

Release to the Australian Securities Exchange

Quarterly Market Update

XTEK POISED TO ACHIEVE SIGNIFICANT MILESTONES IN 2017

- **\$6.3m worth of orders in hand at the 31 Dec 16 up 33% from previous quarter.**
- **Environment favourable for further contract wins as governments look to increase spending in defence/security in the face of growing uncertainties.**
- **XTEK finalised the tests of the FCT program to the US Government that could lead to significant contracts for small arms protective insert plates.**
- **FY17 sales and financial results on track to beat the previous year.**
- **Half yearly results consistent with seasonal patterns with earnings skewed heavily to second half.**
- **XTEK well placed to deliver on multiple milestones in calendar 2017.**

Canberra – 2 February 2017: XTEK Limited (ASX: XTE, ‘the Company’) is pleased to provide a quarterly update to the market ahead of a number of significant milestones the Company expects to achieve in 2017.

Key Events & Milestones

XTEK has continued to make inroads in the commercialisation of its proprietary technologies in the last quarter. The most noteworthy is the finalisation of the tests for the Foreign Comparative Testing (FCT) program to the US government. A full report will be sent to the US project office shortly.

The FCT program is entirely funded by the US Department of Defence and it aims to evaluate small arms protective insert plates (called SAPI plates) that are used in personal body armour. The results related to plates which are made in XTEK’s XTclave™ system compared to those manufactured in current conventional systems.

XTclave™ is a patented system that can create lighter, stronger and more complex shaped composites. While the Company cannot reveal the exact results from these tests, management is very encouraged by the results achieved.

The Company believes the results will encourage established US personal body armour manufacturers to initiate discussions with XTEK.

XTEK is undertaking comparative tests of its own SAPI plates made in the XTclave™ to what is currently available to Western armed forces and police forces. The Company is looking to complete these tests this quarter and has started to communicate with potential clients in Europe and Asia Pacific regions. It has appointed Totum as its representative in Europe to lead the commercialisation in that continent.

Further, XTEK has also made progress in the commercialisation of its geospatial video and mosaic mapping solution, XTatlas™. The Company has integrated a range of new sensors into XTatlas™. The new sensors include magnetic, methane gas and radiation sensors that will detect and map the source locations. A commercial demonstration of the enhanced system to potential key customers is planned in February.

The demonstration will showcase the powerful features of XTatlas™, which includes live video overlaid geospatially on digital maps, production of mosaic mapping from the video, methane and radiation source detection and mapping. In operational terms, it means Unmanned Aerial Vehicles (UAV) or Unattended Ground Vehicles (UGV) will be able to be used to detect and map chemical, biological, radiation, nuclear and explosive (CBRNE) sources in safety as the unmanned vehicles will be used in the potentially contaminated area.

On the XTviz™ front, Simmersion has been contracted by Hume Coal to extend the scope of work related to a 3D simulation model of the proposed Hume Coal project near Moss Vale. This work will result in a geospatially accurate 3D simulation model of the mine, both above and below ground. This work has already started and will generate additional revenues to forecast during this Financial Year.

Sales Pipeline

Contracts and purchase orders worth approximately \$0.5m have been signed for the sale and maintenance of Explosive Ordnance Disposal (EOD) robots, with delivery expected before the end of the current financial year.

Management believes the Company is well placed to secure more sales contracts in the short to medium term as most of the EOD and tactical robots used by the nation's police services are coming to the end of their productive life and will need to be either replaced or upgraded. XTEK is the market leader in Australia for the supply, customisation and maintenance of these systems.

The Company has also received additional orders for the maintenance and repair of Small Unmanned Aerial Systems (SUAS) and X-Ray generators for EOD purposes, for the Australian Army.

The orders in hand for XTEK now stand at \$6.3m, which is 33% higher than at the end of September 2016.

Further, the Company believes it will be in a position to update the market on the Land 129 Phase 4 tender for SUAS later this financial year. XTEK announced in April last year that it has been selected as the preferred tenderer for this multi-million dollar project.

Additionally, XTEK is anticipating demand for other products and services in 2017 and 2018. A great deal of interest has been shown in the Ronin metal detection system and further demonstrations should lead to sales orders over the next six months. XTEK's also anticipates further sales of its XTEK Tac 2 Sniper Rifle this calendar year.

Operational Overview

The financial performance of XTEK in the three months to end December 2016 is consistent with the seasonal pattern for the industry. XTEK's sales tend to be heavily skewed to the second half of the financial year, and FY17 is no different.

This means that the first half result will be weak, although the Company's sales pipeline that is detailed in the section above implies a material improvement in FY17 earnings when compared to the previous financial year. Sales linked to the delivery of Tac 2 Sniper Rifles to the Australian Defence Forces have started to flow through late in the calendar year 2016 and will increase in quantity during the next few months.

Other notable events that occurred in the December quarter include the appointment of Philippe Odouard as XTEK's Managing Director and the successful \$498,000 placement to a sophisticated investor.

Mr Odouard was the former Managing Director of Quickstep Holdings Limited (ASX: QHL), an emerging defence technology company that he took from having no revenue to one that generates multi-million dollars in sales.

His background and track record in commercialising new technologies on a global scale and negotiating contracts with multinational defence companies is particularly relevant to XTEK as the Company is at an important juncture in bringing XTclave™ and XTatlas™ to market.

The inroads that XTEK has made is also attracting greater interest in the investment community, and this has led a sophisticated investor to invest nearly \$0.5m in the Company via a share placement in October last year.

This brings the total capital raised from the second half of calendar 2016 to \$2.5 million, which will ensure XTEK is sufficiently funded to pursue its short-term growth objectives.

Outlook

The new calendar year will be a particularly exciting period for shareholders due to the number of short and medium-term milestones that have the potential to launch XTEK on its next phase of growth.

The Company's existing business is moving from strength to strength as the government increases spending on defence and security during these unpredictable times, while its unique technologies are likely to make a significant step closer to commercialisation over the coming months.

Further, XTEK's subsidiary Simmersion is also gaining more market interest than originally anticipated. The 3D visualisation software, which is aimed at urban planners, architects, mining companies and environmental impact consultants, just to name a few, is being trialled by a number potential customers.

"XTEK is in a much better position than most other companies looking to bring their technology to market," said Mr Odouard.

"We have an established business that is generating sales and we have more than one ground breaking technology solution that is close to achieving a significant commercial milestone. What this means is that investors won't need to wait years to see the viability of XTEK's innovative products as the upside potential from these opportunities will start to be realised as early as 2017."

About XTEK Limited

XTEK Limited is a leading company in the Australian Homeland Security Market. XTEK's knowledge and expertise is focused on the delivery of protection and sustainment solutions for the government, law enforcement, military and commercial sectors.

The supply and maintenance of Small Unmanned Aerial Systems (SUAS) is becoming a major focus for XTEK.

In addition, XTEK has developed a range of new technologies which it is now commercialising for the international market. XTclave composite protection products and XTatlas real time geospatial video provide novel solutions for western military forces.

For more information visit the XTEK website at www.xtek.net

Signed for and on behalf of XTEK Limited:



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