



XTEK LTD
ABN 90 103 629 107



Head Office

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ISO 9001:2000 Accreditation No. MEL4000269 NSW Security Master Licence: 408232489 ACT Security Master Licence: 17501563

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

1 September 2010

By Electronic Lodgement

Dear Sir/Madam,

LODGEMENT OF ANNUAL REPORT

In accordance with the Listing Rules, please find attached the Annual Report for XTEK Limited (XTE) for the financial year ended 30th June 2010.

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: 2010 Annual Report for XTEK Limited (ABN 90 103 629 107)



ANNUAL REPORT 2010

www.xtek.net

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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)

Robert Sykes ((Executive Director, appointed 25 August 2010)

Craig Higgins (Appointed 24 March 2006)
(Resigned 23 August 2010)

David Jarvis (Executive Director, appointed 20 November 2008)
(Resigned 24 June 2010)

Secretary

Lawrence Gardiner

Principal Registered Office in Australia

25 Yallourn Street
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
51 Allara 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,

The trading loss for last financial year cannot be accepted without significant changes being implemented. Accountability for the poor result of last year is vital. Over the last two months the employment of the Managing Director, National Sales Director and Business Development Director has been terminated.

Change Management

A complete review of all aspects of XTEK's operations has been completed and the Board has directed the new interim CEO, Mr. Robert Sykes, to implement an aggressive program to manage change that will develop a winning culture to grow the company. This is now well underway and to date:

- A new web site is being developed that will present XTEK as a modern and innovative organisation and enable prospective customers to readily view the products we are offering. It will also enable qualified customers to view the inventory management system and place orders as required;
- A new, fully integrated accounting and stock management system is being designed and implemented. It will be fully operational within three months. This system will be fully integrated with the new website to facilitate easy online purchases;
- All staff positions have been reviewed and an organisational restructure now has all divisional managers reporting directly to the CEO making for very direct and efficient communication and reporting; and
- The Melbourne premises have been vacated and a serviced office is now used for Melbourne based business.

Agency Business

The following agency lines have been introduced and are moving towards making an impact on our revenue:

- The bore cleaning system for large barrelled gun platforms, including self-propelled guns, is expected to produce revenue this year and is expected to create follow-on export opportunities to the Republic of Korea;
- Aerovironment (AV) is a world leader in the design and manufacture of Unmanned Aircraft Systems (UAS). UAS's are used extensively by U.S. military forces, and increasingly by allied forces, to help establish Intelligence, Surveillance and Reconnaissance superiority on the front lines of today's hot zones. XTEK has the exclusive licence to market AV systems, including the Wasp. The Wasp UAS was successfully trialled by the Australian Army last year and the Company anticipates good future revenue from this product range; and
- Agency lines from European and US manufacturers for recreational and sporting shooters were introduced last year. An analysis of this market suggests that XTEK can significantly increase activity in the popular ranges of sporting ammunition, mid-priced rifles, target shooting hand guns and associated consumables. The revenue from this source is anticipated to increase into a viable agency line this year.

Commercialisation of Intellectual Property (IP)

XTEK has been developing and commercialising its in house intellectual property. Set out below is an update on the three product ranges that have been developed:

- Early this year an agreement was entered into with US Armaments to produce and sell armour piercing ammunition based on a license from XTEK. Unfortunately there has been a sizable delay in the commencement of manufacture by US Armaments largely due to its inability to source primers;
- Significant weapons ancillaries have been developed for the Blaser rifle for use by the Australian Defence Forces. XTEK also intends to expand these ancillaries into the high end sporting shooting market; and
- I am very pleased to again advise that our ballistic armour technology has been successfully used to produce a significant number of samples that have been successfully tested by potential customers. The technology is being assessed by Bureau Veritas for conformity to Australian Standards and subsequent certification. Certification is expected in September and we will be able to process our first order for body armour plates shortly thereafter. We have strong indications from our customer for sizable orders in the future.

Market conditions last year were poor. They have yet to improve. XTEK is determined to lower its operating costs so that XTEK has a sustainable business even in years when reductions in Defence discretionary expenditure are at a low point.

The Board, management and all employees are engaged in a change management program with a current focus on the operational efficiency of the company. Once that is achieved, which we expect to be in the next few months, the core business should be sustainable. With the operational efficiencies in place we can concentrate on growing the agency business and the commercialisation of the IP and making the company profitable.

Xtek is developing a culture of success and operational efficiency within company. This will now be an ongoing feature of XTEK and the introduction of new systems in the next few months will be the first major milestone.

The growth in the agency business, the commercialisation of the IP and a merger or an acquisition of a complementary business will be the platform for growing the company in the future.

A handwritten signature in black ink, appearing to read 'Uwe Boettcher', with a long horizontal flourish extending to the right.

Uwe Boettcher

Chairman
1 September 2010

Directors' Report

Your Directors' present their report on the Company, XTEK Limited for the year ended 30 June 2010.

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 (Appointed 1 July 2009)

Mr. Craig Higgins (Resigned 23 August 2010)

Mr. David Jarvis (Executive Director, resigned 24 June 2010)

Mr. Robert Sykes (Executive Director, appointed 25 August 2010)

Principal Activities

During the year the principal activities of the Company consisted of the supply of Homeland Security products and services to major defence and law enforcement agencies throughout Australia and the region.

Operating and Financial Review

Company Overview

The company recorded a loss of \$1.472m compared with the profit of \$0.807m in 2009. On an earnings per share basis this is a loss of approximately 2 cents compared to a profit of approximately 1 cent per share in 2009.

Agency Business

Agency sales declined by 39% on the corresponding period from \$13.355m to \$8.138m. This was a direct result of tighter government expenditure and lower than expected second half orders from the Defence Materiel Organisation (DMO) particularly in the category of explosive ordnance disposal (EOD) equipment. Historically, XTEK's second half revenue has formed approximately 60% of the total annual revenue, however, in 2010, revenue for the six months to June was just \$3.6m or 44% of total revenue and this significantly impacted the full year result. Gross margins remained in line with the prior year and operational expenditure increased by 3% largely due to the inclusion of the Adelaide office into the continuing operations of the company.

The unpredictability of the government spending led to a strategic review of XTEK's operations and a restructure plan which was completed in May 2010. The restructure is forecast to deliver operational cost savings in the region of \$1m while the company focuses its attention on commercialising its intellectual property (IP) and growing revenue in its expanding product range.

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

XTEK Ltd Business Analysis

	1st Half Dec 09 \$'000	1st Half Dec 08 \$'000	%	2nd Half Jun 10 \$'000	2nd Half Jun 09 \$'000	%	Full Year Jun 10 \$'000	Full Year Jun 09 \$'000	%
Agency Sales									
EOD/IEDD General	1,141	1,680	(32%)	1,051	4,820	(78%)	2,192	6,500	(66%)
EOD Robots	1,486	1,189	25%	-	-	-	1,486	1,189	25%
General Security	179	267	(33%)	414	146	183%	593	413	43%
Forensics	372	476	(22%)	595	480	24%	967	956	1%
UAV's	-	-	-	-	407	-	-	407	-
Weapons and Ammunition	773	1,183	(35%)	575	579	(1%)	1,348	1,762	(23%)
Logistics Engineering Revenue	634	840	(25%)	672	1,020	(34%)	1,306	1,860	(30%)
Other Product/Service sales	-	-	-	110	268	-	110	268	(59%)
Environmental products	-	-	-	136	-	-	136	-	-
Total Sales	4,585	5,635	(19%)	3,553	7,720	(54%)	8,138	13,355	(39%)
Gross Profit	1,966	2,139	(8%)	1,204	3,046	(60%)	3,170	5,185	(39%)
Gross Profit %	43%	38%		34%	39%		39%	39%	
Other Income	76	65	17%	68	47	45%	144	112	29%
Agency Expenses	(2,392)	(2,435)	(4%)	(2,275)	(2,360)	(2%)	(4,667)	(4,795)	(3%)
Agency (loss)/profit before tax and restructure costs	(350)	(231)		(1,003)	733		(1,353)	502	
Restructure costs	30	263	89%	(149)	42		(119)	305	
(Loss)/Profit before Tax	(320)	32		(1,152)	775		(1,472)	807	
Income Tax	-	-	-	-	-	-	-	-	-
Total (Loss)/Profit after Tax	(320)	32		(1,152)	775		(1,472)	807	

Agency Loss before tax

The agency loss before tax and restructure costs was \$1.353m compared with a profit of \$0.502m in 2009.

Commercialisation of IP

XTEK has made significant progress in commercialising the ballistic armour manufacturing (Hydroclave) system. XTEK has been manufacturing test samples for a leading armour manufacturer since late 2009 and has entered into negotiations with both international and local entities who have indicated their interest in purchasing or sub contracting the use of the XTEK developed system. The first revenue from sub contracting of this system is expected in the first half of FY11.

In December 2009, the company executed a license agreement with US Armaments, LLC., granting them worldwide rights to manufacture under licence XTEK's patented Armour Piercing ammunition for a period of ten years. During the term of the license, XTEK will receive royalty payments based on revenue generated from the sale of the ammunition. There has been a delay in that company producing ammunition under the license so revenues are yet to commence.

Excellent progress in the development and manufacture of custom made weapon ancillary products for Defence and other government customers is being made. Local sales of these specialised products, which have been designed and manufactured in Adelaide, are expected in the first half of FY11 after receipt of the first purchase orders from government agencies.

Environmental Initiatives

In June 2010, XTEK delivered the first batch of locally assembled Active ES energy saving lighting control systems. This batch of 150 units is part of the first order of 500 units for the Australian market. The Active ES system provides a solution for reducing the energy consumed by light fittings that utilise ballast and igniters such as fluorescent and HID lamps.

Significant changes in the state of affairs

- (a) On 1 July 2009, Brigadier Greg Thomas was appointed to the Board of Directors.
- (b) On 3 March 2010, the company completed a placement of 12,169,205 fully paid ordinary shares at a placement value of \$0.032 per security to sophisticated investors. The funds raised (\$389K) by the share placement process were used to support operational business improvements and to supplement working capital for the Company.
- (c) On 24 June 2010, Mr. David Jarvis resigned as an executive director and was given notice of termination of contract as chief executive officer.
- (d) On 25 June 2010, the company announced that it had completed a strategic review of its operations and would restructure its operations, pursue initiatives to grow the business and raise capital.

Matters subsequent to the end of the financial year

- (a) On 2 August 2010, 500,000 options held by previous Directors and related parties, as described in the Prospectus, lapsed. There was no financial impact on the 2009-2010 financial year and there will be no impact on the 2010-2011 financial year.
- (b) On 12 July 2010, Robert Sykes was appointed as the interim Chief Executive Officer (CEO) of XTEK for a six-month period. During the course of Mr. Syke's tenure XTEK will conduct a search for a new CEO. It is expected Mr. Sykes will participate in this process.
- (c) On 30 July 2010, the Company made an announcement offer to shareholders to participate in a non-renounceable rights issue of up to 37,318,892 new shares to raise up to approximately \$970,000. Under the rights issue, eligible shareholders of XTEK Limited will have an entitlement to acquire 2 new shares for every 5 existing shares at a price of \$0.026 per share.

In addition to being able to apply for new shares in the manner described above, subscribing shareholders also had the opportunity to apply for new shares that were not subscribed for under the Rights Issue ("Shortfall Shares"). The Shortfall Shares will be issued at the same price and on the same terms as the new shares. Shortfall Shares will only be issued to the extent necessary to make up any shortfall in subscriptions.

On 30 August 2010, the Company announced that approximately \$425,000 had been raised in the rights issue.

- (d) On 18 August 2010 the Company requested a trading halt which was lifted on 20 August 2010. This was in connection with a potential issue with a new product range which was part of the new business growth initiatives as announced on 25 June 2010. The trading halt was requested to allow the Company to assess any potential financial impact as a consequence of a performance issue with a product raised in an independent expert report. Cost of rectification and/or certification in FY10 has been estimated at \$21,200. This amount has not been provided for in these accounts as it is considered to be not material.
- (e) On 23 August 2010, Mr. Craig Higgins resigned as a Non-Executive Director of the Company.
- (f) On 25 August 2010, Mr. Robert Sykes was appointed as an Executive Director of the Company.

Likely future developments

The company is focused on returning to profitable trading in the second half of FY11. Interim CEO, Mr. Robert Sykes has initiated an aggressive strategy review of the XTEK agency products, the IP commercialisation process and the new products in the sustainability sector. The aim of the review is to generate ongoing annuity income in order to smooth, to a large degree, the cyclical nature of the government spending patterns.

Commercialisation of the XTEK IP

XTEK has completed development of the pilot hydroclave system and intends to complete the commercialisation process during 2011. As part of the commercialisation process, XTEK will commence contract manufacturing of armour plates and it is anticipated that this market will grow in the future. The company is also planning to design, build and commission a larger system, with completion and commissioning planned from the first quarter of 2011. The larger system will enable XTEK to produce larger armour plates that are required for protecting light military vehicles and more complex armour shapes required by the Australian Defence Force.

XTEK is now actively marketing the hydroclave technology. Initiatives include:

- commissioning an agent in the USA to actively market the Hydroclave technology to the US Marines and companies that provide equipment to the Marines and other US forces.

- participating in discussions to join an Integrated Product Team (IPT) with a view to using the Hydroclave process in support of two large Defence Materiel Organisation (DMO) tenders, namely, LAND 121 Phase 4 and LAND 125 Phase 3B.
 - LAND 121 Phase 4 aims to provide light protected vehicles for command, liaison, utility and reconnaissance roles.
 - LAND 125 Phase 3B - Survivability. It is intended that soldier survivability will be modernised through improved body (modular combat body armour system) and eye protection (ballistic and laser ocular protection system). The enhancements will provide personal protection from blast, projectiles and laser threats.

Other Improvements

The company is making significant improvements to the core business systems to support future growth initiatives, including the current management software system by implementing an integrated Inventory Management, Job Costing and Accounting System in order to achieve administrative efficiencies.

The company is also in the process of upgrading the web site to improve the customer search capability and to integrate the new inventory management system. The integrated inventory management system will give wholesale customers direct access to our inventory holdings and make purchasing easier.

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 Mallesons Stephen Jaques 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. He is one of the founding Committee Member of Capital Angels. 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;
Chairman of Capital Angels Pty Limited; and
Manuka Corporate Pty Limited.

Special responsibilities

Chairman of the Nomination Committee.

Interests in shares and options

16,577,478 ordinary shares at 30 June 2010.

Brigadier Gregory Thomas AM (Rtd.) *Non Executive Director.*

Experience and expertise

Brigadier Thomas is the Managing Director of Integrated Solutions Consultancy Group Pty Ltd, which provides planning advice to selected international and ASX listed clients, particularly with regard to matters of engagement and marketing strategies in defence and the broader security community. He has previously served on several federal not for profit Boards and CSSIP Pty Ltd (Cooperative Research Centre for Signal Sensor and Information Processing) and Spire International Pty Ltd, a specialist firm concerned with the market development of intellectual property. Prior to his retirement in 1998, the Brigadier 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 and is the recipient of the Insignia Award in Technology from the City and Guilds of London. 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.
Chairman of the Audit, Finance and Risk Committee (Appointed 26 August 2010).

Interests in shares and options

2,076,039 ordinary shares at 30 June 2010.

Mr. Robert Sykes *Executive Director.* (Appointed 26 August 2010)

Experience and expertise

Mr. Sykes has extensive domestic and international experience in large and complex Defence acquisition projects, with a proven track record of achievement. Mr. Sykes has attained a Masters and Graduate Diploma of Engineering from the Royal Melbourne Institute of Technology. Over the last twenty years, Mr. Sykes has served in a variety of senior project management roles with the Department of Defence and major Defence Contractors.

Other Directorships

Nil.

Special responsibilities

Nil.

Interests in shares and options

8,900,915 ordinary shares at 30 June 2010.

Mr. Craig Higgins *Non Executive Director.* (Resigned 23 August 2010)

Experience and expertise

Mr. Higgins has a Bachelor of Management Studies majoring in accounting and cost accounting and is a member of each of the Australian and New Zealand Institute of Chartered Accountants. He is Chairman of CommStrat Limited (COJ), has served on the Board of Mobilesoft Limited (ASX: MSO) as a Non-Executive Director and has executive management experience as the former CEO and CFO of a leading provider of facility management and multi discipline support services including more than a decade of service experience in the physical security industry. Mr. Higgins has also served in General Management and CFO roles at a leading property services firm and one of Australia's largest private internet and network service providers after commencing his career with Price Waterhouse.

Other Directorships

CommStrat Limited (Appointed 2 May 2008).

Special responsibilities

Chairman of the Audit, Finance and Risk Committee. (Resigned 23 August 2010).

Interests in shares and options

Nil.

Mr. David Jarvis *Executive Director and Chief Executive Officer.* (Appointed 20 Nov. 2008, resigned as Director on 24 Jun. 2010)

Experience and expertise

Mr. Jarvis was commissioned into the Brigade of Gurkhas in 1977, serving mostly in South East Asia and specialising in Counter Terrorist and Internal Security operations. Since leaving the Army in 1989, he has worked in a variety of security related positions in Hong Kong, both operational and planning, with particular experience gained in aviation. More recently he was General Manager of Chubb Security Personnel in Hong Kong and Macau. Mr. Jarvis was appointed as the Chief Operating Officer of XTEK Limited in November 2004 and appointed the Chief Executive Officer on the 29 August 2007. Mr. Jarvis's contract as chief executive officer was terminated on 24 June 2010.

Other Directorships

Nil.

Special responsibilities

Nil.

Interests in shares and options

74,000 ordinary shares at 30 June 2010.

Mr. Lawrence Gardiner *Company Secretary*

Experience and expertise

Mr. Gardiner was appointed to the position of Company Secretary on 17 August 2004. Mr. Gardiner served with the Australian Regular Army for 21 years and specialised in the fields of logistic management and explosive ordnance / bomb disposal operations. Mr. Gardiner served a further period of 13 years with the Australian Federal Police Protective Service, performing senior executive roles in the areas of counter terrorist first response and protective security operations before retiring at the rank of Chief Superintendent in 2003 to take up a senior management position with XTEK. He has also served as a Director of the International Association of Bomb Technicians and Investigators for over 11 years. Mr. Gardiner is a current member of the Australian Institute of Company Directors, and the Australian Institute of Management.

Remuneration Report (Audited)

Meetings of Directors

The numbers of meetings of the Company's Board of Directors and of each Board committee held during the year ended 30 June 2010, and the numbers of meetings attended by each Director were:

	Full meetings of directors		Meetings of committees					
	A	B	Audit		Nomination		Remuneration	
	A	B	A	B	A	B	A	B
Mr. Uwe Boettcher	12	12	3	3	-	-	3	3
Mr. Craig Higgins	12	12	3	3	-	-	3	3
Mr. David Jarvis	12	12	-	3	-	-	1	3
Mr. Greg Thomas	12	12	3	3	-	-	3	3

A = Number of meetings attended

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

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

For the purposes of this report, the term 'executive' encompasses the chief executive officer, senior executives and company secretary of the Company.

Details of key management personnel

(a) Directors

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

Uwe Boettcher	Chairman (non-executive)
Brigadier Greg Thomas	Director (non-executive)
Craig Higgins	Director (non-executive, resigned 23 August 2010)
David Jarvis	Director (executive) and Chief Executive Officer. Resigned as a Director on 24 June 2010

(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:

Charles O'Neil	Divisional Director – Sales
Stephen Wilde	Chief Financial Officer
Nick Weber	Business Development Director, contract terminated 24 June 2010.
Lawrence Gardiner	Company Secretary, Divisional Director – Corporate

There have been three changes to the key management personnel after reporting date and before the date the financial report was authorised for issue.

On 24 June 2010, Mr. David Jarvis was terminated as CEO and Mr. Robert Sykes was appointed to the position of Interim CEO with effect from on 12 July 2010.

On 16 August 2010, the contract for Mr. Charles O'Neil was terminated.

On 23 August 2010, Mr. Craig Higgins resigned as a director of the Company.

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 (Audited) (continued)

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

In consultation with external remuneration consultants, 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.

The framework provides a mix of fixed and variable pay, and a blend of short and long-term incentives. As executives gain seniority with the Company, the balance of this mix shifts to a higher proportion of "at risk" rewards.

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 Directors resolved on 24 June 2010, to reduce their individual fees by \$10,000 p.a. effective from 1 July 2010 for an interim period of six (6) months as part of cost reduction measures.

The remuneration of non-executive directors for the year ended 30 June 2010 and 30 June 2009 is detailed in table 1 and 2 respectively of this report.

Remuneration Report (Audited) (continued)

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 14.

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 2010 is set out in table 1 and 2009 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 2009 and 2010 financial years

For the 2009 financial year a STI cash bonus of \$70,000 was paid.

For the 2010 financial year, no STI cash bonuses were accrued or payable.

Remuneration Report (Audited) (continued)

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, 3 and in note 32.

Options

Options were part of the total remuneration package of Directors and are linked to market-based performance hurdles and service conditions. In July 2006, there were two tranches of options that were issued to Directors of the company.

The options were issued subject to the following vesting conditions and exercise restrictions:

- (a) no options will vest or will be capable of exercise unless the holder continues in office as a director of the Company until at least the date of the annual general meeting of the Company for the financial year ended 30 June 2007;
- (b) no option may vest or may be exercised prior to the date of the annual general meeting of the Company for the financial year ended 30 June 2007; and
- (c) no option may vest or be exercised unless and until the daily volume weighted average sale price of the shares traded on the ASX equals or exceeds the exercise price for a period of not less than 60 consecutive trading days.

All options issued to Directors in July 2006 failed to vest and had lapsed at 30 June 2009.

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%.

Remuneration Report (Audited) (continued)

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.

Remuneration Report (Audited) (continued)

B Details of remuneration

Table 1: Remuneration of key management personnel

2010	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	55,046	-	-	-	4,954	-	-	-	60,000	-
Brigadier Greg Thomas	45,872	-	-	-	4,128	-	-	-	50,000	-
Craig Higgins * 5	45,872	-	-	-	4,128	-	-	-	50,000	-
Sub-total Non-Executive Directors	146,790	-	-	-	13,210	-	-	-	160,000	
<i>Other key management personnel</i>										
David Jarvis (Executive Director and Chief Executive Officer) *4	199,692	-	1,642	30,000	17,972	66,389	7,612	18,227	341,534	2%
Charles O'Neil (Sales Director)	160,462	-	-	8,000	-	-	571	-	169,033	-
Stephen Wilde (Chief Financial Officer)	133,027	-	1,277	-	11,973	-	2,664	-	148,941	2%
Nick Weber (Business Development Director) * 1	81,911	6,291	-	20,000	9,513	23,884	2,664	-	144,263	2%
Lawrence Gardiner (Company Secretary) * 1	73,900	-	977	20,000	6,651	-	2,664	18,550	122,742	2%
Sub-total key management personnel	648,992	6,291	3,896	78,000	46,109	90,273	16,175	36,777	926,513	
Totals	795,782	6,291	3,896	78,000	59,319	90,273	16,175	36,777	1,086,513	

*** 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. Cash salary and fees for Nick Weber (\$81,911) includes the payout of leave entitlements and payments in regard to his contract termination. Cash salary and fees for Lawrence Gardiner include payment for a fee of \$6,400 for his costs on a security project that was billed to a customer and approved additional days worked above the agreed contract.
- 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 Amounts received under share-based payments are for share performance rights (Executive Directors and key management personnel) and are related to performance. No share options or share performance rights have vested under the XTEK LTI Scheme since its inception.
- 4 On 24 June 2010, David Jarvis resigned as an executive director and was given notice of termination of contract as chief executive officer.
- 5 On 23 August 2010, Craig Higgins resigned as a non-executive director.

Remuneration Report (Audited) (continued)

B Details of remuneration (continued)

Table 2: Remuneration of key management personnel

2009	Short-term benefits				Post-employment benefits	Share-based payment	Other long term employee benefits	Total	% Performance Related
	Cash salary and fees	Cash Bonus or commission	Employee Entitlements Annual Leave	Non-monetary benefits	Super-annuation	Options or shares	Employee Entitlements Long Service Leave		
	\$	\$	\$	\$	\$	\$	\$	\$	
<i>Non-Executive Directors</i>									
Uwe Boettcher *1	8,917	-	-	-	-	-	-	8,917	-
Craig Higgins	45,872	-	-	-	4,129	1,809	-	51,810	3%
Major General Michael O'Brien (Rtd) *1	42,696	-	-	-	3,843	-	-	46,539	-
Bruce Higgins *1	24,302	-	-	-	762	4,174	-	29,238	14%
Sub-total Non-Executive Directors	121,787	-	-	-	8,734	5,983	-	136,504	
<i>Other key management personnel</i>									
David Jarvis (Executive Director and Chief Executive Officer)	167,516	-	42	30,000	15,077	18,416	-	231,051	8%
Charles O'Neil (Sales Director)	140,539	11,500	-	8,000	-	571	-	160,610	-
Stephen Wilde (Chief Financial Officer)	133,027	5,000	2,993	-	11,972	6,220	-	159,212	4%
Nick Weber (Business Development Director) * 2	118,686	12,500	(34,026)	21,890	10,682	6,864	(5,411)	131,185	6%
Lawrence Gardiner (Company Secretary) * 2	83,955	2,500	(8,177)	21,890	7,556	5,064	-	112,788	4%
Sub-total key management personnel	643,723	31,500	(39,168)	81,780	45,287	37,135	(5,411)	794,846	
Totals	765,510	31,500	(39,168)	81,780	54,021	43,118	(5,411)	931,350	

*** Notes**

- 1 Mr. Bruce Higgins retired as a director on 28 November 2008 and Major General Michael O'Brien (Rtd) resigned as a director on 28 April 2009. Mr. Uwe Boettcher was appointed on 28 April 2009.
- 2 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 Nick Weber (\$118,686) and Lawrence Gardiner (\$83,955) include the payout of leave entitlements as a result of changes to their individual contractual arrangements in September 2008 and payment for approved additional hours worked. Lawrence Gardiner received \$10,423 in leave entitlements paid out and \$3,500 for additional work. Nick Weber received \$30,193 in leave entitlements paid out and \$3,500 for additional work. Lawrence Gardiner was also paid a fee of \$8,200 for his costs on a security project that was billed to a customer.
- 3 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.
- 4 Amounts received under share-based payments are for options (Non-executive Directors only) and share performance rights (Executive Directors and key management personnel only) and are related to performance. No share options or share performance rights have vested under the XTEK LTI Scheme since its inception.
- 5 Amounts included above for non-monetary benefits may vary to contract as a consequence of changes in individual contractual arrangements during the year.

Remuneration Report (Audited) (continued)

C Service agreements

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

Mr. David Jarvis (Chief Executive Officer)

- A written employment agreement was in place, effective from 3 September 2008. Notice of contract termination (3 months) was given on 24 June 2010.
- Base salary, inclusive of superannuation, to the value of \$217,600 per annum.
- Motor vehicle allowance (Novated Lease vehicle fully maintained) to the value of \$30,000 per annum.
- Eligibility for Company Long Term Incentive Performance Rights Plan (LTIPRP).
- Eligibility for Company Short Term Incentive Plan (STIP).
- Qantas Club membership.

Mr. Charles O'Neil (Director, Sales)

- A written consultancy agreement was in place, this expired on 30 June 2010.
- Base consultancy fee, exclusive of GST, to the value of \$168,000 per annum.
- Motor vehicle allowance to the value of \$8,000 per annum.
- Eligibility for Company Short Term Incentive Plan (STIP).
- Qantas club membership.

Mr. Stephen Wilde (Chief Financial Officer)

- A written employment agreement is in place, effective from 1 September 2008, expiring on 31 August 2011, unless otherwise terminated or renewed.
- Base salary, inclusive of superannuation, to the value of \$145,000 per annum. This was reduced to \$135,000 as part of cost reduction measures in July 2010.
- Eligibility for Company Long Term Incentive Performance Rights Plan (LTIPRP).
- Eligibility for Company Short Term Incentive Plan (STIP).

Mr. Nick Weber (Director Business Development)

- A written employment agreement was in place until 24 June 2010 when it was terminated.
- Base salary, inclusive of superannuation, to the value of \$56,680 per annum (part time only, two days per week).
- 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. Lawrence Gardiner (Company Secretary)

- A written employment agreement is in place, effective from 3 September 2008, expiring on 2 September 2011, unless otherwise terminated or renewed.
- Base salary, inclusive of superannuation, to the value of \$56,680 per annum (part time only, two days per week). This was subsequently increased to three days per week effective from January 2010.
- 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.

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

Remuneration Report (Audited) (continued)

D Share-based compensation (audited)

There were no new issues of share options or share performance rights during the 2009-2010 financial year.

Information on the share performance rights issued in 2007-2008 financial year is detailed in table 3 below.

Table 3: 2007-2008 Share performance rights

Grant Date	Holder	Share performance rights	Exercise price	Value per SPR at grant date	Value of SPR's granted during the 2007-2008 year	Number of SPR's vested	First exercise date	Last exercise date	% of remuneration consisting of SPR's for the year
Senior Executives									
10 Aug 2007	David Jarvis	260,000	\$0.1761	\$0.035	\$9,100	-	30 Jun 2008	09 Aug 2012	11%
10 Aug 2007	Stephen Wilde	140,000	\$0.1761	\$0.035	\$4,900	-	30 Jun 2008	09 Aug 2012	6%
10 Aug 2007	David Jarvis	260,000	\$0.1761	\$0.048	\$12,480	-	30 Jun 2009	09 Aug 2012	11%
10 Aug 2007	Stephen Wilde	140,000	\$0.1761	\$0.048	\$6,720	-	30 Jun 2009	09 Aug 2012	6%
10 Aug 2007	David Jarvis	400,000	\$0.1761	\$0.055	\$22,000	-	30 Jun 2010	09 Aug 2012	11%
10 Aug 2007	Stephen Wilde	140,000	\$0.1761	\$0.055	\$7,700	-	30 Jun 2010	09 Aug 2012	6%
10 Aug 2007	Nicholas Weber	140,000	\$0.1761	\$0.055	\$7,700	-	30 Jun 2010	09 Aug 2012	5%
10 Aug 2007	Lawrence Gardiner	140,000	\$0.1761	\$0.055	\$7,700	-	30 Jun 2010	09 Aug 2012	5%
10 Aug 2007	Charles O'Neil	30,000	\$0.1761	\$0.055	\$1,650	-	30 Jun 2010	09 Aug 2012	-
Total		1,650,000			\$79,950				

*** Notes:**

- 1 Performance rights as issued to senior executives are subject to achievement of market-based performance hurdles, with each tranche being available for exercising on successful vesting at the end of financial years 2008, 2009 and 2010 respectively. The final date for exercise of all vested performance rights will be 5 years after the grant date (award date).
- 2 At 30 June 2008, 400,000 share performance rights failed to vest and have lapsed.
- 3 At 30 June 2009, 400,000 share performance rights failed to vest and have lapsed.
- 4 At 30 June 2010, all remaining share performance rights failed to vest and have lapsed.

Remuneration Report (Audited) (continued)

D Share-based compensation (audited) (continued)

Table 4: Share performance rights as part of remuneration

	Value of share performance rights granted during the year \$	Value of share performance rights exercised during the year \$	Value of share performance rights lapsed during the year \$	Remuneration consisting of share performance rights for the year \$
David Jarvis	-	-	22,000	2%
Stephen Wilde	-	-	7,700	2%
Nicholas Weber	-	-	7,700	2%
Lawrence Gardiner	-	-	7,700	2%
Charles O'Neil	-	-	1,650	-

For details on the valuation of the options and share performance rights, including models and assumptions used, please refer to note 32.

Options and share performance rights granted to Directors and Senior Executives carry no dividend or voting rights.

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.

Insurance of Directors and Officers

During the financial year, XTEK Limited paid a premium of \$20,628 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*.

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.

Remuneration Report (Audited) (continued)

D Share-based compensation (audited) (continued)

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:

	2010	2009
	\$	\$
Assurance services		
Audit services		
Ernst & Young Australian firm		
Audit and review of financial reports and other audit work under the Corporations Act 2001	72,100	72,100
Total remuneration for audit services	72,100	72,100
 Other assurance services		
Ernst & Young Australian firm		
Professional assistance with IFRS wave 2 standards	3,000	-
Total remuneration for other assurance services	3,000	-
 Total remuneration for assurance services	75,100	72,100

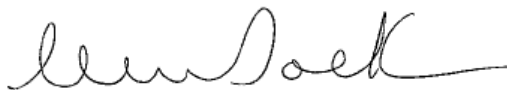
Auditors' Independence Declaration

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 32.

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, 1 September 2010

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 administrated 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.***

In October 2008, all senior executives at the Company had 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 nor more than twelve Directors, unless otherwise determined by a general meeting. The Board currently consists of two Non Executive Directors and one Executive Director (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. Currently Mr. Boettcher and Brigadier Thomas are Non-Executive Directors. 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 meets the criteria for independence adopted by the Company. After the resignation of Mr David Jarvis as a Director the majority of Directors were independent. Since the resignation of Mr. Craig Higgins the majority of Directors are non executive but not independent. The Board intends to appoint a further 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); and**
- **Brigadier Thomas.**

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;
 - encourages all employees to engage in activities beneficial to their local community; and
 - supports community charities.
- **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 lodgement of those documents with the Australian Stock Exchange and to make the necessary recommendations to the Board for the approval of these documents;
- Providing the Board with additional assurance regarding the reliability of financial information for inclusion in the financial reports;
- Recommending to the Board the appointment, removal and remuneration of the external auditors, and reviewing the terms of their engagement the scope and quality of the audit;
- Assessing the attention being given by management to matters likely to impact on the financial performance of the Company, including monitoring of compliance with laws and regulations and monitoring and control of business risks;
- Management information and other systems of internal control and risk management; and
- Ethical policies and practices for corporate conduct are in place and being adhered to.

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

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

Composition

The Finance, Audit and Risk Management Committee consists currently of two members. Members are appointed by the Board from amongst the Directors, all of whom are Non - Executive Directors. The current members of the Audit Committee are Mr. Boettcher and Brigadier Thomas. All members can read and understand financial statements and are otherwise financially literate. Brigadier Thomas was appointed the Interim Chairman on 26 August 2010 following the resignation of Mr. Higgins. The details of the member's qualifications may be found in their Director Profiles that form part of the Annual Report.

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, 4.2 and 4.3.

PRINCIPLE 5 MAKE TIMELY AND BALANCED DISCLOSURES

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

Continuous Disclosure

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

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

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

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

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

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

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

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

PRINCIPLE 6 RESPECT THE RIGHTS OF SHAREHOLDERS

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

Shareholder communication and participation

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

- the Annual Report and the Interim Report;
- disclosures made to the Australian Securities Exchange;
- notices and explanatory memoranda of annual and extraordinary general meetings;
- the annual general meeting,
- 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 publicly 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 30th June 2010. 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 26 August 2010, Mr. Robert Sykes (Interim CEO) and Mr. Stephen Wilde (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 26 August 2010, Mr. Robert Sykes (interim CEO) and Mr. Stephen Wilde (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 two members. Members are appointed by the Board from amongst the Directors, all of whom are Non-Executive Directors. The current members of the Committee are Mr. Boettcher and Brigadier Thomas. Brigadier Thomas 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.

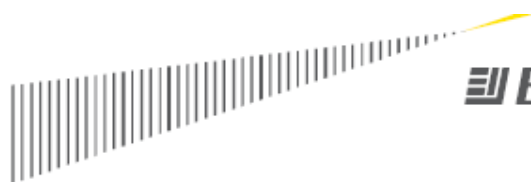
Where packages comprise a fixed element and variable incentive components, the variable components will depend on Company and personal performance. Short term incentives may include annual cash incentives on meeting specific profit and performance criteria that have been agreed in plans set with the 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.



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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 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance 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 our 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, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report 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 met 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. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.



Auditor's Opinion

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

- (i) giving a true and fair view of the financial position of XTEK Limited at 30 June 2010 and of its performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

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 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 paragraphs pages 8 to 18 of the directors' report for the year ended 30 June 2010. 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.

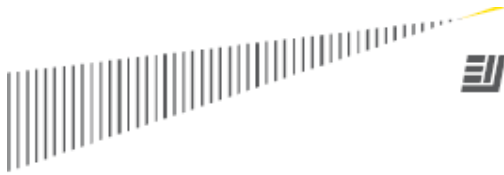
Auditor's Opinion

In our opinion the Remuneration Report of XTEK Limited for the year ended 30 June 2010, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Partner
Canberra

1 September 2010



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 2010, 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

James Palmer
Partner
Canberra

1 September 2010

Statement of Comprehensive Income for the year ended 30 June 2010

	Notes	2010 \$	2009 \$
Revenue from operations	4	8,137,872	13,355,154
Other income	5	144,342	111,516
Changes in inventories of finished goods and work in progress		(4,967,541)	(8,170,113)
Employee benefits expense	6	(2,531,439)	(2,457,386)
Depreciation	6	(184,580)	(269,025)
Operational expenditure	6	(1,947,393)	(2,047,029)
Additional expenditure	6	(119,296)	305,223
Finance costs	6	(3,676)	(20,981)
(Loss)/Profit from operations before income tax		(1,471,711)	807,359
Income tax expense	7	-	-
(Loss)/Profit from operations after income tax		(1,471,711)	807,359
(Loss)/Profit after tax attributable to members		(1,471,711)	807,359
Other comprehensive income		-	-
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD		(1,471,711)	807,359

**Earnings per share for (loss)/profit from operations
attributable to the ordinary equity holders of the company:**

Basic earnings per share	31	(0.017)	0.001
Diluted earnings per share	31	(0.017)	0.001

Notes:

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

Statement of Financial Position as at 30 June 2010

	Notes	2010 \$	2009 \$
ASSETS			
Current assets			
Cash and cash equivalents	9	683,063	1,338,813
Trade and other receivables	10	500,501	1,756,581
Inventories	11	1,199,188	1,559,666
Property, plant and equipment classified as held for sale		-	13,818
Other	12	187,797	108,992
Total current assets		<u>2,570,549</u>	<u>4,777,870</u>
Non-current assets			
Property, plant and equipment	14	<u>372,068</u>	<u>480,980</u>
Total non-current assets		<u>372,068</u>	<u>480,980</u>
Total assets		<u>2,942,617</u>	<u>5,258,850</u>
LIABILITIES			
Current liabilities			
Trade and other payables	15	528,148	1,432,474
Interest bearing liabilities	16	-	18,760
Provisions	17	200,066	206,634
Deferred income	18	104,766	399,233
Accrued Liabilities	19	267,080	281,188
Total current liabilities		<u>1,100,060</u>	<u>2,338,289</u>
Non-current liabilities			
Provisions	20	<u>14,206</u>	<u>33,068</u>
Total non-current liabilities		<u>14,206</u>	<u>33,068</u>
Total liabilities		<u>1,114,266</u>	<u>2,371,357</u>
Net assets		<u>1,828,351</u>	<u>2,887,493</u>
EQUITY			
Contributed equity	22	17,417,311	17,030,626
Reserves	23	514,228	488,344
Accumulated losses	23	<u>(16,103,188)</u>	<u>(14,631,477)</u>
Total Equity		<u>1,828,351</u>	<u>2,887,493</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 2010

	Notes	2010 \$	2009 \$
Cash flows from/(used in) operating activities			
Receipts from customers		10,399,231	14,549,632
Payments to suppliers and employees		(11,428,194)	(14,009,954)
		(1,028,963)	539,678
Interest received		22,146	17,790
Borrowing costs		(3,676)	(20,981)
Net cash flows (used in)/from operating activities	30	(1,010,493)	536,487
Cash flows from/(used in) investing activities			
Payments for property, plant and equipment		(81,714)	(42,617)
Proceeds from sale of property, plant and equipment classified as held for sale		13,818	235,286
Proceeds from sale of property, plant and equipment		54,714	2,182
Net cash (outflow)/inflow from investing activities		(13,182)	194,851
Cash flows (used in) from financing activities			
Proceeds from issues of ordinary shares net of transaction costs	22	386,685	190,171
Payments of finance lease	16	(18,760)	(308,521)
Net cash inflow (outflow) from financing activities		367,925	(118,350)
Net (decrease) increase in cash and cash equivalents		(655,750)	612,988
Cash and cash equivalents at the beginning of the financial year		1,338,813	725,825
Cash and cash equivalents at end of year	9	<u>683,063</u>	<u>1,338,813</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 2010

	Issued Capital (Note 22) \$	Other Equity Securities \$	Equity-based payments reserve (Note 32) \$	Retained earnings \$	Total equity \$
At 1 July 2008	16,767,388	73,067	435,526	(15,438,836)	1,837,145
Profit for the year	-	-	-	807,359	807,359
Total income and expense for the period	-	-	-	807,359	807,359
Issues of ordinary shares during the year:					
Issue of share capital	191,761	-	-	-	191,761
Transactions costs associated with the issue of share capital	(1,590)	-	-	-	(1,590)
Cost of share based-payments	-	-	52,818	-	52,818
At 30 June 2009	16,957,559	73,067	488,344	(14,631,477)	2,887,493
At 1 July 2009	16,957,559	73,067	488,344	(14,631,477)	2,887,493
Loss for the year	-	-	-	(1,471,711)	(1,471,711)
Total income and expense for the period	-	-	-	(1,471,711)	(1,471,711)
Issues of ordinary shares during the year:					
Issue of share capital	389,415	-	-	-	389,415
Transactions costs associated with the issue of share capital	(2,730)	-	-	-	(2,730)
Cost of share based-payments	-	-	25,884	-	25,884
At 30 June 2010	17,344,244	73,067	514,228	(16,103,188)	1,828,351

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 2010 was authorised for issue in accordance with a resolution of the directors on 1 September 2010.

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 financial report has been prepared on the going concern basis. The company has made a loss for the year ended 30 June 2010 of \$1,471,711 (year ended 30 June 2009: profit of \$807,359). Accumulated losses to 30 June 2010 total \$16,103,188 (accumulated losses of \$14,631,477 as at 30 June 2009). The balance of cash and cash equivalents at 30 June 2010 was \$683,063 (as at 30 June 2009: \$1,338,813). The ability of the company to continue as a going concern is dependant on the company's ability to meet its debts as and when they fall due and payable. The company has prepared cash flow forecasts for the next twelve months which reveal that the company will be able to meet its debts as and when they fall due and payable. These cash flow forecasts are based on a number of assumptions in particular the company's ability to meet projected agency sales levels and the retention of overheads at budgeted levels.

The directors are confident that the company will meet these projected agency sales and/or can further reduce overheads to meet targeted outcomes while at the same time recognising this may impact future revenue opportunities past 2011 in a business with several long lead time projects. On this basis the directors believe the adoption of the going concern basis of accounting is justified. However, should this position change the company may not be able to pay its debts as and when they fall due and may be required to raise capital 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 financial statements do 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 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 as follows:

The Company has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as of 1 July 2009:

- AASB 8 Operating Segments effective 1 July 2009
- AASB 101 Presentation of Financial Statements (revised 2007) effective 1 July 2009
- AASB 2008-5 Amendments to Australian Accounting Standards arising from the Annual Improvements Project effective 1 July 2009

When the adoption of the Standard or Interpretation is deemed to have an impact on the financial statements or performance of the Company, its impact is described below:

AASB 8 Operating Segments

AASB 8 replaced AASB 114 Segment Reporting upon its effective date. The Company concluded that the operating segment determined in accordance with AASB 8 is the same as the business segment previously identified under AASB 114.

AASB 101 Presentation of Financial Statements

The revised Standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity and included in the new statement of comprehensive income. The statement of comprehensive income presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Company has elected to present one statement.

Accounting Standards and Interpretations issued but not yet effective.

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 2010:

Reference	Title	Summary	Application date of standard*	Impact on Company financial report	Application date for Company
AASB 2009-5	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139]	The amendments to some Standards result in accounting changes for presentation, recognition or measurement purposes, while some amendments that relate to terminology and editorial changes are expected to have no or minimal effect on accounting except for the following: The amendment to AASB 117 removes the specific guidance on classifying land as a lease so that only the general guidance remains. Assessing land leases based on the general criteria may result in more land leases being classified as finance leases and if so, the type of asset which is to be recorded (intangible vs. property, plant and equipment) needs to be determined. The amendment to AASB 101 stipulates that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification. The amendment to AASB 107 explicitly states that only expenditure that results in a recognised asset can be classified as a cash flow from investing activities. The amendment to AASB 118 provides additional guidance to determine whether an entity is acting as a principal or as an agent. The features indicating an entity is acting as a principal are whether the entity: • has primary responsibility for providing the goods or service; • has inventory risk; • has discretion in establishing prices; • bears the credit risk. The amendment to AASB 136 clarifies that the largest unit permitted for allocating goodwill acquired in a business combination is the operating segment, as defined in IFRS 8 before aggregation for reporting purposes. The main change to AASB 139 clarifies that a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract. The other changes clarify the scope exemption for business combination contracts and provide clarification in relation to accounting for cash flow hedges	1 January 2010	These amendments are not expected to have a material impact on the Company's financial report.	1 July 2010

Reference	Title	Summary	Application date of standard*	Impact on Company financial report	Application date for Company
AASB 2009-8	Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions [AASB 2]	This Standard makes amendments to Australian Accounting Standard AASB 2 Share-based Payment and supersedes Interpretation 8 Scope of AASB 2 and Interpretation 11 AASB 2 – Group and Treasury Share Transactions. The amendments clarify the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when the entity has no obligation to settle the share-based payment transaction. The amendments clarify the scope of AASB 2 by requiring an entity that receives goods or services in a share-based payment arrangement to account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash	1 January 2010	The Company does not have any cash settled share base payment transactions and as such these amendments are not expected to have any impact on the Company's financial report.	1 July 2010
AASB 2009-10	Amendments to Australian Accounting Standards – Classification of Rights Issues [AASB 132]	The amendment provides relief to entities that issue rights in a currency other than their functional currency, from treating the rights as derivatives with fair value changes recorded in profit or loss. Such rights will now be classified as equity instruments when certain conditions are met.	1 February 2010	The company does not issue rights in a currency other than their functional currency and as such these amendments are not expected to have any impact on the Company's financial report.	1 July 2010
AASB 2009-11	Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12]	The revised Standard introduces a number of changes to the accounting for financial assets, the most significant of which includes: • two categories for financial assets being amortised cost or fair value • removal of the requirement to separate embedded derivatives in financial assets • strict requirements to determine which financial assets can be classified as amortised cost or fair value, Financial assets can only be classified as amortised cost if (a) the contractual cash flows from the instrument represent principal and interest and (b) the entity's purpose for holding the instrument is to collect the contractual cash flows	1 January 2013	These amendments are not expected to have a material impact on the Company's financial report.	1 July 2013

Reference	Title	Summary	Application date of standard*	Impact on Company financial report	Application date for Company
AASB 2009-11 (cont)	Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12]	- an option for investments in equity instruments which are not held for trading to recognise fair value changes through other comprehensive income with no impairment testing and no recycling through profit or loss on derecognition - reclassifications between amortised cost and fair value no longer permitted unless the entity's business model for holding the asset changes - changes to the accounting and additional disclosures for equity instruments classified as fair value through other comprehensive income	1 January 2013	These amendments are not expected to have a material impact on the Company's financial report.	1 July 2013
AASB 2009-12	Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052]	This amendment makes numerous editorial changes to a range of Australian Accounting Standards and Interpretations. The amendment to AASB 124 clarifies and simplifies the definition of a related party as well as providing some relief for government-related entities (as defined in the amended standard) to disclose details of all transactions with other government-related entities (as well as with the government itself)	1 January 2011	These amendments are not expected to have a material impact on the Company's financial report.	1 July 2011
Interpretation 19	Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments	This interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are "consideration paid" in accordance with paragraph 41 of IAS 39. As a result, the financial liability is derecognised and the equity instruments issued are treated as consideration paid to extinguish that financial liability. The interpretation states that equity instruments issued in a debt for equity swap should be measured at the fair value of the equity instruments issued, if this can be determined reliably. If the fair value of the equity instruments issued is not reliably determinable, the equity instruments should be measured by reference to the fair value of the financial liability extinguished as of the date of extinguishment.	1 July 2010	The company has not extinguished any financial liabilities with equity instruments and as such the amendments are not expected to have any impact on the Company's financial report.	1 July 2010

Reference	Title	Summary	Application date of standard*	Impact on Company financial report	Application date for Company
AASB 124 (Revised)	Related Party Disclosures (December 2009)	The revised AASB 124 simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition, including: (a) the definition now identifies a subsidiary and an associate with the same investor as related parties of each other; (b) entities significantly influenced by one person and entities significantly influenced by a close member of the family of that person are no longer related parties of each other; and (c) the definition now identifies that, whenever a person or entity has both joint control over a second entity and joint control or significant influence over a third party, the second and third entities are related to each other. A partial exemption is also provided from the disclosure requirements for government-related entities. Entities that are related by virtue of being controlled by the same government can provide reduced related party disclosures.	1 January 2011	These amendments are not expected to have a material impact on the Company's financial report.	1 July 2011

Reference	Title	Summary	Application date of standard*	Impact on Company financial report	Application date for Company
AASB 9	Financial Instruments	AASB 9 includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement (AASB 139 Financial Instruments: Recognition and Measurement). These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes from AASB 139 are described below. (a) Financial assets are classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows. This replaces the numerous categories of financial assets in AASB 139, each of which had its own classification criteria. (b) AASB 9 allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument. (c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.	1 January 2013	These amendments are not expected to have a material impact on the Company's financial report.	1 July 2013

*designates the beginning of the applicable annual reporting period unless otherwise stated

(d) Significant accounting judgment, estimates and assumptions

(i) Significant accounting judgment

In the process of applying the Company accounting policies, management has made the following judgments, apart from those involving estimates, which have made the most significant effect on the amounts recognised in the financial statements.

Finance Lease Commitments

The Company has entered into leases over some items of Plant and Office Equipment. The Company has determined that those effectively transfer substantially all the risks and benefits incidental to ownership of the leased item to the Company and has thus classified them as finance leases. There were no finance lease liabilities at 30 June 2010.

(ii) Significant accounting estimates and assumptions

The carrying amount of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

Impairment of goodwill and intangibles with indefinite useful lives

The Company estimates whether goodwill and intangibles with indefinite useful lives are impaired at least on an annual basis. This required the estimation of the recoverable amount of the cash generating units to which the goodwill and intangibles with useful lives are allocated.

Share-based payment transactions

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by reference to either the Black Scholes, Binomial or Monte Carlo valuation model.

(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

(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 and is based on actual interest rates.

(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 balance sheet date.

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

(g) 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 balance sheet 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 balance sheet.

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) Loans and receivable

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

Impairment of Loans

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

(y) 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 instalments.

(z) Leases

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

(i) Company as a lessee

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

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

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

(ii) Company as a lessor

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

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

4.a Revenue

	2010	2009
	\$	\$
From operations		
Sales revenue		
Sale of goods	6,837,337	11,334,255
Revenue from repairs	1,243,300	1,519,129
Revenue from services	156,235	501,770
	<u>8,137,872</u>	<u>13,355,154</u>

XTEK Limited
Notes to the Financial Statements
30 June 2010

4.b	Revenue by Product Category	2010	2009
		\$	\$
	<i>From Agency Sales</i>		
	EOD/IEDD General	2,192,086	6,500,420
	EOD Robots	1,485,863	1,189,128
	General Security	593,099	413,611
	Forensics	967,009	956,033
	UAV's	-	406,598
	Weapons and Ammunition	1,347,386	1,762,104
	Logistics Engineering Revenue	1,306,171	1,859,635
	Other Product/Services Sales	109,608	267,625
	Environmental Products	136,650	-
		8,137,872	13,355,154
5.	Other income	2010	2009
		\$	\$
	Rental income (see note 27b)	98,189	33,271
	Interest	22,146	17,790
	Other	24,007	10,984
	Settlement of written-off loan - QES	-	32,440
	Profit on sale of property, plant and equipment	-	17,031
		144,342	111,516
6.	Expenses	2010	2009
		\$	\$
	<i>(Loss)/Profit before income tax includes the following specific expenses:</i>		
	<i>Employee Benefits</i>		
	Salaries and Wages	2,126,951	2,122,502
	Superannuation	200,459	204,581
	Redundancy payments	62,208	(51,840)
	Payroll Tax	86,190	93,990
	Share based payments	25,884	52,818
	Workers Compensation	29,747	35,335
	Total Employee Benefits	2,531,439	2,457,386
	<i>Depreciation</i>		
	Plant and Equipment	20,555	49,333
	Motor Vehicles	11,874	7,769
	Office Furniture and Equipment	37,940	49,810
	Demonstration Equipment	78,948	91,219
	Leasehold Property Improvements	11,969	5,821
	Rental Equipment	23,294	65,073
	Total Depreciation	184,580	269,025
	<i>Operational Expenditure</i>		
	Accounting Fees	26,033	22,292
	Audit Fees	72,664	78,880
	Advertising and Conferences	193,757	243,260
	Bank Charges	5,615	9,667
	Consultancy Fees	51,171	63,612
	Director Fees	156,052	121,686
	Insurance	140,893	192,793
	FBT	64,746	88,727
	Legal Fees	6,052	29,829
	Office Administrative Costs	632,696	631,187
	Operating Lease Charges	115,614	166,622
	Share Registry Fees	33,430	22,862
	Travel and Entertainment	267,688	300,756
	Staff Training	10,129	7,228
	Net foreign currency losses	26,545	33,490
	Other Expenses	144,308	34,138
	Total Operational Expenditure	1,947,393	2,047,029
	<i>Additional Expenses</i>		
	Restructure costs (written back)/expensed	119,296	(305,223)
	Total Additional Expenses	119,296	(305,223)
	<i>Finance costs</i>		
	Interest and finance charges	3,376	20,981
	Total Finance Costs	3,376	20,981

7. Income tax expense

	2010	2009
	\$	\$
(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	(598,711)	(296,529)
Adjustment in respect of current income tax of previous years	-	(68,059)
Loss not recognised	598,711	364,588
<i>Deferred income tax</i>		
Relating to origination and reversal of temporary Differences	160,002	508,532
Timing differences not recognised	(160,002)	(508,532)
Income tax expense reported in the statement of comprehensive income	-	-

(b) Numerical reconciliation between aggregate tax expense recognised in the statement of comprehensive income and tax expense calculated per the statutory income tax rate

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

Account (loss)/profit before tax from operations	(1,471,711)	807,359
Total account loss before income tax	(1,471,711)	807,359
At the Company's statutory income tax rate of 30% (2009: 30%)	(441,513)	242,208
Tax effect of amounts which are not deductible (taxable) in calculating taxable income		
Entertainment	1,534	1,686
Legal expenses	3,790	-
Share-based payments	7,765	15,845
Unrealised foreign exchange loss	(10,285)	(4,298)
Losses not brought to account	598,711	364,588
Previously unrecognised timing difference	-	(43,438)
Timing differences not brought to account	(160,002)	(508,532)
Adjustments in respect of current income tax of previous years	-	(68,059)
Other	-	-
Aggregate income tax expense	-	-

(c) Recognised deferred tax assets and liabilities

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

	2010	2009
	\$	\$
CONSOLIDATED		
(i) Deferred tax liabilities		
Leased Assets (after impairment) and lease liabilities	9,455	11,176
Gross deferred tax liabilities	9,455	11,176
Set-off of deferred tax assets	(9,455)	(11,176)
Gross deferred tax liabilities	-	-
(ii) Deferred tax assets		
Accrued expenses	17,451	41,524
Provisions	60,096	41,222
Employee leave entitlements	67,555	85,845
IPO Costs deductible over 5 years	17,928	94,777
Other costs deductible over 5 years	770	61,160
Impaired assets	259,878	259,878
Potential tax losses	4,694,031	4,095,320
Deferred differences and losses not recognised	(5,108,254)	(4,669,577)
Other	-	1,027
Gross deferred tax asset	9,455	11,176
Set-off of deferred tax assets	(9,455)	(11,176)
Net deferred tax assets	-	-

(d) Tax losses

The Company has capital tax losses for which no deferred tax asset is recognised on the statement of financial position that arose in Australia of \$1,628,190 (2009: \$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 \$15,646,770 (2009: \$13,651,067). 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) Movement in deferred tax assets and liabilities

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

	Statement of Financial Position		Statement of Comprehensive Income	
	2010	2009	2010	2009
(i) Deferred tax liabilities				
Accrued receivables	-	-		316
Leased assets and liabilities	9,455	11,176	1,721	35,269
Gross deferred tax liabilities	9,455	11,176		
Set-off of deferred tax assets	(9,455)	(11,176)		
Gross deferred tax liabilities	-	-		
(ii) Deferred tax assets				
IPO Costs deductible over 5 years	17,928	94,777	(76,849)	(153,868)
Doubtful debts	-	-	-	(75,000)
Accrued expenses	17,451	41,524	(24,073)	(2,759)
Provisions	60,096	41,222	18,874	(215,009)
Employee leave entitlements	67,555	85,845	(18,290)	(2,843)
Impaired Assets	259,878	259,878	-	(59,730)
Other costs deductible over 5 years	770	61,160	(60,390)	(35,934)
Other	-	1,027	(1,027)	1,027
Tax losses	4,694,031	4,095,320	598,711	296,529
Deferred differences and losses not recognised	(5,108,254)	(4,669,577)	(438,677)	212,002
Gross deferred tax asset	9,455	11,176		
Set-off of deferred tax assets	(9,455)	(11,176)		
Net deferred tax assets	-	-		
Deferred tax income / (expense)			-	-

8. Operating Segments

For the twelve months ended 30 June 2010, 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 72% of external revenue (2009: 84%). The next most significant client accounts for 13% (2009: 9%) and this revenue relates mainly to sub-contracted services for Australian Government Agencies.

Approximately 97% (2009: 99.7%) of external revenue was from clients in Australia with the balance 3% (2009: 0.3%) mainly from clients in New Zealand.

9. Cash and cash equivalents

	2010	2009
	\$	\$
Cash at bank and in hand	683,063	1,338,813

(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

	2010 \$	2009 \$
Trade receivables	493,771	1,753,947
Other receivables	6,730	2,634
	500,501	1,756,581

(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. No impairment loss was recognised in 2010 or 2009.

At 30 June 2010, the ageing analysis of trade receivables is as follows:

	Total	0-30 days	31-60 days	61-90 days PDNI *	+91 days PDNI *
2010	500,501	439,768	30,198	17,413	13,122
2009	1,756,581	1,648,569	81,125	23,199	3,688

* Past due date not impaired ('PDNI')

Receivables past due date but not considered impaired are \$30,535 (2009: \$26,887). 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 \$20,883 of the \$30,535 had 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

	2010 \$	2009 \$
Products and spare parts	1,199,188	1,559,666
	1,199,188	1,559,666

(a) Inventory expense

Inventory write-downs recognised as an expense for the year ended 30 June 2010 totalled \$62,913 (2009: \$53,337) for the Company. This 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

	2010 \$	2009 \$
Prepayments	183,114	104,309
Rental Bonds	4,683	4,683
	187,797	108,992

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 42% (2009: 54%) 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 2010, the Group had hedged 40% of its foreign currency purchases. The following sensitivity analysis is based on the foreign currency risk exposures in existence at the balance sheet date:

At 30 June 2010, 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)	2010 \$	2009 \$
AUD/GBP +10%	3,511	28,253
AUD/GBP -5%	(2,032)	(16,357)
AUD/EUR +10%	548	7,644
AUD/EUR -5%	(317)	(4,425)
AUD/USD +10%	7,531	3,501
AUD/USD -5%	(4,360)	(2,027)
AUD/SEK +10%	659	-
AUD/SEK -5%	(831)	-

(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 balance sheet 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 balance sheet date, the company had financial assets comprising cash and cash equivalents totaling \$683,063 (2009: \$1,338,813) 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 the balance sheet date. At 30 June 2010, 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)	2010 \$	2009 \$
+1% (100 basis points)	6,746	13,377
-1% (100 basis points)	(6,746)	(13,377)

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 2010 than in 2009 because of a decrease in cash balances in 2010.

(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, finance leases 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:

	2010 \$	2009 \$
6 months or less	523,346	1,454,129
6-12 months	-	-
1-5 years	-	-
Over 5 years	-	-
	523,346	1,454,129

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 \$	Motor vehicles under lease \$	Office Furniture and Equip. \$	Office Equip. under Lease \$	Plant and Equip. \$	Property Imp. \$	Rental Equip. \$	Total \$
Year ended 30 June 2009									
Opening net book amount	260,681	2,046	38,925	131,491	15,361	51,884	57,692	122,633	680,713
Additions	10,890	-	-	16,284	-	6,898	8,545	-	42,617
Disposals	(39,266)	(1,307)	-	-	-	-	-	-	(40,573)
Reallocations from current assets that were included in discontinued operations	-	-	-	9,265	-	37,909	-	-	47,174
Depreciation charge for the year	(91,219)	(342)	(7,427)	(48,039)	(1,771)	(29,259)	(5,821)	(65,073)	(248,951)
Closing net book amount	141,086	397	31,498	109,001	13,590	67,432	60,416	57,560	480,980
At 30 June 2009									
Cost	478,910	1,590	77,899	320,241	23,607	204,325	78,806	146,006	1,331,384
Accumulated depreciation	(337,824)	(1,193)	(46,401)	(211,240)	(10,017)	(136,893)	(18,390)	(88,446)	(850,404)
Net book amount	141,086	397	31,498	109,001	13,590	67,432	60,416	57,560	480,980

(a) Reallocations from current assets that were included in discontinued operations

Reallocations consist of transfers of current assets that were classified as held for sale at 30 June 2008 and were retained by the company for use in continuing operations. There was no cash flow effect during the year.

(b) 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),
Rental Equip. (Rental Equipment).

14. Property, plant and equipment (continued)

	Demo Equip. \$	Motor vehicles \$	Motor vehicles under lease \$	Office Furniture and Equip. \$	Office Equip. under Lease \$	Plant and Equip. \$	Property Imp. \$	Rental Equip. \$	Total \$
Year ended 30 June 2010									
Opening net book amount	141,086	397	31,498	109,001	13,590	67,432	60,416	57,560	480,980
Additions	14,807	-	-	26,217	-	25,919	14,771	-	81,714
Disposals	(4,653)	-	-	(1,020)	-	-	-	(34,266)	(39,939)
Reallocations from current assets	13,893	-	-	-	-	20,000	-	-	33,893
Depreciation charge for the year	(78,948)	(73)	(11,801)	(36,170)	(1,770)	(20,555)	(11,969)	(23,294)	(184,580)
Reallocation	-	19,697	(19,697)	-	-	-	-	-	-
Closing net book amount	86,185	20,021	-	98,028	11,820	92,796	63,218	-	372,068
At 30 June 2010									
Cost	256,809	79,263	-	192,844	23,607	204,388	90,268	-	847,179
Accumulated depreciation	(170,624)	(59,242)	-	(94,816)	(11,787)	(111,592)	(27,050)	-	(475,111)
Net book amount	86,185	20,021	-	98,028	11,820	92,796	63,218	-	372,068

(a) Reallocations from current assets

Reallocations consist of transfers to property, plant and equipment from inventory of depreciable non-current assets. There was no cash flow effect during the year.

(b) Reallocations from motor vehicles under lease to motor vehicles

All motor vehicle leases had been paid as at 30 June 2010 and the closing net book value was transferred from motor vehicles under lease to motor vehicles.

(c) 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),
Rental Equip. (Rental Equipment).

15. Trade and other payables

	2010 \$	2009 \$
Trade creditors	394,994	1,092,144
Accrued expenses	84,845	140,138
GST Payables	48,309	200,192
	<u>528,148</u>	<u>1,432,474</u>

16. Interest Bearing Liabilities (Current)

	2010 \$	2009 \$
Lease liabilities (note 27b)	-	7,837
Other liabilities (note 27c)	-	10,923
	<u>-</u>	<u>18,760</u>

There were no interest bearing liabilities at 30 June 2010

17. Provisions (Current)

	2010 \$	2009 \$
Employee benefits (long service leave)	65,740	56,030
Restructure costs	134,326	150,604
	<u>200,066</u>	<u>206,634</u>

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.

Restructure Costs

	2010 \$	2009 \$
Carrying amount at start of year	150,604	854,103
Additional provisions recognised	125,175	-
Provisions written-back	(29,765)	(305,223)
Payments	(111,688)	(398,276)
Carrying amount at end of year	<u>134,326</u>	<u>150,604</u>

18. Deferred income

	2010 \$	2009 \$
Customer Deposits	104,766	399,233
	<u>104,766</u>	<u>399,233</u>

19. Accrued liabilities

	2010 \$	2009 \$
Accrued expenses	121,842	140,209
Employee entitlements (annual leave)	145,238	140,979
Accrued liabilities	<u>267,080</u>	<u>281,188</u>

20. Provisions (Non-Current)

	2010 \$	2009 \$
Employee benefits (long service leave)	14,206	33,068
	<u>14,206</u>	<u>33,068</u>

21. Impairment Testing of Non-Current Assets

(a) Property, plant and equipment

Property, plant and equipment is reviewed twice yearly. In June 2010, management reviewed the carrying value of all XTEK property, plant and equipment. Following the review, management resolved 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, Melbourne and Sydney. There were no impairment charges made to the carrying values of leasehold improvements in 2010.

22. Contributed equity

	2010 Shares	2009 Shares	2010 \$	2009 \$
(a) Share capital				
Ordinary shares fully paid				
Fully paid	93,297,269	81,128,064	17,344,244	16,957,559
	93,297,269	81,128,064	17,344,244	16,957,559

(b) Other equity securities

Movement in other equity securities

At 1 July 2009 and at 30 June 2010

Total contributed equity	73,067	73,067
	17,417,311	17,030,626

(c) Movements in ordinary share capital:

Date	Details	Number of shares	\$
1 July 2008	Opening balance	71,540,000	16,767,388
	Issued on 15 October 2008	9,588,064	191,761
	Transaction costs on share issue	-	(1,590)
30 June 2009	Balance	81,128,064	16,957,559
1 July 2009	Opening balance	81,128,064	16,957,559
	Issued on 3 March 2010	12,169,205	389,415
	Transaction costs on share issue	-	(2,730)
30 June 2010	Balance	93,297,269	17,344,244

(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

	2010	2009
(a) Reserves		
Balance at the beginning of the year	\$ 488,344	\$ 435,526
Equity Based Payments Reserve	25,884	52,818
	514,228	488,344

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:

	2010	2009
	\$	\$
Balance at the beginning of the year	(14,631,477)	(15,438,836)
(Losses)/Profit for the year	(1,471,711)	807,359
Balance at end of year	(16,103,188)	(14,631,477)

24 Dividends

(a) Ordinary shares

There were no dividends paid or proposed for the period to 30 June 2010.

(b) Franked dividends

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

	2010 \$	2009 \$
Franking credits available for subsequent financial years based on a tax rate of 30% (2009 - 30%)	981,110	981,110

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

- (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

	2010 \$	2008 \$
Short-term employee benefits	883,969	834,211
Post-employment benefits	186,369	54,021
Share-based payments	16,175	43,118
	<u>1,086,513</u>	<u>931,350</u>

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

2010

Name

Senior Executives - Performance Rights

David Jarvis (Executive Director appointed 20 November 2008, resigned 24 June 2010)

Nick Weber

Charles O'Neil

Steve Wilde

Lawrence Gardiner

Total Share Performance Rights

	Balance at the start of the year	Granted during the year as compensation	Exercised during the year	Lapsed during the year	Balance at the end of the year	Vested and exercisable at the end of the year
	400,000	-	-	(400,000)	-	-
	140,000	-	-	(140,000)	-	-
	30,000	-	-	(30,000)	-	-
	140,000	-	-	(140,000)	-	-
	140,000	-	-	(140,000)	-	-
	850,000	-	-	(850,000)	-	-

2009

Name

Non Executive Directors - Options

Uwe Boettcher
 Craig Higgins (Resigned 23 August 2010)
 Bruce Higgins (Resigned 20 November 2008)
 General Michael O'Brien Resigned 28 April 2009)

Total Options

Senior Executives - Performance Rights

David Jarvis (Executive Director appointed 20 November 2008)
 Nick Weber
 Charles O'Neil
 Steve Wilde
 Lawrence Gardiner

Total Share Performance Rights

	Balance at the start of the year	Granted during the year as compensation	Exercised during the year	Lapsed during the year	Balance at the end of the year	Vested and exercisable at the end of the year
Uwe Boettcher	-	-	-	-	-	-
Craig Higgins (Resigned 23 August 2010)	260,000	-	-	(260,000)	-	-
Bruce Higgins (Resigned 20 November 2008)	600,000	-	-	(600,000)	-	-
General Michael O'Brien Resigned 28 April 2009)	-	-	-	-	-	-
Total Options	860,000	-	-	(860,000)	-	-
David Jarvis (Executive Director appointed 20 November 2008)	800,000	-	-	(400,000)	400,000	-
Nick Weber	280,000	-	-	(140,000)	140,000	-
Charles O'Neil	30,000	-	-	-	30,000	-
Steve Wilde	280,000	-	-	(140,000)	140,000	-
Lawrence Gardiner	220,000	-	-	(80,000)	140,000	-
Total Share Performance Rights	1,610,000	-	-	(760,000)	850,000	-

(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.

2009-2010

Directors

Uwe Boettcher
 Craig Higgins (Resigned 23 August 2010)
 Greg Thomas (Appointed 1 July 2009)
 David Jarvis (Executive Director, appointed 20 November 2008, resigned 24 June 10))

Senior Executives

Nick Weber
 Lawrence Gardiner
 Charles O'Neil
 Steve Wilde

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
Uwe Boettcher	9,136,000	-	-	7,441,478	16,577,478
Craig Higgins (Resigned 23 August 2010)	-	-	-	-	-
Greg Thomas (Appointed 1 July 2009)	2,076,039	-	-	-	2,076,039
David Jarvis (Executive Director, appointed 20 November 2008, resigned 24 June 10))	74,000	-	-	-	74,000
Nick Weber	10,395,522	-	-	-	10,395,522
Lawrence Gardiner	196,777	-	-	-	196,777
Charles O'Neil	115,000	-	-	100,000	215,000
Steve Wilde	14,000	-	-	-	14,000
Total Shares	22,007,338	-	-	7,541,478	29,548,816

2008-2009

Directors

Uwe Boettcher
 Craig Higgins (Resigned 23 August 2010)
 David Jarvis (Executive Director, appointed 20 November 2008)
 Bruce Higgins (Resigned 20 November 2008)
 General Michael O'Brien Resigned 28 April 2009)

Senior Executives

Nick Weber
 Lawrence Gardiner
 Charles O'Neil
 Steve Wilde

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
Uwe Boettcher	-	-	-	9,136,000	9,136,000
Craig Higgins (Resigned 23 August 2010)	-	-	-	-	-
David Jarvis (Executive Director, appointed 20 November 2008)	74,000	-	-	-	74,000
Bruce Higgins (Resigned 20 November 2008)	404,926	-	-	-	404,926
General Michael O'Brien Resigned 28 April 2009)	-	-	-	-	-
Nick Weber	10,395,522	-	-	-	10,395,522
Lawrence Gardiner	196,777	-	-	-	196,777
Charles O'Neil	115,000	-	-	-	115,000
Steve Wilde	14,000	-	-	-	14,000
Total Shares	11,200,225	-	-	9,136,000	20,336,225

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:

	2010	2009
	\$	\$
(a) Assurance services		
<i>Audit services</i>		
Ernst & Young Australian firm		
Audit and review of financial reports and other audit work under the Corporations Act 2001	72,100	72,100
Total remuneration for audit services	<u>72,100</u>	<u>72,100</u>
<i>Other assurance services</i>		
Ernst & Young Australian firm		
Professional assistance with IFRS wave 2 standards	3,000	-
Total remuneration for other assurance services	<u>3,000</u>	<u>-</u>
Total remuneration for assurance services	<u>75,100</u>	<u>72,100</u>

27 Commitments

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

	2010	2009
	\$	\$
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	413,578	387,536
Later than one year but not later than five years	1,062,104	1,418,373
Later than five years	-	-
	<u>1,475,682</u>	<u>1,805,909</u>

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

	2010	2009
	\$	\$
Commitments for minimum lease payments in relation to non-cancellable operating leases expected to be received are as follows:		
Within one year	76,875	-
Later than one year but not later than five years	92,443	-
Later than five years	-	-
	<u>169,318</u>	<u>-</u>

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

(b) Finance leases

As at 30 June 2010, the company had no assets under finance leases.

In 2009, Company had one motor vehicle with a carrying value of \$15,748 under a finance lease.

	2010	2009
	\$	\$
Commitments in relation to finance leases are payable as follows:		
Within one year	-	8,118
Later than one year but not later than five years	-	-
Later than five years	-	-
Minimum lease payments	-	8,118
Future finance charges	-	(281)
Recognised as a liability	<u>-</u>	<u>7,837</u>
Representing lease liabilities:		
Current (note 16)	<u>-</u>	<u>7,837</u>
	<u>-</u>	<u>7,837</u>

(c) Other liabilities

In June 2008, XTEK entered into a short term finance arrangement with Westpac Equipment Finance to fund the acquisition of new security imaging equipment to the value of \$125,052. The loan, in the form of a 12 month chattel mortgage, commenced in July 2008 and was fully repaid in July 2009. The interest rate applicable was fixed at 12.8%.

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

There were no transactions with related parties in 2010 or 2009.

29. Events occurring after the balance sheet date

(a) Lapse of options

On 2 August 2010, 500,000 options held by previous Directors and related parties, as described in the Prospectus, lapsed. There was no financial impact on the 2009-2010 financial year and there will be no impact on the 2010-2011 financial year.

(b) Appointment of Interim Chief Executive Officer

On 12 July 2010, Robert Sykes was appointed as the interim Chief Executive Officer (CEO) of XTEK for a six-month period. During the course of Mr. Syke's tenure XTEK will conduct a search for a new CEO. It is expected Mr. Sykes will participate in this process.

(c) Non renounceable Rights Issue

On 30 July 2010, the Company made an announcement offer to shareholders to participate in a non-renounceable rights issue of up to 37,318,892 new shares to raise up to approximately \$970,000. Under the rights issue, eligible shareholders of XTEK Limited will have an entitlement to acquire 2 new shares for every 5 existing shares at a price of \$0.026 per share.

In addition to being able to apply for new shares in the manner described above, subscribing shareholders also had the opportunity to apply for new shares that were not subscribed for under the Rights Issue ("Shortfall Shares"). The Shortfall Shares will be issued at the same price and on the same terms as the new shares. Shortfall Shares will only be issued to the extent necessary to make up any shortfall in subscriptions.

On 30 August 2010, the Company announced that approximately \$425,000 had been raised in the rights issue.

There will not be a profit and loss impact in FY11.

(d) Trading Halt

On 18 August 2010 the Company requested a trading halt which was lifted on 20 August 2010. This was in connection with a potential issue with a new product range which was part of the new business growth initiatives as announced on 25 June 2010. The trading halt was requested to allow the Company to assess any potential financial impact as a consequence of a performance issue with a product raised in an independent expert report. Cost of rectification and/or certification in FY10 has been estimated at \$21,200 and this has not been provided for in these accounts as it is considered to be not material.

(e) Resignation of Non-Executive Director

On 23 August 2010, Mr. Craig Higgins resigned as a Non-Executive Director of the Company.

(f) Appointment of Executive Director

On 25 August 2010, Mr. Robert Sykes was appointed as an Executive Director of the Company.

30. Reconciliation of (losses/profits after income tax to net cash flows (used in)/from operating activities.

	2010 \$	2009 \$
(Loss)/Profit for the year	(1,471,711)	807,359
<i>Adjustments for:</i>		
Depreciation	184,580	269,025
Net (profit) on disposal of assets classified as held for sale	-	(16,157)
Net (profit) on disposal of property, plant and equipment	(14,775)	(874)
Share-based payment expense	25,884	52,818
<i>Changes in assets and liabilities</i>		
Decrease in Trade debtors	1,256,080	10,969
Increase/(decrease) in Inventory/WIP	326,585	(294,171)
Decrease/(increase) in Prepayments and Other Assets	(78,805)	32,796
(Decrease)/increase in Trade and other payables	(904,326)	198,255
(Decrease)/increase in Unearned Income	(294,467)	224,495
(Decrease) in Provisions	(25,430)	(707,309)
(Decrease) in Accrued liabilities	(14,108)	(40,719)
Net cash (outflow) inflow from operating activities	<u>(1,010,493)</u>	<u>536,487</u>

(a) Non Cash investing activities

During the 2009-2010 financial year, XTEK transferred demonstration equipment to the value of \$33,893 from inventory to property, plant and equipment.

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 declaring interest on the convertible redeemable preference shares) by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the company (after deducting interest on the convertible redeemable preference shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all potential shares into ordinary shares.

	2010 \$	2009 \$
(a) Basic earnings per share		
(Loss)/Profit attributable to the ordinary equity holders of the company	<u>(0.017)</u>	<u>0.010</u>
(b) Diluted earnings per share		
(Loss)/Profit attributable to the ordinary equity holders of the company	(0.017)	0.010

(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.

	2010 \$	2009 \$
(Loss)/Profit from continuing operations	(1,471,711)	807,359
(Loss)/Profit attributable to the ordinary equity holders of the company used in calculating basic earnings per share	<u>(1,471,711)</u>	<u>807,359</u>

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

	2010 Number	2009 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	85,106,458	78,335,935
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>85,106,458</u>	<u>78,335,935</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

The expense recognised for employee services received during the year was \$25,884 (2009: \$52,818).

(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); and
- (ii) the Employee Share Ownership Plan (ESOP), which provides benefits to all employees (note 32h).

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
Options

Options are part of the total remuneration package of directors and are linked to market-based performance hurdles and service conditions. In July 2006, there were two tranches of options that were issued to Directors of the company.

The options were issued subject to the following vesting conditions and exercise restrictions:

- (a) no options will vest or will be capable of exercise unless the holder continues in office as a director of the Company until at least the date of the annual general meeting of the Company for the financial year ended 30 June 2007;
- (b) no option may vest or may be exercised prior to the date of the annual general meeting of the Company for the financial year ended 30 June 2007; and
- (c) no option may vest or may be exercised unless and until the daily volume weighted average sale price of the shares traded on the ASX equals or exceeds the exercise price for a period of not less than 60 consecutive trading days.

There were no options granted during 2009 or 2010.

Share Performance Rights

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

Market-based performance conditions

The number of performance rights that will vest each year (and therefore be able to be exercised at the discretion of the Participants subject to the restriction on the date of exercise) will be 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 any Participants 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%.

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.

There were no new issues of share performance rights in 2010.

(c) Share options and share performance summary

Set out below are summaries of options and share performance rights granted to Directors, Senior Executives, other parties and other qualifying staff;

Grant Date	Expiry date	Exercise price	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Lapsed during the year Number	Balance at end of the year Number	Vested at end of the year Number
Options								
1 Aug 2005	1 Aug 2009	\$1.25	500,000	-	-	(500,000)	-	-
1 Aug 2005	1 Aug 2010	\$1.50	500,000	-	-	-	500,000	-
Total Options			1,000,000			(500,000)	500,000	-
Performance Rights								
10 Aug 2007	9 Aug 2012	\$0.1761	1,150,000	-	-	(1,150,000)	-	-
Total Performance Rights			1,150,000			(1,150,000)	-	-

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

(d) Weighted average remaining contractual life

The weighted average remaining contractual life of share options outstanding at the end of the period was 0.08 years (2009: 1.7 years).

(e) Range of exercise price

The range of exercise prices for the options outstanding at the end of the year was \$0.24 to \$1.50 (2008: \$0.24 to \$1.50). As the range of exercise prices is wide, refer to the section (c) above for further information in assessing the number and timing of additional shares that may be issued and the cash that may be received upon exercise of those options or share performance rights

(f) Weighted average fair value

All share performance rights had lapsed at 30 June 2010.

(g) Pricing models for options and share performance rights

The assessed fair value at grant date of options and share performance rights granted to the individuals is expensed over the life of the options and share performance rights. Fair values at grant date are independently determined using either the Black Scholes option pricing model or by an external valuer using a binomial or Monte Carlo model. The models take into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate.

2007-2008 Share Performance Rights

The inputs for the share performance rights issued during the year ended 30 June 2008 included:

- (i) performance rights are granted for no consideration.
- (ii) exercise price \$0.1761, grant date 10 August December 2007.
- (iii) expected price volatility (based on shares of a company in similar industry);
 - 10 Aug 2007 to 30 June 2008: 70%
 - 1 July 2008 to 30 June 2009: 65%
 - 1 July 2009 to 30 June 2010 55%
 - 1 July 2010 onwards: 50%
- (iv) expected dividend yield: 0%
- (v) risk free interest rate: 6.14%

(h) Employee Share Issue

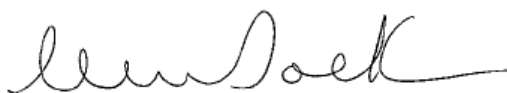
There were no shares issued to employees under the Employee Share Ownership Plan (ESOP) in 2009 or 2010.

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, notes and additional disclosures included in the directors' report designated as audited, 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 2010 and of the performance for the year ended on that date.
 - (ii) Complying with Accounting Standards and *Corporations Regulations 2001*.
 - (b) 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 2010.

On behalf of the Board



Uwe Boettcher
Chairman

Canberra, 1 September 2010

Shareholder Information

The shareholder information set out below was applicable as at 11 August 2010.

a. Distribution of equity securities

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

		Ordinary Shares
1 -	1000	12,322
1,001 -	5,000	433,974
5,001 -	10,000	689,077
10,001 -	100,000	6,566,721
100,001 and over		<u>85,595,175</u>
		93,297,269

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	17,827,478	19.11%
Mr. Nick Weber	10,395,522	11.14%
Advancer Pty Limited	8,900,915	9.54%
Mr. Nigel French	6,853,000	7.35%
ANWAT Marketing Pty Ltd	5,588,064	5.99%
DWKSJK Pty Ltd	4,690,698	5.03%
Mr. Berend John Philip Hoff & Mrs. Peta Lindsay Hoff	3,369,205	3.61%
Mr. Allen John Tapp + Ms. Maria Polymeneas	3,000,000	3.22%
Vasey Pty Ltd	2,076,039	2.23%
Jarra Glen Pty Ltd	2,430,028	2.60%
Mr. John Glajz	1,600,000	1.71%
Mr. John Henderson and Mrs. Susan Henderson	1,485,000	1.59%
Ms. Anne Margaret McGrath	1,309,396	1.40%
Nominees Pty Ltd	1,295,593	1.39%
Mr. Geoff Casey + Mr. John McDonnell	1,250,000	1.34%
Boulevade Investments Pty Ltd	1,200,000	1.29%
Pan Australian Nominees Pty Ltd	800,000	0.86%
Mr. Trevor Neil Hay	785,930	0.84%
Mr. Robert Anthony Wharton	704,000	0.75%
Chimaera Pty Ltd	600,000	0.70%

c. Substantial holders

Substantial holders in the company are set out below:

	Number held	Percentage
Ordinary shares		
UDB Pty Limited	17,827,478	19.11%
Mr. Nick Weber	10,395,522	11.14%
Advancer Pty Limited	8,900,915	9.54%
Mr. Nigel French	6,853,000	7.35%
ANWAT Marketing Pty Ltd	5,588,064	5.99%
DWKSJK Pty Ltd	4,690,698	5.03%