

ASX Market Announcements Office
Australian Securities Exchange
Exchange Centre
Level 4, 20 Bridge Street
SYDNEY NSW 2000

30 September 2022

By Electronic Lodgement

Dear Sir/Madam,

LODGEMENT OF 2022 ANNUAL REPORT FOR XTEK LIMITED

In accordance with the Listing Rules, please find attached the Annual Report for XTEK Limited (XTE) for the financial year ended 30 June 2022.

Should you require any further information in respect to this matter please contact the Company Secretary, Mr. Lawrence Gardiner at Laurie@xtek.net or 0418 488 931 in the first instance.

Yours sincerely,



Lawrence A. Gardiner
Company Secretary

Attachment: 2022 Annual Report for XTEK Limited (ABN 90 103 629 107)

For personal use only



Innovation Leadership Growth

Annual Report 2022



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XTEK's purpose

PROTECT THE FRONTLINE
PROTECTORS

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XTEK's business

IS PROVIDING HIGH-QUALITY SPECIALIST PRODUCTS AND TAILORED SOLUTIONS TO MILITARY, LAW ENFORCEMENT AND GOVERNMENT AGENCIES

XTEK's focus

IS ON GROWING ITS GLOBAL SALES AND DISTRIBUTION NETWORK IN NEW MARKETS FOR ITS HIGH PERFORMANCE BALLISTIC PRODUCTS AND TECHNOLOGY SOLUTIONS



XTEK Group

XTEK GROUP IS AN ASX LISTED
INTERNATIONAL DEFENCE
INDUSTRY COMPANY.

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THE GROUP OPERATES AS TWO DISTINCT DIVISIONS - BALLISTICS & TECHNOLOGY.

Ballistics Division (HighCom)



Focused on designing, manufacturing, and supplying global military, law enforcement, and first responder customers with world-class, advanced personal protection ballistic products and solutions for:

- Body Armour
- Ballistic Helmets
- Composite Structures

Technology Division



Focused on manufacturing and supplying global Defence and Security Agencies with world-leading Australian-made and globally sourced:

- Systems - UAVs & UGVs solutions
- Sensors - Detection & Optical Payloads
- Software - 3D Mapping & Modelling SW & Tactical Situational Awareness SW
- Support - System Integration, Training, & Service Support



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Ballistics Division (HighCom)

Production facilities:

- Columbus Manufacturing Centre (CMC), OH, USA
- Adelaide Manufacturing Centre (AMC), SA, Australia

Focused on designing, manufacturing, and supplying global military, law enforcement, and first responder customers with world-class, advanced personal protection ballistic products and solutions for:

- Body Armour
- Ballistic Helmets
- Composite Structures

Columbus
Manufacturing
Centre

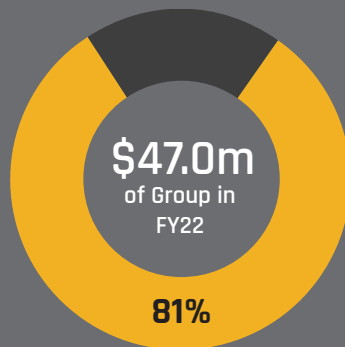
Adelaide
Manufacturing
Centre





Revenue Attribution (A\$m)

Ballistics Division (HighCom) contribution
of \$47.0m (81%) of Group in FY22 vs
\$16.1m (58%) in FY21



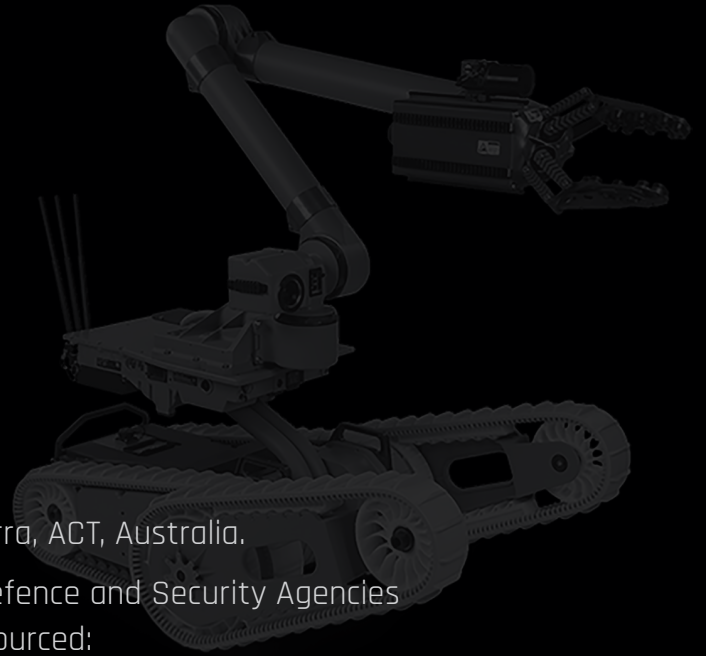
\$100m

global opportunity pipeline

\$100m of international opportunities in various
stages of qualification in Europe, the USA,
the Asia Pacific, and other regions



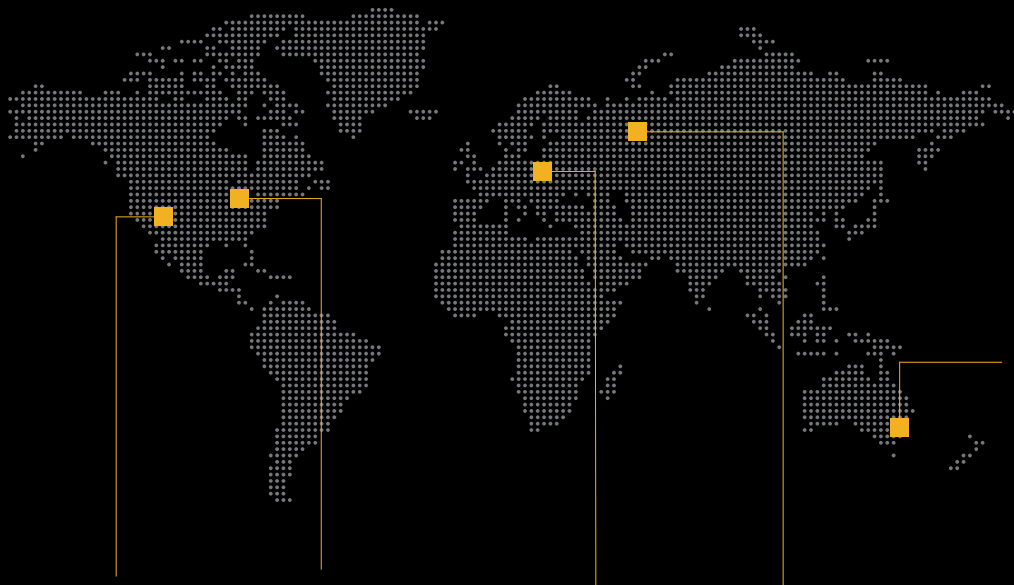
For personal use only Technology Division



Co-located with Corporate Headquarters in Canberra, ACT, Australia.

Focused on manufacturing and supplying global Defence and Security Agencies with world-leading Australian-made and globally sourced:

- Systems – UAVs & UGVs solutions
- Sensors – Detection & Optical Payloads
- Software – 3D Mapping & Modelling SW & Tactical Situational Awareness SW
- Support – System Integration, Training, & Service Support

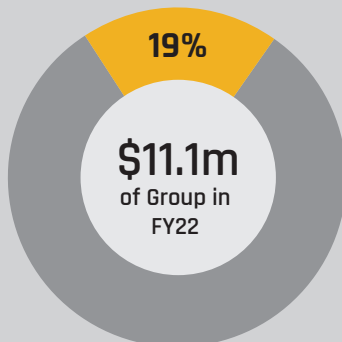


Our world leading OEM systems partners



Revenue Attribution (A\$m)

Technology Division contribution of
\$11.1m (19%) of Group in FY22 vs
\$12.1m (42%) in FY21



The Technology Division
has a pipeline of
opportunities exceeding
\$30m for new systems
and new support contracts
across Australia and
New Zealand.

CHAIRMAN'S REPORT



Dear Shareholders,

I AM PLEASED TO PRESENT THE FY22 ANNUAL REPORT, MY FIRST AS THE CHAIRMAN, ON BEHALF OF THE BOARD OF DIRECTORS OF XTEK LIMITED ("XTEK").

This year has been a tumultuous one for the company as it has benefited from the transformation activity executed by senior management and the focus of the whole organisation on market success. A weak first half performance has been completely eclipsed by an exceptional final four months to enable a strong result and excellent foundation for FY23.

It would be easy to simply credit global uncertainty as the key driver of this result, and to some extent this is true. The reality however is that cost reduction coupled with more effective market execution capability is the foundation for this success. The transformation program launched at the start of this financial year is mostly complete and we thank our shareholders for their patience whilst the Company has completed this reinvigoration and refocus. The write off of the Virolens investment was necessary, as has been an exit from underperforming markets and technologies, to enable the achievement of this result. XTEK emerges from this phase stronger, better led and more energised with a more manageable cost base than in recent history.

We have been able to realise success in both of XTEK's operating divisions and our immediate plans focus on an extension of XTEK's business in Europe and reinforcing our success in the US with a stronger focus on the US Department of Defense market. New ballistic products developed in our R&D facility in Adelaide will also be highly attractive to our defence clients.

Continuing uncertainty in Europe where, for at least a decade, defence budgets have been depressed due to a relatively benign geo-political environment, means that XTEK enters the new financial year with a strong opportunities list and motivated sales and business development staff. Closer to home, strongly positive engagement with defence forces in our region have also yielded increased orders and a number of opportunities that we are currently working on with the ADF and others.

We enter FY2023 in the strongest financial position in the Company's history. We have a simple and actionable strategy, strong Board, excellent leadership through our CEO Scott Basham and a great sales and business development focus. Our cost base is now appropriate for the business as it currently exists and we have a number of initiatives underway to further develop XTEK as a global defence and law and order business. We expect much of ourselves in 2023 and our shareholders' interests remain front of mind.

I thank our shareholders for your continued support of the Company and I look forward to sharing XTEK's journey in the coming year.

Sincerely,

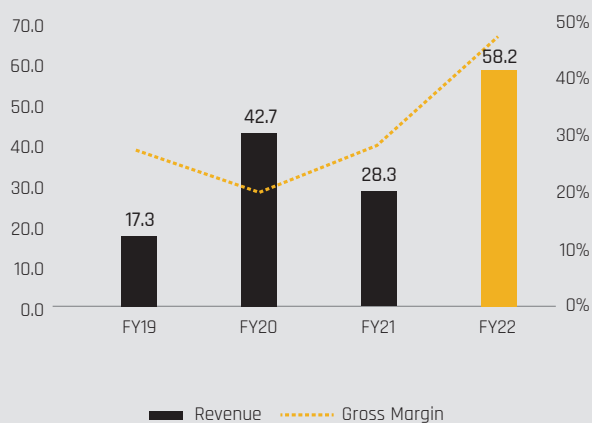
Mark Stevens
Chairman

Dated this 30th day of September 2022

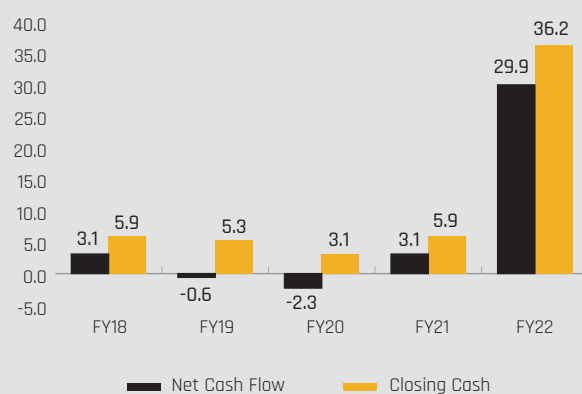
FINANCIAL HIGHLIGHTS

- Strategy in place to guide the company's development and growth in the medium term
- Realising the benefits of the company's transformation program
- Focus on Defence and Law and Order markets globally, supported by considered and deliberate leadership and business development
- Strong second half performance that has delivered XTEK's best financial result in its history

Revenue (A\$m)



Cash Flow Statement (A\$m)



Revenue

\$58.2m

increase by ↑105%

Gross Margin

47%

increase by ↑18%

Underlying NPAT

\$8.2m

↑ up from a loss of \$4m

Underlying EBITDA

\$11.5m

↑ up from a loss of \$3m

EBITDA Margin

20%

↑ up from - 11% in FY21

Cash Balance

\$36.2m

Up from \$5.9m in FY21

GROUP CEO'S REPORT



Dear Shareholders,

IT GIVES ME GREAT PLEASURE TO BE ABLE TO PRESENT TO YOU XTEK LIMITED'S ANNUAL REPORT FOR FINANCIAL YEAR 2022 (FY22).

It would be an understatement to say that FY22 has been a year of great change and transformation for our company.

Key FY22 Highlights

- Revenue increased 105% from \$28.3m (FY21) to \$58.2m;
- Gross Profit Margin was up 18% from 29% (FY21) to 47%, thanks to the significantly changed HighCom Armor revenue model mix, away from a predominantly private label sales model of previous years to a majority direct sales and "badged" reseller channel sales focused model going forward;
- Underlying EBITDA was \$11.5m up from a loss of \$3m at 30 June 21;
- Underlying NPAT was \$8.2m up from a loss of \$4m at 30 June 2021;
- Cash at bank on 30 June 22 was \$36.5m compared to \$5.6m at 30 June 21; and
- Contracted orders in hand on 30 June 22 totalling \$45m.

The simplified Income Statement for the financial year ended 30 June 2022 is outlined below.

Summary income		FY20	FY21	FY22
Revenue	A\$m	42.7	28.3	58.2
COGS	A\$m	(34.1)	(20.2)	(30.7)
Gross profit	A\$m	8.6	8.1	27.4
Gross margin		20%	29%	47%
EBITDA	A\$m	0.83	(3.04)	8.97
Net profit	A\$m	0.3	(3.97)	5.74
Other key metrics		FY20	FY21	FY22
Cash balance	A\$m	3.1	5.9	36.2
Market Capitalisation June	A\$m	37.7	29.5	39.7

FY22 Strategic Review Implementation Fully Completed

In July 2021, the Board of Directors commissioned a Strategic Review of the business by an external consultancy firm, which ultimately led to my appointment as the Group CEO, with a mandate to restructure and rightsize the Group, and to refocus our business activities on to our core capabilities and core customers.

Much work was undertaken by our new senior management team during that period to implement these necessary changes, and throughout the course of the first half of FY22, the business was reshaped and streamlined into a leaner and sharply focused organisation, all of which subsequently positioned us in the best possible way to be able to make the most of the various opportunities that were successfully closed out in the second half of the financial year, and saw such a tremendous record full year result posted.

FY23 Contracted Orders in Hand

I am excited to say that the outlook for FY23 is positive and supported by a strong order book. At 30 June 22, the Group had contracted orders in hand totalling \$45m (equivalent 77% of FY22 revenue). This amount included \$32m for the remaining 66% of the \$46.2m transformational HighCom ballistic armour order, plus other armour orders. It also included \$9.6m of Technology Division orders for SUAS spare parts and support services for ADF and other customers.

New Sales Pipeline Opportunities

At the end of FY22, the Group had an opportunity pipeline (across its armour and technology divisions) of leads at various stages of qualification worth more than \$130m. The Group's Technology Division had multiple value added reseller SUAS related opportunities being tendered and negotiated across the ANZ region, valued in excess of \$30m. Our HighCom Armor business continues to engage with EU customers for multiple follow on order opportunities, as well as customers in the Middle East and the US, and has a pipeline of leads exceeding \$100m. There continues to be significant global interest in our HighCom lightweight and high-performance helmets and body armour products manufactured out of the Adelaide Manufacturing Facility for use by special forces and elite law enforcement agency groups.

Global Defence Budget Tail Winds

The group believes that the strong growth currently being experienced by the business is likely to continue for the foreseeable future, while the ongoing uncertainty and military escalations continue to occur, notably in Europe and across the Asia Pacific region. The build-up and re-arming of NATO and European defence forces in the face of ongoing Russian aggression and unpredictability, will almost certainly continue unabated for many years to come.

In the Asia Pacific region, the ongoing great power competition between China and the United States and its Western Allies, including Australia, will almost certainly continue to see increased activity in the acquisition of new capabilities, such as drones and robots for reconnaissance and surveillance tasks, as well as new lightweight and high performance body armour and helmets that are more suitable for soldiers in tropical operating environments, being purchased by APAC military forces.

XTEK Growth Strategy

The Group has a clear strategy for growth and continued profitability:

- Reinforce Success - Invest in the areas of our business that have been successful and have potential for continued enhancement and growth;
- Seek Adjacencies - Find new business opportunities that extend our reach and can draw on our experience and expertise; and

- Create our Future - Invest in organic and inorganic expansion opportunities in the Defence and Law& Order markets to create new products and service offerings for sustained future growth and profitability.

In line with our growth strategy, the Group is actively seeking expansion opportunities for both our HighCom Armor and Technology Division in the US, Europe, and Australia.

FY2023 Outlook

Given the Group's strong cash position, growing backlog of contracted orders in hand and global pipeline of new sales opportunities, the Group is very confident that the revenue in FY23 will exceed the record results we achieved in FY22, and our new Capital Management Policy clearly outlines our intentions regarding the return of capital to our shareholders in FY23. In addition to this, we continue to be strongly and sharply focused on developing and converting our various longer-term sales leads into contracted orders for delivery in FY24 and beyond.

Yours sincerely,



Scott Basham
Group CEO

Dated this 30th day of September 2022

OPERATIONAL HIGHLIGHTS

\$45m

contracted orders in hand for delivery in FY23 (the equivalent 77% of FY22 revenue).

\$100m

multiple large order pipeline. HighCom Armor business continues to engage with EU customers and customers in ME and US.

\$30m

of well progressed Technology Division opportunities in the ANZ region, for Systems, Sensors, Software and Support.

Board of Directors



Mr. Mark Stevens
Non Executive Director/
Chairman of the Board

Mr. Stevens is the Founder and Managing Director of Arican and is one of Australia's leading Defence advisers and commentators. He is a 1984 graduate of the RMC Duntroon and served for ten years as an infantry officer. Since 1995, Mr Stevens has worked primarily as a management consultant and adviser including appointments as the Defence lead for IBM Australia and then across Asia Pacific. Since forming his first advisory business in 1999 he has led over 250 deals into Defence and in 2018 was instrumental in originating the first acquisition by Private Equity of an Australian Defence Industry company, Marand Precision Engineering by CHAMP. Further, Mr. Stevens has a detailed understanding of XTEK's business operations having led a Strategic Review of the Group in July 2021. The Board believes that Mr Stevens will provide outstanding strategic guidance as XTEK continues to sharpen its focus on the core Defence and Law Enforcement markets.



Hon. Christopher Pyne
Non Executive Director

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. Christopher 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.

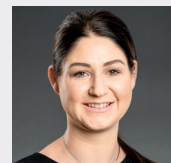
Christopher was elected to Parliament in 1993 and served as the Member for Sturt for 26 years. During this time, he was in the Liberal Party Leadership Group for ten years, Leader of the House of Representatives for six years, and served in Cabinet for six years. Christopher has worked to ensure the growth and sustainment of Australia's Defence Industry.

Christopher 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, Christopher practised as a solicitor at Corrs Chambers Westgarth and Thomson Geer.



Mr. Chris Fullerton
Non-Executive Director

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, and his unlisted company directorships cover companies in the property investment and agriculture sectors.



Ms Adelaide McDonald
Non-Executive Director

Ms Adelaide McDonald has over 15 years' experience in corporate advisory and equity research. Ms McDonald is currently a Non-Executive Director of VGI Partners Global Investments Ltd (ASX:VG1) and VGI Partners Asian Investments Ltd (ASX:VG8). In addition, Ms McDonald has held roles as a Director at KPMG in the Mergers and Acquisitions practice with previous roles at Wilson HTM and BDO Kendalls. Ms McDonald graduated from the University of Queensland with a Bachelor of Commerce, with majors in Accounting and Finance, and a Bachelor of Business Management, majoring in Business Economics. Ms McDonald has completed the CFA Program and has been awarded the CFA Charter.



Mr. Mark Smethurst DSC, AM (Ret'd)
Non-Executive Director

Mark Smethurst's significant Defence experience spans over 35 years in Australian Army, with 27 years as a Senior Special Forces Officer and 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.

Mr Smethurst is a member of, and Advisor to the Global SDF 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.

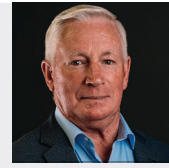


Mr. Ben Harrison
Non-Executive Director

Mr Harrison has 15 years of experience in advising and investing in companies. He commenced his career as a Project Manager for a large international engineering consulting firm working on a number of infrastructure projects in Australia and South East Asia. Mr. Harrison later moved into investment banking, working for a leading corporate advisory house where over a 5 year period he executed over \$2.0 billion in capital market transactions and \$5.5 billion of public M&A transactions.

He is a founder and Chief Investment Officer of Altor Capital and is active in the private equity and credit sectors in Australia. Mr Harrison currently holds board and advisory roles with several private and public companies.

Mr Harrison's extensive investment and financial background knowledge will provide additional financial experience to the XTEK Board.



Mr. Lawrence Gardiner
Company Secretary

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.

Management team



Mr. Scott Basham
Group Chief Executive Officer

Scott Basham joined XTEK in February 2021 and is an internationally experienced corporate executive who has a wealth of knowledge and experience gained from twenty years of involvement working on major security technology projects and system integrations across Australasia and the Asia Pacific regions. Scott's expertise encompasses leadership and general management of private and public companies, strategic sales and business development, international marketing and communications, as well as commercial, operational and program management.

During his career, Scott has worked for a number of major global security technology companies, including Smiths Detection, Unisys, Safran Morpho, and Idemia. His last role before joining XTEK was as Group CEO of the ASX listed company Ava Risk Group Ltd. Scott's expertise and understanding encompasses the breadth of high-end, high-value, integrated detection, inspection, imaging and sensor technologies, and their applications in transportation, border protection, critical infrastructure, emergency services, and the military.

A former commissioned officer in the Australian Regular Army, Scott holds a Master of Business Administration and a Master of Management from the Macquarie Graduate School of Management, and a Master of Commerce from Macquarie University.

Mr. Lawrence Gardiner
Head of Corporate Services

Photo and Bio as above

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 2022. The information in the preceding operating and financial review forms part of this Directors' report for the financial year ended 30 June 2022 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 2022 and to the date of this report:

Mr. Uwe Boettcher (resigned)	Hon. Christopher Pyne
Mr. Mark Stevens	Mr. Mark Smethurst
Mr. Christopher Fullerton	Mr. Philippe Odouard (resigned)
Mr. Ben Harrison	Ms. Adelaide McDonald

Particulars of each Director's experience and qualifications are set out later in this report.

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 \$93,500 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; and
- No payment has been made to indemnify Hardwicks 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, Hardwicks Chartered Accountants in 2022 (2021 Hardwicks Chartered Accountants):

	2022 \$	2021 \$
Assurance services		
Audit and review of financial reports and other audit work under the <i>Corporations Act 2001</i> – Parent company only, see note 9.	61,000	68,000

Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2022 has been received and can be found on page 20 of the financial report.

Directors' Report continued

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

Mr. Uwe Boettcher	Director (Chairman) – Resigned on 23 February 2022
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	7,006,886 ordinary shares at 30 June 2022
Special Responsibilities	Past 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. Mark Stevens	Director (Chairman) – Appointed 23 February 2022
Experience	Mark Stevens was appointed as a Non-Executive Director and Chairman of the XTEK Group, following the resignation of Mr. Uwe Boettcher. Mr. Stevens is the Founder and Managing Director of Arican and is one of Australia's leading Defence advisers and commentators. He is a 1984 graduate of the RMC Duntroon and served for ten years as an infantry officer. Since 1995, Mr. Stevens has worked primarily as a management consultant and adviser, including appointments as the Defence lead for IBM Australia and then across Asia Pacific. Since forming his first advisory business in 1999 he has led over 250 deals into Defence and in 2018 was instrumental in originating the first acquisition by Private Equity of an Australian Defence Industry company, Marand Precision Engineering by CHAMP. Further, Mr. Stevens has a detailed understanding of XTEK's business operations having led a Strategic Review of the Group in July 2021.
Interest in Shares	Nil
Special Responsibilities	Chairman of the Nomination Committee
Other Directorships	Director of Arican 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. He is currently a non-executive director of ASX listed Paradigm Biopharmaceuticals Limited and his unlisted company directorships cover companies in the property investment and agriculture sectors. His current directorships of unlisted companies include those in the property investment and Agtech sectors.
Interest in Shares	254,055 ordinary shares at 30 June 2022
Special Responsibilities	Chairman of Risk Management Committee, effective 30 June 2012
Other Directorships	Director of Kador Group Holdings Ltd and Director of Kool Global Solutions Pty Ltd.

Directors' Report continued

Mr. Benjamin Harrison	Director (Non-Executive) – Appointed 23 February 2022
Experience	Mr. Harrison has 15 years of experience in advising and investing in companies. He commenced his career as a Project Manager for a large international engineering consulting firm working on a number of infrastructure projects in Australia and South East Asia. Mr. Harrison later moved into investment banking, working for a leading corporate advisory house where over a 5 year period he executed over \$2.0 billion in capital market transactions and \$5.5 billion of public M&A transactions. He is a founder and Chief Investment Officer of Altor Capital and is active in the private equity and credit sectors in Australia. Mr. Harrison currently holds board and advisory roles with several private and public companies.
Interest in Shares	Nil
Special Responsibilities	Chairman of Finance and Audit Committee
Other Directorships	Non-Executive Director Change Financial Ltd, and Propell Holdings Limited.
Hon. Christopher Pyne	Director (Non-Executive) – Appointed 30 November 2020
Experience	<p>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. Christopher 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.</p> <p>Christopher 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. He 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. Christopher 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 was the driving force behind the recent establishment of the Australian Space Agency.</p> <p>Christopher is the Chairman of Pyne and Partners, consulting to business in the domain of government and political engagement. Pyne and Partners has offices in Sydney, Canberra and Adelaide. He is an Industry Professor in the University of South Australia Business School specialising in Defence and Space. Before entering Parliament, Christopher practiced as a solicitor at Corrs Chambers Westgarth and Thomson Geer.</p>
Interest in Shares	38,461 at 30 June 2022
Other Directorships	Christopher is Chairman of the Advisory Board of Nioa Munitions and the Australian Missile Corporation and a member of the Advisory Board of Amaero Ltd. He is Chairman of Vision 2020 and on the Board of the International Centre for Democratic Partnerships Pty Ltd and the Advisory Board of the Orygen Institute. In addition he is on the Board of Pyne and Partners Pty Ltd; GC Advisory Pty Ltd and Newpin Advisory Pty Ltd.
Mr. Mark Smethurst	Director (Non-Executive) – Appointed 29 April 2021
Experience	<p>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.</p> <p>Mr. Smethurst 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.</p>
Interest in Shares	72,460 ordinary shares at 30 June 2022
Special Responsibilities	Chairman of the Remuneration Committee
Other Directorships	Non-Executive Director of KORD Group.

Directors' Report continued

Mr. Philippe Odouard	Director (Executive) – Resigned as a Director 30 July 2021
Interest in Shares	890,595 ordinary shares at 30 June 2022
Special Responsibilities	Past Managing Director
Other Directorships	None.
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	51,722 ordinary shares at 30 June 2022
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	10	10	3	3	3	3	3	3
Mr Chris Fullerton	14	14	4	4	3	3	4	4
Hon. Christopher Pyne	14	12	4	4	3	3	4	4
Mr Mark Smethurst	14	10	4	4	3	3	4	4
Mr Philippe Odouard	1	–	–	–	–	–	–	–
Mr Mark Stevens	5	5	1	1	1	1	1	1
Mr Ben Harrison	5	5	1	1	1	1	1	1

REMUNERATION REPORT

Table 1: Benefits and Payments for the Year Ended 30 June 2022

Key Management Personnel (KMP)	FY	Short-term Benefits				Post-Employment Benefits		Long-term Benefits	Total \$	Perf. Related %
		Salary, Fees and Leave ^{*1} \$	Bonus \$	Non-monetary Benefits \$	Share based Payments \$	Super-annuation \$	Other \$	LSL ^{*2} \$		
Mr Mark Stevens	2022	32,000	-	-	-	-	-	-	32,000	-
	2021	-	-	-	-	-	-	-	-	-
Mr Chris Fullerton	2022	65,000	-	-	-	-	-	-	65,000	-
	2021	65,000	-	-	-	-	-	-	65,000	-
Hon. Christopher Pyne	2022	65,000	-	-	-	-	-	-	65,000	-
	2021	37,917	-	-	-	-	-	-	37,917	-
Mr Mark Smethurst	2022	67,083	-	-	-	-	-	-	67,083	-
	2021	60,000	-	-	-	-	-	-	60,000	-
Mr Ben Harrison	2022	22,822	-	-	-	-	-	-	22,822	-
	2021	-	-	-	-	-	-	-	-	-
Mr Scott Basham	2022	267,860	-	-	-	26,786	-	728	295,374	-
	2021	-	-	-	-	-	-	-	-	-
Mr Lawrence Gardiner	2022	161,632	-	-	-	16,163	-	6,905	184,700	-
	2021	131,730	8,265	-	5,034	14,085	8,265	2,110	169,489	8%
Mr David Brooking	2022	202,215	-	-	-	20,221	-	6,006	228,442	-
	2021	198,483	8,917	1,517	4,763	19,834	-	6,751	240,265	6%
Mr Uwe Boettcher	2022	86,667	-	-	-	-	-	-	86,667	-
	2021	130,000	-	-	-	-	-	-	130,000	-
Mr Philippe Odouard	2022	302,696	-	9,424	-	12,312	-	-	324,432	-
	2021	355,700	24,379	28,273	72,161	25,000	11,107	-	516,620	19%
Total KMP	2022	1,272,975	-	9,424	-	75,482	-	13,639	1,371,520	-
	2021	978,830	41,561	29,790	81,958	58,919	19,372	8,861	1,219,291	-

***Notes**

- Salary, fees and leave are per payroll summary or invoices received. These payments may vary to contract due to employee benefits, voluntary salary reductions, additional pay, back pay and annual leave.
- Amounts included for long service leave are movements in accrued entitlements for the relevant twelve-month period.

Remuneration Report continued

3. Key Management Personnel in FY21 but who did not serve in any part of FY22 are not listed here.

(a) Options Rights Granted as Remuneration

There were no new issues of share options or share performance rights during the 2021-22 FY (FY21 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 Group Chief Executive Officer, Company Secretary, Chief Financial Officer 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 \$400,000 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 2022
- Base salary, exclusive of superannuation, to the value of \$210,000 per annum (full time equivalent)
- Eligibility for Company Short Term Incentive Plan

Mr David Brooking – Chief Financial Officer

- A written employment agreement is in place, effective 1 July 2022
- Base salary, exclusive of superannuation, to the value of \$213,500 per annum
- 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.



Mark Stevens
Chairman

Dated this 30th day of September 2022

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AUDITOR'S INDEPENDENCE DECLARATION



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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 Entities

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2022, 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

Hardwickes
Chartered Accountants

Robert Johnson FCA
Partner

30 September 2022

Canberra



CHARTERED ACCOUNTANTS
AUSTRALIA • NEW ZEALAND

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the Year Ended 30 June 2022

	Notes	2022 \$	2021 \$
Revenue	5(a)	58,176,725	28,332,460
Changes in inventories of finished goods and work in progress		(30,738,899)	(20,205,212)
Gross profit		27,437,826	8,127,248
Other income	5(b)	455,137	353,346
Corporate and administrative expenses	6	(20,727,897)	(12,455,542)
Profit/(loss) from operations before income tax		7,165,066	(3,974,948)
Income tax expenses (US operations)	7	(1,426,336)	-
Total comprehensive income/(loss) for the period		5,738,730	(3,974,948)

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2022

	Notes	2022 \$	2021 \$
ASSETS			
Current assets			
Cash and cash equivalents	12	36,199,524	5,901,223
Trade and other receivables	13	10,597,027	1,851,007
Inventories	14	16,419,312	10,736,212
Other	15	1,340,923	494,192
Total current assets		64,556,786	18,982,634
Non-current assets			
Goodwill		1,283,319	1,175,913
Intangibles	17	397,058	352,868
Right of use assets	16	1,619,177	2,083,502
Property, plant and equipment	16	10,618,512	9,781,522
Total non-current assets		13,918,066	13,393,805
TOTAL ASSETS		78,474,852	32,376,439
LIABILITIES			
Current liabilities			
Trade and other payables	18(a)	39,969,489	6,157,599
Borrowings	18(b)	613,580	613,340
Provisions	19	469,099	545,913
Contract liabilities	20	249,262	34,119
Total current liabilities		41,301,430	7,350,971
Non-current liabilities			
Trade and other payables	18(a)	1,507,302	2,242,018
Borrowings	18(b)	801,160	1,339,004
Provisions	19	33,320	34,064
Contract liabilities	20	18,815	1,640
Total non-current liabilities		2,360,597	3,616,726
TOTAL LIABILITIES		43,662,027	10,967,697
NET ASSETS		34,812,825	21,408,742
EQUITY			
Contributed equity	22	52,061,051	45,039,118
Reserves	30(a)	310,630	(332,790)
Accumulated losses	30(b)	(17,558,856)	(23,297,586)
TOTAL EQUITY		34,812,825	21,408,742

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Year Ended 30 June 2022

	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
Balance at 1 July 2021	45,039,118	36,502	(23,297,586)	(369,292)	21,408,742
Profit for the year	-	-	5,738,730	-	5,728,730
Total income and expense for the period	-	-	5,738,730	-	5,728,730
Issues of ordinary shares during the year:					
Issue of share capital	7,691,758	-	-	-	7,691,758
Foreign exchange reserve	-	-	-	638,080	638,080
Transaction costs associated with share capital	(669,825)	-	-	-	(669,825)
Share based payment reserve	-	5,340	-	-	5,340
Balance at 30 June 2022	52,061,051	41,842	(17,558,856)	268,788	34,812,825

The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS

For the Year Ended 30 June 2022

	Notes	2022 \$	2021 \$
Cash flows from/(used in) operating activities			
Receipts from customers		51,250,112	43,155,914
Payments to suppliers and employees		(23,704,773)	(43,399,123)
		27,545,339	(243,209)
Interest received		3,309	7,370
Finance costs		(162,406)	(50,574)
Income tax expense		(1,426,336)	-
Net cash flows (used in)/from operating activities	25	25,959,906	(286,413)
Cash flows (used in)/from investing activities			
Proceeds from sale of assets		1,134	13,436
Payments for equipment		(1,924,169)	(8,371,651)
Net cash flows (used in) investing activities		(1,923,035)	(8,358,215)
Cash flows from financing activities			
Proceeds from issue of ordinary shares		7,691,758	12,055,642
Payment of transaction costs associated with issued share capital	22(a)	(669,825)	(884,619)
Repayment of lease liabilities		(642,858)	(600,979)
Proceeds from borrowings		(537,604)	1,135,619
Net cash flows (used in)/from financing activities		5,841,471	11,705,663
Net increase (decrease) in cash and cash equivalents		29,878,342	3,061,035
Exchange rate impact on cash		419,959	(216,843)
Cash and cash equivalents at beginning financial year		5,901,223	3,057,031
Cash and cash equivalents at end of year	12	36,199,524	5,901,223

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2022

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 2022.

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

(A) FINANCIAL INSTRUMENTS – ADOPTION OF AASB 9

The Group has adopted AASB 9 *Financial Instruments* for the first time in the current year with a date of initial adoption of 1 July 2018.

As part of the adoption of AASB 9, the Group adopted consequential amendments to other accounting standards arising from the issue of AASB 9 as follows:

- AASB 101 Presentation of Financial Statements requires the impairment of financial assets to be presented in a separate line item in the statement of profit or loss and other comprehensive income. In the comparative year, this information was presented as part of other expenses; and
- AASB 7 Financial Instruments: Disclosures requires amended disclosures due to changes arising from AASB 9, these disclosures have been provided for the current year.

The key changes to the Group's accounting policy and the impact on these financial statements from applying AASB 9 are described below.

Changes in accounting policies resulting from the adoption of AASB 9 have been applied retrospectively except the Group has not restated any amounts relating to classification and measurement requirements including impairment which have been applied from 1 July 2018.

Classification of financial assets

The financial assets of the Group have been reclassified into one of the following categories on adoption of AASB 9 based on primarily the business model in which a financial asset is managed and its contractual cash flow characteristics:

- Measured at amortised cost
- Fair value through profit or loss (FVTPL)
- Fair value through other comprehensive income – equity instruments (FVOCI – equity)

Impairment of financial assets

The incurred loss model from AASB 139 has been replaced with an expected credit loss model in AASB 9 for assets measured at amortised cost, contract assets and fair value through other comprehensive income. This has resulted in the earlier recognition of credit loss (bad debt provisions).

The accompanying notes form part of these financial statements.

Notes to the Financial Statements continued

(B) REVENUE FROM CONTRACT WITH CUSTOMERS

The Group has adopted AASB 15 *Revenue from Contracts with Customers* for the first time in the current year with a date of initial application of 1 July 2018.

The key changes to the Group's accounting policies and the impact on these financial statements from applying AASB 15 are described below.

The Group has applied AASB 15 using the cumulative effect method which means the comparative information has not been restated and continues to be reported under AASB 111, AASB 118 and related interpretations. All adjustments on adoption of AASB 15 have been taken to retained earnings at 1 July 2018.

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

Prior to the adoption of AASB 15, the Group recognised revenue when the risks and rewards associated with the transfer of goods had transferred to the buyer which was when there was an unconditionally exchanged contract and the product was practically complete.

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.

Consequently, the timing of revenue recognition and profit has changed and revenue previously recognised in prior years (in accordance with the previous standards) has now been recognised in the current year (in accordance with AASB 15).

This change in timing of revenue has a consequential impact on a number of other financial statement line items including inventories, receivables and taxation.

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.

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, HighCom International, 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.

The accompanying notes form part of these financial statements.

Notes to the Financial Statements continued

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 comparative year**

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

Company as a lessee

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

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

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

Company as a lessor

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

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; and
- 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.

Notes to the Financial Statements continued

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, 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.

Lease incentives

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

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 property 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.

Notes to the Financial Statements continued

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

Prior to the adoption of AASB 15, the Group recognised revenue when the risks and rewards associated with the transfer of goods had transferred to the buyer which was when there was an unconditionally exchanged contract and the product was practically complete.

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.

Consequently, the timing of revenue recognition and profit has changed and revenue previously recognised in prior years (in accordance with the previous standards) has now been recognised in the current year (in accordance with AASB 15).

This change in timing of revenue has a consequential impact on a number of other financial statement line items including inventories, receivables and taxation.

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 recognised 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 recognised (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 continued

(H) INVENTORIES

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

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

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

(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.

Most depreciation periods are:

- plant and equipment 3 – 15 years

Impairment

The carrying values of plant and equipment are reviewed for impairment when events or changes in the circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the Statement of Comprehensive Income.

(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
- 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.

Notes to the Financial Statements continued

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.

Notes to the Financial Statements continued

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.

Notes to the Financial Statements continued

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.

(a) 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.

(b) 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.

The accompanying notes form part of these financial statements.

Notes to the Financial Statements continued

(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 Employee Incentive Plan; 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.

Notes to the Financial Statements continued

(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 2019, the adoption of these standards has not caused any material adjustments to the reported financial position, performance or cash flow of the Company. Refer to Note 2 for details of the changes due to standards adopted.

Notes to the Financial Statements continued

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 cash position and retained a stable revenue stream for the 2022 financial year.

5 Revenue and Other Income**(A) REVENUE FROM OPERATIONS**

	2022 \$	2021 \$
Ballistics division	45,967,393	16,104,628
Technology division	11,134,811	12,123,091
Grant revenue	74,521	104,740
Total Revenue	58,176,725	28,332,460

(B) OTHER INCOME

	2022 \$	2021 \$
Interest	3,309	7,370
Other	451,828	345,976
Total Other income	455,137	353,346
Total Revenue and Other Income	58,631,862	43,565,914

The accompanying notes form part of these financial statements.

Notes to the Financial Statements continued

6 Expenses

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

(A) EMPLOYEE BENEFITS

	2022 \$	2021 \$
Salaries and wages	7,878,686	4,024,619
Superannuation contributions	551,278	525,435
Payroll tax	623,440	583,991
Other employee expenses	255,993	325,908
Total Employee Benefits	9,309,397	5,459,953

(B) DEPRECIATION

	2022 \$	2021 \$
Plant and equipment	709,330	217,757
Motor vehicles	9,586	5,677
Office furniture and equipment	116,228	108,328
Computer software	119,841	134,478
Demonstration equipment	21,419	25,693
Leasehold property improvements	122,841	106,668
Right to use assets	538,188	512,142
Total Depreciation	1,637,433	1,110,743

(C) FINANCE COSTS

	2022 \$	2021 \$
Interest on lease liabilities	162,406	186,380
Other interest expense	17,007	13,334
Total Finance costs	179,413	199,714

(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.)

Notes to the Financial Statements continued

(D) OPERATIONAL EXPENDITURE

Corporate and administrative expenses include the following.

	2022 \$	2021 \$
Accounting and Audit fees	193,680	252,679
Bank charges	121,011	78,612
Consultancy fees	615,745	757,614
Directors' fees	327,744	278,000
Insurance	701,751	599,069
Marketing and conferences	316,984	454,161
Travel and accommodation	458,264	298,638
Share registry	103,368	96,588
FBT	12,961	22,653
Inventory impairment (predominantly Virolens)	2,486,374	-
International sales commission (to 3rd party for armour sales)	2,240,201	-

7 Income Tax Expense**(A) THE MAJOR COMPONENTS OF TAX EXPENSE (INCOME) COMPRISE**

	2022 \$	2021 \$
Current tax expense		
Current income tax charge	(21,347)	(1,128,267)
Loss used not recognised	21,347	1,128,267
Deferred tax expense		
Origination and reversal of temporary differences (26%)*	115,838	(122,805)
Origination and reversal of temporary differences (30%)*	55,925	-
Change in unrecognised deductible temporary difference	(172,763)	122,805
	-	-

* Deferred Tax Expense relating to change in company tax rate: 2022 30%, 2021 26%.

(B) RECONCILIATION OF INCOME TAX TO ACCOUNTING PROFIT

	2022 \$	2021 \$
Profit	7,165,066	(3,974,948)
Tax	30.0%	26.0%
	2,149,520	(1,033,486)
Add:		
Tax effect of amounts which are not deductible (taxable) in calculating taxable income		
- Capital raising cost amortised	(103,838)	(70,971)
- Losses not brought to account	21,347	1,128,267
- Timing differences not brought to account	(172,763)	122,805
- Non-assessable foreign subsidiary income	(467,930)	(146,614)
Income tax expense	1,425,336	-

Note: The tax position is reconciled to the position of the parent company, for which no tax is payable.

The accompanying notes form part of these financial statements.

Notes to the Financial Statements continued

(C) RECOGNISED DEFERRED TAX ASSETS AND LIABILITIES

	2022 \$	2021 \$
Deferred tax liabilities		
Accrued interest	23	5
Gross deferred tax liabilities	23	5
Deferred tax liability not recognized	(23)	(5)
Total	-	-
	2022 \$	2021 \$
Deferred tax assets		
Accrued expenses	10,790	8,840
Superannuation	35,966	49,950
Employee leave entitlements	150,726	150,794
Unrealised foreign exchange losses	(55,340)	75,207
Lease assets	111,974	85,221
Impaired assets	259,878	225,228
Potential tax losses	7,476,279	6,460,941
Potential capital tax losses	466,878	404,628
Deferred differences and losses not recognised	(8,457,150)	(7,460,808)
Net deferred tax asset	-	-

(D) TAX LOSSES

The Parent Company and Australian 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 (2021: \$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 \$24,920,930 (Parent company, 2021: \$24,849,774). The deferred tax asset associated with the loss will only be recognised in the future in the event of sufficient taxable profits being available to recognise the losses, subject to loss recoupment rules.

(E) UNRECOGNISED TEMPORARY DIFFERENCES

At 30 June 2022, 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 (2021: 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 2022.

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

	2022 \$	2021 \$
Short-term employee benefits	1,282,399	1,350,682
Post-employment benefits	75,482	103,784
Other long-term benefits	13,639	8,861
	1,371,520	1,463,327

The accompanying notes form part of these financial statements.

Notes to the Financial Statements continued

9 Auditors' Remuneration

	2022 \$	2021 \$
Audit and review of financial reports and other audit work under the <i>Corporations Act 2001</i>		
Remuneration of the lead auditor, Hardwicks Chartered Accountants	61,000	68,000
Remuneration of US based auditor, Turner Stone	67,553	60,446
Total	128,553	128,446

10 Dividends**Ordinary shares**

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

Franking account

	2022 \$	2021 \$
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; and
- (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.

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 ballistics business is XTEK's major reportable segment (see note 5a). 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 (2021 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. (2021 99%).

Notes to the Financial Statements continued

(b) Geographical information

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

	2022 \$	2021 \$
Australia	23,161,190	11,626,002
North America	13,310,721	14,932,535
Europe	21,580,426	1,626,999
New Zealand	119,224	146,924
Other	5,164	-
Total revenue	58,176,725	28,332,460

12 Cash and Cash Equivalents

	2022 \$	2021 \$
Cash at bank and in hand	36,199,524	5,901,223
	36,199,524	5,901,223

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:

	2022 \$	2021 \$
Cash and cash equivalents	36,199,524	5,901,223
Balance as per statement of cash flows	36,199,524	5,901,223

13 Trade and Other Receivables

	2022 \$	2021 \$
CURRENT		
Trade receivables	10,530,309	1,704,515
Other receivables	66,718	146,492
Total current trade and other receivables	10,597,027	1,851,007

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 FY22 (2021: nil).

Notes to the Financial Statements continued

At 30 June 2022, 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 \$
2022					
Trade receivables	10,530,309	10,466,236	61,751	585	1,737
Total	10,530,309	10,466,236	61,751	585	1,737
2021					
Trade receivables	1,704,515	48,787	824,983	694,498	136,246
Total	1,704,515	48,787	824,983	694,498	136,246

99% of all trade receivables at 30 June 2022 were received by 31 August 2022.

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

	2022 \$	2021 \$
CURRENT		
Work in progress	1,524,717	1,706,673
Products and spare parts	14,894,595	9,029,539
	16,419,312	10,736,212

During the 2022 financial year inventory write downs totalled \$2.495m which predominantly related to the Virolens stock purchased in FY20-21. (2021: nil).

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

	2022 \$	2021 \$
CURRENT		
Prepayments	1,334,523	471,750
Short-term loan	6,400	22,442
	1,340,923	494,192

The accompanying notes form part of these financial statements.

Notes to the Financial Statements continued

16 Property, Plant and Equipment

	2022 \$	2021 \$
PROPERTY, PLANT AND EQUIPMENT		
Plant and equipment		
At cost	11,622,634	9,770,229
Accumulated depreciation	(2,114,147)	(1,318,847)
Total plant and equipment	9,508,487	8,451,382
Office furniture and equipment		
At cost	721,865	685,017
Accumulated depreciation	(570,269)	(442,814)
Total office furniture and equipment	151,596	242,203
Motor vehicles		
At cost	163,020	71,168
Accumulated depreciation	(56,721)	(46,925)
Total motor vehicles	106,299	24,243
Demonstration equipment		
At cost	241,577	241,577
Accumulated depreciation	(204,491)	(183,072)
Total demonstration equipment	37,086	58,505
Computer software		
At cost	601,198	571,993
Accumulated depreciation	(391,185)	(270,625)
Total computer software	210,013	301,368
Leasehold improvements		
At cost	924,449	900,397
Accumulated depreciation	(400,730)	(277,888)
Total leasehold improvements	523,719	622,509
UAS		
At cost	81,312	81,312
Total UAS	81,312	81,312
Sub-total	10,618,512	9,781,522
Right of use, lease assets		
At cost	3,185,082	3,063,509
Accumulated depreciation	(1,565,905)	(980,307)
Total right of use, lease assets	1,619,177	2,083,502
Total property, plant and equipment	12,237,689	11,865,024

The accompanying notes form part of these financial statements.

Notes to the Financial Statements continued

(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 \$	Demon- stration Equipment \$	Computer Software \$
Year ended 30 June 2022					
Balance at the beginning of year	8,451,382	242,203	24,243	58,505	301,368
Additions	1,714,521	23,605	87,182	-	25,355
Disposals	(2,147)	(208)	-	-	-
Depreciation expense	(709,330)	(116,228)	(9,586)	(21,419)	(119,841)
Transfer	(42,226)	-	-	-	-
Foreign exchange movement	96,287	2,224	4,460	-	3,131
Balance at the end of the year	9,508,487	151,596	106,299	37,086	210,013

	Leasehold Improvements \$	UAS \$	Right of Use, Lease Assets \$	Total \$
Year ended 30 June 2022				
Balance at the beginning of year	622,509	81,312	2,083,502	11,865,024
Additions	18,921	-	121,273	1,869,584
Disposals	-	-	-	(2,355)
Depreciation expense	(122,841)	-	(538,188)	(1,637,433)
Transfer	-	-	-	(42,226)
Foreign exchange movement	5,130	-	73,863	185,095
Balance at the end of the year	523,719	81,312	1,619,177	12,237,689

	Plant and Equipment \$	Office Furniture and Equipment \$	Motor Vehicles \$	Demon- stration 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

The accompanying notes form part of these financial statements.

Notes to the Financial Statements continued

	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

17 Intangible Assets

	2022 \$	2021 \$
Patent cost	380,779	321,429
Certifications	78,470	43,243
Ammortisation	(27,738)	(11,804)
Total Intangibles	397,058	352,868

(A) MOVEMENTS IN CARRYING AMOUNTS OF INTANGIBLE ASSETS

	Patents \$	Certification \$	Total \$
Year ended 30 June 2022			
Balance at the beginning of the year	321,429	31,439	352,868
Additions	24,897	29,687	54,584
Ammortisation	-	(14,100)	(14,100)
Foreign exchange movement	-	3,706	3,706
Closing value at 30 June 2022	346,326	50,732	397,058

	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
Ammortisation	-	(11,804)	(11,804)
Foreign exchange movement	-	(4,154)	(4,154)
Closing value at 30 June 2021	321,429	31,439	352,868

Notes to the Financial Statements continued

18 Trade and Other Payables/Borrowings**(A) TRADE AND OTHER PAYABLES – CURRENT**

	2022 \$	2021 \$
Current		
Trade and other payables	37,839,993	5,342,118
GST payable	255,212	-
Lease liability: AASB16	540,803	208,454
Sundry payable and accrued expenses	1,333,481	607,027
	39,969,489	6,157,599

(A) TRADE AND OTHER PAYABLES – NON-CURRENT

	2022 \$	2021 \$
Non-Current		
Lease liability: AASB 16	1,507,303	2,242,018
	1,507,303	2,242,018

(B) BORROWINGS – CURRENT

	2022 \$	2021 \$
Current		
Bank loan – interest bearing (see note 21)	613,580	613,340
	613,580	613,340

(B) BORROWINGS – NON-CURRENT

	2022 \$	2021 \$
Non-current		
Bank loan – interest bearing (see note 21)	801,160	1,339,004
	801,160	1,339,004

Notes to the Financial Statements continued

19 Employee Benefits

	2022 \$	2021 \$
Current liabilities		
Annual leave provision	314,753	401,584
Long service leave	154,346	144,329
	469,099	545,913
Non-current liabilities		
Long service leave	33,320	34,069
	33,320	34,069

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

	2022 \$	2021 \$
CURRENT		
Customer deposits	249,262	34,119
Total	249,262	34,119
NON-CURRENT		
Customer deposits	18,815	1,640
Total	18,815	1,640

21 Interest Bearing Liabilities

At 30 June 2022 the only borrowings of the Group were the Commonwealth Bank loan of \$1,414,740. At 30 June 2021: \$1,952,343. (Subsequent to the end of the financial year, the Commonwealth Bank loan was paid out in full.)

During 2021-22 FY, HighCom (US subsidiary) had two loan facilities with PNC Bank which were paid out in full in June 2022.

22 Issued Capital

	2022 \$	2021 \$
100,620,244 (2021: 71,036,559) Ordinary shares	52,061,051	45,039,118
Total	52,061,051	45,039,118

There were no options on issue at 30 June 2022 (30 June 2021: nil).

The accompanying notes form part of these financial statements.

Notes to the Financial Statements continued

(A) MOVEMENT IN ORDINARY SHARES

	2022 No.	2022 \$	2021 No.	2021 \$
Opening balance	71,036,559	45,039,118	53,167,209	33,741,882
Shares issued	29,583,685	7,691,758	17,869,350	12,181,855
Transaction cost in relation to capital	-	(669,825)	-	(884,619)
Total	100,620,244	52,061,051	71,036,559	45,039,118

(B) EXPIRED OPTIONS AND SHARE PERFORMANCE RIGHTS

There were no options on issue at 30 June 2022 (30 June 2021: nil).

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

As at 30 June 2022 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.

	2022 \$	2021 \$
Basic profit per share	0.063	(0.058)
Dilutive profit per share	0.063	(0.058)

RECONCILIATIONS OF EARNINGS USED IN CALCULATING BASIC AND DILUTED EARNINGS PER SHARE**(a) Reconciliation of earnings to profit or loss from continuing operations**

	2022 \$	2021 \$
Profit from continuing operations	5,738,730	(3,974,948)
Earnings used in the calculation of dilutive EPS from continuing operations	5,738,730	(3,974,948)

(b) Earnings used to calculate overall earnings per share

	2022 \$	2021 \$
Earnings used to calculate overall earnings per share	5,738,730	(3,974,948)

The accompanying notes form part of these financial statements.

Notes to the Financial Statements continued

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

	2022 \$	2021 \$
Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	91,576,503	68,575,941
Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	91,576,503	68,575,941

(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 2022 comprised 100,620,244 (2021: 71,036,559) fully paid Ordinary Shares. There were no issued options as at 30 June 2022 (2021 nil).

24 Grants

(A) GOVERNMENT GRANTS

Government grants of \$74,521 were recognised in the 2022 financial year (FY21 – \$104,740).

In financial year 2022 a Centre for Defence Industry Capability grant of \$469,598 was received for works on assets (FY21 – nil), see the accounting policy for grants in Note 1 (u) above.

25 Cash Flow Information

(A) RECONCILIATION OF CASH FLOW FROM OPERATIONS WITH PROFIT/(LOSS) AFTER INCOME TAX.

	2022 \$	2021 \$
Profit for the year	5,738,730	(3,974,948)
<i>Adjustments for non-cash flow in profits:</i>		
Depreciation	1,651,533	1,122,648
Bonus issue of shares to employees	5,341	126,213
Finance cost on lease	162,406	186,378
Loss on sale of assets	1,221	7,147
<i>Changes in assets and liabilities</i>		
(Increase) in trade debtors	(8,746,019)	13,521,052
Decrease/(Increase) in inventory	(5,640,875)	(1,699,215)
(Increase)/Decrease in prepayments and other	(846,731)	1,110,437
Increase/(Decrease) in trade and other payables	34,009,436	(8,943,943)
Increase/(Decrease) in deferred income	17,175	(1,768,603)
Increase/(Decrease) in employee provisions	(392,311)	26,421
Net cash flows from/(used in) operating activities	25,959,906	(286,413)

The accompanying notes form part of these financial statements.

Notes to the Financial Statements continued

(B) NON-CASH FINANCING AND INVESTING ACTIVITIES

In FY21-22 no shares were issued to employees. As at 30 June 2022 5,556 shares remain in escrow.

In FY20-21 205,229 shares issued to employees. As at 30 June 2021 59,185 shares remain in escrow.

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 2022, no new ordinary shares were issued as part of staff incentive plans for employees of the company (FY21 205,229 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 plans in place:

- (i) the XTEK Employee Incentive Plan; 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 2022 (2021: nil). There were no options or share performance rights in the hands of staff issued at the start of financial year 2022 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 2021, 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 FY22 (FY21 – nil).

Weighted Average Share Price

The weighted average market price at 30 June 2022 was 33.4 cents (2021: 60.0 cents).

27 Events Occurring After the Reporting Date

The financial report was authorised for issue on 30 September 2022 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 Company remains in a healthy position.

Notes to the Financial Statements continued

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.
- HighCom International, Inc (formerly 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.

The following transactions occurred with related parties.

- In September 2021 an unsecured loan facility for \$1,000,000 was established but not drawn. The firm paid \$20,000 establishment fee to UDB Pty Ltd a company associated with Mr Uwe Boettcher, former Chairman of XTEK Ltd; and
- In FY22 from March to June 2022, \$50,913 was paid for advisory services to Arican Pty Ltd a company related to Mr. Mark Stevens current Chairman of XTEK Ltd. Invoices were paid on seven day terms.

There were no related party transactions in the 2020-21 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

Notes to the Financial Statements continued

Summary Table

	2022 \$	2021 \$
Financial assets		
Held at amortised cost		
Cash and cash equivalents	36,199,524	5,901,223
Trade and other receivables	10,597,027	1,851,007
Total financial assets	46,796,551	7,752,230
Financial liabilities		
Financial liabilities at fair value		
Trade and other payables	37,839,993	5,342,118
Borrowings	1,414,740	1,952,344
Total financial liabilities	39,254,733	7,294,462

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 30day 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.

Notes to the Financial Statements continued

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 30day projection. Long-term liquidity needs for a 180day and a 360day 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	
	2022 \$	2021 \$	2022 \$	2021 \$
Trade payables	2,984,191	5,231,700	2,984,191	5,231,700
Total	2,984,191	5,231,700	2,984,191	5,231,700

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 86% (2021: 70%) of the Group's purchases are denominated in currencies other than the functional currency of the Group, whilst 5% of sales are denominated in the Group's functional currency (2021: 17%).

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 30 (a) not the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

Notes to the Financial Statements continued

At 30 June 2022, had the Australian Dollar moved, with all other variables held constant, post-tax profit/(loss) would have been affected as follows:

	2022		2021	
	+10% \$	-10% \$	+10% \$	-10% \$
USD				
Net results	371,149	(453,626)	280,350	(342,650)
EUR				
Net results	5,858	(7,159)	26,507	(32,398)
GBP				
Net results	400	(489)	1,645	(2,010)
NZD				
Net results	108	(132)	19	(24)

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 totalling \$36,199,524 (2021: \$5,901,223) exposed to 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 2022, 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	2022		2021	
	+1.00% \$	-1.00% \$	+1.00% \$	-0.01% \$
Net results	361,995	(361,995)	59,012	(590)
Equity	361,995	(361,995)	59,012	(590)
For borrowings				
	2022		2021	
	+1.00% \$	-1.00% \$	+1.00% \$	-1.00% \$
Net results	14,147	(14,147)	19,523	(19,523)
Equity	14,147	(14,147)	19,523	(19,523)

Notes to the Financial Statements continued

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 FY16;
- 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

	2022 \$	2021 \$
<i>Capital reserve</i>		
Balance at the beginning of the year	1,882	1,882
Transfer to Retained Earnings	-	-
Balance Capital Reserve	1,882	1,882
<i>Foreign Exchange Reserve</i>		
Balance at the beginning of the year	(369,292)	14,193
Creation on consolidation of subsidiaries	638,080	(383,485)
Balance Foreign Exchange Reserve	268,788	(369,292)
<i>Equity Based Payment Reserve</i>		
Balance at the beginning of the year	36,502	28,221
Equity Based Payments	5,340	8,281
Balance Equity Based Payment Reserve	41,842	36,502
Balance at the end of the year	310,630	(332,790)

(b) Accumulated Losses

	2022 \$	2021 \$
Movement in accumulated profit/(losses) were as follows:		
Balance at the beginning of the year	(23,297,586)	(19,322,638)
Profit/(losses) for the year	5,738,730	(3,974,948)
Transfer to Retained Earnings	-	-
Balance at the end of the year	(17,558,856)	(23,297,586)

Notes to the Financial Statements continued

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.

	2022 \$	2021 \$
Statement of Financial Position		
Assets		
Current assets	32,244,709	17,423,133
Non-current assets	9,436,845	10,756,454
Total Assets	41,681,554	28,179,587
Liabilities		
Current liabilities	11,395,293	4,991,650
Non-current liabilities	1,846,064	2,602,301
Total Liabilities	13,241,357	7,593,951
Net Assets	28,440,197	20,585,636
Equity		
Issued capital	52,061,051	45,039,118
Retained earnings	(23,660,814)	(24,488,102)
Reserves	39,960	34,620
Total Equity	28,440,197	20,585,636
Statement of Profit or Loss and Other Comprehensive Income		
Total profit or loss for the year	850,846	(4,536,480)
Total comprehensive income	850,846	(4,536,480)

32 Contingencies

There were no contingent liabilities at 30 June 2022 (At 30 June 2021 - nil).

In the 2020 financial year the US subsidiary received a forgivable loan as part of the US Government's COVID-19 stimulus package. It represented \$379,709 worth of Other Income in the Group's accounts for the 2020 financial year. The loan was subsequently forgiven in the 2021 financial year.

33 Business Combination

There were no new business combinations in FY22 (FY21 - nil).

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 2022 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



Mark Stevens
Chairman

Dated this 30th day of September 2022

INDEPENDENT AUDITOR'S REPORT



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Hardwickes Partners Pty Ltd
ABN 21 008 401 536

Liability limited by a scheme
approved under Professional
Standards Legislation

XTEK Limited and the Controlled Entities

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

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 2022, 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 2022 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 Company, 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



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XTEK Limited and the Controlled Entities

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

Key Audit Matters

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:

- the growth in turnover during the year and continued strength of forward sales contracts negotiated;
- from our review of the future cash flows and budgets prepared by management to predict the timing of cash outflows and the possible requirement for 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.

Responsibilities of Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal 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:



Independent Auditor's Report continued



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XTEK Limited and the Controlled Entities**Independent Audit Report to the Directors of XTEK Limited and the Controlled Entities**

- 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.
- 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
Hardwickes
Chartered Accountants

R Johnson
Robert Johnson FCA
Partner

Canberra

30 September 2022



ADDITIONAL INFORMATION

1. The following information set out below was applicable as at 28 September 2022.

2. Shareholding

(a) Distribution of Shareholders

Range	Total holders	Units	% Units
1 - 1,000	331	164,668	0.16
1,001 - 5,000	728	1,938,452	1.93
5,001 - 10,000	305	2,414,978	2.40
10,001 - 100,000	616	21,793,330	21.66
100,001 and over	128	74,308,816	73.85
Rounding			0.00
Total	2,108	100,620,244	100.00

(b) Unmarketable Parcels

	Minimum Parcel Size	Holders	Units
Minimum \$ 500.00 parcel at \$ 0.4800 per unit	1,042	333	166,691

(c) Top Holders (Grouped) as of 27/09/2022

Rank	Name	Address	Units	% Units
1	MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	LEVEL 19, 120 COLLINS STREET, MELBOURNE VIC, 3000	10,925,035	10.86
2	ACM AEPF PTY LTD <ALTOR EMERGING PIPE FUND A/C>	GPO BOX 5011, BRISBANE QLD, 4001	7,879,378	7.83
3	UDB PTY LIMITED <THE BOETTCHER FAMILY A/C>	PO BOX 4440, MANUKA ACT, 2603	5,697,108	5.66
4	CITICORP NOMINEES PTY LIMITED	GPO BOX 7646, MELBOURNE VIC, 3001	3,182,513	3.16
5	JWT HOLDINGS PTY LIMITED <JWT A/C>	UNIT 10 GROUND FLOOR 50, EASTLAKE PDE, KINGSTON ACT, 2604	2,572,501	2.56
6	BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	PO BOX R209, ROYAL EXCHANGE NSW, 1225	2,410,734	2.40
7	FAIRLANE MANAGEMENT PTY LTD	PO BOX 1962, CANBERRA CITY ACT, 2601	2,096,097	2.08
8	ALTOR CAPITAL MANAGEMENT PTY LTD <ALTOR ALPHA FUND A/C>	GPO BOX 5011, BRISBANE QLD, 4001	1,971,241	1.96
9	ALL OTHERS PTY LTD <ALL OTHERS A/C>	PO BOX 99, THREDBO NSW, 2625	1,866,667	1.86
10	EMALYN HOLDINGS <JOHN KENNEDY TESTAMENTARY AC>	149 DARLING POINT ROAD, DARLING POINT NSW, 2027	1,666,666	1.66
11	BAJKOR NOMINEES PTY LTD <M & G BAJKOR PL SF 1978 A/C>	67 HILLSYDE PARADE, STRATHMORE VIC, 3041	1,506,358	1.50
12	NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C>	C/- CUSTODY DEPARTMENT, PO BOX 336, SOUTH MELBOURNE VIC, 3205	1,386,065	1.38
13	BISSAPP SOFTWARE PTY LTD <BISAPP SOFTWARE SF A/C>	UNIT 2 53 BRADY RD, BENTLEIGH EAST VIC, 3165	1,182,351	1.18
14	MR IVAN SLAVICH	8 AKAME CIRCUIT, O'MALLEY ACT 2606	752,507	0.75

Additional Information continued

Rank	Name	Address	Units	% Units
15	BISSAPP SOFTWARE PTY LTD <SUPER FUND ACCOUNT>	UNIT 2, 53 BRADY ROAD, BENTLEIGH EAST VIC, 3165	693,493	0.69
16	ATECH GROUP PTY LIMITED <ATECH GROUP SUPER FUND A/C>	110 NORTH ISLAND LOOP ROAD, UPPER ORARA NSW, 2450	684,767	0.68
17	ESTATE LATE NICHOLAS HENRY WEBER <MAJURA FAMILY A/C>	C/ - MS ANNE MCGRATH, RMB 728 MAJURA HOUSE, MAJURA ROAD MAJURA ACT, 2609	675,804	0.67
18	MR BERT VANGHEEL + MS GILLIAN MAY HORNER <ARIKEPA S/F A/C>	UNIT 1309 499 ST KILDA ROAD, MELBOURNE VIC, 3004	631,946	0.63
19	DWKSJK PTY LTD <SEAWEED INVESTMENT A/C>	PO BOX 4275, KINGSTON NSW, 2604	603,090	0.60
20	BUNDARRA TRADING COMPANY PTY LTD <THOMAS EMERY KENNEDY A/C>	PO BOX 3003, BELLEVUE HILL NSW, 2023	580,510	0.58
Totals: Top 20 holders of ORDINARY FULLY PAID SHARES (Total)			48,964,831	48.66
Total Remaining Holders Balance			51,655,413	51.34

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.

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 27 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 Executive Officer, 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 of 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.

Corporate Governance Statement continued

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; and
- **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.

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 and Audit Committee
- Human Resources and Remuneration Committee
- Nomination Committee
- Risk Management 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.

Corporate Governance Statement continued

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 AND PROVIDE SECURITY HOLDERS WITH 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 and contractual agreements setting out terms of the appointment, which include the Company's expectations, their individual responsibilities, rights and terms and conditions of their appointment. 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 overseeing 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.

Corporate Governance Statement continued

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 50 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 assessments were conducted during the FY22 reporting period, with the Chairman meeting with 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. 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 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 FY22 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 Nomination Committee shall comprise a minimum of three members. Mr. Stevens is the current Chair, following the resignation of Mr. Boettcher in February 2022.

Corporate Governance Statement continued

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 six 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 2022 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;

Corporate Governance Statement continued

- is a material supplier or customer of the Company or another group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- has a material contractual relationship with the Company other than as a Director of the Company;
- has served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company; and
- is not free from any interest and any business or other relationship which could 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. Due to the resignation of Mr. Boettcher and subsequent changes to the Board in February 2022, Mr. Stevens was appointed as a Director (Non-Executive) and Chairman of the Company. 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, Harrison, Pyne and Stevens also met the criteria for independence during the reporting period for FY22.

The Company 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 six Non-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 2022 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, Harrison, Pyne, Smethurst and Stevens served as Non-Executive Directors during the reporting period for FY22. 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, Harrison, Pyne and Stevens also met the criteria for independence during the reporting period for FY22.

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 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

The Board recognises the importance of independence in decision-making, and following the resignation of Mr. Boettcher in February 2022, the Board appointed Mr. Stevens, as a Director (Non-Executive) and Chairman of the Company. Mr. Stevens is an independent Director and does not share the same duties as the Chief Executive Officer.

The Company complies 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.

Corporate Governance Statement continued

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 business 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;

Corporate Governance Statement continued

- *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; and
- *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
- 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 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
- 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 4: Safeguard integrity in financial reporting

COUNCIL RECOMMENDATION 4.1: THE BOARD OF A LISTED ENTITY SHOULD HAVE AN AUDIT COMMITTEE.

Finance, Audit Committee

The Finance and Audit (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 and Audit Committee.

Responsibilities

The Finance and Audit 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 and Audit 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 responsibilities of the Finance and Audit 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 lodgement 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 Auditor, the Chief Financial Officer and Company Managers may be invited to the Finance and Audit Committee meetings at the discretion of the Committee Chair.

Composition

The Finance and Audit Committee currently consists of three members. Members are appointed by the Board from amongst the Directors. Mr. Harrison is the current Chair of the Finance and Audit Committee. 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 and Audit (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 and Finance 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 and Audit 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 Hardwicks Chartered Accountants.

Further details are contained in the Finance and Audit Committees Charter, which is available on the Company's website at the Corporate Governance Section.

The Company complies with Recommendation 4.1.

Corporate Governance Statement continued

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 30 September 2022, 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.

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
- *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.

Corporate Governance Statement continued

To assist the Company Secretary to fulfil the Company's disclosure requirements, all business unit managers are responsible for immediately communicating to the 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 policies;
- 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.

Corporate Governance Statement continued

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. Scott Basham 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 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 2020/21, 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 2022 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 overseeing, assessing and managing risk. The Board has delegated certain responsibilities in these matters to the 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.

Corporate Governance Statement continued

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 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 30 September 2022, 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;

Corporate Governance Statement continued

- *Responsibilities to Clients and Customers:* 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 and customers. The Company for its part is committed to providing clients and customers 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 its employees to strive to do the same;
- *Responsibilities to the Community:* As part of the community the Company:
 - is committed to conducting its business in accordance with applicable environmental laws and regulations and encourages all employees to have regard for the environment when carrying out their jobs;
 - encourages all employees to engage in activities beneficial to their local community; and
- *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 Executive Directors, Company Secretary, Chief Executive Officer, Chief Financial Officer, 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 three members. 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.

Corporate Governance Statement continued

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 FY22, including the fair value of options, is listed in the Directors Report and Financial Statements of the 2022 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 senior executives and staff. The Board has determined that all approved issues of securities made to 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 employees is 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.

CORPORATE DIRECTORY

Directors

Mr. Mark Stevens (Appointed 23 February 2022 – Chairman from that date)
 Mr. Christopher Fullerton (Appointed 24 April 2018)
 Mr. Ben Harrison (Appointed 23 February 2022)
 Ms. Adelaide McDonald (Appointed 24 August 2022)
 Hon. Christopher Pyne (Appointed 30 November 2020)
 Mr. Mark Smethurst (Appointed 29 April 2021)

Secretary

Lawrence Gardiner (Appointed 17 August 2004)

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Auditor

HARDWICKES CHARTERED ACCOUNTANTS

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