XTEK

PROTECT AND SUSTAIN

2021 ANNUAL REPORT

Financial Calendar

YEAR ENDED 30 JUNE 2021

26 NOVEMBER 2021*
Annual General Meeting

28 FEBRUARY 2022*
Half Year Results

YEAR ENDING 30 JUNE 2022

31 AUGUST 2022*
Preliminary full year results

30 SEPTEMBER 2022*
Full year results

*These dates are subject to change

Content

Corporate Directory

Directors	Mr. Uwe Boettcher (Appointed 28 April 2009 – Chairman from 25 June 2009) Mr. Christopher Fullerton (Appointed 24 April 2018) Mr. Christopher Pyne (Appointed 30 November 2020) Mr. Mark Smethurst (Appointed 29 April 2021)
Secretary	Lawrence Gardiner (Appointed 17 August 2004)
Principal Registered Office in Australia	3 Faulding Street Symonston ACT 2609 Telephone: +61 2 6163 5588 Facsimile: +61 2 6280 6518 Website**:** www.xtek.net
Australian Securities Exchange Listing	Australian Securities Exchange Limited Level 3, Securities Exchange Centre 530 Collins Street Melbourne VIC 3000 Australia
Auditor	Hardwickes Chartered Accountants Hardwickes House Level 1, 6 Phipps Close Deakin ACT 2600 Australia
Share Registry	Computershare Investor Services Pty Limited Yarra Falls 452 Johnston Street Abbotsford VIC 3067 Australia
Solicitors	Minter Ellison Collins Arch 447 Collins Street Melbourne VIC 3000 Australia

Chairman's Operating and Financial Review Report

Dear fellow shareholders,

The Group's performance during the reporting period was unsatisfactory with a significant trading loss of $3.9m being recorded.

Influencing factors were the end of the delivery of our Small Unmanned Aerial System contract and the inability to commence full commercial production of armour plates at the new armour production facility in Adelaide. This was directly linked to extensive technical delays and cost overruns encountered in the completion of the XTclave™ machine and its associated plant works. Constraints imposed by COVID-19 lockdowns also contributed to the loss incurred by the Australian operations of the Group.

I can confirm that every effort has been made to review the reasons for the trading loss, and the Group has developed and subsequently implemented a range of effective remedial measures to improve the financial performance of the Group going forward into FY2022. This has included a management restructure to ensure future conformance with expected management standards effective from 30 July 2021.

However, a number of strong positives continued to support our business strategy during the year, including:

- an ongoing Defence Support Contract for Small Unmanned Aerial Systems (SUAS),
- strong performance of HighCom Armor in the US,
- successful commissioning of the ballistic armour plant; and
- launch of a series of XTEK developed products on the world market.

Principal Activities

During the year the principal activities of the Group were:

- The supply of products and services to Defence and Law Enforcement agencies throughout Australasia,
- Completion and commissioning of the XTclave™ ballistic armour factory complex in Adelaide,
- The continued development and commercialisation of XTatlas contextual video and mosaic mapping technology, and
- Securing a range of new and enhanced products to assist governments in countering the terror threat.

Operating Results

Revenue

FY21 showed a decrease in revenue to $28.3m (FY20: $42.7m) and a loss of $3.97m (FY20: Profit of $0.3m). The end of the supply of the SUAS contract has meant a decrease of $25.7m in revenue compared to FY20, partially compensated by an additional revenue of $10.3m for the support of the SUAS fleet now fully delivered and deployed. Although plans were in place to compensate for that decrease of business, the forecast rise of gross margin from 20% to 29% has been achieved as planned, indicating the successful implementation of the change in the mix of XTEK's product offering.

Chairman's Operating and Financial Review Report

Financial Position

XTEK raised $12.2m in August/September 2020 through a successful Placement and a Share Purchase Plan raising respectively $9.3m and $2.9m. Three institutional investors who entered the register during this capital raise left within a few months. About 4m shares were acquired by HighCom Global within the acquisition of HighCom Armor in 2019. HighCom Global has sold these shares on market during the FY. Unfortunately these transactions have put substantial pressure on the XTEK share price during FY21.

At the end of June, cash was $5.9m with $2.4m invested in Virolens stock (25 machines and 160,000 test cartridges), the purchase of a Milrem Themis robot system for $0.6m and a $2.2m factory investment and operational ramp up. A debt facility was negotiated with CBA to fund additional equipment beyond the XTclave to a value of $2.5m. $1.95m has been drawn down as at 30 June at competitive interest rates.

A Sovereign Industry Capability grant from the Australian Department of Defence for $825K was also awarded for the industrialisation work in Adelaide.

The simplified Income Statement for the financial year ended 30 June 2021 is outlined below:

Summary Income Statement		FY19	FY20	FY21
Revenue	$m	37.9	42.7	28.3
COGS	$m	(31.0)	(34.1)	(20.2)
Gross profit	$m	6.9	8.6	8.1
Gross margin	%	*18*	*20*	*29*
EBITDA	$m	0.31	0.83	(3.04)
Net profit	$m	0.2	0.3	(3.97)

Other key metrics		FY19	FY20	FY21
Cash balance	$m	5.3	3.1	5.9
Market Capitalisation–30 June	$m	17.5	37.7	29.5

Review of Operations

In-House Development and Manufactured Products

- Ballistic Plates and Helmets produced with XTclave
- Software applications for exploitation of video from SUAS
- Sensor detection equipment and products

Adelaide Manufacturing

The commissioning of our Adelaide Manufacturing Centre (AMC) was substantially delayed in 2020 due to extensive technical issues and cost overruns encountered in the completion of the XTclave machine and its associated plant works. Certification by the relevant authorities for the high-pressure XTclave system was also delayed due to constraints imposed by COVID-19 lockdowns during the reporting period. During that time, considerable work was done in the factory to commission other equipment, establish proper production systems, quality systems, IT and ERP systems as well as recruitment of new production staff and their training.

The delays were at substantial cost as the AMC was manned, although to a minimum level, for an extensive period of time without significant production coming through. Therefore, costs which should have accounted in Cost of

Chairman's Operating and Financial Review Report

Goods Sold had to be recognised as overhead. However, by the end of April 2021, the AMC was fully commissioned and ready to deliver ballistic products using the production equipment and staff. New factory management have already implemented cost down/cost out reviews, and introduced lean production processes, which will provide beneficial outcomes and ongoing operational savings. A new contract has been signed with Skykraft, a small satellite manufacturer in Australia and funded activity was undertaken during FY21. Further international connections were established during FY21.

HighCom Armor

The acquisition of HighCom Armor has been validated by its strong financial performance, despite global supply chain COVID 19 disruptions, now back under control. The activity in HighCom Armor has been growing substantially during FY21. In addition to a full consolidation for the FY compared to only nine months in FY20, HighCom revenue increased to $14m (FY20: $9.5m). Unrest in some parts of the US helped focus US Law Enforcement agencies to invest in the protection of their personnel. Profit after tax for HighCom Armor for FY21 was $0.6m. Adelaide Manufacturing Centre (AMC) products are now being delivered to HighCom Armor and sold into the US market. HighCom contributed half of the turnover for the consolidated entity in FY21.

Actionable Intelligence

XTEK continues to commercialise its suite of XTatlas software applications for 3D Mapping & Modelling ("Scout") and Tactical Targeting ("AirWolf") for sale to Defence Forces globally. XTatlas can be integrated with mounted and dismounted navigation systems, including in GPS denied environments, and connects sensor data with effectors, i.e. SUAS video data to direct and indirect fire assets on crewed and uncrewed vehicles.

During the period, XTEK signed a contract with Electro Optic Systems (EOS) to supply an unmanned sensor-to-shooter application in support of the unmanned equipment systems market. EOS is the prime for the Army's C4EDGE program. This contract is part of a larger contract signed with the Commonwealth to demonstrate an integrated sovereign system to manage and direct the soldier end of the battlefield. It is a very novel approach not yet addressed in most armies in the West. This system integration approach of XTEK consists in gathering information with SUAS's, processing it with XTatlas to get actionable intelligence and forwarding it to weapons as target indication, possibly carried by an Unmanned Ground Vehicle (UGV).

This complete unmanned chain has been enhanced with the signing of a distribution agreement with a prominent UGV manufacturer, Milrem Robotics, in Europe, having deployed medium sized UGV in combat and through several countries like the US, the UK and the Netherlands. The company also signed a collaboration agreement with an artificial intelligence company to classify equipment and people from video feed and validate their threat to a friendly force. Reception of this approach by the Australian Army has been very compelling. In FY21 a small number of XTatlas licenses were sold into the Australian, New Zealand and European markets.

Favourable Defence market themes

FY21 was marked by a consistent increase in budgetary funding for Defence in Australia. Issues of instability in the Asia Pacific as well as in other part of the world have continued to push investment in new Defence capabilities. In Australia, recognition of the isolation of the continent in case of conflict in the Asia Pacific has promoted a requirement for our own sovereign capability, a trend that has been constant for several years already. XTEK has developed its capabilities and products and systems in response to this trend. It is now well placed to continue its expansion on that basis.

Chairman's Operating and Financial Review Report

Value Added Reseller Products

Unmanned Systems (SUAS and UGVs):

The end of the Acquisition of the Land 129 Phase 4 contract saw a drastic reduction in revenues in FY21; this contract had contributed $25m in FY20. However, SUAS support during FY21 contributed $10m to the revenue, dampening the effect of the end of the deliveries of the main contract. XTEK continues to support the Australian Army's Wasp SUAS fleet, under a 5+ year contract with the provision of spare parts and maintenance services, providing recurring revenues. Significant opportunities now exist for new SUAS procurement in Australia and New Zealand in FY22

XTEK continues its 14 years of support to the Australian Army's fleet of "tEODor" Explosive Ordnance Disposal robots, and is currently responding to a significant RFT from the Australian Army (Project Land 154 Phase 4) for the replacement of its fleets of EOD robots. Some of the tendered solutions are the current generation of the in-service platform. Separately, XTEK purchased a Milrem Robotics Themis UGV during H2 FY21, and has subsequently undertaken successful demonstrations to the Australian Army. XTEK continues to engage with Defence to support capability development assessments for Remote and Autonomous Systems, and their integration into future Land Warfare Capability.

Virolens

Virolens is a rapid non-invasive COVID19 testing device that provides a highly accurate result in 20 seconds using Artificial Intelligence software. XTEK has been appointed a value-added reseller for Key Options, the master agent responsible for Virolens in Asia Pacific. Key Options is progressing Therapeutic Goods Administration (TGA) approval for Virolens' use in Australia, and other regional approvals for use in New Zealand and the Pacific. The application has been reviewed by TGA. In addition, a parallel Virolens vs PCR clinical trial is to commence shortly in Australia, the findings of which will be included in the final TGA submission, along with additional new data from other global Virolens trials. XTEK is working towards sales commencing in H2 FY2022, subject to receipt of TGA approval. This highly accurate mass point-of-care screening capability (to airports, events, hospitals, cruise ships, etc,) will contribute to help the country and economy recover to a new normal.

Outlook

Despite a weak FY21, XTEK is starting FY22 on a sound basis. The manufacturing capacity is now available to deliver strong and competitive products. New distributors are signed up worldwide and ballistic contracts are sought across the world. New SUAS contracts are now strongly anticipated.

In July 2021, XTEK commissioned a review of the Group, its processes and people. The report's recommendations have largely already been implemented. The retirement of the Managing Director for the last 5 years and the departure of the Chief Technical Officer will allow our new Group CEO, Mr Scott Basham, to implement a Group wide restructure and move the enterprise forward.

Savings in operating costs are being sought. New project management processes and enhanced reporting will streamline the company's operations. Further appointments in the sales team will expand our reach both domestically and overseas.

Finally, I would like to acknowledge that it has been a challenging year; I thank my fellow Directors and the staff for their continued support. I look forward to keeping you updated on the company's progress over the coming year.

Chairman's Operating and Financial Review Report

Significant changes in the state of affairs

1. On 14 August 2020, the Parent Company raised ~A$9.3 million in capital through a placement and subsequently issued 13,291,801 new securities to sophisticated investors.
2. On 4 September 2020, the Parent Company raised ~A$ 2.9 million in capital through a Share Purchase Plan and subsequently issued 4,180,321 new securities to eligible security holders.
3. On 27 November 2020, Mr Ivan Slavich resigned as Director of the Parent Company.
4. On 30 November 2020, Mr Christopher Pyne was appointed as a Director of the Parent Company.
5. On 29 April 2021, Mr Mark Smethurst was appointed as a Director of the Parent Company.
6. On 30 April 2021, Mr Robert Quodling resigned as a Director of the Parent Company.

There were no other significant changes to the state of affairs in financial year 2021.

Matters subsequent to the end of the financial year

1. On 30 July 2021, Mr Philippe Odouard resigned as a Director of the Parent Company.
2. On 31 August 2021, the Company entered into a short-term loan facility to the value of $1m with a related party. The company does not intend to draw down on this facility.
3. On 23 September 2021, Mr Scott Basham was appointed Chief Executive Officer of the Group.
4. A capital raise is planned to be undertaken during October 2021. The raise will consist of a placement and a conventional non renounceable entitlements offer to existing shareholders.

Sincerely,

Uwe Boettcher
Chairman

Dated this 30th day of September 2021

XTEK Limited and Controlled Entities Directors' Report

Your Directors present their report on the consolidated entity consisting of XTEK Limited and its controlled entities for financial year ended 30 June 2021. The information in the preceding operating and financial review forms part of this Directors' report for the financial year ended 30 June 2021 and is to be read in conjunction with the following information.

Directors

The following persons were Directors of XTEK Limited during the financial year ending 30 June 2021:

- Mr. Uwe Boettcher
- Mr. Christopher Fullerton
- Mr. Christopher Pyne
- Mr. Mark Smethurst
- Mr. Philippe Odouard
- Mr. Ivan Slavich
- Mr. Robert Quodling

Directors have been in office since the start of the financial year to the date of this report unless otherwise advised. Particulars of each Director's experience and qualifications are set out later in this report.

Significant Events After the Balance Date: COVID-19

The COVID-19 outbreak has impacted the way of life in Australia. This has affected the ability of the Group to continue operations as usual and has impacted on its operating results. In accordance with national guidelines, the Group has implemented remote working arrangements in response to government requirements and to ensure the wellbeing and safety of all employees and visitors.

The Group has determined that there are no going concern risks arising from the impact of the COVID-19 outbreak and has risk mitigation strategies in place with regards to COVID-19 outbreaks and other ongoing impacts.

Indemnifying Officers or Auditor

During the financial year, the Company has given an indemnity or entered into an agreement to indemnify, or paid or agreed to pay insurance premiums as follows:

- The Company has paid a premium of $96,996 to insure the Directors and Officers of the Company. The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the Company, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a 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.
- No payment has been made to indemnify Hardwickes Chartered Accountants during or since the financial year.

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the Corporations Act 2001.

Non-audit Services

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company is important but has not done so during this reporting period.

During the year the following fees were paid or payable for services provided by the auditor of the Parent Company, Hardwickes Chartered Accountants in 2021 (2020 Hardwickes Chartered Accountants):

Assurance services	2021 $	2020 $
Audit and review of financial reports and other audit work under the Corporations Act 2001 – Parent company only, see note 9.	68,000	60,000

Auditors Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2021 has been received and can be found on page 13 of the financial report.

Information relating to the Directors and Company Secretary during the reporting period

Mr. Uwe Boettcher	Director (Non-Executive & Chairman)
Experience	Mr. Boettcher is the Principal of the law firm, Boettcher Law, starting his career at the firm now known as King & Wood Mallesons. He is a Fellow of the Australian and New Zealand College of Notaries. In 2011 he was appointed as a Foundation Fellow of the Australian Association of Angel Investors. In 2005 he was appointed a Fellow of the Australian Institute of Banking and Finance. In 1996/97 he was the Treasurer of the ACT Law Society. Mr. Boettcher has a special interest in commercialising new and innovative technologies, investing in them and bringing them to market.
Interest in Shares	5,740,408 ordinary shares at 30 June 2021
Special Responsibilities	Chairman of the Nomination Committee
Other Directorships	Chairman of the Kord Defence Group of Companies, Chairman of Health-Innovate Pty Ltd, Chairman of Manuka Corporate Pty Ltd, Chairman of Mineral Carbonation International Pty Ltd, Director of Lava Blue Limited, Director of Greenmag Group Pty Ltd

Mr. Christopher Fullerton	Director (Non-Executive)
Experience	Mr. Fullerton has extensive experience in investment, management and investment banking and is a qualified chartered accountant. He worked in Hong Kong and Singapore for 15 years before returning to Australia in 1992. He is an investor in listed equities and private equity and has been a non-executive director of a number of ASX listed companies. His current unlisted company directorships cover companies in the property investment and Agtech sectors.
Interest in Shares	200,000 ordinary shares at 30 June 2021
Special Responsibilities	Chairman of Finance, Audit and Risk Management Committee, effective 1 July 2018
Other Directorships	Director of Kador Group Holdings Pty Ltd and Kool Global Solutions Pty Ltd

Mr. Christopher Pyne	Director (Non-Executive)
Experience	Christopher Pyne brings a wealth of commercial, political and global defence experience to XTEK, having served as a Member for Parliament (MP) for over 25 years, from which he retired in 2019. Mr. Pyne served as the 54th Australian Defence Minister and was responsible for delivering the $200 billion build-up of Australia's military capability, the largest in Australia's peacetime history. He assisted in developing the 2016 Defence White Paper and implementing the Integrated Investment Program. Mr. Pyne was elected to Parliament in 1993 and served as the Member for Sturt for 26 years. During this time, he was in the Liberal Party Leadership Group for ten years, Leader of the House of Representatives for six years, and served in Cabinet for six years. Mr. Pyne has worked to ensure the growth and sustainment of Australia's Defence Industry, and thus implemented Australia's Defence Export Strategy, Defence Industrial Capability Plan, and the Naval Shipbuilding Plan. He also created the Defence Cooperative Research Centre, the Centre for Defence Industry Capability, the Defence Innovation Hub, and the Next Generation Technology Fund. Additionally, he is the driving force behind the recent establishment of the Australian Space Agency. Mr. Pyne is the current Chairman of Pyne and Partners and Principal of GC Advisory, consulting to business in the domain of government and political engagement. Both are headquartered in Adelaide, South Australia but operate nationally and globally. He is an Industry Professor in the University of South Australia Business School specialising in Defence and Space. Before entering Parliament, Mr. Pyne practised as a solicitor at Corrs Chambers Westgarth and Thomson Geer.
Interest in Shares	nil
Other Directorships	Chairman of Pyne and Partners Pty Ltd, Director of the International Centre for Democratic Partnerships Pty Ltd, Principal of GC Advisory Pty Ltd.
Mr. Mark Smethurst	Director (Non-Executive)
Experience	Mark Smethurst's significant Defence experience spans over 35 years in Australian Army, with 27 years as a Senior Special Forces Officer. He was the Deputy Commander of the Australian Special Forces. He commanded all the NATO Special Forces in Afghanistan and was the Deputy Chief of Operations for the US Special Operations Command. Prior to leaving the Australian Defence Force in early 2017 after over 7 years as a Brigadier, he was the Head of Preparedness / Director General Joint Force Analysis, responsible for developing Futures Concepts, Experimentation, Lessons and Preparedness. Mark is a member of, and Advisor to the Global SOF Foundation and is the Chairman of the Commando Welfare Trust. Through his other business interests, he is well positioned to support XTEK both within the Australian and international contexts.
Interest in Shares	72,460 ordinary shares at 30 June 2021
Special Responsibilities	Chairman of the Remuneration Committee, effective 26 August 2021
Other Directorships	Non Executive Director of KORD Group

Mr. Robert Quodling	Director (Executive) resigned as a Director on 30 April 2021
Experience	Mr. Quodling has extensive experience as a leader and motivator of high performance commerce teams in the defence and aerospace sectors at the operational and executive level. His skills have been gained in a diverse range of activities including corporate governance, corporate planning, financial planning, project management, marketing, sales and business development. Mr. Quodling as a former Army Officer held a range of command and operational appointments in the Australian Army between 1975 and 1994. He was awarded a Conspicuous Service Medal (CSM) for conspicuous service with the Special Air Service Regiment.
Interest in Shares	537,024 ordinary shares at 30 June 2021
Special Responsibilities	Chief Operating Officer
Other Directorships	Director of Simmersion Holdings Pty Ltd and Asura Marketing Pty Ltd
Mr. Philippe Odouard	Director (Executive) resigned as a Director 30 July 2021
Experience	Mr. Odouard has over 27 years in general management of defence related companies in Australia and overseas. He developed Quickstep, an innovative ASX listed company from a start up to a leader in composite manufacture and technology with $50m revenue. He specialises in developing and commercialising new technology in a defence environment and is a Graduate of the Australian Institute of Company Directors.
Interest in Shares	890,595 ordinary shares at 30 June 2021
Special Responsibilities	Managing Director
Other Directorships	None
Mr. Ivan Slavich	Director (Non-Executive) resigned as a Director 27 November 2020
Experience	Mr. Slavich has over 30 years of senior management and executive experience in the energy, banking, telecommunications and business consulting arena. He has a proven track record over numerous years of being an exceptional leader and motivator in developing and implementing strategic innovations, business process re-engineering and integration, resulting in substantial improvement of business sales and profitability. He has held an officer's rank in the Australian Army Reserve and is a Graduate and Fellow of the Australian Institute of Company Directors.
Interest in Shares	752,507 ordinary shares at 30 June 2021
Special Responsibilities	Chairman of Human Resources and Remuneration Committee
Other Directorships	Director of Service One Alliance Bank, and Director of Trident Corporate Services.
Mr. Lawrence Gardiner	Company Secretary (Resigned as Executive Director on 1 August 2016)
Experience	Mr. Gardiner served with the Australian Army and specialised in the fields of logistic management and explosive ordnance disposal operations. In addition to his military service, Mr. Gardiner also served with the Australian Federal Police (AFP), performing senior executive roles in the areas of counter terrorist first response and protective security operations. Mr. Gardiner is a current member of the Australian Institute of Company Directors.
Interest in Shares	48,403 ordinary shares at 30 June 2021
Special Responsibilities	Corporate Governance
Other Directorships	None

Meetings of Directors	Directors' meetings		Finance, Audit and Risk Management Committee		Nomination Committee		Remuneration Committee	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Mr Uwe Boettcher	12	12	6	6	3	3	2	2
Mr Christopher Fullerton	12	12	6	6	3	3	2	2
Mr Christopher Pyne	6	6	4	4	1	1	2	2
Mr Mark Smethurst	3	3	2	2	-	-	-	-
Mr Philippe Odouard	12	12	6	6	3	3	2	2
Mr Robert Quodling	10	10	5	5	3	3	2	2
Mr Ivan Slavich	6	6	2	2	1	1	1	1

Remuneration Report

Table 1: Benefits and Payments for the Year Ended 30 June 2021

Key Management Personnel KMP)		Short-term Benefits				Post-Employment Benefits		Long-term Benefits		
		Salary, Fees and Leave *1	Bonus	Non-monetary Benefits	Share based Payments	Super-annuation	Other	LSL*2	Total	Perf. Related
		$	$	$	$	$	$	$	$	%
Mr Uwe	**2021**	**130,000**	**-**	**-**	**-**	**-**	**-**	**-**	**130,000**	**-**
Boettcher	2020	130,000	-	-	90,000	-	-	-	220,000	41%
Mr Chris	**2021**	**65,000**	**-**	**-**	**-**	**-**	**-**	**-**	**65,000**	**-**
Fullerton	2020	65,000	-	-	-	-	-	-	65,000	-
Mr Christopher	**2021**	**37,917**	**-**	**-**	**-**	**-**	**-**	**-**	**37,917**	**-**
Pyne	2020	-	-	-	-	-	-	-	-	-
Mr Mark	**2021**	**60,000**	**-**	**-**	**-**	**-**	**-**	**-**	**60,000**	**-**
Smethurst	2020	-	-	-	-	-	-	-	-	-
Mr Philippe	**2021**	**355,700**	**24,379**	**28,273**	**72,161**	**25,000**	**11,107**	**-**	**516,620**	**19%**
Odouard	2020	355,700	33,080	27,118	199,775	25,000	11,934	1,283	653,890	36%
Mr Robert	**2021**	**166,260**	**14,908**	**-**	**10,292**	**17,493**	**8,000**	**-**	**216,953**	**12%**
Quodling	2020	193,077	14,800	-	19,800	20,223	5,000	778	253,678	16%
Mr Ivan	**2021**	**27,083**	**-**	**-**	**-**	**-**	**-**	**-**	**27,083**	**-**
Slavich	2020	65,000	-	-	-	-	-	-	65,000	-
Mr Lawrence	**2021**	**131,730**	**8,265**	**-**	**5,034**	**14,085**	**8,265**	**2,110**	**169,489**	**8%**
Gardiner	2020	139,994	-	-	10,849	14,330	10,849	1,354	177,376	12%
Mr David	**2021**	**198,483**	**8,917**	**1,517**	**4,763**	**19,834**	**-**	**6,751**	**240,265**	**6%**
Brooking	2020	180,000	11,160	-	11,160	18,160	-	3,757	224,237	10%
Total KMP	**2021**	**1,172,173**	**56,469**	**29,790**	**92,250**	**76,412**	**27,372**	**8,861**	**1,463,327**	
	2020	1,128,771	59,040	27,118	331,584	77,713	27,783	7,172	1,659,181	

*** Notes**

1. Salary, fees and leave are per payroll summary or actual invoices received. These payments may vary to contract due to employee benefits, voluntary salary reductions, additional pay, back pay and annual leave.

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

Remuneration Report

a) Options Rights Granted as Remuneration

There were no new issues of share options or share performance rights during the FY2020-21 (FY20 nil). Any share options or share performance rights issued by the parent company have lapsed. During the year no shares were issued as a result of the exercise of options or share performance rights by staff.

b) Service Agreements

Remuneration and other terms of employment for the Managing Director, Chief Operating Officer, Company Secretary, Chief Financial Officer and the other specified executives employed during the period are formalised in individual service agreements. The major provisions relating to remuneration are set out below.

Mr Scott Basham - Group Chief Executive Officer

- A written employment agreement is in place, salary level effective 23 September 2021.
- Base salary, exclusive of superannuation, to the value of $272,727 per annum.
- Eligibility for Company Long Term Incentive Plan.
- Eligibility for Company Short Term Incentive Plan.

Mr Lawrence Gardiner - Company Secretary

- A written employment agreement is in place, salary level effective 1 July 2020.
- Base salary, exclusive of superannuation, to the value of $175,000 per annum (full time equivalent)
- Eligibility for Company Long Term Incentive Plan
- Eligibility for Company Short Term Incentive Plan

Mr David Brooking - Chief Financial Officer

- A written employment agreement is in place, effective 1 July 2020.
- Base salary, exclusive of superannuation, to the value of $200,000 per annum.
- Eligibility for Company Long Term Incentive Plan.
- Eligibility for Company Short Term Incentive Plan.

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

Uwe Boettcher Chairman

Dated this 30th day of September 2021

Auditor's Independence Declaration

Hardwickes
more than accounting

6 Phipps Close Deakin ACT 2600
PO Box 322 Curtin ACT 2605

T 02 6282 5999
F 02 6282 5933
E info@hardwickes.com.au

www.hardwickes.com.au

Hardwickes
ABN 35 973 938 183

Hardwickes Partners Pty Ltd
ABN 21 008 401 536

Liability limited by a scheme
approved under Professional
Standards Legislation

Auditor's Independence Declaration under Section 307C of the Corporations Act 2001 to the Directors of XTEK Limited and the Controlled Entity

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2021, there have been:

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

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

Hardwickes
Chartered Accountants

Bhaumik Bumia CA
Partner

30 September 2021

Canberra

CHARTERED ACCOUNTANTS
AUSTRALIA + NEW ZEALAND

Consolidated Statement of Profit or Loss and Other Comprehensive Income for the Year Ended 30 June 2021

	Notes	2021 $	2020 $
Revenue	5(a)	**28,332,460**	42,715,267
Changes in inventories of finished goods and work in progress		**(20,205,212)**	(34,085,386)
Gross profit		**8,127,248**	8,629,881
Other income	5(b)	**353,346**	850,647
Corporate and administrative expenses	6	**(12,455,542)**	(9,177,850)
Profit/(loss) from operations before income tax		**(3,974,948)**	302,678
Income tax expenses		**-**	-
Total comprehensive income/(loss) for the period		**(3,974,948)**	302,678

The accompanying notes form part of these financial statements.

Consolidated Statement of Financial Position
as at 30 June 2021

	Notes	2021 $	2020 $
ASSETS			
Current assets			
Cash and cash equivalents	12	**5,901,223**	3,057,031
Trade and other receivables	13	**1,851,007**	15,372,060
Inventories	14	**10,736,212**	9,036,996
Other	15	**494,192**	1,604,629
Total current assets		**18,982,634**	29,070,716
Non-current assets			
Goodwill		**1,175,913**	1,288,191
Property, plant and equipment	16	**11,865,024**	4,664,000
Intangibles	17	**352,868**	300,012
Total non-current assets		**13,393,805**	6,252,203
TOTAL ASSETS		**32,376,439**	35,322,919
LIABILITIES			
Current liabilities			
Trade and other payables	18(a)	**6,157,599**	16,548,035
Borrowings	18(b)	**613,340**	-
Provisions	19	**545,913**	498,813
Contract liabilities	20	**34,119**	1,723,292
Total current liabilities		**7,350,971**	18,770,140
Non-current liabilities			
Trade and other payables	18(a)	**2,242,018**	1,172,701
Borrowings	18(b)	**1,339,004**	816,725
Provisions	19	**34,064**	54,744
Contract liabilities	20	**1,640**	46,951
Total non-current liabilities		**3,616,726**	2,091,121
TOTAL LIABILITIES		**10,967,697**	20,861,261
NET ASSETS		**21,408,742**	14,461,658
EQUITY			
Contributed equity	22	**45,039,118**	33,741,882
Reserves	30(a)	**(332,790)**	42,414
Accumulated losses	30(b)	**(23,297,586)**	(19,322,638)
TOTAL EQUITY		**21,408,742**	14,461,658

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity for the Year Ended 30 June 2021

	Issued capital (note 22) $	Equity-based payments reserve $	Accumulated losses $	Foreign Exchange valuation reserve $	Total Equity $
Balance at 1 July 2019	27,312,482	8,775	(19,625,316)	-	7,695,941
Profit / (Loss) for the year	-	-	302,678	-	302,678
Total income and expense for the period	-	-	302,678	-	302,678
Issues of ordinary shares during the year					
Issue of share capital	6,663,012	-	-	-	6,663,012
Foreign exchange reserve	-	-	-	14,193	14,193
Transaction costs associated with share capital	(233,612)	-	-	-	(233,612)
Share based payment reserve	-	19,446	-	-	19,446
Balance at 30 June 2020	33,741,882	28,221	(19,322,638)	14,193	14,461,658

	Issued capital (note 22) $	Equity-based payments reserve $	Accumulated losses $	Foreign Exchange valuation reserve $	Total Equity $
Balance at 1 July 2020	**33,741,882**	**28,221**	**(19,322,638)**	**14,193**	**14,461,658**
Profit / (Loss) for the year	**-**	**-**	**(3,974,948)**	**-**	**(3,974,948)**
Total income and expense for the period	**-**	**-**	**(3,974,948)**	**-**	**(3,974,948)**
Issues of ordinary shares during the year					
Issue of share capital	**12,181,855**	**-**	**-**	**-**	**12,181,855**
Foreign exchange reserve	**-**	**-**	**-**	**(383,485)**	**(383,485)**
Transaction costs associated with share capital	**(884,619)**	**-**	**-**	**-**	**(884,619)**
Share based payment reserve	**-**	**8,281**	**-**	**-**	**8,281**
Balance at 30 June 2021	**45,039,118**	**36,502**	**(23,297,586)**	**(369,292)**	**21,408,742**

The accompanying notes form part of these financial statements.

Statement of Cash Flows for the Year Ended 30 June 2021

	Note	2021 $	2020 $
Cash flows from/(used in) operating activities			
Receipts from customers		**43,155,914**	52,364,311
Payments to suppliers and employees		**(43,399,123)**	(56,926,343)
		(243,209)	(4,562,032)
Interest received		**7,370**	17,678
Finance costs		**(50,574)**	(1,015)
Net cash flows (used in)/from operating activities	25	**(286,413)**	(4,545,369)
Cash flows (used in)/from investing activities			
Cash acquired from subsidiary		**-**	180,312
Proceeds from sale of assets		**13,436**	429
Payment for intangibles		**68,814**	(171,737)
Payments for equipment		**(8,371,651)**	(790,095)
Net cash flows (used in)/from investing activities		**(8,358,215)**	(781,091)
Cash flows (used in)/ from financing activities			
Proceeds from issue of ordinary shares		**12,055,642**	3,669,643
Payment of transaction costs associated with issued share capital	22(a)	**(884,619)**	(233,612)
Repayment of lease liabilities		**(600,979)**	(421,006)
Proceeds from borrowings		**1,135,619**	368,643
Repayment of loan		**-**	(356,825)
Net cash flows (used in)/from financing activities		**11,705,663**	3,026,843
Net increase/(decrease) in cash and cash equivalents		**3,061,035**	(2,299,617)
Exchange rate impact on cash		**(216,843)**	6,774
Cash and cash equivalents at beginning financial year		**3,057,031**	5,349,874
Cash and cash equivalents at end of year	12	**5,901,223**	3,057,031

The accompanying notes form part of these financial statements.

Notes to the Financial Statements for the Year Ended 30 June 2021

The financial report covers XTEK Limited and the Controlled Entities ('the Group'). XTEK Limited and the Controlled Entities is a for-profit Company limited by shares, incorporated and domiciled in Australia.

Each of the entities within the Group prepare their financial statements based on the currency of the primary economic environment in which the entity operates (functional currency). The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

The financial report was authorised for issue by the Directors on 30 September 2021. Comparatives are consistent with prior years, unless otherwise stated.

1 Basis of Preparation

The financial statements are general purpose financial statements that have been prepared in accordance with the Australian Accounting Standards and the *Corporations Act 2001.* Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied.

These financial statements comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

2 Change in Accounting Policy

No changes in Accounting Policy were made.

3 Summary of Significant Accounting Policies

(a) Basis for consolidation

The consolidated financial statements incorporate all of the assets, liabilities and results of XTEK Limited and its 100% owned subsidiaries (Simmersion Holdings Pty Limited, XTEK, Inc holder of HighCom Armor Solutions, Inc). Subsidiaries are entities the parent controls. The parent controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The assets, liabilities and results of all subsidiaries are fully consolidated into the financial statements of the Group from the date on which control is obtained by the Group. The consolidation of a subsidiary is discontinued from the date that control ceases. Intercompany transactions, balances and unrealised gains or losses on transactions between group entities are fully eliminated on consolidation. Accounting policies of subsidiaries have been changed and adjustments made where necessary to ensure uniformity of the accounting policies adopted by the Group.

(b) Income tax

The income tax expense on revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses. Deferred income tax is provided on all temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognised for all taxable differences:

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

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

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

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

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

Income taxes relating to items directly in equity are recognised in equity and not in the Statement of Comprehensive Income.

(c) Leases

For any new contracts entered into on or after 1 July 2018, the Entity considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition the Entity assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Entity
- the Entity has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract
- the Entity has the right to direct the use of the identified asset throughout the period of use. The Entity assesses whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

At lease commencement date, the Entity recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Entity depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Entity also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Entity measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Entity's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Entity has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, right-of-use assets have been included in plant and equipment and lease liabilities have been included in trade and other payables.

(d) Revenue and other income

Revenue from contracts with customers

The core principle of AASB 15 is that revenue is recognised on a basis that reflects the transfer of promised goods or services to customers at an amount that reflects the consideration the Group expects to receive in exchange for those goods or services. Revenue is recognised by applying a five-step model as follows:

1. Identify the contract with the customer
2. Identify the performance obligations
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations
5. Recognise revenue as and when control of the performance obligations is transferred

Specific revenue streams

The revenue recognition policies for the principal revenue streams of the Group are as follows.

Timing of revenue recognition based on transfer of control of performance obligations

AASB 15 requires revenue from these products to be recognised when the performance obligations to transfer goods and services have been satisfied. The Group considers that performance obligations are satisfied when the physical transfer of the goods has occurred as this is when control transfers to the customer.

Transfer of control to a customer - over time or at a point in time

AASB 15 has specific criteria regarding whether control is transferred over time or at a point in time. The Group has reviewed its contracts and concluded that the criteria for recognition over time is not met in some circumstances. In such cases, revenue and related production costs will be recognised at the delivery of each separate performance obligation instead of over the contract using a single margin.

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 as 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 3 (u).

(e) Finance costs

Finance cost includes all interest-related expenses, other than those arising from financial assets at fair value through profit or loss.

(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) Goods and services tax (GST)

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO).

Receivables and payables are stated inclusive of GST.

The net amount of GST recoverable from, or payable to, the ATO is included as part of receivables or payables in the statement of financial position.

Cash flows in the statement of cash flows are included 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 is classified as operating cash flows.

Notes to the Financial Statements for the Year Ended 30 June 2021

(i) Property, plant and equipment

Cost and valuation

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

Depreciation

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

Major depreciation periods typically are:

- plant and equipment 3 - 15 years

Impairment

The carrying values of property, 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.

(j) Financial instruments

Financial instruments are recognised initially on the date that the Group becomes party to the contractual provisions of the instrument.

On initial recognition, all financial instruments are measured at fair value plus transaction costs (except for instruments measured at fair value through profit or loss where transaction costs are expensed as incurred).

Financial assets

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Classification

On initial recognition, the Group classifies its financial assets into the following categories, those measured at:

- amortised cost;
- fair value through profit or loss – FVTPL; and
- fair value through other comprehensive income - equity instrument (FVOCI - equity).

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets.

Amortised cost

Assets measured at amortised cost are financial assets where:

- the business model is to hold assets to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Group's financial assets measured at amortised cost comprise trade and other receivables and cash and cash equivalents in the statement of financial position.

Subsequent to initial recognition, these assets are carried at amortised cost using the effective interest rate method less provision for impairment.

Interest income, foreign exchange gains or losses and impairment are recognised in profit or loss. Gain or loss on derecognition is recognised in profit or loss.

Fair value through other comprehensive income

Equity instruments

The Group has no investments in listed and unlisted entities over which are they do not have significant influence nor control.

Financial assets through profit or loss

All financial assets not classified as measured at amortised cost or fair value through other comprehensive income as described above are measured at FVTPL.

The Group does not hold any assets that fall into this category.

Impairment of financial assets

Impairment of financial assets is recognised on an expected credit loss (ECL) basis for the following assets:

- financial assets measured at amortised cost

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Group's historical experience, informed credit assessment and includes forward looking information.

The Group uses the presumption that an asset which is more than 30 days past due has seen a significant increase in credit risk.

The Group uses the presumption that a financial asset is in default when:

- the other party is unlikely to pay its credit obligations to the Group in full, without recourse of the Group to actions such as realising security (if any is held); or
- the financial assets are more than 90 days past due.

Credit losses are measured as the present value of the difference between the cash flows due to the Group in accordance with the contract and the cash flows expected to be received. This is applied using a probability weighted approach.

Trade receivables and contract assets

Impairment of trade receivables and contract assets have been determined using the simplified approach in AASB 9 which uses an estimation of lifetime expected credit losses. The Group has determined the probability of non-payment of the receivable and contract asset and multiplied this by the amount of the expected loss arising from default.

The amount of the impairment is recorded in a separate allowance account with the loss being recognised in finance expense. Once the receivable is determined to be uncollectable then the gross carrying amount is written off against the associated allowance.

Where the Group renegotiates the terms of trade receivables due from certain customers, the new expected cash flows are discounted at the original effective interest rate and any resulting difference to the carrying value is recognised in profit or loss.

Other financial assets measured at amortised cost

Impairment of other financial assets measured at amortised cost are determined using the expected credit loss model in AASB 9. On initial recognition of the asset, an estimate of the expected credit losses for the next 12 months is recognised. Where the asset has experienced significant increase in credit risk then the lifetime losses are estimated and recognised.

Financial liabilities

The Group measures all financial liabilities initially at fair value less transaction costs, subsequently financial liabilities are measured at amortised cost using the effective interest rate method.

The financial liabilities of the Group comprise trade payables, bank and other loans and finance lease liabilities.

(k) Impairment of non-financial assets

At the end of each reporting period the Group determines whether there is evidence of an impairment indicator for non-financial assets.

Where an indicator exists and regardless for goodwill, indefinite life intangible assets and intangible assets not yet available for use, the recoverable amount of the asset is estimated.

Where assets do not operate independently of other assets, the recoverable amount of the relevant cash-generating unit (CGU) is estimated.

The recoverable amount of an asset or CGU is the higher of the fair value less costs of disposal and the value in use. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Where the recoverable amount is less than the carrying amount, an impairment loss is recognised in profit or loss.

Reversal indicators are considered in subsequent periods for all assets which have suffered an impairment loss, except for goodwill.

(l) Intangibles

Research and development

Development expenditure incurred on an individual project is expensed. Expenditure is only capitalised when it is probable that future economic benefits associated with the item will flow to the entity and the costs incurred can be reliably measured. On recognising that there is an asset with a future economic benefit to the Group 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 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.

(m) 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.

(n) Employee benefits

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

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

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

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

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

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

i. Long service leave

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

ii. Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group 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 twelve months after Statement of Financial Position date are discounted to present value.

(o) Provisions

Provisions are recognised when the Group 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 Group 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.

(p) 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;
- other non-discretionary charges in revenues or expenses during the period that would result from the dilution of potential ordinary shares; and
- divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(q) 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.

(r) Foreign currency transactions and balances

Foreign currency transactions are recorded at the spot rate on the date of the transaction.

At the end of the reporting period:

- Foreign currency monetary items are translated using the closing rate;
- Non-monetary items that are measured at historical cost are translated using the exchange rate at the date of the transaction; and
- Non-monetary items that are measured at fair value are translated using the rate at the date when fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition or in prior reporting periods are recognised through profit or loss, except where they relate to an item of other comprehensive income or whether they are deferred in equity as qualifying hedges.

(s) Share based payment transactions

The Group 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 Tax Exempt Share Plan, 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.

(t) 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 as well as through the amortisation process.

(u) 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 Income over the expected useful life of the relevant asset by equal annual instalments.

(v) 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 the use of an allowance account. The amount of the loss is recognised in profit or loss.

(w) Dividends

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

(x) Trade and other payables

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

(y) 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 thirty 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 Group 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.

(z) Adoption of new and revised accounting standards

The Company has adopted all standards which became effective for the first time at 30 June 2021, the adoption of these standards has not caused any material adjustments to the reported financial position, performance or cash flow of the Company.

4 Critical accounting estimates and judgments

The directors make estimates and judgements during the preparation of these financial statements regarding assumptions about current and future events affecting transactions and balances.

These estimates and judgements are based on the best information available at the time of preparing the financial statements, however as additional information is known then the actual results may differ from the estimates.

The significant estimates and judgements made have been described below.

Key estimates - impairment of property, plant and equipment

The Group assesses impairment at the end of each reporting period by evaluating conditions specific to the Group that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value-in-use calculations which incorporate various key assumptions.

Key estimates - provisions

As described in the accounting policies, provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period. These estimates are made taking into account a range of possible outcomes and will vary as further information is obtained.

Key estimates - receivables

The receivables at reporting date have been reviewed to determine whether there is any objective evidence that any of the receivables are impaired. An impairment provision is included for any receivable where the entire balance is not considered collectible. The impairment provision is based on the best information at the reporting date.

Key judgements

The COVID-19 outbreak has impacted the way of life in Australia. This has affected the ability of the Group to continue operations as usual and has impacted on its operating results. In accordance with national guidelines, the Group has implemented remote working arrangements in response to government requirements and to ensure the wellbeing and safety of all employees and visitors.

The Group has determined that there are no going concern risks arising from the impact of the COVID-19 outbreak and has risk mitigation strategies in place with regards to COVID-19 outbreaks and other ongoing impacts The board members have determined that the Company remains in a healthy position and retained a stable revenue stream for the 2022 financial year.

5 Revenue and Other Income

(a) Revenue from operations

	2021 $	2020 $
Value added reseller products	**10,349,586**	28,884,243
In-house development and manufactured products	**16,652,403**	10,738,409
Logistic engineering maintenance	**1,225,731**	2,580,023
Grant and other revenue	**104,740**	512,592
Total Revenue	**28,332,460**	42,715,267

(b) Other Income

	2021 $	2020 $
Interest	**7,370**	17,678
Other	**345,976**	832,969
Total Other income	**353,346**	850,647
Total Revenue and Other Income	**28,685,806**	43,565,914

6 Expenses

Profit/(loss) before income tax from continuing operations includes the following specific expenses.

(a) Employee Benefits

	2021 $	2020 $
Salaries and wages	**4,024,619**	3,941,313
Superannuation contributions	**525,435**	437,935
Payroll tax	**583,991**	362,009
Other employee expenses	**325,908**	54,756
Total Employee Benefits	**5,459,953**	4,796,013

(b) Depreciation

	2021 $	2020 $
Plant and equipment	**217,757**	216,015
Motor vehicles	**5,677**	3,707
Office furniture and equipment	**108,328**	90,454
Computer software	**134,478**	47,921
Demonstration equipment	**25,693**	22,876
Leasehold property improvements	**106,668**	62,970
Right to use assets	**512,142**	331,420
Total Depreciation	**1,110,743**	775,363

The increase in the depreciation reflects an increasing professionalisation of the firm's systems. A significant investment has been made in both XTEK's product development capability and IT security.

Notes to the Financial Statements for the Year Ended 30 June 2021

(c) Finance costs

	2021 $	2020 $
Interest on lease liabilities	**186,380**	166,929
Other interest expense	**13,334**	1,015
Total Finance costs	**199,714**	167,944

(The "Interest on lease liabilities" refers not to borrowings but is the application of AASB16. It refers to the internal interest component of the lease on rented properties.)

(d) Operational expenditure

	2021 $	2020 $
Accounting, tax and audit fees	**252,679**	179,387
Bank charges	**78,612**	28,310
Consultancy fees	**757,614**	679,956
Directors' fees (non-Executive)	**278,000**	260,000
Insurance	**599,069**	285,434
FBT	**22,653**	23,557
Minor operating leases	**32,570**	12,820

With the consolidation of HighCom for the full 2020-21 financial year, a number of the individual expense lines have increased when compared to the previous period. Most notably are employee costs and rental costs (seen as Interest on Lease Liabilities and Depreciation on the Right of Use Assets).

As a result of due diligence and half year and full year audits of XTEK Ltd and the subsidiaries, a total of four financial audits were conducted in the 2021 financial year and five in the 2020 financial year.

XTEK PROTECT AND SUSTAIN

7 Income Tax Expense

(a) The major components of tax expense (income) comprise

	2021 $	2020 $
Current tax expense		
Current income tax charge	**(1,128,267)**	36,504
Loss used not recognised	**1,128,267**	-
R&D tax offset	**-**	(36,504)
Deferred tax expense		
Origination and reversal of temporary differences	**(122,805)**	(67,516)
Change in unrecognised deductible temporary difference	**122,805**	67,516
	-	-

(b) Reconciliation of income tax to accounting profit

	2021 $	2020 $
Profit	**(3,974,948)**	302,679
Tax	**26.0%**	27.5%
	(1,033,486)	83,237
Add:		
Tax effect of amounts which are not deductible (taxable) in calculating taxable income		
- Capital raising cost amortised	**(70,971)**	(33,783)
- Entertainment	**-**	2,524
- Losses not brought to account	**1,128,267**	-
- Timing differences not brought to account	**122,805**	67,516
- Research and development expenditure	**-**	149,167
- Research and development offsets	**-**	(68,525)
- Non assessable foreign subsidiary income	**(146,614)**	(200,136)
Income tax expense	**-**	-

Note: The tax position is reconciled to the position of the parent company, for which no tax is payable. Subsumed within the accounts is HighCom's tax expense for the year of a USD equivalent of A$233,701.

Notes to the Financial Statements for the Year Ended 30 June 2021

(c) Recognised Deferred Tax Assets and Liabilities

	2021 $	2020 $
Deferred tax liabilities		
Accrued interest	**5**	1,116
Gross deferred tax liabilities	**5**	1,116
Deferred tax liability not recognized	**(5)**	(1,116)
Total	**-**	-

	2021 $	2020 $
Deferred tax assets		
Accrued expenses	**8,840**	8,549
Superannuation	**49,950**	28,793
Employee leave entitlements	**150,794**	152,228
Unrealised foreign exchange losses	**75,207**	1,964
Lease assets	**85,221**	71,046
Impaired assets	**225,228**	238,222
Potential tax losses	**6,460,940**	5,640,327
Potential capital tax losses	**404,628**	427,972
Deferred differences and losses not recognised	**(7,460,808)**	(6,569,101)
Net deferred tax asset	**-**	-

(d) Tax Losses

The Parent Company and subsidiaries are consolidated for taxation purposes.

The Group has capital tax losses for which no deferred tax asset is recognised on the Balance Sheet that arise in Australia of $1,556,260 (2020: $1,556,260) and are available indefinitely for offset against future capital gains of a similar nature subject to continuing to meet relevant statutory tests.

The Group has accumulated tax losses for which no deferred tax asset has been recognised of $24,849,774 (Parent company, 2020: $20,510,285). The deferred tax asset associated with the loss will only be realisable in the future in the event of sufficient taxable profits being available to utilise the losses, subject to loss recoupment rules.

(e) Unrecognised Temporary Differences

At 30 June 2021, there are no unrecognised temporary differences associated with the Parent Company's investments in subsidiaries as the Parent has no liability for additional taxation should unremitted earnings be remitted (2020: nil).

8 Key Management Personnel Remuneration

Refer to the remuneration report in the Directors' report for details of remuneration paid or payable to each member of the Group's key management personnel for the year ended 30 June 2021.

Key management personnel remuneration included within employee expenses for the year is shown below:

	2021 $	2020 $
Short-term employee benefits	**1,350,682**	1,546,513
Post-employment benefits	**103,784**	105,496
Other long-term benefits	**8,861**	7,172
	1,463,327	1,659,181

9 Auditors' Remuneration

	2021 $	2020 $
Audit and review of financial reports and other audit work under the Corporations Act 2001		
Remuneration of the lead auditor, Hardwickes Chartered Accountants	**68,000**	60,000
Remuneration of US based auditor, Turner Stone	**60,446**	89,108
Total	**128,446**	149,108

In the 2019-20 financial year due diligence, half year and full year audits of XTEK Ltd and the subsidiaries, a total of five financial audits were conducted. In the 2020-21 financial year only half year and full year audits were conducted, the audit costs have reduced correspondingly.

10 Dividends

Ordinary shares

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

Franking account

	2021 $	2020 $
The franking credits available for subsequent financial years	**981,110**	981,110

The above available balance is based on the dividend franking account at year-end adjusted for:

(a) Franking credits that will arise from the payment of the current tax liabilities;

(b) Franking debits that will arise from the payment of dividends recognised as a liability at the year-end;

(c) Franking credits that will arise from the receipt of dividends recognised as receivables at the end of the year.

The ability to use the franking credits is dependent upon the Company's future ability to declare dividends.

Notes to the Financial Statements for the Year Ended 30 June 2021

11 Operating Segments

Segment information

Identification of reportable segments

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

The Group is managed primarily on the basis of product category and service offerings as the diversification of the Group's operations inherently have notably different risk profiles and performance assessment criteria. Operating segments are therefore determined on the same basis.

Reportable segments

The homeland security value added reseller business remains XTEK's major reportable segment (see note 5a) and includes the supply of homeland security equipment and services to predominantly government customers in the Australasian region. The Board reviews internal management reports for the strategic business units on a monthly basis.

Operating Segments

(a) Major customers

The Parent company has a number of customers to whom it provides both products and services. The Group supplies the agencies of a number of Australian governments, which combined, account for 96% of revenue (2020 Parent company: 96%).

The US subsidiary supplies through a network of distributors, 99% of domestic sales are ultimately in the hands of US Federal, state and municipal bodies. (2020 99%)

(b) Geographical information

In presenting information, the segment revenue is based on the geographical location of the Group's customers.

	2021 **$**	**2020** **$**
Australia	**11,626,002**	30,890,269
North America	**14,932,535**	11,416,266
Europe	**1,626,999**	-
New Zealand	**146,924**	313,443
Other	**-**	95,289
Total revenue	**28,332,460**	42,715,267

12 Cash and Cash Equivalents

	2021 $	2020 $
Cash at bank and in hand	**5,901,223**	3,057,031
	5,901,223	3,057,031

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

Reconciliation of cash

Cash and Cash equivalents reported in the statement of cash flows are reconciled to the equivalent items in the statement of financial position as follows:

	2021 $	2020 $
Cash and cash equivalents	**5,901,223**	3,057,031
Balance as per statement of cash flows	**5,901,223**	3,057,031

13 Trade and Other Receivables

	2021 $	2020 $
CURRENT		
Trade receivables	**1,704,515**	4,779,104
Other receivables	**146,492**	10,592,956
Total current trade and other receivables	**1,851,007**	15,372,060

Terms and conditions

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

A provision for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. There was no impairment loss recognised in FY 2021 (2020: nil).

XTEK PROTECT AND SUSTAIN

At 30 June 2021, the ageing analysis of trade receivables is as follows:

	Not impaired Gross amount $	Not impaired < 30 days $	Past due but not impaired (days overdue) 31-60 $	Past due but not impaired (days overdue) 61-90 $	Past due but not impaired (days overdue) > 90 $
2021					
Trade receivables	**1,704,515**	**48,788**	**824,983**	**694,498**	**136,246**
Total	**1,704,515**	**48,788**	**824,983**	**694,498**	**136,246**
2020					
Trade receivables	4,779,104	3,380,572	1,346,595	40,282	11,655
Total	4,779,104	3,380,572	1,346,595	40,282	11,655

95.8% of all trade receivables at 30 June 2021 were received by 31 August 2021.

The Group does not hold any financial assets with terms that have been renegotiated, but which would otherwise be past due or impaired.

The other classes of receivables do not contain impaired assets.

The carrying value of trade receivables is considered a reasonable approximation of fair value due to the short-term nature of the balances.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables in the financial statements.

14 Inventories

	2021 $	2020 $
CURRENT		
Work in progress	**1,706,673**	5,931,544
Products and spare parts	**9,029,539**	3,105,452
	10,736,212	9,036,996

During the 2021 financial year there were no write downs due to obsolescence. (2020: $65,820).

Any expense would be included in the changes in inventories of finished goods and work in progress in the Statement of Comprehensive Income.

15 Other Current Assets

	2021 $	2020 $
CURRENT		
Prepayments	**471,750**	1,546,971
Short term loan	**22,442**	57,658
	494,192	1,604,629

16 Property, plant and equipment

	2021 $	2020 $
PROPERTY, PLANT AND EQUIPMENT		
Plant and equipment		
At cost	**9,770,229**	1,669,532
Accumulated depreciation	**(1,318,847)**	(451,298)
Total plant and equipment	**8,451,382**	1,218,234
Office Furniture and Equipment		
At cost	**685,017**	552,582
Accumulated depreciation	**(442,814)**	(259,506)
Total office furniture and equipment	**242,203**	293,076
Motor vehicles		
At cost	**71,168**	71,168
Accumulated depreciation	**(46,925)**	(41,248)
Total motor vehicles	**24,243**	29,920
Demonstration Equipment		
At cost	**241,577**	221,354
Accumulated depreciation	**(183,072)**	(157,379)
Total demonstration equipment	**58,505**	63,975
Computer software		
At cost	**571,993**	286,624
Accumulated depreciation	**(270,625)**	(136,146)
Total computer software	**301,368**	150,478
Leasehold Improvements		
At cost	**900,397**	449,265
Accumulated depreciation	**(277,888)**	(145,097)
Total leasehold improvements	**622,509**	304,168
UAS		
At cost	**81,312**	81,312
Total UAS	**81,312**	81,312
Right of use, lease assets		
At cost	**3,063,809**	3,001,920
Accumulated depreciation	**(980,307)**	(479,083)
Total right of use, lease assets	**2,083,502**	2,522,837
Total property, plant and equipment	**11,865,024**	4,664,000

Notes to the Financial Statements for the Year Ended 30 June 2021

(a) Movements in carrying amounts of property, plant and equipment

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year:

	Plant and Equipment $	Office Furniture and Equipment $	Motor Vehicles $	Demonstration Equipment $	Computer Software $
Year ended 30 June 2021					
Balance at the beginning of year	1,218,234	293,076	29,920	63,975	150,478
Additions	7,491,458	65,787	-	20,223	271,789
Disposals	(14,267)	-	-	-	(4,920)
Depreciation expense	(217,757)	(108,328)	(5,677)	(25,693)	(134,478)
Revaluation					18,499
Foreign exchange movement	(26,286)	(8,332)	-	-	-
Balance at the end of the year	8,451,382	242,203	24,243	58,505	301,368

	Leasehold Improvements $	UAS $	Right of Use, Lease Assets $	Total $
Year ended 30 June 2021				
Balance at the beginning of year	304,168	81,312	2,522,837	4,664,000
Additions	433,656	-	173,377	8,456,290
Disposals	-	-	-	(19,187)
Depreciation expense	(106,668)	-	(512,142)	(1,110,743)
Revaluation	-	-	-	18,499
Foreign exchange movement	(8,647)	-	(100,570)	(143,835)
Balance at the end of the year	622,509	81,312	2,083,502	11,865,024

	Plant and Equipment $	Office Furniture and Equipment $	Motor Vehicles $	Demonstration Equipment $	Computer Software $
Year ended 30 June 2020					
Balance at the beginning of year	473,236	178,485	5,014	59,728	108,176
Additions	972,571	205,045	28,613	27,123	91,723
Disposals	(11,558)	-	-	-	(1,500)
Depreciation expense	(216,015)	(90,454)	(3,707)	(22,876)	(47,921)
Balance at the end of the year	1,218,234	293,076	29,920	63,975	150,478

	Leasehold Improvements $	UAS $	Right of Use, Lease Assets $	Total $
Year ended 30 June 2020				
Balance at the beginning of year	382,771	81,312	1,019,472	2,308,194
Additions	29,370	-	1,834,785	3,189,230
Disposals	(45,003)	-	-	(58,061)
Depreciation expense	(62,970)	-	(331,420)	(775,363)
Balance at the end of the year	304,168	81,312	2,522,837	4,664,000

17 Intangible Assets

	2021 $	2020 $
Patents		
Patent cost	**321,429**	252,615
Certifications	**43,243**	47,397
Amortisation	**(11,804)**	-
Total Intangibles	**352,868**	300,012

(a) Movements in carrying amounts of intangible assets

	Patents $	Certification $	Total $
Year ended 30 June 2021			
Balance at the beginning of the year	**252,615**	**47,397**	**300,012**
Additions	**68,814**	**-**	**68,814**
Amortisation	**(11,804)**	**-**	**(11,804)**
Foreign exchange movement	**-**	**(4,154)**	**(4,154)**
Closing value at 30 June 2021	**309,625**	**43,243**	**352,868**

	Patents $	Certification $	Total $
Year ended 30 June 2020			
Balance at the beginning of the year	155,891	-	155,891
Additions	96,724	47,397	144,121
Amortisation	-	-	-
Closing value at 30 June 2020	252,615	47,397	300,012

18 Trade and Other Payables / Borrowings

(a) Trade and other payables - current

	2021 $	2020 $
CURRENT		
Trade and other payables*	**5,342,118**	13,979,261
GST payable	**-**	406,716
Sundry payable and accrued expenses	**607,027**	534,089
Derivative financial liability	**-**	7,141
Lease liability	**208,454**	1,620,828
	6,157,599	16,548,035

(a) Trade and other payables – non-current

	2021 $	2020 $
NON-CURRENT		
Lease liability	**2,242,018**	1,172,701
	2,242,018	1,172,701

(b) Borrowings – current

	2021 $	2020 $
CURRENT		
Bank loan – interest bearing (see note 21)	**613,340**	-
	613,340	-

(b) Borrowings – non-current

	2021 $	2020 $
NON-CURRENT		
Bank loan – interest bearing (see note 21)	**1,339,004**	816,725
	1,339,004	816,725

19 Employee Benefits

	2021 $	2020 $
Current liabilities		
Annual leave provision	**401,584**	300,336
Long service leave	**144,329**	198,477
	545,913	498,813

	2021 $	2020 $
Non-current liabilities		
Long service leave	**34,069**	54,744
	34,069	54,744

Nature and timing of provisions

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

20 Contract liabilities

	2021 $	2020 $
CURRENT		
Customer deposits	**34,119**	370,512
Government grants	**-**	1,352,780
Total	**34,119**	1,723,292

	2021 $	2020 $
NON-CURRENT		
Customer deposits	**1,640**	46,951
Government grant	**-**	-
Total	**1,640**	46,951

Notes to the Financial Statements for the Year Ended 30 June 2021

21 Interest bearing liabilities

At 30 June 2021 the only borrowings of the Group were the Commonwealth Bank loan ($1,952,344), drawn under the details below. At 30 June 2020 $816,725.

In 2019-20, the year the US subsidiary drew down and fully repaid a loan from a US bank to the amount of USD250,000.

During the 2019-20 financial year, XTEK Ltd obtained a loan facility from the Commonwealth Bank to the amount of $2.5m. The loan is interest only for the first twelve months, interest plus a capital repayment of $500,000 in the subsequent two years with a $1.5m balloon payment at the end.

22 Issued Capital

	2021 $	2020 $
71,036,559 (2020: 53,167,209) Ordinary shares	**45,039,118**	33,741,882
Total	**45,039,118**	33,741,882

There were no options on issue at 30 June 2021 (30 June 2020: nil).

(a) Movement in ordinary shares

	2021 No.	2021 $	2020 No.	2020 $
Opening balance	**53,167,209**	**33,741,882**	40,579,906	27,312,482
Shares issued	**17,869,350**	**12,181,855**	12,587,303	6,663,012
Transaction cost in relation to capital	**-**	**(884,619)**	-	(233,612)
Total	**71,036,559**	**45,039,118**	53,167,209	33,741,882

(b) Expired options and share performance rights

There were no options on issue at 30 June 2021 (30 June 2020: nil).

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

As at 30 June 2021 there were no unissued shares nor were there any at the end of any prior year.

(c) 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 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.

	2021	2020
	$	$
Basic profit per share	**(0.058)**	0.006
Dilutive profit per share	**(0.058)**	0.006

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

(a) Reconciliation of earnings to profit or loss from continuing operations

	2021	2020
	$	$
Profit from continuing operations	**(3,974,948)**	302,678
Earnings used in the calculation of dilutive EPS from continuing operations	**(3,974,948)**	302,678

(b) Earnings used to calculate overall earnings per share

	2021	2020
	$	$
Earnings used to calculate overall earnings per share	**(3,974,948)**	302,678

(c) Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS

	2021	2020
	No.	No.
Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	**68,575,941**	51,322,177
Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	**68,575,941**	51,322,177

Notes to the Financial Statements for the Year Ended 30 June 2021

(d) Options and share performance right

Options and share performance rights granted to employees and Directors that are considered to be potential ordinary shares would be included in the determination of diluted earnings per share, to the extent to which they are dilutive. As at reporting date, no options or share performance rights have not been included in the determination of basic earnings per share.

(e) Share Issuance

The issued capital of XTEK Ltd & controlled entities at 30 June 2021 comprised 71,036,559 (2020: 53,167,209) fully paid Ordinary Shares. There were no issued options as at 30 June 2021 (2020 nil).

24 Government grants

(a) AusIndustry's R&D tax incentive

No income from the AusIndustry R&D Tax Incentive was recognised in the 2021 financial year (FY 2020 – nil).

As the Group's revenue exceeded $20m any R&D incentive would not be received as a cashback.

25 Cash flow information

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

	Notes	2021	2020
		$	$
Profit for the year		**(3,974,948)**	302,678
Adjustments for non-cash flow in profits:			
Depreciation		**1,122,648**	775,363
Bonus issue of shares to employees		**126,213**	113,369
Share based payment to employee		**-**	19,446
Loan forgiveness	32	**-**	(368,643)
Finance cost on lease		**186,378**	167,944
Loss on sale of assets		**7,147**	14,527
Changes in assets and liabilities			
(Increase) in trade debtors		**13,521,052**	5,962,165
Decrease / (Increase) in inventory		**(1,699,215)**	(4,686,340)
(Increase) / Decrease in prepayments and other		**1,110,437**	(597,192)
Increase / (Decrease) in trade and other payables		**(8,943,943)**	(5,661,567)
Increase / (Decrease) in deferred income		**(1,768,603)**	(760,783)
Increase / (Decrease) in employee provisions		**26,421**	173,664
Net cash flows from/(used in) operating activities		**(286,413)**	(4,545,369)

(b) Non-cash Financing and investing activities

In FY 2020-21 205,229 shares issued to employees. As at 30 June 2021 59,185 shares remain in escrow.

In FY 2019-20 432,467 shares were issued to employees, 82,166 shares remained in escrow at 30 June 2020.

Shares that have vesting conditions are held in escrow and are allotted to the employee recipient after three years from the time of granting or upon their leaving the employment of the Company.

26 Share-based Payments

During the year ended 30 June 2021, 205,229 new ordinary shares were issued as part of staff incentive plans for employees of the company (FY20 197,685 new ordinary shares).

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 approved by shareholders:

(i) The XTEK Long Term Incentive Performance Rights Plan (LTIPRP); and

(ii) The Employee Tax Exempt Share Plan, which provides benefits to all eligible employees.

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

Share Options and Share Performance Rights

There were no unlisted options at 30 June 2021 (2020: nil). There were no options or share performance rights in the hands of staff issued at the start of financial year 2021 or the prior year. There were no options or share performance rights in the hands of staff exercisable at the end of the year or any prior year. As at 30 June 2020, there were no unissued shares.

Employee/Director Share Issue

The Board may approve a bonus comprising cash and fully paid ordinary shares separate from the LTIP - note 3(s).

No non-executive director bonus was paid in FY2021 (FY2020 200,000 fully paid ordinary shares). 205,229 fully paid ordinary shares were issued to staff in accordance with a Board resolution of 18 November 2020 (FY20 197,685 fully paid ordinary shares).

Weighted Average Share Price

The weighted average market price at 30 June 2021 was 60.0 cents (2020: 64.8 cents).

27 Events Occurring After the Reporting Date

The financial report was authorised for issue on 30 September 2021 by the Board of Directors.

No matters or circumstances have arisen since the end of the financial year which significantly affected or could significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

The COVID-19 outbreak has impacted the way of life in Australia. This has affected the ability of the Group to continue operations as usual and has impacted on its operating results. In accordance with national guidelines, the Group has implemented remote working arrangements in response to government requirements and to ensure the wellbeing and safety of all employees and visitors.

The Group has determined that there are no going concern risks arising from the impact of the COVID-19 outbreak and has risk mitigation strategies in place with regards to COVID-19 outbreaks and other ongoing impacts The board members have determined that the Group remains in a healthy position.

28 Related Parties

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

1. Entities

The Group is XTEK Limited and its wholly owned subsidiaries:
- Simmersion Holdings Pty Ltd.
- XTEK, Inc (registered in Delaware, USA) (is the owner of HighCom Armor Solutions, Inc)

The financial details for the Parent entity are at Note 31.

2. Directors

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

3. Key management personnel

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

(b) Transactions with related parties

Transactions between related parties, if they occur, are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

There were no related party transactions in the 2020-21 year.
There were no related party transactions in the 2019-20 year.

29 Financial Risk Management

The Group is exposed to a variety of financial risks through its use of financial instruments.

The Group's overall risk management plan seeks to minimise potential adverse effects due to the unpredictability of financial markets.

The most significant financial risks to which the Group is exposed to are described below.

Specific risks

- Liquidity risk
- Credit risk
- Market risk - currency risk, interest rate risk and price risk

Financial instruments used

The principal categories of financial instrument used by the Group are described below.

- Trade receivables
- Cash at bank
- Trade and other payables

Summary Table

	2021 $	2020 $
Financial assets		
Held at amortised cost		
Cash and cash equivalents	**5,901,223**	3,057,031
Trade and other receivables	**1,851,007**	15,372,060
Total financial assets	**7,752,230**	18,429,091
Financial liabilities		
Financial liabilities at fair value		
Trade and other payables	**6,159,239**	18,537,461
Total financial liabilities	**6,159,239**	18,537,461

The Group has not restated comparatives when initially applying AASB 9, the comparative information has been prepared under AASB 139 *Financial Instruments: Recognition and Measurement.*

Financial Risk Management

Objectives, policies and processes

The Board of Directors has overall responsibility for the establishment of the Group's financial risk management framework. This includes the development of policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk and the use of derivatives.

Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The day-to-day risk management is carried out by the Group's finance function under policies and objectives which have been approved by the Board of Directors. The Chief Financial Officer has been delegated the authority for designing and implementing processes which follow the objectives and policies. This includes monitoring the levels of exposure to interest rate and foreign exchange rate risk and assessment of market forecasts for interest rate and foreign exchange movements.

The Board of Directors receives monthly reports which provide details of the effectiveness of the processes and policies in place.

The XTEK Group does not engage in the trading of financial assets for speculative purposes. Mitigation strategies for specific risks faced are described below.

Liquidity risk

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group could encounter difficulty in meeting its financial obligations as they fall due.

The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities as and when they fall due. The Group maintains cash and marketable securities to meet its liquidity requirements for up to 30-day periods. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities and the ability to sell long term financial assets.

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash-outflows due in day-to-day business.

Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a 180-day and a 360-day period are identified monthly.

At the reporting date, these reports indicate that the Group expected to have sufficient liquid resources to meet its obligations under all reasonably expected circumstances and will not need to establish a financing facilities.

Financial guarantee liabilities are treated as payable on demand since the Group has no control over the timing of any potential settlement of the liabilities.

The timing of cash flows presented in the table to settle financial liabilities reflects the earliest contractual settlement dates and does not reflect management's expectations that banking facilities will be rolled forward. The amounts disclosed in the table are the undiscounted contracted cash flows and therefore the balances in the table may not equal the balances in the statement of financial position due to the effect of discounting.

The Group's liabilities have contractual maturities which are summarised below:

	Not > 1 month		**Total**	
	2021	**2020**	**2021**	**2020**
	$	**$**	**$**	**$**
Trade payables	**5,231,700**	13,979,261	**5,231,700**	13,979,261
Total	**5,231,700**	13,979,261	**5,231,700**	13,979,261

Credit risk

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

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

It is the Group'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 Group's exposure to bad debts is not significant.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

(i) Foreign exchange risk

The Group has transactional currency exposures. Such exposure arises from sales or purchases by the Group in currencies other than the Group's functional currency. Approximately 70% (2020: 81%) of the Group's purchases are denominated in currencies other than the functional currency of the Group, whilst 17% of sales are denominated in the Group's functional currency (2020: 52%).

The following sensitivity analysis is based on the foreign currency risk exposures in the Statement of Financial Position as they relate to the Parent Entity. Movements in the value of the assets of the foreign subsidiary have no immediate impact on the profit / loss of the Group as variations in the exchange rate impact the foreign exchange reserve (see note 30a) not the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

At 30 June 2021, had the Australian Dollar moved, with all other variables held constant, post-tax profit/(loss) would have been affected as follows:

	2021		**2020**	
	+10%	**-10%**	**+10%**	**-10%**
USD	**$**	**$**	**$**	**$**
Net results	**280,350**	**(342,650)**	402,969	(492,518)
EUR				
Net results	**26,507**	**(32,398)**	30,897	(30,763)
GBP				
Net results	**1,645**	**(2,010)**	3,999	(4,889)
NZD				
Net results	**19**	**(24)**	5,123	(4,191)

Market risk

(i) Foreign exchange risk

Exposure to foreign exchange rates vary during the year depending on the volume of overseas trading transactions. Nonetheless, the analysis table is considered to be representative of the Group's exposure to foreign currency risk through the year.

In order to minimize XTEK's exposure to currency fluctuation, the firm is increasingly negotiating with government customers for them to accept invoices in the source currency of the manufacturer. This gives us a natural offset in the invoicing and cost base. With the Group's increased level of trade throughout North America and Europe

(ii) Interest rate risk

The Group's exposure to market interest rates relates primarily to the cash at bank. At reporting date, the Company had financial assets comprising cash and cash equivalents totaling $5,901,223 (2020: $3,057,031) exposed to Australian variable interest rate risk that are not designated in cash flow hedges.

The following sensitivity analysis is based on the interest rate risk exposures in existence at reporting date. At 30 June 2020, 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 below.

The calculations are based on the financial instruments held at each reporting date. All other variables are held constant.

For cash held	**2021**		**2020**	
	+1.00%	**-0.01%**	**+1.00%**	**-0.60%**
	$	**$**	**$**	**$**
Net results	**59,012**	**(590)**	30,570	(18,342)
Equity	**59,012**	**(590)**	30,570	(18,342)

For borrowings	**2021**		**2020**	
	+1.00%	**-1.00%**	**+1.00%**	**-1.00%**
	$	**$**	**$**	**$**
Net results	**19,523**	**(19,523)**	8,167	(8,167)
Equity	**19,523**	**(19,523)**	8,167	(8,167)

30 Reserves and retained (losses)/profits

Equity Based Payment reserve

Equity based payments reserve consists of:

- premium paid on the purchase of Simmersion Holdings Pty Ltd during FY 2016;
- share performance rights granted to Executives and Management during 2008, and
- options and share performance rights granted to Directors and Executives during 2007 credited against equity during the year.

(a) Movement in reserves

	2021 $	2020 $
Capital reserve		
Balance at the beginning of the year	**1,882**	1,882
Transfer to Retained Earnings	**-**	-
Balance Capital Reserve	**1,882**	1,882
Foreign Exchange Reserve		
Balance at the beginning of the year	**14,193**	-
Creation on consolidation of subsidiaries	**(383,485)**	14,193
Balance Foreign Exchange Reserve	**(369,292)**	14,193
Equity Based Payment Reserve		
Balance at the beginning of the year	**26,339**	6,893
Equity Based Payments	**8,281**	19,446
Balance Equity Based Payment Reserve	**34,620**	26,339
Balance at the end of the year	**(332,790)**	42,414

(b) Accumulated Losses

Movement in accumulated profit/(losses) were as follows:	2021 $	2020 $
Balance at the beginning of the year	**(19,322,638)**	(19,625,316)
Profit/(losses) for the year	**(3,974,948)**	302,678
Restatement due to adoption of AASB16	**-**	-
Transfer to Retained Earnings	**-**	-
Balance at the end of the year	**(23,297,586)**	(19,322,638)

Notes to the Financial Statements for the Year Ended 30 June 2021

31 Parent entity

The following information has been extracted from the books and records of the parent, XTEK Limited and has been prepared in accordance with Accounting Standards.

The financial information for the parent entity, XTEK Limited has been prepared on the same basis as the consolidated financial statements except as disclosed below.

	2021 $	2020 $
Statement of Financial Position		
Assets		
Current assets	**17,423,133**	28,581,936
Non-current assets	**10,756,454**	3,258,995
Total Assets	**28,179,587**	31,840,931
Liabilities		
Current liabilities	**4,991,650**	15,485,084
Non-current liabilities	**2,602,301**	2,539,248
Total Liabilities	**7,593,951**	18,024,332
Net Assets	**20,585,636**	**13,816,599**
Equity		
Issued capital	**45,039,118**	33,741,882
Retained earnings	**(24,488,102)**	(19,951,622)
Reserves	**34,620**	26,339
Total Equity	**20,585,636**	13,816,599
Statement of Profit or Loss and Other Comprehensive Income		
Total profit or loss for the year	**(4,536,480)**	(446,200)
Total comprehensive income	**(4,536,480)**	(446,200)

32 Contingencies

There were no contingent liabilities at 30 June 2021.

The Group had a contingent liability of USD253,000 at 30 June 2020.

The US subsidiary had been in receipt of a forgivable loan as part of the US Government's COVID-19 stimulus package. The conditions for the loan were met and the loan during the 2019-20 financial year and the fund were recognised as Other Income during that year. The loan was formally forgiven during the 2020-21 financial year.

33 Business Combination

On 29 September 2019, the parent company acquired a 100% interest in HighCom Armor Solutions, Inc which resulted in XTEK, Inc (US incorporated, acquisition vehicle 100% owned by XTEK Ltd) obtaining control of HighCom. This acquisition is expected to increase XTEK's share of this market and also provide an easy segue to sell XTEK's novel and high value products into the US.

At the acquisition date of HighCom, the following table (all in USD) shows the purchase consideration. The value of assets acquired and liabilities assumed are from the audited Balance Sheet as at contract date. This acquisition price harks back to the Chairman's Report and the Managing Directors' Report of purchasing the business for AUD ~3.9m.

	Fair value
	$
Purchase consideration	**USD**
XTEK – September 2019	2,659,064
Total purchase consideration to end of Half Year Accounts	**2,659,064**
Assets or liabilities acquired at 29 September 2019:	
Cash	126,331
Trade receivables	1,034,200
Inventory and other current assets	1,824,191
Plant and equipment and other non-current assets	98,322
Total net identifiable assets	**3,083,044**
Identifiable assets acquired and liabilities assumed	**2,134,208**
Goodwill on acquisition - September 2019	524,856
Less: Identifiable assets acquired	3,083,044
Capital Reserve	**(423,980)**

Under the terms of the acquisition contract, two more payments were made after settlement date:

- December 2019: USD 561,442 acquisition of target working capital USD2m.
- January 2020: USD 75,583 purchase of working capital in excess of target amount.

An earnout payment threshold was not triggered.

34 Statutory Information

The principal registered office and place of business, of the company is:

XTEK Limited
3 Faulding Street
Symonston ACT 2609

Directors' Declaration

In accordance with a resolution of the Directors of XTEK Limited, the Directors declare that:

1. The financial statements and notes are in accordance with the Corporations Act 2001 and:

   (a) Comply with Australian Accounting Standards, which as stated in accounting policy Note 1 to the financial statements, constitutes compliance with International Financial Reporting Standards (IFRS) and;

   (b) Give a true and fair view of the financial position as at 30 June 2021 and of the performance for the year ended on that date for the consolidated group.

2. In the Directors' opinion there are reasonable grounds to believe that the Group will be able to pay its debts as and when they fall due; and

3. The Directors have been given the declarations required by s 295A of the Corporations Act 2001 from the Managing Director and Chief Financial Officer.

On behalf of the Board

Uwe Boettcher
Chairman

Dated this 30th day of September 2021

6 Phipps Close Deakin ACT 2600
PO Box 322 Curtin ACT 2605

T 02 6282 5999
F 02 6282 5933
E info@hardwickes.com.au

www.hardwickes.com.au

Hardwickes
ABN 35 973 938 183

Hardwickes Partners Pty Ltd
ABN 21 008 401 536

Liability limited by a scheme
approved under Professional
Standards Legislation

XTEK Limited and the Controlled Entity

Independent Audit Report to the Directors of XTEK Limited and the Controlled Entity

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of XTEK Limited and its subsidiaries (the Group), which comprises the statement of financial position as at 30 June 2021, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

(i) giving a true and fair view of the Group's financial position as at 30 June 2021 and of its financial performance for the year ended; and

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

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Group, would be in the same terms if given to the directors as at the time of this auditor's report.

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

CHARTERED ACCOUNTANTS
AUSTRALIA + NEW ZEALAND

6 Phipps Close Deakin ACT 2600
PO Box 322 Curtin ACT 2605

T 02 6282 5999
F 02 6282 5933
E info@hardwickes.com.au

www.hardwickes.com.au

Hardwickes
ABN 35 973 938 183

Hardwickes Partners Pty Ltd
ABN 21 008 401 536

XTEK Limited and the Controlled Entity

Independent Audit Report to the Directors of XTEK Limited and the Controlled Entity

Key Audit Matters

Going Concern

The directors have adopted the "Going concern basis of accounting" in the preparation of financial statements. In addressing the key audit matters in our audit of the financial statements, we concur with this treatment.

We have arrived at this position based on our assessment of:

– continued strength of forward sales contracts negotiated;

– organisation of short-term bank finance and unsecured loan facilities;

– from our review of the future cash flows and budgets prepared by management to predict the timing of cash outflows and planned future capital injections; and

– managements demonstrated ability to operate within set budgets.

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The financial report does not include any adjustments or qualification relating to the recoverability and classification of recorded amounts or the amounts and classification of liabilities that might be necessary should the entity not continue as a going concern.

Adelaide Manufacturing Centre

Adelaide Manufacturing Centre (AMC) was commissioned during the year. Impairment testing of Adelaide Manufacturing Centre was a key audit matter due to the value of the recorded assets $7,752,238 (property, plant and equipment).

The Group performs an annual impairment assessment for indicators of impairment for each individual Cash Generating Unit (CGU). Adelaide Manufacturing Unit is treated as an individual CGU.

Significant assumptions used in the impairment testing referred to above are inherently subjective and in times of economic uncertainty the degree of subjectivity is higher than it might otherwise be. Based on the size of the assets and the judgement involved in determining the recoverable amount, we have considered this a key audit matter.

Our audit procedures included the following:

– Evaluating the Group's assessment of its CGUs for consistency with the requirements of Australian Accounting Standards.

CHARTERED ACCOUNTANTS
AUSTRALIA + NEW ZEALAND

Hardwickes
more than accounting

6 Phipps Close Deakin ACT 2600
PO Box 322 Curtin ACT 2605

T 02 6282 5999
F 02 6282 5933
E info@hardwickes.com.au

www.hardwickes.com.au

Hardwickes
ABN 35 973 938 183

Hardwickes Partners Pty Ltd
ABN 21 008 401 536

XTEK Limited and the Controlled Entity

Independent Audit Report to the Directors of XTEK Limited and the Controlled Entity

– Evaluating the completeness of the Group's assessment of impairment indicators for Adelaide Manufacturing Unit as an individual CGU.

– Assessing management's commercial basis for the development and commercialisation of products in process development.

– Assessing the key assumptions within the impairment assessment of each asset and CGU including the commercial prospects, growth rate and discount rate.

– Applying our knowledge of the business and corroborating our work with external information where possible.

– Assessing the adequacy of the disclosures included in Note 2(i) to the financial report.

Responsibilities of Directors for the Financial Report

The directors of the Group are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

CHARTERED ACCOUNTANTS
AUSTRALIA + NEW ZEALAND

Hardwickes
more than accounting

6 Phipps Close Deakin ACT 2600
PO Box 322 Curtin ACT 2605

T 02 6282 5999
F 02 6282 5933
E info@hardwickes.com.au

www.hardwickes.com.au

Hardwickes
ABN 35 973 938 183

Hardwickes Partners Pty Ltd
ABN 21 008 401 536

XTEK Limited and the Controlled Entity

Independent Audit Report to the Directors of XTEK Limited and the Controlled Entity

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future conditions for which there is currently no indication, might cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Hardwickes
Chartered Accountants

Bhaumik Bumia CA
Partner

Canberra

30 September 2021

CHARTERED ACCOUNTANTS
AUSTRALIA + NEW ZEALAND

Additional Information

1. **The following information set out below was applicable as at 28 September 2021.**
2. **Shareholding**

(a) Distribution of Shareholders

Category (size of holding)	Total holders	Number Ordinary Shares
1 – 1,000	363	197,733
1,001 – 5,000	622	1,650,135
5,001 – 10,000	255	2,016,631
10,001 – 100,000	485	16,645,243
100,001 and over	99	50,526,817
Total	**1,824**	**71,036,559**

(b) 20 Largest Shareholders – Ordinary Shares

Rank	Name	Number of Ordinary Fully Paid Shares No.	% Held of Issued Ordinary Capital %
1	UDB PTY LIMITED <THE BOETTCHER FAMILY A/C>	4,430,630	6.24
2	FINEXIA SECURITIES LTD <CLIENT NOMINEE A/C>	3,500,000	4.93
3	ALTOR CAPITAL MANAGEMENT PTY LTD <ALTOR ALPHA FUND A/C>	3,044,401	4.29
4	ACM AEPF PTY LTD <ALTOR EMERGING PIPE FUND A/C>	3,016,423	4.25
5	MRS WENDY WING LIN LO	2,572,501	3.62
6	ALL OTHERS PTY LTD <ALL OTHERS A/C>	2,193,659	3.09
7	BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	2,187,959	3.08
8	FAIRLANE MANAGEMENT PTY LTD	2,096,097	2.95
9	EMALYN HOLDINGS <JOHN KENNEDY TESTAMENTARY AC>	1,666,666	2.35
10	UDB PTY LIMITED <BOETTCHER SUPER FUND ACCOUNT>	1,309,778	1.84
11	BISSAPP SOFTWARE PTY LTD <BISAPP SOFTWARE SF A/C>	1,182,351	1.66
12	WAVET FUND NO 2 PTY LTD <WAVET SUPER FUND NO 2 A/C>	1,070,000	1.51
13	MR PHILIPPE ODOUARD	890,595	1.25
14	MR IVAN SLAVICH	752,507	1.06
15	BISSAPP SOFTWARE PTY LTD <SUPER FUND ACCOUNT>	693,493	0.98
16	MR NICHOLAS HENRY WEBER <MAJURA FAMILY A/C>	675,804	0.95
17	DWKSJK PTY LTD <SEAWEED INVESTMENT A/C>	603,090	0.85
18	RCFT PTY LTD <CRAIG PROPERTY 3 A/C>	599,400	0.84
19	ATECH GROUP PTY LIMITED <ATECH GROUP SUPER FUND A/C>	591,158	0.83
20	BUNDARRA TRADING COMPANY PTY LTD <THOMAS EMERY KENNEDY A/C>	580,510	0.82
Totals: Top 20 holders of ORDINARY FULLY PAID SHARES (Total)		**33,657,022**	**47.38**
Total Remaining Holders Balance		**37,379,537**	**52.62**

3. **The name of the Company Secretary is Mr. Lawrence Gardiner.**

4. **The address of the Principal Registered Office of XTEK Limited in Australia is 3 Faulding Street, Symonston, ACT, 2609
Telephone +61 2 6163 5588.**

XTEK Limited and Controlled Entities
Corporate Governance Statement

XTEK Limited and controlled entities 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 security holder 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 and recommendations for Corporate Governance (4th Edition) of February 2019.

Principle 1: Lay Solid Foundations for Management and Oversight

Council Recommendation 1.1: A listed entity should disclose a Board Charter which sets out the respective roles and responsibilities of the Board and Management and includes a description of those matters expressly reserved to the Board and those delegated to Management

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

Role of Chief Executive Officer

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 to the Board on the fairness of the financial statements and adequacy of policies as regards risk management, monthly reporting on performance of businesses and continual education of Directors of the Company, its business environment and relevant changes of law;

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

- All other matters necessary for the day-to-day management of the Company and not reserved for the Board. Induction procedures are in place to allow new executive management personnel to participate fully and actively in management decision making at the earliest opportunity upon appointment. This induction process will take into account the individuals knowledge of the Company and the homeland security industry. The induction program for senior executives is designed to make available the Company's financial position, strategies, operations and risk management policies. Also, 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, Company Secretary, Chief Financial Officer (CFO) as well as reviewing the performance of the Chief Executive Officer 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 Chief Executive Officer 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.

XTEK Limited and Controlled Entities
Corporate Governance Statement

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 and Risk Management Committee;
- Human Resources and 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 matters expressly reserved for the Board of Directors

The following matters and responsibilities have been expressly reserved for the Board:

- 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 corporate risks that arise are identified, assessed, appropriately managed and monitored;
- Ensuring appropriate resources are available to senior executives; and
- Reporting to security holders.

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.

The Company complies with Recommendation 1.1.

Council Recommendation 1.2: A listed entity should undertake appropriate checks before appointing a Director or senior executive or putting someone forward for election as a Director security and in addition should disclose all material information in its possession relevant to a decision on whether or not to elect or re-elect a Director.

The Company has adopted a policy as developed by the Nomination Committee for the selection and appointment of Directors. This policy defines procedural processes for the appointment of new Directors and the re-election of incumbent Directors. As part of this process, the Company undertakes appropriate background checks on all candidates being considered for appointment. Directors are appointed based on the specific governance skills required by the Company to fill Board vacancies when they arise. The Company discloses all material information to security holders in its possession relevant to a decision on whether or not to elect or re-elect a Director. This is achieved primarily through the release of information contained within the Notice of Annual General Meeting of the Company covering motions on the election and re-election of Directors.

The Company complies with Recommendation 1.2.

Council Recommendation 1.3: A listed entity should have a written agreement with each director and senior executive setting out the terms of their appointment.

All new Directors and Senior Executives are provided with a letter of appointment setting out terms of the appointment, which include the Company's expectations, their individual responsibilities, rights and terms and conditions of their employment. By way of induction, new Directors and Executives meet with the Chairman and Company Secretary upon appointment. These briefings cover the operation of the Board and its Committees and financial, strategic, operations and risk management issues.

The Company complies with Recommendation 1.3.

Council Recommendation 1.4: The Company Secretary of a listed entity should be accountable directly to the Board, through the Chair, on all matters to do with the proper functioning of the Board.

The Board has designated the Company Secretary as the Officer responsible for oversighting all governance matters 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. In addition, the Company Secretary is also responsible for the following matters:

- advising the Board and its Committees on all governance matters;
- monitoring of Board policy and procedures to ensure compliance standards are met by the Company;
- ensuring the business of the Board/Committee meetings are accurately recorded in official Minutes and disseminated in a timely manner;
- overseeing and coordinating information disclosure to the ASX, security holders, analysts, brokers, the media and the public;
- advising Directors and staff on the Company's governance and disclosure policies and raising awareness of the principles underlying continuous disclosure; and
- facilitating the induction and professional development of new Directors and Executives.

The Company complies with Recommendation 1.4.

Council Recommendation 1.5: A listed entity should have a disclosable diversity policy which includes requirements to set measurable objectives for achieving gender diversity.

The Company is committed to providing a safe working environment and equal employment opportunities for all Directors, executives and employees at all levels within the Company. Whilst the Company is not subject to the provisions of The Workplace Gender Equality Act, in that it employs less than 100 employees, it does recognise the importance of diversity within the workplace.

The Company operates as an equal opportunity Employer and selects personnel based upon the principle of the best person for the role/job, irrespective of gender, age, sexual orientation, ethnicity, marital or family status and religious or cultural background. The Company Code of Conduct defines that discrimination, harassment, vilification and victimisation cannot and will not be tolerated. Recruitment and selection practices at all levels are appropriately structured to ensure all candidates are considered and that no conscious or unconscious biases are applied against certain candidates.The Company is a small business enterprise with less than 60 personnel overall (inclusive of the Board). None-the-less, the Company has successfully employed a number of women to management roles in recent years.

Whilst the Company does not comply with Recommendation 1.5 fully, it nonetheless applies many of the core principles through its Code of Conduct provisions.

Council Recommendation 1.6: A listed entity should have and disclose a process for periodically evaluating the Board, Committees and individual Directors and disclose for the reporting period whether a performance evaluation has been undertaken.

The Nomination Committee of the Board is responsible for the conduct of a performance review of the Board (both collectively and individually) and the Chief Executive Officer. This is an annual evaluation process and is based on a number of goals for the Board and the individual Directors that have been established in the preceding year. The goals are based on the role of the Board and individual Directors as well as corporate objectives and any areas for improvement identified in previous reviews. The assessment of the performance of individual Directors is undertaken by the Nomination Committee, with the Chairman meeting privately with each Director, Company Secretary and the Chief Executive Officer to discuss their annual assessment. Performance assessment was conducted during the FY21 reporting period, with the Chairman meeting will all Directors and the Company Secretary.

The Company complies with Recommendation 1.6.

Council Recommendation 1.7: A listed entity should have and disclose a process for periodically evaluating the performance of its senior executives and disclose for the reporting period whether a performance evaluation has been undertaken.

The performance of senior executives is reviewed regularly through the application of a Performance Appraisal Program (PAP) that defines appropriate evaluation measures to be applied in the assessment process. Each year senior executives establish a set of performance targets. These targets are aligned to overall business goals and the Company's requirements of the position. The PAP is administered annually for all senior executives with the Chief Executive Officer being responsible for their individual assessment and subsequent reporting of outcomes to the Board. The Nomination Committee of the Board is responsible for the performance assessment of the Chief Executive Officer, Company Secretary and the Chief Financial 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. Performance assessment was conducted for all senior executives during the

FY21 reporting period. 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.

The Company complies with Recommendation 1.7.

Principle 2: Structure of the board to add value

Council Recommendation 2.1: The Board of a listed entity should have a Nomination Committee

Nomination Committee

The role of the Nomination Committee is to help achieve a structured Board that adds value to the Company by ensuring an appropriate mix of skills are present in Directors on the Board at all times. Under the Company's Constitution, the Board shall be comprised of not less than three and no more than twelve Directors, unless otherwise determined by a general meeting. 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.

Members of the Nomination Committee during the reporting period were:

- Mr. Uwe Boettcher (Chair);
- Mr. Chris Fullerton;
- Mr. Philippe Odouard;
- Mr. Christopher Pyne;
- Mr. Robert Quodling;
- Mr. Ivan Slavich; and
- Mr. Mark Smethurst

Role of Nomination Committee

The role of the Nomination Committee is to:

- Review the structure, size and composition of the Board;
- Identify, consider and select candidates with appropriate capabilities, to fill Board vacancies when they arise;
- Ensure that candidates have adequate time available to fulfil their role as a Director;
- Undertake or arrange for annual performance evaluation of the Board, its committees and Directors, and
- Review 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.

Director Selection and Appointment

The Board has adopted a policy as developed by the Nomination Committee for the selection and appointment of Directors. This policy defines procedural processes for the appointment of Directors and the re-election of incumbent Directors. Directors are appointed based on the specific governance skills required by the Company. Given the size of the Company and the business that it operates, the Company aims at all times to have at least one Director with experience in the industry, appropriate to the Company's market. If the need for a new Board member is identified, 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 security holders.

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.

The Company complies with Recommendation 2.1.

Council Recommendation 2.2: A listed entity should have and disclose a Board skills matrix setting out the mix of skills and diversity that the Board currently has or is seeking to achieve in its membership.

The current Board is comprised of four Directors who possess a wide range of background skills, expertise and knowledge deemed appropriate for the Company's industry type. 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 on the Board of Directors page of XTEK's website.

The Company complies with Recommendation 2.2.

Council Recommendation 2.3: A listed entity should disclose the names of the Directors considered by the Board to be independent, if they have a relevant interest and their length of service.

The Board considers independent decision-making as critical to effective governance and to meet the ASX Corporate Governance Council Recommendations. Independent Directors are identified by their profiles in the 2021 Annual Report. These profiles detail the skills, experience, and expertise relevant to the position of Director, and the terms of office held by the Director and also the status of each Director in relation to the criteria listed below. Unless otherwise stated, the Board does not consider a Director to be an independent Director of the Company if the Director:

- is a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
- is employed, or within the last three years, has been employed in an executive capacity by the Company, and there has not been a period of at least three years between ceasing such employment and serving on the Board;
- has within the last three years, been a principal of a material professional adviser or a material consultant to the Company, or an employee materially associated with the service provided;
- is a material supplier or customer of the Company or another group m ember, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- has a material contractual relationship with the Company other than as a Director of the Company;
- has served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company; and
- is not free from any interest and any business or other relationship which could, or could reasonably be perceived to materially interfere with the Director's ability to act in the best interests of the Company.

Similarly, the Board has adopted a policy that the Chair should be an independent Director. However due to changes to the Board in 2009, Mr. Boettcher was appointed as a Director (Non-executive) and Chairman of the Company. Mr. Boettcher, as a Director of a major shareholder of the Company, does not meet the Company's criteria for independence. 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 Directors, Messrs. Fullerton, Pyne and Slavich also met the criteria for independence during the reporting period for FY2021.

The Company partially complies with Recommendation 2.3.

Council Recommendation 2.4: A majority of a Board of a listed entity should be independent Directors

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

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 2021 Annual Report along with the term of office held by each of the Directors. Directors are appointed based on the specific governance skills required by the Company and on the independence of their decision-making and judgment. The Company recognises the importance of Non-Executive Directors and the external perspective and advice that Non-Executive Directors can offer. Messrs Boettcher, Fullerton Pyne, Slavich and Smethurst served as Non-Executive Directors during the reporting period for FY2021. The Company further recognises that Independent Directors are important in assuring shareholders that the Board is properly fulfilling its role, therefore, in addition to being a Non-executive Director, Messrs. Fullerton, Pyne and Slavich also met the criteria for independence during the reporting period for FY2021.

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 Company currently complies with Recommendation 2.4.

Council Recommendation 2.5: The Chairperson of a listed entity should be an independent Director and, in particular should not be the same person as the Chief Executive Officer of the entity.

Independence of Chairman

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

The Company does not comply with this independence requirement.

Roles of Chairman and Chief Executive Officer

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

The Company complies with this independence requirement.

Council Recommendation 2.6: A listed entity should have a program for inducting new Directors and provide appropriate professional development opportunities for Directors to develop and maintain skills and knowledge needed to perform their role as Directors effectively.

The Board has designated the Company Secretary as the Officer responsible for facilitating the induction and professional development of new Directors. By way of induction, new Directors meet with the Chairman and Company Secretary upon appointment, whereby briefings are given on the operation of the Board and its Committees and financial, strategic, operations and risk management issues applicable to the Company. The Company Secretary provides all new Directors with a comprehensive induction package covering Company policies and procedures that are applicable to all Directors and employees. As part of their ongoing professional development, new Directors may be required to complete a Company Directors Course as conducted by the Australian Institute of Company Directors.

The Company complies with Recommendation 2.6

Principle 3: Promote ethical and responsible decision-making

Council Recommendation 3.1: A listed entity should articulate and disclose its values

The Company is committed to conducting all its busines activities honestly with a high level of integrity, and in compliance with all applicable laws, rules and regulations. The Board is dedicated to the ongoing maintenance of high ethical standards and has established a Company Code of Conduct to guide compliance with legal and other obligations to all legitimate stakeholders. These stakeholders include shareholders, employees, customers, government authorities, creditors and the community as whole. All Directors, senior executives and employees are made aware of the existence of the Company Code of Conduct and are requested to confirm they have read it.

The Company complies with Recommendation 3.1.

Council Recommendation 3.2: A listed entity should have and disclose a code of conduct for its Directors, senior executives and employees and that the Board is informed of any material breaches of that code.

Company Code of Conduct

As part of its commitment to recognising the legitimate interests of stakeholders, the Company has established a Code of Conduct that applies to all Directors, senior executives and employees.

The Company's Code of Conduct gives guidance on the following.

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

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

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

- *Employment Practices*: The Company is committed to providing a safe workplace environment in which there is equal opportunity for all employees at all levels of the Company. The Company does not tolerate the offering or acceptance of bribes or the misuse of Company assets or resources.

- *Obligations Relative to Fair Trading and Dealing:* The Company aims to conduct its business fairly and to compete ethically and in accordance with relevant competition laws. The Company strives to deal fairly with the Company's customers, suppliers, competitors and other employees and encourages its employees to strive to do the same.

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

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

    - encourages all employees to engage in activities beneficial to their local community.

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

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

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

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

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

The Company complies with Recommendation 3.2

Council Recommendation 3.3: A listed entity should have and disclose a whistleblower policy and that the Board is informed of any material incidents under that policy.

The Company's Whistleblower Policy which forms part of the 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.

Any material breaches of the Whistleblower Policy as defined by the Company are reported to the Board.

The Company complies with Recommendation 3.3

Council Recommendation 3.4: A listed entity should have and disclose an anti-bribery and anti-corruption policy and that the Board is informed of any material breaches of that that policy.

The Company's Anti-Bribery and Anti-Corruption Policy forms part of the TRACE International Code of Conduct that has been adopted by the Company. This policy provides guidance on the conduct of commercial transactions that may involve the following risks:

- bribery and facilitation of payments or extortion;
- kick-backs/granting of a benefit;
- conflicts of interest; and
- political and philanthropic contributions.

The Company complies fully with this international policy and undertakes annual anti-bribery and anti-corruption training with TRACE International. Any material breaches of this policy are reported to the Board and to TRACE International.

The Company complies with Recommendation 3.4

Principle 5: Safeguard integrity in financial reporting

Council Recommendation 4.1: The Board of a listed entity should have an Audit Committee.

Finance, Audit and Risk Management Committee

The Finance, Audit and Risk Management (formerly Audit) Committee was originally 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.

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 continuously improve the quality of the accounting function;
- Reviewing the half-year and annual reporting and financial statements prior to lodgment of those documents with the Australian Securities 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.

Composition

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

Charter

A formal charter for the Finance, Audit and Risk Management (formerly Audit) Committee was originally 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 together with procedures for the selection and appointment of external auditors and rotation of engagement partners and is posted on the Company's web site. The Board, with the involvement of the Finance, Audit and Risk Management Committee, has established procedures in relation to the external auditor selection and appointment and for discussing with the auditor the rotation of the lead partner. The current external Auditor as appointed by the Board is Hardwickes Chartered Accountants.

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.

The Company complies with Recommendation 4.1.

Council Recommendation 4.2: The Board of a listed entity should before it approves the entity's financial statements for a financial period, receive assurance from the Chief Executive Officer and Chief Financial Officer a declaration, that in their opinion, the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

Management Attestation

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

On 28 September 2021, the Chief Executive Officer and the Chief Financial Officer 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.

The Company complies with Recommendation 4.2.

Council Recommendation 4.3: A listed entity should disclose its process to verify the integrity of any periodic corporate report, it releases to the market that is not audited or reviewed by an external auditor.

The Company ensures that all of its periodic corporate reports (Half Year and Annual Report) it releases to the market are firstly reviewed by Management and appropriate supporting documents and declarations are provided to the Board for final review and approval. All financial reports are prepared in accordance accounting standards and give a true and fair view of the financial position and performance of the Company. Additionally all financial reports released to the market are subject to review by an external auditor and that the Auditor's Report forms part of all Company financial reports released to the market.

The Company complies with Recommendation 4.3.

XTEK
PROTECT AND SUSTAIN

Principle 5: Make timely and balanced disclosures

Council Recommendation 5.1: A listed entity should have and disclose its written policy for complying with continuous disclosure obligations under ASX Listing Rule 3.1.

Continuous Disclosure

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

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

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

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

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

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

To assist the Company Secretary to fulfil the Company's disclosure requirements, all business unit managers are responsible for immediately communicating to the Chief Executive Officer and Company Secretary any possible continuous disclosure matter concerning their business unit. The manager of each business unit 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
- advising 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.

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

The Company complies with Recommendation 5.1.

Council Recommendation 5.2: A listed entity should ensure its Board receives copies of all market announcements promptly after they have been made.

In accordance with the Company's Continuous Disclosure Policy, all members of the Board are provided with material market announcements promptly after they have been made. This information is also disseminated to all staff.

The Company complies with Recommendation 5.2

Council Recommendation 5.3: A listed entity that gives a new or substantive investor or analyst presentation should release a copy of the presentation materials on the ASX Market Announcements Platform ahead of the presentation being undertaken.

The Company ensures that all substantive investor or analyst presentations are firstly released on the ASX Market Announcements Platform prior to any presentation being made to select investor audiences.

The Company complies with Recommendation 5.3

Principle 6: Respect the right of security holders

Council Recommendation 6.1: A listed entity should provide information about itself and its governance to investors via its website.

The Company aims to ensure that investors are kept informed of all major developments affecting the state of affairs of the Company and its governance regime via its website. Information currently available to investors through the Company's website, which has a dedicated investor relations section, includes the following:

- the names and brief biographical information of Directors and senior executives;
- the Company Constitution, Board/Committee Charters and corporate governance polices;
- the Annual Report and the Interim Report;
- disclosures made to the Australian Securities Exchange;
- notices and explanatory memoranda of annual and extraordinary general meetings; and
- regular newsletters or market updates to security holders where appropriate.

The Company complies with Recommendation 6.1.

Council Recommendation 6.2: A listed entity should have an investor relations program that facilitates effective two-way communications with investors.

The Company recognises the importance of effective communications with investors and recently introduced a new Investor Relation program to facilitate enhanced communication with both security holders and investors. The Board has subsequently appointed a new Chief Executive Officer, who is now responsible for managing this program. Mr Philippe Odouard is currently appointed to this position. To facilitate the effective communication with investors, the Company is committed to:

- communicating effectively with investors and security holders through releases to the market via ASX, the Company's website and information mailed to security holders and the general meetings of the Company; and
- providing investors and security holders with ready access to balanced and relevant information about the Company and corporate proposals.

The Company website also includes a feedback mechanism and an option for investors and security holders to register their email address for direct email updates of Company matters.

The Company complies with Recommendation 6.2.

Council Recommendation 6.3: A listed entity should disclose how it facilitates participation at meetings of security holders.

The Company encourages full participation of security holders 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 security holders as single resolutions at general meetings. In order to make it easy for security holders to participate in general meetings of the Company, a direct voting facility has been put in place so as to allow security holders to vote ahead of the meeting without having to attend or appoint a proxy.

The Company complies with Recommendation 6.3.

Council Recommendation 6.4: A listed entity should ensure that all substantive resolutions at a meeting of security holders security holders are decided by a poll rather than by a show of hands

The Company encourages all security holders to exercise their option of communicating electronically during the conduct of general meetings of the Company. In 2020, due to COVID-19 lockdowns being imposed by Government authorities, the Company arranged for all security holders to vote on all resolutions by electronic polling as opposed to a show of hands process. Given the success of this process, it is intended that the same arrangements will be put in place for the 2021 AGM of the Company.

The Company complies with Recommendation 6.4.

Council Recommendation 6.5: A listed entity should give security holders the options to receive communications from, and send communications to, the entity and its security registry electronically.

The Company encourages all security holders to exercise their option of receiving communications electronically from the Company and its security registry. This allows for the dissemination of Company information to security holders in a timely and cost- effective manner. The Company in conjunction with its contracted security registry, routinely issues notices and financial reports electronically to those security holders that have registered for this service. The Company has developed formal policy for promoting electronic communication with shareholders.

The Company complies with Recommendation 6.5.

Principle 7: Recognising and managing risk

Council Recommendation 7.1: The Board of a listed entity should have a committee to oversight material business risks and disclose the charter and policies of such a committee.

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

The Company's Risk Management policy is posted on the Company's website at the Corporate Governance Section. The Company complies with Recommendation 7.1.

Council Recommendation 7.2: The Board or a committee of the Board should review the entity's risk management framework at least annually to satisfy itself that it continues to be sound and that the entity is operating with due regard to the risk appetite set by the Board and subsequently disclose the findings of the review.

The Board has delegated the responsibilities of conducting an annual review of the entity's risk management to the Finance Audit and Risk Management Committee. All such reviews are conducted in accordance with established risk management policy and take into account the formal Management Statement as provided by the Chief Executive Officer and the Chief Financial Officer on an annual basis.

Management Statement

The Chief Executive Officer and the Chief Financial Officer are required to provide a signed Management Statement to the Board on an annual basis with regard to the risk management and internal control systems of the Company. This statement requires the Chief Executive Officer and the Chief Financial Officer 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 attention that would indicate any material change to the statements as made in relation to risk management and compliance.

On 28 September 2021, the Chief Executive Officer and the Chief Financial Officer 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.

The Company complies with Recommendation 7.2.

Council Recommendation 7.3: A listed entity should disclose if it has an internal audit function, how the function is structured and what role it performs.

The Company has established an internal audit function that applies a systematic and disciplined approach to evaluating and continually improving the effectiveness of quality systems covering risk management and internal control measures. All internal audit functions are conducted throughout the year on a program authorised by the Chief Executive Officer. Findings and observations from internal audits are reported to the Chief Executive Officer and Company Secretary for subsequent corporate and Board action as required. Internal audits performed by the Company are subject to an annual quality systems assurance review by an external auditor. Failure to meet the requisite audit standards could result in a loss of quality systems accreditation by the Company.

The Company complies with Recommendation 7.3.

Council Recommendation 7.4: A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and how it manages or intends to manage those risks.

The Company manages material exposure concerns associated with economic, environmental and social sustainability risks as part of its overall risk management strategies as defined in relevant risk policy and procedures. In the course of conducting its business as a listed entity and recognising the legitimate interests of stakeholders, the Company also utilises policy contained within its Code of Conduct Policy to guide compliance with legal and other obligations to legitimate stakeholders. These stakeholders include security holders, Directors, employees, customers, government authorities, creditors and the community as whole. The Company's Code of Conduct gives guidance on the following.

- *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 security holders and the financial community:* The Company complies with the spirit as well as the letter of all laws and regulations that govern business operations. 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.

- *Obligations Relative to Fair Trading and Dealing:* The Company aims to conduct its business fairly and to compete ethically and in accordance with relevant competition laws. The Company strives to deal fairly with the Company's customers, suppliers, competitors and other employees and encourages it employees to strive to do the same.

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

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

  - encourages all employees to engage in activities beneficial to their local community.

- *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.

The Company has developed a formal policy for recognising and managing risk, this policy is publicly available and published on the Company's website.

The Company complies with Recommendation 7.4

Principle 8: Remunerate fairly and responsibly

Council Recommendation 8.1: The Board of a listed entity should have a Remuneration Committee and disclose the charter of the committee.

Remuneration Committee

The role of the Committee is to review and make recommendations to the Board on remuneration packages for the Chief Executive Officer, Executive Directors, Company Secretary and other senior executives. 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 human resource 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 suitably qualified and experienced directors and senior executives. The Committee may obtain independent advice on the appropriateness of remuneration packages.

Composition

The Human Resource and Remuneration Committee currently consists of the Board. Mr. Smethurst is the current Chair. The details of the member's qualifications may be found in their Director profiles published on the Company's website.

The Company complies with Recommendation 8.1

Council Recommendation 8.2: A listed entity should separately disclose its policies regarding the remuneration Non-Executive Directors and the remuneration of Executive Directors and Senior Executives.

Remuneration Practice

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

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 Human Resources 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. Non-executive Directors will receive fees in the form of cash fees and statutory superannuation. The maximum total for annual fees for Directors is approved from time to time by security holders in a general meeting. This is currently set at $500,000 per annum as approved by security holders on 29 November 2019.

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 Human Resource and Remuneration Committee and the Board and subject to security holder approval.

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, performance based bonus 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 Chief Executive Officer, Chief Financial Officer and 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 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 Chief Executive Officer 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 security holders in the current period. The total cost of Directors and senior executive remuneration packages for FY 2021, including the fair value of options, is listed in the Directors Report and Financial Statements of the 2021 XTEK Annual Report.

The Company complies with Recommendation 8.2

Council Recommendation 8.3: A listed entity which has an equity-based remuneration scheme should have and disclose policy on participation in such a scheme.

The Company has approved equity-based incentive schemes in place to remunerate directors, senior executives and staff. The Board has determined that all approved issues of securities made to directors and employees of the Company under equity-based incentive schemes are disclosed to security holders and investors as part of its continuous disclosure obligations.

Policy pertaining to participation in equity-based incentive schemes by directors and employees in contained within the Human Resources and Remuneration Committee Policy, this policy is publicly available and published on the Company's website.

The Company complies with Recommendation 8.3.

XTEK
PROTECT AND SUSTAIN