

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

30 August 2016

By Electronic Lodgement

Dear Sir/Madam,

LODGEMENT OF 2016 PRELIMINARY FINAL REPORT (APPENDIX 4E)

In accordance with the Listing Rules, please find attached the Preliminary Final Report (Appendix 4E) for XTEK Limited (XTE) for the financial year ended 30 June 2016.

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: Appendix 4E – 2016 Preliminary Final Report for XTEK Limited.

XTEK Limited and Controlled Entities

ABN 90 103 629 107

APPENDIX 4E

**PRELIMINARY FINAL REPORT
FOR THE YEAR ENDED 30 JUNE 2016**

GIVEN TO THE ASX UNDER LISTING RULE 4.3A

Current period: 1 July 2015 to 30 June 2016

Prior corresponding period: 1 July 2014 to 30 June 2015



RESULTS FOR ANOUNCEMENT TO THE MARKET

Key Information	2016 \$'000	2015 \$'000		Change %
Revenue from ordinary activities	3,398	12,632	↓	-73%
Profit/(loss) after tax from ordinary activities	(1,588)	231	↓	-787%
Net Profit/(loss) attributable to members	(1,588)	231	↓	-787%

Dividends	Amount per security	Franked amount per security
Final dividend	Nil	Nil
Interim dividend	Nil	Nil
Record date for determining entitlements to dividend		Not applicable

Profit/(loss) per share attributable to the ordinary equity holders of the company	Notes	2016 \$	2015 \$
Basic profit/(loss) per share	11b	(0.073)	0.011
Diluted profit/(loss) per share	11b	(0.073)	0.011

Net tangible asset backing per share	Notes	2016 \$	2015 \$
Net tangible asset backing per share	11b	0.076	0.080



OPERATING RESULTS

The simplified Income Statement for the financial year ended 30 June 2016 is outlined below:

	1 st Half				2 nd Half				Full Year			
	Dec-15 \$'000	Dec-14	Change \$'000	%	Jun-16 \$'000	Jun-15	Change \$'000	%	Jun-16 \$'000	Jun-15	Change \$'000	%
Revenue from sale of goods and services												
Agency sales	1,515	515	1,000	194%	541	9,570	(9,029)	-94%	2,056	10,085	(8,029)	-80%
Logistics engineering revenue	355	490	(135)	-28%	463	578	(115)	-20%	818	1,067	(249)	-23%
FCT funding	250	565	(315)	-56%	130	284	(154)	-54%	380	850	(470)	-55%
R&D income	10	-	10	-	26	42	(16)	-38%	36	42	(6)	-14%
Total revenue	2,130	1,569	561	36%	1,160	10,474	(9,314)	-89%	3,290	12,044	(8,754)	-73%
Gross profit	639	643	(4)	-1%	604	2,105	(1,501)	-71%	1,243	2,748	(1,505)	-55%
Gross profit %	30%	41%	11%	27%	52%	20%	-32%	-160%	38%	23%	-15%	-64%
Other income	283	82	201	245%	299	506	(207)	-41%	582	588	(6)	-1%
Total expenses	(1,630)	(1,609)	(21)	1%	(1,783)	(1,495)	(288)	19%	(3,413)	(3,105)	(308)	10%
Group (loss)/profit before tax	(708)	(885)	177	-20%	(880)	1,116	(1,996)	-179%	(1,588)	231	(1,819)	-787%
Income tax												
Total (loss)/profit after tax	(708)	(885)	177	-20%	(880)	1,116	(1,996)	-179%	(1,588)	231	(1,819)	-787%

The performance for the year was disappointing. The significant fall in revenue and the loss for the year was primarily due to a reduction in Agency business sales, particularly in the second half of the financial year. To a lesser extent lower revenue from the Logistics engineering business and the Foreign Comparative Testing (FCT) project also contributed to the lower revenue for the year.

Following a successful capital raise of \$1.26m at the end of June 2016, the Company ended the financial year without debt.

Please refer to the commentary on results for the period and preliminary financial statements for further explanation regarding the above results.

COMMENTARY ON THE RESULTS FOR THE PERIOD

Agency Sales

The XTEK Agency business covers a range of products and equipment, operating under the following divisions:

- Unmanned Aerial Systems (UAS)
- Weapons and Ancillaries
- Explosive Ordnance Disposal (EOD) equipment
- Protective Security equipment
- Forensics products

Traditionally, expenditure by the Federal Government in the last quarter of the financial year has been strong. The timing of the Federal Government election influenced the substandard Agency sales performance over the period.

In FY2015/2016, XTEK was unsuccessful in a significant New Zealand Defence Force tender for the supply of new rifles. Following this announcement, XTEK's agency agreement with Sig Sauer was not extended. The loss of this agency adversely impacted revenue throughout the year.

The Company strengthened EOD revenue over the reporting period through the sale of one ICOR Caliber MkIV EOD robot, a new product not previously sold in Australia.



COMMENTRY ON RESULTS FOR THE PERIOD (continued)

XTEK Engineering and Foreign Comparative Testing (FCT)

XTEK continued development of the XTAtlas™ digital imagery technology (a UAS sub-system) to display a real-time video feed as a moving georeferenced image over a digital map and to create mosaic mapping on the fly. The first phase of this development (real-time video) was completed and integrated on an XTEK UAV. This has stimulated interest from a range of potential clients. There were no XTAtlas™ sales during the reporting period.

Significant XTclave™ development and testing work on advanced lightweight hard armour plate solutions for the United States Department of Defense FCT Office has progressed during the reporting period and XTEK is pleased with the results so far. The revenue from this project was lower due to the time extension of the project, but no increase in funding. XTclave™ product development opportunities continue to be investigated by the Company across the Global Composites Market.

Simmersion Holdings Pty Ltd

Simmersion Holdings Pty Ltd (Simmersion), a wholly owned subsidiary of XTEK from November 2015, produced a gross profit of \$27k, but a net loss of \$24k. The loss was primarily from the write down of assets.

A table highlighting the Group’s overarching business trends from financial year 2013 to 2016 is shown below:

Performance Indicators	Financial Year			
	2013	2014	2015	2016
Revenue from sale of goods and services \$'000	4,326	5,318	12,044	3,353
Gross profit from sales of goods and services \$'000	1,856	2,488	2,748	1,270
Gross profit %	43%	47%	23%	38%
Net profit \$'000	(773)	(223)	231	(1,588)
Return on sales %	(18%)	(4%)	2%	(47%)
Net tangible asset backing per share \$	0.0610	0.0710	0.0799	0.076
Market Capital @ 30 June \$'000	4,227	8,856	7,850	8,871

Significant changes in the state of affairs

In November 2015, XTEK acquired the business and assets of Simmersion Holdings Pty Ltd through the issue of 175,000 XTEK Ordinary Shares to Simmersion shareholders. There were no other significant changes to the state of affairs in financial year 2016.

Matters subsequent to the end of the financial year

- 1) In July, the Company was awarded a number of purchase orders from the Australian Defence Force, with a total value of \$2m, for the upgrade and supply of Blaser Tactical 2 Long Range Weapons System ancillaries for the Australian Army.
- 2) In August 2016, the Company raised \$750,000 through a Share Placement to sophisticated investors with Patersons Securities Limited as the lead broker.
- 3) As has been released in the media, the Company is in contract negotiations with the Australian Defence Force for the support of its existing Army fleet of SUAS. This contract is expected to be signed in early September.



**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR
 THE YEAR ENDED 30 JUNE 2016**

	Notes	2016 \$	2015 \$
Revenue	2	3,353,400	12,043,845
Changes in inventories of finished goods and work in progress		(2,083,366)	(9,295,757)
Gross profit		1,270,034	2,748,088
Other income	2	529,271	588,328
Employee benefits expense	3	(1,893,954)	(1,746,210)
Depreciation	3	(83,220)	(109,720)
Operational expenditure	3	(1,367,474)	(1,234,029)
Additional expenditure	3	(20,343)	(1,550)
Finance costs	3	(22,497)	(13,839)
Profit/(loss) from operations before income tax		(2,588,183)	231,068
Income tax expenses		-	-
Total comprehensive income/(loss) for the period		(1,588,183)	231,068

Profit/(loss) per share attributable to the ordinary equity holders of the company

	Notes	2016 \$	2015 \$
Basic profit/(loss) per share	5 & 11b	(0.073)	0.011
Diluted profit/(loss) per share	5 & 11b	(0.073)	0.011



STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2016

	Notes	2016 \$	2015 \$
ASSETS			
Current assets			
Cash and cash equivalents		549,517	890,314
Trade and other receivables		711,900	1,383,241
Inventories		769,232	609,869
Other		153,490	169,265
Total current assets		2,184,139	3,052,689
Non-current assets			
Property, plant and equipment	6	348,565	365,769
Total non-current assets		348,565	365,769
TOTAL ASSETS		2,532,704	3,418,458
LIABILITIES			
Current liabilities			
Trade and other payables		386,442	717,405
Derivative financial liability		-	(5,698)
Provisions		278,389	148,962
Deferred income		-	849,785
Total current liabilities		664,831	1,710,454
Non-current liabilities			
Other payables		33,984	43,047
Provisions		15,314	-
Deferred income		78,900	680
Total non-current liabilities		128,198	43,727
TOTAL LIABILITIES		793,029	1,754,181
NET ASSETS		1,739,675	1,664,277
EQUITY			
Contributed equity	11	21,569,000	19,907,301
Reserves		516,110	514,228
Accumulated losses		(20,345,435)	(18,757,252)
TOTAL EQUITY		1,739,675	1,664,277



STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2016

	Notes	2016 \$	2015 \$
Cash flows from/(used in) operating activities			
Receipts from customers		4,120,090	11,690,334
Payments to suppliers and employees		(6,068,998)	(11,642,729)
		(1,948,908)	47,605
Receipt of grants		45,013	307,411
Interest received		8,640	8,018
Borrowing costs		(22,498)	-
Net cash flows from operating activities	4	(1,917,753)	363,034
Cash flows (used in)/from investing activities			
Cash acquired from Simmersion		51,178	-
Payments for property plant and equipment	6	(65,918)	(86,938)
Net cash flows (used in) investing activities		(14,740)	(86,938)
Cash flows from financing activities			
Proceeds from issue of ordinary shares	9	1,799,982	-
Payment of transaction costs associated with issued share capital		(208,286)	(35,555)
Proceeds from short term loans	9	550,000	250,000
Repayments of short term loans	9	(550,000)	(250,000)
Net cash flows (used in)/from financing activities		1,591,696	(35,555)
Net increase (decrease) in cash and cash equivalents		(340,797)	240,541
Cash and cash equivalents at beginning financial year		890,314	649,773
Cash and cash equivalents at end of year		549,517	890,314



STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2016

	Issued capital (note 11) \$	Equity-based payments reserve \$	Accumulated losses \$	Total Equity \$
Balance at 1 July 2014	19,942,856	514,228	(18,988,320)	1,468,764
Profit for the year	-	-	231,068	231,068
Total income and expense for the period	-	-	231,068	231,068
Issues of ordinary shares during the year:				
Issue of share capital	-	-	-	-
Transaction costs associated with issued share capital	(35,555)	-	-	(35,555)
Transfer between categories of equity	-	-	-	-
Balance at 30 June 2015	19,907,301	514,228	(18,757,252)	1,664,277
Balance at 1 July 2015	19,907,301	514,228	(18,757,252)	1,664,277
Loss for the year	-	-	(1,588,183)	(1,588,183)
Total income and expense for the period	-	-	(1,588,183)	(1,588,183)
Issues of ordinary shares during the year:				
Issue of share capital	1,970,067	-	-	1,970,067
Transaction costs associated with share capital	(308,368)	-	-	(308,368)
Transfer between categories of equity	-	1,882	-	1,882
Balance at 30 June 2016	21,569,000	516,110	(20,345,435)	1,739,675



NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS

1. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the preliminary final report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The preliminary final report includes the financial statements for the XTEK group, including its wholly owned subsidiary.

a. Corporate information

The preliminary financial report of XTEK for the year ended 30 June 2016 was authorised for issue in accordance with a resolution of the Directors on 29 August 2016.

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

b. New accounting standards and interpretations

i. Changes in accounting policy and disclosures.

The same accounting policies and methods of computation have been followed in this preliminary final report as were applied in the most recent annual financial statements, subject to the following changes:

Derivative financial instruments

The Company uses forward currency contracts to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value. Changes in fair value are recognised immediately in profit or loss in income or expenses. Forward currency contracts are recognised as an asset when their value is positive and as a liability when their value is negative. At 30 June 2016 there were no open forward exchange contracts.

ii. Adoption of new Australian Accounting Standard requirements

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

iii. Future Australian Accounting Standard requirements

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Company for the annual reporting period ended 30 June 2016. It is anticipated that the new requirements will have no material financial impact on future reporting periods.

c. Significant accounting judgment, estimates and assumptions

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

d. Foreign currency translation

i. Functional and presentation currency

The financial statements are presented in Australian dollars, which is the functional and presentation currency of the XTEK group.



NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS (continued)

1. Summary of significant accounting policies (continued)

d. Foreign currency translation (continued)

ii. Transactions and balances

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

e. Property, plant and equipment

i. Cost and valuation

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

ii. Depreciation

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

Major depreciation periods are:

- plant and equipment 3 - 15 years

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.

f. Borrowing costs

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

g. Intangible assets

Research and development

Research costs are expensed as incurred.

Development expenditure incurred on an individual project is expensed until 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.



NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS (continued)

1. Summary of significant accounting policies (continued)

g. Intangible assets (continued)

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

h. Recoverable amount of assets

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

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

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

i. Inventories

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

- Raw materials - purchase cost on a first in, first out basis; and
- Finished goods and work-in-progress cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

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

j. Trade receivables

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

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

k. Cash and cash equivalents

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

l. Provisions

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



NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS (continued)

1. Summary of significant accounting policies (continued)

l. Provisions (continued)

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.

m. Share based payment transactions

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

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

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

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

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



NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS (continued)

1. Summary of significant accounting policies (continued)

n. Revenue recognition

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

i. Sale of Goods

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

ii. Rendering of Services

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

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

iii. Interest revenue

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

iv. Deferred Income

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

o. Taxes

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

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

Deferred income tax liabilities are recognised for all taxable differences:

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

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



NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS (continued)

1. Summary of significant accounting policies (continued)

o. Taxes (continued)

- except where the deferred income tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

p. Employee benefits

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

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

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

- wages and salaries, non-monetary benefits, annual leave, long service leave and other leave entitlements; and
 - other types of employee entitlements,
- are charged against surpluses on a net basis in their respective categories.

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

i. Long service leave

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



NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS (continued)

1. Summary of significant accounting policies (continued)

p. Employee benefits (continued)

ii. Termination benefits

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

q. Earnings per share

i. Basic earnings per share

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

ii. Diluted earnings per share

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

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

r. Interest bearing loans and borrowings

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

s. Trade and other payables

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

t. Contributed equity

Ordinary shares are classified as equity.

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

u. Dividends

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



NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS (continued)

1. Summary of significant accounting policies (continued)

v. Other Taxes

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

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

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

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

w. Loans and receivables

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

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.

x. Government grants

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

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

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

y. Leases

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



NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS (continued)

1. Summary of significant accounting policies (continued)

y. Leases (continued)

i. Company as a lessee

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

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

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

ii. Company as a lessor

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

2. Revenue and other income

a. Revenue from operations

	2016	2015
	\$	\$
Sales revenue	2,574,594	10,976,389
Revenue from repairs	759,156	1,025,796
Revenue from services	19,650	41,660
	3,353,400	12,043,845

b. Other income

	2016	2015
	\$	\$
Interest	8,640	8,018
R&D tax incentive (refer note 7a)	468,479	498,035
Grant income (refer note 7b)	45,013	65,233
Other	7,139	17,042
	529,271	588,328



NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS (continued)

3. Expenses

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

	2016	2015
Employee Benefits	\$	\$
Salaries and wages	1,615,342	1,465,298
Superannuation	187,128	184,878
Redundancy payments	29,597	20,342
Payroll tax	46,167	50,188
Workers compensation	15,720	25,504
Total employee benefits	1,893,954	1,746,210

	2016	2015
Depreciation	\$	\$
Plant and equipment	41,264	40,292
Motor vehicles	911	6,147
Office furniture and equipment	28,034	26,067
Computer software	538	9,191
Demonstration equipment	8,342	23,451
Leasehold property improvements	4,131	4,572
Total depreciation	83,220	109,720

	2016	2015
Operational expenditure	\$	\$
Accounting fees	19,496	10,690
Audit fees	54,900	50,532
Advertising and conferences	50,451	88,984
Bank charges	8,653	7,769
Consultancy fees	240,136	159,599
Directors fees	99,167	125,136
Insurance	134,246	108,113
FBT	4,423	10,265
Legal fees	1,604	3,877
Office administrative costs	503,570	440,296
Operating lease charges	16,081	18,364
Share registry fees	47,856	46,719
Travel and entertainment	82,569	87,699
Staff training	4,166	1,402
R&D project expenses	4,393	7,900
Net foreign currency (gains)/losses	21,342	(46,891)
Other expenses	74,421	113,575
Total operational expenditure	1,367,474	1,234,029



NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS (continued)

3. Expenses (continued)

	2016	2015
Additional expenditure	\$	\$
Relocation costs	-	1,550
Loss on disposal of asset	20,343	-
Total additional expenditure	20,343	1,550
	2016	2015
Finance costs	\$	\$
Interest	22,497	13,839
Total finance costs	22,497	13,839

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

	2016	2015
	\$	\$
Profit / (loss) for the year	(1,588,183)	231,068
<i>Adjustments for:</i>		
Depreciation	83,220	109,720
Increase in provisions	144,741	20,973
Loss on derivative	5,698	(5,698)
Loss on sale of asset	20,343	-
<i>Changes in assets and liabilities</i>		
(Increase) in trade debtors	671,341	(370,554)
Decrease in inventory	(159,363)	133,607
(Increase) in prepayments and other assets	15,775	(57,336)
Increase/(decrease) in trade and other payables	(260,861)	96,897
Increase in deferred income	(850,465)	204,357
Net cash flows from/(used in) operating activities	(1,917,754)	363,034

5. Earnings per share

a. Basic profit/(loss) per share

	Notes	2016	2015
		\$	\$
Profit/(loss) attributable to the ordinary equity holders of the Company	11b	(0.073)	0.011

b. Diluted profit/(loss) per share

	Notes	2016	2015
		\$	\$
Profit/(loss) attributable to the ordinary equity holders of the Company	11b	(0.073)	0.011



NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS (continued)

5. Earnings per share (continued)

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.

	2016	2015
	\$	\$
Profit/(loss) from continuing operations	(1,588,183)	231,068
Loss attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	-	-
	<u>(1,588,183)</u>	<u>231,068</u>

d. Weighted average number of shares used as the denominator

	Notes	2016	2015
		Number	Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	11b	21,850,707	20,127,233
<i>Adjustments for calculation of diluted earnings per share:</i>			
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>21,850,707</u>	<u>20,127,233</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. As at reporting date, the options and share performance rights have not been included in the determination of basic earnings per share.

The issued capital of XTEK Ltd now comprises 25,713,393 fully paid Ordinary Shares with 500,000 unlisted options currently on issue.

6. Property plant and equipment

During the full year ended 30 June 2016, the Company acquired assets with a cost of \$66,016, which includes \$15,143 for patent application costs associated with the Intellectual Property of the process for the manufacture of multilayer articles.

7. Government grants

a. AusIndustry's R&D tax incentive

Income of \$468,479 was recognised in financial year 2016 from AusIndustry's R&D Tax Incentive. Of this, \$467,118 was recognised in relation to R&D expenses incurred in financial year 2016 and \$1,361 was recognised in relation to R&D expenses incurred in financial year 2015.



NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS (continued)

7. Government grants (continued)

b. Other grants

Income was recognised and funds were received to the value of \$45,013 for other grants. The breakup of which is:

- \$34,219 from the Austrade's Export Marketing and Development Grant in financial year 2016.
- \$10,794 from Department of Defence's Skilling Australia Defence Industry Grant in financial year 2016.

8. Share based payments

a. Expired options and share performance rights

There were 500,000 unlisted options on issue at 30 June 2016, there were no options or share performance rights exercisable at the end of any prior year. As at 30 June 2015 there were no unissued shares.

b. Weighted average share price

The weighted average market price at 30 June 2016 was 41.6 cents.

9. Interest bearing liabilities

In April 2016, an unsecured loan of \$300,000 was made available to the Company by related parties and in May 2016 an additional \$250,000 was made available. The loans had an interest rate of 14.5%. These loans were to fund a short term cash flow deficit. The full amount of \$550,000 was repaid in June 2016.

In February 2015, an unsecured loan facility of \$250,000 was made available to the Company by a related party (UDB Pty Ltd) for a four month period with an interest rate of 14.5%. This loan facility was to fund any short term cash flow deficit and was structured to allow for partial or full draw down by the Company during the term of the loan. In February 2015 \$50,000 of this loan was drawn upon, in March 2015 \$150,000 of this loan was drawn upon and in April 2015 \$50,000 was drawn upon. The full amount drawn upon was repaid in April 2015.

10. Other current liabilities

There were no Other Current Liabilities

11. Contributed equity

a. Share capital

Movement in ordinary shares on issue	Notes	No. of Shares	\$
At 1 July 2015	11b	20,127,233	19,907,301
Shares issued		5,586,160	1,970,067
Transaction cost in relation to capital		-	(308,368)
Balances as at 30 June 2016		25,713,393	21,569,000



NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS (continued)

11. Contributed equity (continued)

b. Share Consolidation

XTEK Limited completed a one for ten share consolidation in December 2014 following approval by shareholders in November 2014. The share consolidation involved the conversion of every ten fully paid ordinary shares on issue into one fully paid ordinary share. Where the share consolidation resulted in a shareholder having a fractional entitlement to a share, the entitlement was rounded up to the next whole number of shares. Upon the completion of the share consolidation in December 2014, the number of XTEK Limited shares on issue reduced from 201,271,652 shares to 20,127,233 shares as at that date. The cost associated with the share consolidation was \$3,263.

The number of shares for 2014 have been restated for the one for ten share consolidation in this preliminary final report.

c. Ordinary Shares

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

11. Contingent liabilities

There are no contingent liabilities at 30 June 2016.

No changes have been reported in contingent liabilities since the last annual reporting date.

12. Wholly owned subsidiary

On 9 November 2015 XTEK Ltd bought 100% of issued shares of Simmersion Pty Ltd. It did so in consideration of 175,000 ordinary XTEK shares.

The accounts of Simmersion Pty Ltd are fully consolidated into the Group accounts of 30 June 2016 but are not reflected in the comparative figures of 30 June 2015.

The following information relates to the subsidiary's trading for the period from its purchase until 30 June 2016.

Profit and Loss for the period ended 30 June 2016

Revenue	\$61,867
Cost of sales	<u>(\$34,849)</u>
Gross Profit	\$27,018
Trading and administration costs	(\$30,844)
Other income	\$376
Loss on disposal of assets	<u>(\$20,343)</u>
Net Profit / (Loss)	<u>(\$23,793)</u>

At 30 June 2016 Simmersion Pty Ltd had the following Statement of Financial Position

<u>Current and Non-current Assets</u>	
Cash	\$42,076
Trade debtors and prepayments	\$34,683
Plant and Equipment	<u>\$1,933</u>
Total Assets	<u>\$78,692</u>
<u>Current Liabilities</u>	
Trade and other creditors	<u>\$30,604</u>
Net Assets	<u>\$48,089</u>



NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS (continued)

13. Events occurring after the balance sheet date

In August 2016, the Company raised \$750,000 through a Share Placement to sophisticated investors with Patersons Securities Limited as the lead broker.

COMPLIANCE

1. This report is based on accounts which are in the process of being audited.
2. The entity has a formally constituted finance, audit and risk management committee.

Signed



Printed Name: Uwe Boettcher (Chairman)

Date: 30 August 2016

