shares		
UDB Pty Limited	34,878,562	23.90%
Advancer Pty Limited	16,253,589	11.14%
Fairlane Management Pty Ltd	13,260,969	9.09%
Mr. Nick Weber	10,395,522	7.12%
Mr. Berend John Philip Hoff & Mrs. Peta Lindsay Hoff	8,759,933	6.00%