2007 ANNUAL REPORT

XRF Scientific Ltd

XRF Scientific Limited

ABN: 80 107 908 314

CONTENTS

CHAIRMAN'S LETTER

Dear Shareholder,

On behalf of the Board of Directors, I am pleased to report on XRF Scientific Limited, for the period to 30 June 2007.

Since listing in October 2006, your company has made significant progress in several key areas of its operations and management structure, including the re-evaluation of the composition of the Board, and its' subsequent reduction in numbers.

These changes were part of a planned process of consolidating the operations of the antecedent businesses into a cohesive group. A comprehensive business plan has now been implemented to take the XRFS group forward.

The group objective is now to focus resources on creating a sustainable good level of earnings and to grow the value of our shareholders' investment.

A new Managing Director, Mr. Terry Sweet, has been appointed to lead the group executive team forward. He brings to the board the benefit of long experience in executive management in both private and public companies.

XRFS now wholly owns Australian Platinum Supplies (APS) following settlement of the acquisition of the remaining 50% equity in June 2007. APS is now housed in a state-of- the-art facility on the outskirts of Melbourne, and is the dominant platinumware manufacturer in Australia.

Agreement has been reached with Socachim, a Belgian company, to revert to commission representation of our products in Europe. Socachim had previously been acquired on a share swap which has been rescinded by mutual agreement, and shareholders will be asked at the next AGM to approve cancellation of 3 million XRFS shares previously issued to the owners of Socachim.

Sales of the companies' products have been as forecast, although profitability has been affected by unanticipated costs and one-off write-offs. These costs have been mainly of a non-recurrent nature.

At the date of this report, the furnace, platinum & flux businesses within the group all have solid order books, partly driven by the ongoing world minerals boom.

Research & Development has been continued in several areas, resulting in provisional patents being obtained for speciality fluxes, a new and more powerful design for the Spectrolaser, and advances being made in robotic fully automated furnaces.

It is these innovations which will underpin new business opportunities and the ongoing strength and profitability of your company. It is fortuitous that XRFS has in its team the scientific talent to continue to make technical developments, whilst maintaining a level of profitability from its existing products.

On behalf of the board, I thank you for your ongoing support. The Directors are confident that your investment in this company is sound.

In accordance with the Listing Rule 3.13.1 of the ASX Listing Rules, the Company also wishes to advise that its Annual General Meeting will be held on Tuesday, 23rd October 2007 at 10.00am WST.

Paul Anthony Rengel
Chairman

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2007

Your directors present their report on the company XRF Scientific Limited and its controlled entities for the financial year ended 30 June 2007.

DIRECTORS

The names of the directors in office at any time during or since the end of the financial year are:

Paul Rengel (Chairman)
David Brown
Peter Higgins – resigned 8 June 2007
Allen Parsons – resigned 8 June 2007
Kenneth Baxter
Jorg Metz – resigned 8 June 2007
John Parsons
Terry Sweet – appointed 28 March 2007

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

PRINCIPAL ACTIVITY

The principal activity of the economic entity during the financial year was the business of manufacturing and marketing precious metal products, specialised chemicals and instruments for the scientific and analytical industries and in particular, the mining industry.

No significant change in the nature of these activities occurred during the year.

DIVIDENDS – XRF SCIENTIFIC LIMITED AND CONTROLLED ENTITIES

Dividends paid to members during the financial year were as follows:

	2007 $	2006 $
Final dividend of 0.0031 cents payout to Information Memorandum Shareholders for the period of 01.07.06 to 30.10.06	**7,569**	26,900
Dividends paid to minority interest	**212,055**	–
	219,624	26,900

REVIEW OF OPERATIONS

A review of the operations of the economic entity during the financial year and the results of those operations found that during the year, the economic entity continued to engage in its principal activity. The results and financial position are disclosed in the attached financial statements.

The consolidated entity has produced a Net profit after income tax for the year result of $236,624 for the financial year ended 30 June 2007 (2006: $630,905).

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2007 continued

REVIEW OF OPERATIONS continued

Details of the results for the financial year ended 30 June 2007 are as follows:

	June 2007 $	June 2006 $	Increase over prior year %
Total revenue	12,812,236	6,216,905	106%
EBITDA	842,602	887,685	-5%
EBIT	699,036	790,876	-12%
NPAT	236,624	630,905	-62%
Basic earnings per share – (cents per share)	0.004	0.019	
Earnings per share on a diluted basis – (cents per share)	0.004	0.018	

OPERATING RESULTS

The sales results for 2006/07 were indicative of the continued growth and expansion during the year in the global mining and resources sector. There is a continuing strong demand for the Company's products in line with the increasing development of Iron Ore and nickel resources particularly in Western Australia and globally. Profits were adversely affected by one-off resulting from costs incurred in integration of the business entities under one ownership.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

On 31 October 2006 XRF Scientific Limited listed on the Australian Stock Exchange. The contribution of equity net of transaction costs was $3,422,584.

Since listing the Company has undergone divisional management structural changes within the group. This includes the appointment of Mr James Foster as Group Sales and Marketing Manager.

On 15 June 2007 XRF Scientific Limited finalised the acquisition of the remaining 50% of Analytical Platinum Supplies Pty Ltd.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

On 3 August 2007 XRF Scientific Limited made a Company Announcement regarding the proposed reduction of capital of 3 million shares related to Socachim. For operational and financial reasons it has been determined that XRF Scientifics' interest are best served by Socachim operating autonomously as a commission agent rather than a wholly-owned subsidiary. The vendors of Socachim have agreed to the cancellation of the shares issued to them on the basis that they retain the right to sell the Companies' products in Europe.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

Likely developments in the operations of the economic entity and the expected results of those operations in future financial year have not been included in this report as the disclosure of such information is likely to result in unreasonable prejudice to the economic entity.

ENVIRONMENTAL ISSUES

The economic entity's is subject to the environmental regulations under the laws of the Commonwealth or of a State or Territory in which it operates. The directors are not aware of any breaches of these regulations.

DIRECTORS' REPORT **FOR THE YEAR ENDED 30 JUNE 2007 continued**

INFORMATION ON DIRECTORS

Paul Rengel	–	Chairman (non-executive)
Age	–	67 years
Qualifications	–	Bachelor of Commerce, Fellow of the Institute of Chartered Accountants in Australia, Associate Member of the Australian Institute of Company Directors, Associate Member of the Australian Institute of Management.
Experience	–	37 years in professional practice with International Accounting Firms in Corporate services including 20 years as a professional company director
Other current Directorship	–	Appointed to XRF Scientific Limited as Chairman on 5 July 2005, Chairman and non-executive director of two other public listed companies: Finbar Group Limited, Stonehenge Metals Limited. Chairman and non-executive director of two public unlisted companies: IMETT Queensland Pty Ltd (Large unlisted public company) and FunDigital Limited (IPO and RTO pending). Non-executive director of public and unlisted companies: Astop Biohealth Limited (IPO and RTO pending). Also director of several non reporting companies.
Former directorship In last 3 years	–	Computronics (ASX listed company)
Special Responsibilities	–	Chairman Member of audit and corporate governance committee
No. of options	–	500,000 options over ordinary shares in XRF Scientific Limited
No. of shares	–	228,180 fully paid ordinary shares

David Brown	–	Director (executive)
Age	–	69 years
Qualifications	–	Bachelor of Science, Bachelor of Economics
Experience	–	Has 25 years experience in research and development and manufacturing of X-Ray flux chemicals, formerly chief chemist for Swan Brewery Co. Ltd, formerly Chairman of Scientific Industries Council of WA.
No. of options	–	601,744 options over ordinary shares in XRF Scientific Limited
No. of shares	–	6,900,036 fully paid ordinary shares

Peter Higgins	–	Director (executive), **resigned 8 June 2007**
Age	–	58 years
Qualifications	–	Company director
Experience	–	Leading role in the development of Analytical Platinum Supplies and its go forward strategy
No. of options	–	392,442 options over ordinary shares in XRF Scientific Limited
No. of shares	–	4,512,500 fully paid ordinary shares

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2007 continued

INFORMATION ON DIRECTORS continued

Allen Parsons	–	Director (executive), **resigned 8 June 2007**
Age	–	54 years
Qualifications	–	Diploma in Metallurgy and Associate of the X-Ray Fluorescence Association of Australia
Experience	–	Qualified metallurgist and founder of Precious Metals Engineering (WA) Pty Ltd, former director of Prudential West Ltd, leading role in the design and development of new technologies for laboratory furnaces, co-inventor of a silver based water treatment system.
Other current Directorships	–	Private Companies only
Former directorship In last 3 years	–	Precious Metals Engineering (WA) Pty Ltd and Private Companies only
Special Responsibilities	–	Group Metallurgist
No. of options	–	523,256 options over ordinary shares in XRF Scientific Limited
No. of shares	–	4,020,984 fully paid ordinary shares

Kenneth Baxter	–	Director (non-executive)
Age	–	64 years
Qualifications	–	Bachelor of Economics, Fellow of Australian Institute of Management and Fellow of the Australian Institute of Company Directors.
Experience	–	Chairman of TFG International Pty Ltd, Non-Executive Director of the Hydro Electric Corporation of Tasmania, Computronics Corporation Ltd and Air Niugini Ltd.
No. of options	–	500,000 options over ordinary shares in XRF Scientific Limited
No. of shares	–	None

Jorg Metz	–	Director (executive), **resigned 8 June 2007**
Age	–	54 years
Qualifications	–	Diploma in Applied Chemistry, MRACI, MAXAA
Experience	–	Group analytical chemist with over 30 years experience in the geological, minerals processing and metallurgy industries.
No. of shares	–	4,512,500 fully paid ordinary shares

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2007 continued

INFORMATION ON DIRECTORS continued

John Parsons	–	Director (executive)
Age	–	54 years
Qualifications	–	Certificate of Industrial Electronics
Experience	–	Founder of Modutemp Pty Ltd, he has over 30 years experience in the design, manufacture and repair of electrical and gas furnaces, power and temperature control system.
Other current Directorships	–	None
Former directorship In last 3 years	–	Modutemp Pty Ltd
Special Responsibilities	–	Managing Director Modutemp Pty Ltd
No. of options	–	697,674 options over ordinary shares in XRF Scientific Limited
No. of shares	–	7,500,000 fully paid ordinary shares

Terry Sweet	–	Director (non-executive), **appointed on 28 March 2007**
Age	–	60 years
Qualifications	–	Tertiary qualifications in analytical chemistry, is a former Fellow of Australian Institute of Company Directors.
Experience	–	Served on the Boards of various public and private companies, including: Western Biotechnology Ltd, Scientific Services Ltd, Black Mountain Gold Ltd, Jetset Travelworld Ltd.
Other current Directorships	–	Private Companies only
Former directorship In last 3 years	–	Private Companies only
Special Responsibilities	–	Effective of 3 July 2007 appointed as Managing Director Member of audit committee
No. of options	–	None
No. of shares	–	None

COMPANY SECRETARY

The company secretary is Ms Kiran Badlani B Bus, ASA (Accounting and Information Systems).

Ms Badlani was appointed to the position of company secretary in 2006. She is the Chief Financial Officer of the Company and reports directly to the Managing Director. She is a member of the CPA and affiliate member of the Chartered Secretaries Australia.

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2007 continued

OTHER KEY MANAGEMENT

James Foster AIMM (Group Sales and Marketing Manager – XRF Scientific Limited)
James joined XRF Scientific in late 2006 after twenty years in the precious metals industry. During this time James became the National Sales Manager for AGR Matthey having originally joined Johnson Matthey in Australia in 1986. His experience in the precious metals industry has been varied from products for the jewellery industry, including a spell as a director of the Jewellers Association of Australia Ltd, to his specialised area of Platinum products for laboratory and catalyst gauze for chemical production. During this time James has been able to form and maintain strong customer relationships and further develop sales opportunities.

James was promoted into the Group Sales and Marketing Manager role in May 2007 and has since moved from Melbourne to XRF Scientific's head office in Perth.

Gino Manfredi (General Manager – Analytical Platinum Supplies Pty Ltd)
Managing the precious metal industry for approximately 25 years, he is very experienced in the administration, sales and marketing systems in this industry. In 1991 he participated in the start up of AGR industrial products.

AGR Industrial products were established to give different options to value-add precious metals it refined. In ten years this company grew to become the premier precious metal company in Australia.

Stephen Prossor (General Manager – Automated Fusion Technology Pty Ltd)
Manages Automated Fusion Technology Pty Ltd, he is the operations manager for Victoria within the Instrument Division of the company. He has 14 years experience in the design, manufacture and marketing of scientific instruments for X-Ray Fluorescence and ICP-AE analysis techniques.

Dr Bruce Chadwick (General Manager – Laser Analysis Technologies Pty Ltd)
Manages Laser Analysis Technologies Pty Ltd, he has distinguished scientific research and management career that has included positions at the University of New South Wales, the State Electricity Commission of Victoria, and CRC – Clean Power from Lignite. His developments in laser science and applications have led to the patenting of the laser plasma spectrometer technology now sold by Laser Analysis Technologies worldwide. He holds a PhD in Chemistry from Macquarie University and a Graduate Diploma in Business Administration from the University of Queensland. Dr Chadwick's professional memberships include the Royal Australian Chemical Institute, and the Australian Institute of Energy and Science Industry Australia (SIA).

MEETINGS OF DIRECTORS

The number of meetings held by the Board of Directors including meetings of the committees of the Board and the number of meetings attended by each of the Directors during the financial year ended 30 June 2007 were as follows:

	Full meetings of directors		Meetings of committees – Audit	
	A	B	A	B
Paul Anthony Rengel	11	11	2	2
David Brown	11	11	2	2
Peter Higgins	11	10	2	1
Allen Parsons	11	10	2	**
Kenneth Baxter	11	5	2	1
Jorg Georg Hubert Metz	11	10	2	**
John Graham Parsons	11	10	2	**
Terry Sweet**	11	3	2	**

A = Meetings held during the time the director held office or was a member of the Committee during the year
B = Meetings attended
** = Not a member of the relevant Committee

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2007 continued

REMUNERATION REPORT

(a) Principles used to determine the nature and amount of remuneration (audited)

Non-executive directors

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed periodically by the Board.

The Chairman's fees are determined independently to the fees of non-executive directors based on comparative roles in the external market. The Chairman is not present at any discussions relating to determination of his own remuneration. The Chairman's remuneration is inclusive of committee fee.

Non-executive directors do receive share options.

Directors' fees

The current base remuneration was last reviewed December 2005. The maximum currently stands at $62,000 per annum and was approved by shareholders at the Annual General Meeting in December 2005.

Base Fees	From 1 July 2006	From 1 July 2005 to 30 June 2007
Chairman	32,000	32,000
Non-Executive Directors	30,000	24,000

It is the Board's policy not to pay directors additional fees.

Executive pay

The executive pay and reward framework has three components:

- Base pay and benefits, including superannuation
- Short-term performance incentives, and
- Long-term incentives through participation in the XRF Scientific Limited Employee Option Plan

It is Board policy to review key management annually, and adjust such compensation taking into account the manager's performance, the performance of the entity which he or she manages, and the performance of the group of companies.

Where appropriate there is a direct link between financial performance (profit or growth) and is linked to key manager's compensation by way of bonus.

(i) Base Pay

Executives are offered a competitive base pay that comprises the fixed component of pay. Base pay for executives is reviewed annually to ensure the executive's pay is competitive with the market. An executive pay is reviewed on promotion.

There are no guaranteed base pay increases included in any executives' contract.

(ii) Benefits

Executives receive benefits including car allowance.

(iii) Superannuation

Retirement benefits of 9% of the base pay are delivered individual super fund of the directors choice.

(iv) Short-term performance incentives

Bonuses are paid on the performance of the individual entity.

(v) Long-term incentives

Long-term incentives are provided to certain employees via the XRF Scientific Limited Option Plan.

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2007 continued

REMUNERATION REPORT continued

(b) Details of remuneration (audited)

(i) Non-Executive

Paul Anthony Rengel	Chairman
Kenneth Peter Baxter	
Terry Sweet	Appointed on the 28 March 2007

Subsequent to the year end, on 3 July 2007, Terry Sweet was appointed as Managing Director of XRF Scientific Limited.

(ii) Executive

Peter Higgins #	Executive Director	Automated Fusion Technology Pty Ltd
Jorg Georg Hubert Metz #	Executive Director	Automated Fusion Technology Pty Ltd
Allen Roland Parsons #	Executive Director	Precious Metals Engineering (WA) Pty Ltd
David Brown	Executive Director	X-Ray Flux Pty Ltd
John Graham Parsons	Executive Director	Modutemp Pty Ltd

# denotes executives resigned as at 8 June 2007.

(iii) Other Key Management Personnel

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Group:

Gino Manfredi	General Manager	Analytical Platinum Supplies Pty Ltd
Stephen Prossor	General Manager	Automated Fusion Technology Pty Ltd
Dr. Bruce Chadwick	General manager	Laser Analysis Technologies Pty Ltd
James Foster	Group Sales and Marketing Manager	XRF Scientific Limited
Kiran Badlani	Chief Financial Officer	XRF Scientific Limited

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2007 continued

REMUNERATION REPORT continued

(b) Details of remuneration (audited) continued

Amounts of remuneration

Details of the remuneration of directors and the key management personnel (as defined in AASB 124 *Related Party Disclosures)* of XRF Scientific Limited are set out in the following:

2007	Short-term Benefits			Post-employment benefits	Other Long-term Benefits			
	Cash Salary	Non-monetary benefits	Bonuses	Super-annuation on Guarantee Contribution	Long Service Leave	Shares and units	Options & rights	Total
	$	$	$	$	$	$	$	$
Non-executive directors								
Paul Anthony Rengel *** *Chairman*	32,000	–	–	–	–	45,636	3,585	81,221
Kenneth Peter Baxter	18,000	7,850	–	6,000	–	–	3,585	35,435
Terry Sweet*	7,500	–	–	–	–	–	–	7,500
Sub-total non-executive directors	**57,500**	**7,850**	**–**	**6,000**	**–**	**–**	**7,170**	**124,156**
Executive directors								
Peter Higgins^#	115,320	8,533	–	11,147	30,964	–	2,814	168,778
Jorg Georg Hubert Metz#	97,365	3,552	–	9,083	409	–	2,814	113,223
Allen Roland Parsons#	61,882	9,204	–	5,569	32	–	3,751	80,438
David Brown^	115,906	–	–	10,431	157	–	4,314	130,808
John Graham Parsons^	116,053	7,301	–	10,445	120	–	5,002	138,921
Sub-total executive directors	**506,526**	**28,590**	**–**	**46,675**	**31,682**	**–**	**18,695**	**632,168**
Other key management personnel								
Peter McIntyre**	1,490	–	–	–	–	–	–	1,490
Kiran Badlani*	91,502	–	–	8,532	265	–	–	100,299
James Foster*	65,481	–	–	4,715	–	–	–	70,196
Stephen Prossor^	79,410	21,507	–	9,083	30,899	–	2,814	143,713
Dr Bruce Chadwick	87,596	–	–	7,884	334	–	–	95,814
Gino Manfredi^	89,489	–	33,873	8,054	30,104	–	–	161,520
Sub-total key management personnel compensation	**413,478**	**21,507**	**33,873**	**38,268**	**99,870**	**–**	**2,814**	**571,542**
Total	**978,994**	**57,947**	**33,873**	**90,943**	**93,284**	**45,636**	**28,679**	**1,329,356**

^ denotes one of the 5 highest paid executives of the Group, as required to be disclosed under the Corporations Act 2001.
# denotes executives resigned as at 8 June 2007.
* denotes XRF Scientific Limited personnel.
** denotes Company Secretary until 21 July 2006
*** denotes shares were issued in lieu of services provided.

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2007 continued

REMUNERATION REPORT continued

(b) Details of remuneration (audited) continued

	Short-term Benefits			Post-employment benefits	Other Long-term Benefits			
2006	Cash Salary	Non-monetary benefits	Bonuses	Super-annuation on Guarantee Contribution	Long Service Leave	Shares and units	Options & rights	Total
	$	$	$	$	$	$	$	$
Non-executive directors								
Paul Anthony Rengel *Chairman*	32,000	–	–	–	–	–	–	32,000
Kenneth Peter Baxter	24,000	–	–	–	–	–	–	24,000
Sub-total non-executive directors	**56,000**	**–**	**–**	**–**	**–**	**–**	**–**	**56,000**
Executive directors								
Peter Higgins^	91,284	21,780	–	10,176	–	–	–	123,240
Jorg Georg Hubert Metz#	85,105	6,063	–	8,205	–	–	–	99,373
Allen Roland Parsons#	36,637	–	–	4,197	–	–	–	40,834
David Brown^	100,010	–	–	9,001	–	–	–	109,011
John Graham Parsons^	92,149	–	–	8,254	–	–	–	100,403
Sub-total executive directors	**405,185**	**27,843**	**–**	**39,833**	**–**	**–**	**–**	**472,861**
Other key management personnel								
Peter McIntyre**	24,000	–	–	–	–	–	–	24,000
Kiran Badlani*	31,070	–	–	2,796	700	–	–	34,566
James Foster*	–	–	–	–	–	–	–	–
Stephen Prossor^	60,323	22,494	–	7,454	–	–	–	90,271
Dr Bruce Chadwick	87,353	–	–	7,782	–	–	–	95,135
Gino Manfredi^	84,682	–	–	7,621	25,000	–	–	117,303
Sub-total key management personnel compensation	**287,428**	**22,494**	**–**	**25,653**	**25,700**	**–**	**–**	**361,275**
Total	**748,613**	**50,337**	**–**	**65,486**	**25,700**	**–**	**–**	**890,134**

^ denotes one of the 5 highest paid executives of the Group, as required to be disclosed under the Corporations Act 2001.
# denotes executives resigned as at 8 June 2007.
* denotes XRF Scientific Limited personnel.
** denotes Company Secretary until 21 July 2006

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2007 continued

REMUNERATION REPORT continued

(b) Details of remuneration (audited) continued

Service Agreements

The executive service agreements contain standard terms and conditions for agreements of this nature, including a confidentiality clause and a restraint clause restricting the executives from being engaged in or employed by a business that carries on any business or work of a similar nature to that of XRF Scientific Limited during the term of the executive service agreements and for a period of 12 months after termination.

The agreements may be terminated immediately by the company in certain limited circumstances (such as serious misconduct) or by the company giving 3 months written notice or payment in lieu of notice due to the redundancy of the executives' position in the company.

Share-based compensation (audited)

The terms and conditions of each grant the employee option plan is designed to provide long-term incentives for executives to deliver long-term shareholders returns. Under the plan, participants are granted options which only vest if certain performance standards are met and the employees are still employed by the Group at the end of the vesting period. Participation in the plan is at the Board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits. The terms and conditions of options affecting remuneration in the previous, this or future reporting periods are as follows:

Grant date	Date vested and exercisable	Expiry date	Exercise price	Value per option at grant date
31 May 2006	31 May 2006	30 June 2009	$0.20	$0.01

Options granted under the plan carry no dividend or voting rights.

When exercisable, each option is convertible into one ordinary share 14 days after the release of the half-yearly and financial results of the Group to the market.

On 31 May 2006, the company provided for options as remuneration as set out below for each director and key management personnel. When exercised, each option is convertible into one ordinary share of XRF Scientific Limited.

Name	Number of options granted during the year		Number of options vested during the year	
	2007	2006	2007	2006
Directors of XRF Scientific Limited				
Paul Anthony Rengel	–	500,000	–	500,000
Kenneth Peter Baxter	–	500,000	–	500,000
Peter Higgins	–	392,442	–	392,442
Jorg Georg Hubert Metz	–	392,442	–	392,442
Allen Roland Parsons	–	523,256	–	523,256
David Brown	–	601,744	–	601,744
John Graham Parsons	–	697,674	–	697,674
Other key management personnel of the Group				
Stephen Prossor	–	392,442	–	392,442

4,000,000 shares were issued on the exercise of remuneration options.

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2007 continued

LOANS TO DIRECTORS AND EXECUTIVES

Allen Roland Parsons' loan was repaid on 8 June 2007.

OPTIONS

Unissued ordinary shares of XRF Scientific Limited under option at the date of this report are as follows:

Date options granted	Option holders	Expiry date	Issued price of shares	Number under option
31 May 2006	Employee options	30 June 2009	20 cents	4,000,000
28 August 2006	Consultant	30 June 2010	16 cents	2,800,000
28 August 2006	Sponsoring broker	30 June 2010	16 cents	1,500,000
21 November 2006	Consultant	31 January 2009	20 cents	1,000,000

No option holder has any right under the options to participate in any other share issue of the company or any other entity.

(i) Shares issued on the exercise of options. No shares were issued on the exercise of options.

INSURANCE OF OFFICERS

During the financial year, the company paid insurance premiums to insure the directors and secretaries of the company and its Australian – based controlled entities, and the general managers of each of the divisions of the Group.

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 Group, 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 wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

PROCEEDINGS ON BEHALF OF OR INVOLVING THE ECONOMIC ENTITY

No person has applied for leave of Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the company or 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 any 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.

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2007 continued

AUDIT SERVICES

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	Consolidated	
	2007 $	2006 $
(a) Assurance services		
William Buck		
Audit and review of financial reports	**95,000**	37,500
Due diligence services	**25,000**	–
Total remuneration for audit and other services	**120,000**	37,500

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 76.

AUDITOR

William Buck Victoria Pty Ltd continues in office in accordance with section 327 of the *Corporations Act 2001*.

This report is made in accordance with a resolution of directors.

T Sweet
Managing Director

Perth
28 September 2007

CORPORATE GOVERANCE DISCLOSURE

The Board of Directors is responsible for the overall corporate governance of XRF Scientific Limited, and is committed to the principles underpinning best practice in corporate governance, applied in a manner that meets ASX standards and best addresses the Directors' accountability to shareholders. However, whilst the Company will endeavour to comply with all of the guidelines under the ASX Corporate Governance Recommendations, the Board considers that the Company is not currently of a size, nor are its affairs of such complexity, to justify the additional expense of compliance with all recommendations.

A brief summary of XRF Scientifics' main corporate governance policies and practises is outlined below. In addition, the following policies and procedures have been adopted;

- Role of the Board
- Structure of the Board
- Responsible Decision Making and Code of Conduct
- Safeguarding integrity in Financial Reporting
- Timely and Balanced Disclosure
- Risk Recognition and Management
- Board Performance
- Remuneration Responsibility
- Securities Trading Policy

THE BOARD OF DIRECTORS

The Board will comprise both executive and non-executive Directors. Presently there are two non-executive Directors and three executive Directors. Whilst it is XRF Scientifics' policy to have a majority of non-executive directors on the Board, at the Companys' current stage of development the inclusion of a majority of executive directors, who have in-depth knowledge of the business which they manage, is considered advantageous.

The membership of the Board, its activities and composition is subject to periodic review. The criteria for determining the identification and appointment of a suitable candidate for the Board shall include the quality of the individual, experience and achievement, credibility within the Company's scope of activities, intellectual ability to contribute to the Board's duties and ability to undertake Board duties and responsibilities.

COMMITTEES OF THE BOARD

The Board has established the following committees:

Audit Committee
The Audit Committee comprises three Board members, two being non-executive Directors, and the Company Secretary. The primary responsibility of this Committee is to monitor the integrity of the financial statements of the Company, and to review and monitor the Company's internal financial control system.

Remuneration and Governance Committee
The Remuneration and Governance Committee comprises three Board members, being the non-executive Directors and the Managing Director. The primary responsibility of this Committee is to discharge the Board's responsibilities in relation to remuneration of the Company's executives, including securities and benefit plans.

CORPORATE GOVERANCE DISCLOSURE continued

ROLE OF THE BOARD

The management and control of the business is vested in the Board. The Board's primary responsibility is to oversee the Company's business activities and management for the benefit of the shareholders.

The Board strives to create Shareholder value and ensure that Shareholder's funds are safeguarded.

The key responsibilities of the Board include:

- The overall corporate governance of the Company including its strategic direction and financial objectives, establishing goals for management and monitoring the attainment of these goals;
- Approving strategic plans, key operational and financial matters, as well as major investment and divestment proposals;
- Approving the nominations of Directors to the Board and appointment of key executives;
- Evaluating and rewarding senior management and ensuring executive succession planning;
- Ensuring that the Directors have a good understanding of the Company's business;
- Ensuring Management maintains a sound system of internal controls to safeguard the assets of the Company;
- Monitoring the performance of the Company;
- Appointing and removing Managing Director (or equivalent);
- Ratifying the appointment and, where appropriate, the removal of the chief financial officer (or equivalent) and/or the company secretary;
- Reviewing and ratifying systems of risk management and internal compliance and control, codes of conduct and legal compliance, safety and occupational health policies, community and environmental issues;
- Monitoring senior management's performance and implementation of strategy, and ensuring appropriate resources are available; and
- Approving and monitoring the progress of major capital expenditure, capital management, and acquisitions and divestitures, together with any recommendations from management associated with these activities.

POLICIES AND PROCEDURES

Continuous Disclosure Policy

The Company has adopted a continuous disclosure policy so as to comply with its continuous disclosure obligations once listed on the ASX. The aims of this policy are to:

- Report continuous disclosure matters to the Board;
- Assess new information and co-ordinate any disclosure or releases to the ASX, or any advice required in relation to that information, in a timely manner;
- Provide an audit trail of the decisions regarding disclosure to substantiate compliance with the Company's continuous disclosure obligations; and
- Ensure that employees, consultants, associated entities and advisors of the Company understand the obligations to bring material information to the attention of the Board.

Securities Trading Policy

The Company has adopted a policy that imposes certain restrictions on Directors and employees trading in the securities of the Company. The restrictions have been imposed to prevent trading in contravention of the insider trading provisions of the Corporations Act.

CORPORATE GOVERANCE DISCLOSURE continued

POLICIES AND PROCEDURES continued

Risk Management Policy
The Board has developed and implemented policies and practices which ensure that the material risks facing the Company are adequately identified, assessed, monitored, and managed throughout the whole organisation. These include:

- Comprehensive Board papers containing relevant operational, strategic, financial and legal information circulated to Directors before each meeting;
- Actual results for the Company presented to the Board at each meeting, compared against budget and forecast, with revises forecasts if required;
- Financial authority limits set by the Board; and
- Insurance cover appropriate to the size and nature of the Company's operations to reduce the financial impact of any significant insurable losses.

Shareholder Communications Strategy
The Board aims to ensure that Shareholders are kept informed of all major developments affecting the Company.

Information is communicated to Shareholders through:

- Continuous disclosure in the form of public announcements on the ASX;
- Annual and quarterly reports to Shareholders;
- Investor briefings;
- The Managing Director's address delivered at the Annual General Meeting; and
- Notices of all meetings of Shareholders and explanatory notes of proposed resolutions.

INCOME STATEMENT AS AT 30 JUNE 2007

	Note	Consolidated 2007 $	Consolidated 2006 $	Parent Entity 2007 $	Parent Entity 2006 $
Sales revenue	5	12,581,863	6,020,431	17,149	19,877
Other revenues	5	230,373	196,474	284,582	6,291
		12,812,236	6,216,905	301,731	26,168
Cost of sales		(7,511,644)	(3,115,819)	(20,938)	(20,041)
Marketing expenses		(356,727)	(82,441)	(24,032)	(4,950)
Distribution expenses		(15,586)	(47,080)	(7,467)	(914)
Occupancy expenses		(279,455)	(130,833)	(13,208)	–
Employee benefits expense		(2,223,904)	(1,168,915)	(277,791)	(101,274)
Motor vehicles expense		(77,679)	(32,938)	(124)	–
Depreciation & amortisation		(143,566)	(96,809)	(10,729)	(6,352)
Administration expenses		(1,347,819)	(711,130)	(606,404)	(226,123)
Impairment losses		(133,416)	(140,000)	(133,416)	–
Other expenses from ordinary activities		–	(61,043)	–	(80)
Share of net profits of associates using the equity method		–	202,243	–	–
		(12,089,796)	(5,384,765)	(1,094,110)	(359,734)
Finance cost		(23,404)	(41,264)	–	–
Profit before income tax		699,036	790,876	(792,379)	(333,566)
Income tax revenue (expense)	7	(181,921)	(159,971)	173,178	91,462
Profit after income tax		517,115	630,905	(619,201)	(242,104)
Profit attributable to Minority Interest and others		(280,491)	–	–	–
Profit attributable to Equity holders of XRF Scientific Limited		236,624	630,905	(619,201)	(242,104)
Basic earnings per share (cents per share)		0.004	0.019		
Diluted earnings per share (cents per share)		0.003	0.017		

BALANCE SHEET AS AT 30 JUNE 2007

The above Income Statement should be read in conjunction with the accompanying notes.

	Note	Consolidated 2007 $	Consolidated 2006 $	Parent Entity 2007 $	Parent Entity 2006 $
CURRENT ASSETS					
Cash and cash equivalents	8	3,679,821	211,949	2,647,095	14,263
Trade and other receivables	9	2,618,615	2,781,524	1,058,229	66,654
Inventories	10	1,130,279	917,573	15,086	15,794
Other assets	11	102,130	1,239,767	48,305	1,192,981
Total Current Assets		7,530,845	5,150,813	3,768,715	1,289,692
NON-CURRENT ASSETS					
Property, plant and equipment	14	744,824	488,047	43,842	8,040
Intangible assets	16	5,495,233	5,138,511	91,861	96,696
Deferred tax asset	15	752,388	92,187	619,768	11,250
Other financial assets	13	523,738	10,270	6,775,385	6,261,905
Investments accounted for using the equity method	12	–	206,662	–	–
Total Non-Current Assets		7,516,184	5,935,677	7,530,856	6,377,891
Total Assets		15,047,108	11,086,490	11,299,571	7,667,583
CURRENT LIABILITIES					
Trade and other payables	17	1,233,101	1,546,494	838,750	658,252
Borrowings	18	925,121	154,327	818,478	–
Provisions	19	242,254	114,635	–	27,177
Other current liabilities	20	75,806	223,086	–	–
Current income tax liability		116,385	352,508	(358,514)	(74,759)
Total Current Liabilities		2,592,667	2,391,050	1,298,714	610,670
NON-CURRENT LIABILITIES					
Borrowings	21	40,835	225,982	–	–
Deferrred tax liability	22	11,652	–	10,717	–
Provisions	23	206,528	57,863	–	–
Total Non-Current Liabilities		259,015	283,845	10,717	–
Total Liabilities		2,851,682	2,674,895	1,309,431	610,670
Net Assets		12,195,420	8,411,595	9,990,140	7,056,913
EQUITY					
Issued capital	24	10,760,443	7,317,282	10,760,443	7,317,282
Reserves	25	117,015	–	116,835	–
Retained profits	25	1,317,963	1,094,313	(887,139)	(260,369)
Outside equity interest		–		–	
Total Equity		12,195,420	8,411,595	9,990,140	7,056,913

The above Balance Sheet should be read in conjunction with the accompanying notes.

STATEMENT OF RECOGNISED INCOME AND EXPENSES
FOR THE YEAR ENDED 30 JUNE 2007

	Note	Consolidated 2007 $	Consolidated 2006 $	Parent Entity 2007 $	Parent Entity 2006 $
Total equity at the beginning of the financial year		8,411,595	4,160,958	7,056,913	3,679,235
Adjustment to minority interest		206,649	–	–	–
		8,618,244	4,160,958	7,056,913	3,679,235
Net income recognised directly in equity		–	–	–	–
Profit (loss) for the year		517,115	630,905	(619,201)	(242,104)
Total recognised income and expense for the year		517,115	630,905	(619,201)	(242,104)
Transactions with equity holders in their capacity as equity holders:					
Contributions of equity, net of transaction costs	24	3,443,162	3,646,632	3,443,162	3,646,682
Dividends provided for or paid	25	(219,624)	(26,900)	(7,569)	(26,900)
Employee share options	25	116,835	–	116,835	–
Exchange differences on translation of foreign operations	25	180	–	–	–
Acquisition of minority interest		(280,491)	–	–	–
		3,060,062	3,619,732	3,552,428	3,619,782
Total equity at the end of the financial year		12,195,420	8,411,595	9,990,140	7,056,913
Total recognised income and expense for the year is attributable to:					
Members of XRF Scientific Ltd		236,624	630,905	(619,201)	(242,104)
Minority interest		280,491	–	–	–
		517,115	630,905	(619,201)	(242,104)

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2007

	Note	Consolidated 2007 $	Consolidated 2006 $	Parent Entity 2007 $	Parent Entity 2006 $
Cash flows from operating activities					
Receipts from customers (inclusive of GST)		12,619,299	5,447,167	169,034	22,255
Payments to suppliers and employees (inclusive of GST)		(12,358,183)	(5,164,935)	(1,004,008)	(203,438)
Borrowing costs		(23,404)	(41,264)	–	–
Other revenue		–	100,000	–	–
Income taxes paid		(369,819)	(76,439)	14,452	–
Interest received		182,988	36,740	135,074	–
Net cash inflow (outflow) from operating activities	36	50,881	301,269	(685,448)	(181,183)
Cash flows from investing activites					
Payments for property, plant and equipment		(310,529)	(210,496)	(41,667)	(3,469)
Purchase of equity in subsidiares, net of cash acquired		–	(2,787,592)	–	(2,876,647)
Cost associated with IPO		–	(904,536)	–	(940,631)
Payments for intangible assets		(65,344)	(190,151)	–	(100,030)
Proceeds from sale of property, plant and equipment		124,133	–	–	–
Net cash inflow (outflow) from investing activities		(251,740)	(4,092,775)	(41,667)	(3,920,777)
Cash flows from financing activities					
Proceeds from issues of shares and other equity securities		3,728,249	3,646,682	3,356,906	3,646,682
Proceeds from borrowings		81,382	78,812	47,874	–
Repayment of borrowings		(133,095)	(322,517)	(37,264)	346,953
Dividends paid to Minority shareholder and others		(86,877)	–	(7,569)	–
Borrowings from subsidiaries		–	–	–	–
		3,589,659	3,402,977	3,359,947	3,993,635
Net increase (decrease) in cash and cash equivalents					
Cash and cash equivalents at the beginning of the financial year	8(c)	159,897	548,416	14,263	122,588
Cash acquired on acquisition of subsidiary		131,124	–	–	–
Net Cash movement	8(c)	3,388,800	(388,519)	2,632,832	(108,325)
Cash and cash equivalents at the end of the financial year		3,679,821	159,897	2,647,095	14,263

The above Cash Flow Statement should be read in conjunction with the accompanying notes.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented.

(a) Basis of preparation

The financial report of XRF Scientfic Limited for the year ended 30 June 2007 was authorised for issue on 14 September 2007 by the Board and covers XRF Scientfic Limited as an individual entity as well as the consolidated entity consisting of XRF Scientfic Limited and its subsidiaries as required by the Corporations Act 2001.

The financial report is presented in the Australian currency.

XRF Scientfic Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Stock Exchange.

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

Compliance with IFRSs
Australian Accounting Standards include Australian Equivalents to International Financial Reporting Standards ("AIFRSs"). Compliance with AIFRSs ensures that the Financial Report complies with International Financial Reporting Standards (IFRSs).

Historical cost convention
These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss, certain classes of property, plant and equipment and investment property.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report.

(b) Principles of consolidation

(i) Subsidiaries
The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of XRF Scientific Limited ("company" or "parent company") as at 30 June 2007 and the results of all subsidiaries for the year then ended. XRF Scientific Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

A controlled entity is an entity XRF Scientific Limited has the power to control the financial and operating policies so as to obtain benefits from its activities.

All controlled entities have a June financial year end.

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the consolidated entity, being the company (the parent company) and its subsidiaries as defined in Accounting Standard AASB 127 'Consolidated and Separate Financial Statements'. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements. On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If, after reassessment, the fair values of the identifiable net assets acquired exceeds the cost of acquisition, the deficiency is credited to profit and loss in the period of acquisition.

The consolidated financial statements include the information and results of each subsidiary from the date on which the company obtains control and until such time as the company ceases to control such entity. All inter company balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007 continued

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

(c) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

(d) Foreign currency translation

Functional and presentation currency

The functional currency of each group entity is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

Transaction and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year end exchange rate.

Exchange differences arising on the translation of monetary items are recognised in the income statement, except where deferred in equity as a qualifying cash flow or net investment hedge. The differences taken to equity are recognised in profit or loss on disposal of the net investment.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction, and are recognised in the profit and loss.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined, and are recognised in the profit and loss.

(e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and amounts collected on behalf of third parties. Revenue is recognised for major business activities as follows:

(i) Sale of goods

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

(ii) Interest income

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

(iv) Dividends

Dividend revenue is recognised when the right to receive a dividend has been established. Dividends received from associates and joint venture entities are accounted for in accordance with the equity method of accounting.

(v) Rendering of Services

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

NOTES TO THE ACCOUNTS **FOR THE YEAR ENDED 30 JUNE 2007 continued**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

(f) Income tax

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

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or sustantially enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Tax consolidation legislation

XRF Scientific Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, XRF Scientific Limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, XRF Scientific Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group. The Group will implement a Tax Funding Arrangement to have effect from 1 July 2005. Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

(g) Leases

Leases of property, plant and equipment where the entity has substantially all the risks and rewards of ownership are classified as finance leases (note 30). Finance leases are capitalised at the lease's inception at the lower of fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007 continued

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

(g) Leases continued

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases (note 30). Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Lease income from operating leases is recognised in income on a straight-line basis over the lease term (note 30).

(h) Business combinations

The purchase method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the fair value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (refer to note 1(p)). If the cost of acquisition is less than the Group's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

(i) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash flows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(j) Cash and cash equivalents

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid instruments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007 continued

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

(k) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for doubtful debts. Trade receivables are due for settlement no more than 90 days from the date of recognition.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The amount of the provision is recognised in the income statement.

(l) Inventories

(i) Raw materials and stores, work in progress and finished goods

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. They include the transfer from equity of any gains/losses on qualifying cash flow hedges relating to purchases of raw material. Costs are assigned to individual items of inventory on basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(m) Investments and other financial assets

Classification

The Company classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables. The classification depends on the purpose for which the investments were acquired.Management determines the classification of its investments at initial recognition.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading which are acquired principally for the purpose of selling in the short term with the intention of making a profit.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in receivables in the balance sheet (note 9).

(iii) Available-for-sale financial assets

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

(iv) Recognition and derecognition

Regular purchases and sales of investments are recognised on trade-date – the date on which the Company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive the cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007 continued

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

(m) Investments and other financial assets continued

(v) Subsequent measurement

Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category, including interest and dividend income, are presented in the income statement within other income or other expenses in the period in which they arise.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences are recognised in profit or loss and other changes in carrying amount are recognised in equity. Changes in the fair value of other monetary and non-monetary securities classified as available-for-sale are recognised in equity.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investment securities.

(vi) Fair value

The fair value of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

(vii) Impairment

The Company assesses at each balance date whether there is objective evidence that a financial asset of group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered in determining whether a security is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit and loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments classified as available-for-sale are not reversed through the income statement.

(n) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Company is the current bid price: the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Company uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest-rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the balance sheet date.

The carrying amount less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007 continued

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

(o) Property, plant and equipment

Land and buildings are shown at fair value, based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Increases in the carrying amounts arising on revaluation of land and buildings are credited, net of tax, to other reserves in shareholders' equity. To the extent that the increase reverses a decrease previously recognised in profit or loss, the increase is first recognised in profit or loss. Decreases that reverse previous increases of the same asset are first charged against revaluation reserves directly in equity to the extent of the remaining reserve attributable to the asset; all other decreases are charged to the income statement. Each year, the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement and depreciation based on the asset's original cost, net of tax, is transferred from the property, plant and equipment revaluation reserve to retained earnings.

Depreciation is calculated using the straight line method to allocate their cost or revalued amount, net of their residual values, over their estimated useful lives, as follows:

Plant and Equipment	45%-36%
Furniture, Fixtures and Fittings	5%-20%
Motor Vehicles	15%-22.5%
Office Equipment	7.5%-40%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(i)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement. When revalued assets are sold, it is Company policy to transfer the amounts included in other reserves in respect of those assets to retained earnings.

(p) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets of the acquired subsidiary/associate/business at the date of acquisition. Goodwill on acquisitions of subsidiaries and businesses is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is assigned to cash-generating units for the purpose of impairment testing. Each of those cash-generating units represents the Company's investment in each country of operation by each primary-reporting segment (note 32).

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007 continued

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

(p) Intangible assets continued

(ii) Patents, trademarks and other rights

Patents, trademarks and rights have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives, which vary from 3 to 20 years.

(iii) Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technical feasibility and its costs can be measured reliably. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, which varies from 1 to 3 years.

(q) Trade and other payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 60 days of recognition.

(r) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities, which are not incremental costs relating to the actual draw-down of the facility, are recognised as prepayments and amortised on a straight-line basis over the term of the facility.

Preference shares, which are mandatorily redeemable on a specific date, are classified as liabilities. The dividends on these preference shares are recognised in the income statement as interest expense.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(s) Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale.

All other borrowing costs are recognised as an expense in the income statement in the period in which they are incurred.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as an interest expense.

NOTES TO THE ACCOUNTS **FOR THE YEAR ENDED 30 JUNE 2007 continued**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

(t) Employee benefits

(i) Wages and salaries, annual leave and sick leave
Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) 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, experiences 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.

(iii) Retirement benefit obligations
The amount charged to the Income Statement in respect of superannuation represents the contributions made by the Group to superannuation funds.

Contributions made by the Company to employee superannuation funds are charged as expenses when incurred.

(iv) Share-based payments
Share-based compensation benefits are provided to employees via the XRF Scientific Limited Employee Options Plan and an employee share scheme. Information relating to these schemes is set out in note 27.

On 31 May 2006 XRF Scientific Limited has issued for nil consideration to officers and employees as part of an employee share option plan, a total of 4 million options to acquire fully paid ordinary shares in the capital of XRFS that include the following terms:

May be exercised not before 30 June 2006 and expire not later than 30 June 2009;
Options will be exercisable at 20 cents each;
All options vested immediately on 31 May 2006; and
Options are unlisted.

The fair value of options granted under the XRF Scientific Limited Option Plan is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The fair value of the options granted is adjusted to reflect market vesting conditions, but excludes the impact of any non-market vesting conditions (e.g. profitability and sales forecast targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

Upon the exercise of options, the balance of the share-based payments reserve relating to those options is transferred to share capital and the proceeds received, net of any directly attributable transaction costs, are credited to share capital.

Under the employee share scheme, shares issued to employees for no cash consideration vest immediately on grant date. On this date, the market value of the shares issued is recognised as an employee benefits expense with a corresponding increase in equity.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007 continued

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

(t) Employee benefits continued

(vi) 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 12 months after balance sheet date are discounted to present value.

(u) Contributed equity
Ordinary shares are classified as equity. Mandatorily redeemable preference shares are classified as liabilities (note 24).

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction 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 acquisition as part of the purchase consideration.

If the entity reacquires its own equity instruments, e.g. as the result of a share buy-back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in the profit or loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

(v) Dividends
Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the financial year but not distributed at balance date.

(w) Goods and services tax
Revenues, expenses and assets are recognised net of the amount of associated goods and services tax (GST), unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the taxation authority, are presented as operating cash flows.

(x) Earnings per share

(i) Basic earnings per share
Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share
Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

NOTES TO THE ACCOUNTS **FOR THE YEAR ENDED 30 JUNE 2007 continued**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

(y) Associates

Associates are entities over which the Group has significant influence but not control. Associates are accounted for in the parent entity financial statements at cost and the consolidated financial statements using the equity method of accounting. Under the equity method of accounting, the consolidated income statement reflects the Group's share of associates' post-acquisition profits or losses and the consolidated balance sheet reflects the Group's share of post-acquisition movements in reserves or equity. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends received from associates are recognised in the parent entity's income statement but rather reduce the carrying amount of the investment in the consolidated financial statements.

Unrealised gains on transactions between the group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

NOTE 2: FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks; market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

Risk management is carried out by a central finance team under policies approved by the Board of Directors. The finance team identifies, evaluates and hedges financial risks in close co-operation with the Company's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as mitigating foreign exchange, interest rate and credit risks, use of financial instruments and investing excess liquidity.

(a) Market risk

(i) Foreign exchange risk

The Group is exposed to foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than the Australian Dollar. The currencies giving rise to this risk are predominantly Pounds Sterling, Euro and US Dollar.

(ii) Price risk

The groups exposure to price risk is minimal.

(iii) Fair value interest rate risk

Refer to (d) below.

(b) Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. The Group trades only with recognised, creditworthy third parties. It is the Group policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, available-for-sale financial assets and certain derivative instruments, the Group's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of these instruments.

There are no significant concentrations of credit risk within the Group at the balance sheet date.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007 continued

NOTE 2: FINANCIAL RISK MANAGEMENT continued

(c) Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, debentures, finance leases and hire purchase contracts.

(d) Cash flow and fair value interest rate risk

The directors consider that the carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their fair values (2006: net fair value).

The fair values and net fair values of financial assets and financial liabilities are determined as follows:

The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;

The fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis; and

Transaction costs are included in the determination of net fair value.

NOTE 3: CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Estimated impairment of goodwill

The group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 1(p)

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007 continued

NOTE 4: SEGMENT INFORMATION

(a) Description of segments

Business segments

The consolidated entity is organised on a global basis into the following divisions by product.

Customised Fusion Machines and Furnace Technology

Automated Fusion Technology Pty Ltd (AFT) – design, manufacture and service organisation specialising in automated fusion equipment.

Modutemp Pty Ltd (MOD) – servicing the analytical sector with a range of high temperature test and production furnaces.

Platinum Labware

Precious Metals Engineering (WA) Pty Ltd (PME) and Analytical Platinum Supplies Pty Ltd (APS) – manufactures products for the platinum and platinum alloy markets.

LIBS Instruments

Laser Analysis Technologies Pty Ltd (LAT) – produces and distributes Laser Plasma Spectrometers which are used in the analysis of a variety of minerals, chemicals, soils and industrial material such as cement, glass and ceramics and base metals.

X Ray Flux Products

X-Ray Flux Pty Ltd – produces chemicals, supplying analytical fluxes to scientists for mineralogical applications, the cement and steel industries as well as other industries.

Geographical Segments

Australia

The home country of the parent entity which is also the main operating entity. The areas of operation are principally Customised Fusion Machines and Furnace Technology, Platinum Labware, and Xray Flux Products.

United States of America

XRFS USA Inc was incorporated in January 2007 and as yet does not contribute to the group results and assets and liabilities on a significant basis.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007 continued

NOTE 4: SEGMENT INFORMATION continued

(b) Primary reporting format – business segments

2007	Customed Fusion Machines and Furnace Technology $	Platinum Labware $	LIBS Instruments $	Xray Flux Products $	Eliminations and Unallocated $	Consolidated $
Segment revenue						
Sales to external customers	5,704,639	5,483,064	1,096,413	1,648,510	(1,436,431)	12,496,195
Total sales revenue	5,704,639	5,483,064	1,096,413	1,648,510	(1,436,431)	12,496,195
Interest income	10,370	56,778	–	–	135,074	202,222
Other revenue/income	42,504	38,850	1,579	30,405	481	113,819
Total segment revenue/income	**5,757,513**	**5,578,692**	**1,097,992**	**1,678,915**	**(1,300,876)**	**12,812,236**
Segment result	**(496,797)**	**876,723**	**46,115**	**498,226**	**(225,231)**	**699,036**
Profit before income tax						699,036
Income tax expense						(181,921)
Profit attributed to minority interest						(280,491)
Profit for the year						**236,624**
Segment assets	**14,704,710**	**2,685,546**	**646,517**	**1,292,537**	**(4,282,281)**	**15,047,028**
Segment liabilities	**3,327,145**	**1,160,294**	**529,602**	**445,280**	**(2,610,639)**	**2,851,682**
Other segment information						
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	14,704,710	2,685,546	646,517	1,292,537	(4,282,281)	15,047,028
Depreciation and amortisation expense	55,558	21,661	9,520	40,238	16,589	143,566
Impairment of goodwill	–	–	–	–	133,416	133,416

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007 continued

NOTE 4: SEGMENT INFORMATION continued

(b) Primary reporting format – business segments

2006	Customed Fusion Machines and Furnace Technology $	Platinum Labware $	LIBS Instruments $	Xray Flux Products $	Eliminations and Unallocated $	Consolidated $
Segment revenue						
Sales to external customers	3,325,205	967,087	609,152	1,353,585	(234,598)	6,020,431
Total sales revenue	3,325,205	967,087	609,152	1,353,585	(234,598)	6,020,431
Interest income	1,979	34,791	20	–	–	36,790
Other revenue/income (expense)	(79,088)	3,900	241,176	207	(6,511)	159,684
Total segment revenue/income	**3,268,179**	**1,005,779**	**850,348**	**1,353,586**	**(260,987)**	**6,216,905**
Segment result	**99,305**	**164,219**	**160,204**	**357,536**	**9,612**	**790,876**
Profit before income tax						790,876
Income tax expense						(159,971)
Profit attributed to minority interest						–
Profit for the year						**630,905**
Segment assets	**10,244,154**	**1,374,636**	**381,003**	**1,089,274**	**(2,002,577)**	**11,086,490**
Segment liabilities	**1,868,689**	**561,513**	**321,917**	**669,932**	**(747,156)**	**2,674,895**
Other segment information						
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	2,021,288	271,231	75,176	214,926	(395,131)	2,187,490
Depreciation and amortisation expense	51,535	2,993	1,812	40,469	–	96,809
Impairment of goodwill	–	–	–	–	140,000	140,000

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007 continued

NOTE 4: SEGMENT INFORMATION continued

(c) Notes to and forming part of the segment information

(i) Accounting policies

Segment information is prepared in conformity with the accounting policies of the entity as disclosed in note 1 and accounting standard AASB 114 Segment Reporting.

Segment revenues, expenses, assets and liabilities are those that are directly attributable to a segment and the relevant portion that can be allocated to the segment on a reasonable basis. Segment assets include all assets used by a segment and consist primarily of operating cash, receivables, inventories, property, plant and equipment and goodwill and other intangible assets, net of related provisions. While most of these assets can be directly attributable to individual segments, the carrying amounts of certain assets used jointly by segments are allocated based on reasonable estimates of usage. Segment liabilities consist primarily of trade and other creditors and a provision for employee benefits. Segment assets and liabilities do not include income taxes.

(ii) Change in segment accounting policy

Comparative information has been presented consistently even though segment information is included in the financial report for the first time at 30 June 2007. Consolidated entity management identfied segments and began tracking financial information by segments during the year ended 30 June 2007 to better monitor results where risks and returns may be different from those of the consolidated entity and the other business segments.

(ii) Inter-segment transfers

Segment revenues, expenses and results include transfers between segments. Such transfers are priced on an arm's-length" basis and are eliminated on consolidation.

NOTE 5: REVENUE

	Consolidated 2007 $	Consolidated 2006 $	Parent Entity 2007 $	Parent Entity 2006 $
From continuing operations				
Sales revenue				
Sale of goods	12,581,863	6,020,431	17,149	19,877
Other revenue				
Interest				
Other parties	172,606	1,998	135,074	–
Related parties	29,617	34,792	–	–
Net gain on disposal of property, plant and equipment	–	263	–	–
Rent recovery	18,327	–	–	–
Cartage, handling, and insurance	79,176	–	–	–
Fair value gains on other financial assets	–	5,258	–	5,258
Management fees	–	–	149,091	–
R&D tax offset	–	10,764	–	–
Sundry and other income	9,823	143,399	417	1,033
	12,812,236	6,216,905	301,731	26,168

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007 continued

	Consolidated 2007 $	Consolidated 2006 $	Parent Entity 2007 $	Parent Entity 2006 $
NOTE 6: EXPENSES				
Profit before income tax includes the following specific expenses:				
Depreciation				
Buildings	–	–	–	–
Plant and equipment	6,850	14,618	675	–
Computer equipment	8,820	2,683	–	–
Motor vehicles	54,209	32,607	–	434
Furniture, fixtures & fittings	1,534	3,606	–	–
Office equipment	8,421	5,739	5,219	2,584
Plant and equipment under finance lease	30,301	15,801	–	–
Total depreciation	110,135	75,054	5,894	3,018
Amortisation				
Patents and trademarks	16,019	10,424	4,835	3,334
Research and development	17,413	11,331	–	–
Total amortisation	33,432	21,755	4,835	3,334
Finance costs				
Interest and finance charges paid/payable	23,404	41,264	–	–
Finance costs expensed	23,404	41,264	–	–
Net loss on disposal of property, plant and equipment	35,113	–	–	–
Rental expense relating to operating leases				
Minimum lease payments	205,970	134,328	10,647	–
Contingent rentals	–	–	–	–
Sub-leases	–	–	–	–
Total rental expense relating to operating leases	205,970	134,328	10,647	–
Other administration costs				
Fair value on investment	(846)	–	–	–
Exchange losses	(3,872)	–	–	–
Total administration costs	(4,717)	–	–	–

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007 continued

	Consolidated		Parent Entity	
	2007 $	2006 $	2007 $	2006 $
NOTE 7: INCOME TAX EXPENSE				
(a) Income tax expense				
Current tax	238,163	252,158	(273,459)	(80,212)
Deferred tax	66,997	(92,187)	116,210	(11,250)
Over provided in prior years	(123,239)	–	(15,929)	–
	181,921	159,971	(173,178)	(91,462)
Income tax expense is attributable to:				
Profit from continuing operations	181,921	159,971	(173,178)	(91,462)
Profit from discounted operations		–		–
Aggregate income tax expense	181,921	159,971	(173,178)	(91,462)
Deferred income tax (revenue) expense included in income tax expense comprises:				
Decrease (increase) in deferred tax assets (note 15)	64,164	(92,187)	114,312	11,250
(Decrease) increase in deferred tax liabilities (note 22)	2,833	–	1,898	–
	66,997	(92,187)	116,210	(11,250)
(b) Numerical reconciliation of income tax expenseto prima facie tax payable				
Profit from continuing operations before income tax expense	699,036	790,876	(792,379)	(333,566)
Profit from discontinuing operations before income tax expense	–	–	–	–
	699,036	790,876	(792,379)	(333,566)
Tax at the Australian tax rate of 30% (2006: 30%)	209,711	237,263	(237,714)	(100,070)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Share-based payments	35,050	–	35,050	–
Recognition of deferred income tax	–	(23,290)	–	–
Entertainment	1,635	–	48	–
Losses not brought to amount	10,065	–	–	–
Impairment losses	40,025	–	40,025	–
Non assessable income	–	(60,000)	–	–
Investment income from tax consolidated entities	–	–	–	–
Sundry items	8,674	5,998	5,342	4,158
	305,160	159,971	(157,249)	(95,912)
Difference in overseas tax rates				
Over provision in prior years	(123,239)	–	(15,929)	4,450
Prior year tax losses not recognised now recouped Income tax expense	181,921	159,971	(173,178)	(91,462)

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007 continued

	Consolidated		Parent Entity	
	2007 $	2006 $	2007 $	2006 $
NOTE 7: INCOME TAX EXPENSE continued				
(c) Amounts recognised directly in equity				
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited to equity:				
Net deferred tax – debited (credited) directly to equity note 24	144,566	–	144,566	–
	144,566	–	144,566	–
(d) Tax losses				
Unused tax losses for which no deferred tax asset has been recognised				
Potential tax benefit @ 30%	10,065	–	–	28,774

All unused tax losses were incurred by overseas entities.

(f) Tax consolidation legislation

XRF Scientific Limited and its wholly-owned Australian controlled entities elected to enter into the tax consolidation regime from 1 July 2005. The accounting policy in relation to this legislation is set out in note 1(f).

The entities have the intention of entering into a tax funding agreement to apply from 1 July 2005 under which the wholly-owned entities fully compensate XRF Scientific Limited for any current tax payable assumed and are compensated by XRF Scientific Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to XRF Scientific Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement will be due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments. The funding amounts are recognised as current intercompany receivables or payables.

In the meantime XRF Scientific Limited has recognised a tax consolidation distribution from a wholly-owned tax consoildated entity of ($181,921) (2006: ($159,971). The distribution arose as the result of the intra-group sale of inventory and was recognised as investment income (see note 5).

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007 continued

	Consolidated		Parent Entity	
	2007 $	2006 $	2007 $	2006 $
NOTE 8: CURRENT ASSETS – CASH AND CASH EQUIVALENTS				
Cash at bank and on hand	1,575,121	211,949	540,495	14,263
Deposits at call	2,104,700	–	2,106,600	–
	3,679,821	211,949	2,647,095	14,263

(a) Cash at bank and on hand

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

(b) Deposits at call

Short-term deposits are made for varying periods of between 3 months and 6 months, depending on the immediate cash requirements of the company, and earn interest at the respective short-term deposit rates.

(c) Reconciliation ofcash available for use as at reporting date

Although the consolidated and parent entities have the above amounts of cash, cash available for use is reduced by drafts outstanding as ats the reporting date.

Cash available for use at the end of the year is reconciled as follows:

Cash at bank, on hand, and at call	3,679,821	211,949	2,647,095	14,263
Bank overdraft	–	(52,052)	–	–
	3,679,821	159,897	2,647,095	14,263

	Consolidated		Parent Entity	
	2007 $	2006 $	2007 $	2006 $
NOTE 9: CURRENT ASSETS – TRADE AND OTHER RECEIVABLES				
Trade receivables	2,409,325	1,994,254	267	5,058
Provision for impairment of receivables	(7,897)	(1,948)	–	–
	2,401,428	1,992,306	267	5,058
Work in progress	–	150,554	–	–
Other receivables from:				
Wholly owned entities	–	–	1,057,962	61,596
Other related entities	–	100,000	–	–
Directors and related entities	–	426,365	–	–
Other external parties	217,187	112,299	–	–
	2,618,615	2,781,524	1,058,229	66,654

(a) Impaired trade receivables

The consolidated entity has recognised a loss of $40,715 (2006: $6,521) and the parent entity has recognised a loss of $596 (2006: $592) in respect of impaired trade receivables during the year ended 30 June 2007. The losses have been included in 'administration expenses' in the income statement.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007 continued

NOTE 9: CURRENT ASSETS – TRADE AND OTHER RECEIVABLES continued

(b) Other receivables

These amounts generally arise from transactions outside the usual operating activities of the Company. Other receivables are subject to the same terms as trade receivables. Those terms have been described in Note 1.

(c) Effective interest rates and credit risk

Information concerning the effective interest rate and credit risk of both current and non-current receivables is set out in the non-current receivables note 26.

	Consolidated		Parent Entity	
	2007 $	2006 $	2007 $	2006 $

NOTE 10: CURRENT ASSETS – INVENTORIES

	Consolidated 2007 $	Consolidated 2006 $	Parent Entity 2007 $	Parent Entity 2006 $
Raw material and stores				
– at cost	691,323	481,759	15,086	15,794
– at net realisable value	50,000	–	–	–
Work-in-progress – at cost				
– Customised Fusion Machine and Furnace Technology	80,956	–	–	–
– Platinum Labware	144,844	–	–	–
Finished goods				
– at cost	163,156	435,814	–	–
– at net realisable value	–	–	–	–
	1,130,279	917,573	15,086	15,794

Stock was valued at lower of cost net realisable value on 30 June 2007.

NOTE 11: OTHER CURRENT ASSETS

	Consolidated 2007 $	Consolidated 2006 $	Parent Entity 2007 $	Parent Entity 2006 $
Prepayments of IPO costs	–	1,059,565	–	1,059,565
Other prepayments	102,130	46,786	48,305	–
Share acquisition costs	–	133,416	–	133,416
	102,130	1,239,767	48,305	1,192,981

NOTE 12: NON-CURRENT ASSETS – INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	Consolidated 2007 $	Consolidated 2006 $	Parent Entity 2007 $	Parent Entity 2006 $
Shares in associates (note 32)	–	206,662	–	–

(a) Shares in associates

Investments in associates represents a 50% interest in Analytical Platinum Supplies Pty Ltd held by the parent entity at 30 June 2006. Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting and are carried at cost by the parent entity (note 32). 30 June 2007 shares in associates is recorded as $0 because the parent entity acquired the remaining 50% interest in Analytical Platinum Supplies Pty Ltd during the year (note 32).

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007 continued

	Consolidated		Parent Entity	
	2007 $	2006 $	2007 $	2006 $
NOTE 13: NON-CURRENT ASSETS – OTHER FINANCIAL ASSETS				
Shares in subsidiaries (note 33)	–	–	6,251,647	6,251,647
Share in associated entity	–	12	–	–
Shares in other corporation (i)	643,774	–	643,774	–
Provision for Impairment	(133,416)	–	(133,416)	–
Other listed securities	13,380	10,258	13,380	10,258
	523,738	10,270	6,775,385	6,261,905

These financial assets are carried at cost.

(i) Shares in other corporation relate to company's investment in Socachim on 1 November 2006 for $500,000 (3,000,000 shares). On 3 August 2007 XRF Scientific Limited made a company announcement regarding the proposed reduction of capital of 3 million for Socachim. Due to the operational and financial reasons, it has been determined that XRF Scientifics' interest are best served by Socachim operating autonomously, as a commission agent rather than a wholly-owned subsidiary.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007 continued

NOTE 14: NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

Consolidated	Plant & Equipment	Motor Vehicles	Furniture Fixtures & Fittings	Office Equipment	Total
At 1 July 2005					
Cost or fair value	301,165	244,327	7,758	70,310	623,560
Accumulated depreciation	(98,860)	(120,335)	(3,770)	(47,991)	(270,956)
Net book amount	202,305	123,992	3,988	22,319	352,604
Year ended 30 June 2006					
Opening net book amount	202,305	123,992	3,988	22,319	352,604
Additions	74,334	53,447	–	1,602	129,383
Additions through acquisition of entities (note 37)	14,920	46,268	2,124	17,552	80,864
Depreciation charge	(40,191)	(14,985)	(2,153)	(17,475)	(74,804)
Closing net book amount	251,368	208,722	3,959	23,998	488,047
At 30 June 2006					
Cost or fair value	409,295	370,441	15,200	144,868	939,804
Accumulated depreciation	(157,927)	(161,719)	(11,241)	(120,870)	(451,757)
Net book amount	251,368	208,722	3,959	23,998	488,047
Year ended 30 June 2007					
Opening net book amount	251,368	208,722	3,959	23,998	488,047
Additions*	434,439	–	9,308	81,027	524,774
Additions through acquisition of entities (note 32)	15,537	–	–	–	15,537
Disposals	(53,887)	(115,900)	–	(3,612)	(173,399)
Depreciation charge	(37,151)	(54,209)	(1,534)	(17,241)	(110,135)
Closing net book amount	610,306	38,613	11,733	84,172	744,824
At 30 June 2007					
Cost or fair value	823,822	81,608	24,509	222,233	1,152,172
Accumulated depreciation	(213,516)	(42,995)	(12,775)	(138,062)	(407,348)
Net book amount	610,306	38,613	11,734	84,171	744,824

*During the year ended 30 June 2007, $200,000 of plant and equipment additions were acquired by assuming a $200,000 liability in the form of a convertible note.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007 continued

NOTE 14: NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT continued

Parent	Plant & Equipment	Motor Vehicles	Furniture Fixtures & Fittings	Office Equipment	Total
At 1 July 2005					
Cost or fair value	7,505	–	–	–	7,505
Accumulated depreciation	(350)	–	–	–	(350)
Net book amount	7,155	–	–	–	7,155
Year ended 30 June 2006					
Opening net book amount	7,155	–	–	–	7,155
Additions	3,469	–	–	–	3,469
Assets included in a disposal group held for sale and other disposals	–	–	–	–	–
Depreciation charge	(2,584)	–	–	–	(2,584)
Closing net book amount	8,040	–	–	–	8,040
At 30 June 2006					
Cost or fair value	10,974	–	–	–	10,974
Accumulated depreciation	(2,934)	–	–	–	(2,934)
Net book amount	8,040	–	–	–	8,040
Year ended 30 June 2007					
Opening net book amount	8,040	–	–	–	8,040
Additions	43,636	–	–	–	43,636
Held for sale and other disposals	(1,970)				(1,970)
Depreciation charge	(5,864)				(5,864)
Closing net book amount	43,842	–	–	–	43,842
At 30 June 2007					
Cost or fair value	52,641	–	–	–	52,641
Accumulated depreciation	(8,798)	–	–	–	(8,798)
Net book amount	43,842	–	–	–	43,842

	Consolidated 2007 $	Consolidated 2006 $	Parent Entity 2007 $	Parent Entity 2006 $
(a) Leased assets				
Plant and equipment includes the following amounts where the consolidated entity is a lesse under a finance lease:				
Plant and equipment				
Cost	165,000	165,000	–	–
Accumulated depreciation	(30,301)	(15,801)	–	–
Net book amount	134,699	149,199	–	–

(b) Non-current assets pledged as security

Refer to note 21 for information on non-current assets pledged as security by the parent entity and its controlled entities.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007 continued

	Consolidated 2007 $	Consolidated 2006 $	Parent Entity 2007 $	Parent Entity 2006 $
NOTE 15: DEFERRED TAX ASSETS				
The balance comprises temporary differences attributable to:				
Amounts recognized in profit or loss				
Employee benefits	120,983	57,529	–	–
Amounts recognised directly in equity				
Share issue expenses note 29	578,264	–	578,264	–
Other				
Depreciation of tangible assets	1,952	–	–	–
Accruals	48,620	11,250	41,250	11,250
Provisions	2,315	23,408	–	–
Other	254	–	254	–
	53,141	34,658	41,504	11,250
Net deferred tax assets	752,388	92,187	619,768	11,250
Movements:				
Opening balance at 1 July	92,187	–	11,250	–
Credited/(charged) to the income statement (note 8)	(64,164)	92,187	(114,312)	11,250
Credited/(charged) to equity	722,830	–	722,830	–
Acqusition of subsidiary	1,535	–	–	–
Closing balance at 30 June	752,388	92,187	619,768	11,250

* The deferred tax assets attributable to tax losses does not exceed taxable amounts arising from the reversal of existing assessable temporary differences.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007 continued

NOTE 16: NON-CURRENT ASSETS – INTANGIBLE ASSETS

Consolidated	Research & Development	Goodwill	Patents trademarks & other rights	Total
At 1 July 2005				
Cost or fair value	43,324	3,261,768	28,529	3,333,621
Accumulated amortisation and impairment	(10,831)	–	–	(10,831)
Net book amount	32,493	3,261,768	28,529	3,322,790
Year ended 30 June 2006				
Opening net book amount	32,493	3,261,768	28,529	3,322,790
Additions	–	1,718,614	258,629	1,977,243
Amortisation charge *	(10,831)	–	(10,691)	(21,522)
Impairment charge **	–	(140,000)	–	(140,000)
Closing net book amount	21,662	4,840,382	276,467	5,138,511
At 30 June 2006				
Cost or fair value	43,324	4,980,382	287,158	5,310,864
Accumulated amortisation and impairment	(21,662)	(140,000)	(10,691)	(172,353)
Net book amount	21,662	4,840,382	276,467	5,138,511
Year ended 30 June 2007				
Opening net book amount	21,662	4,840,382	276,467	5,138,511
Additions	53,568	324,902	11,776	390,246
Amortisation charge *	(21,998)	–	(11,526)	(33,524)
Closing net book amount	53,232	5,165,284	276,717	5,495,233
At 30 June 2007				
Cost or fair value	96,892	5,305,284	301,934	5,704,110
Accumulated amortisation and impairment	(43,660)	(140,000)	(25,217)	(208,877)
Net book amount	53,232	5,165,284	276,717	5,495,233

* Amortisation of $33,432 (2006: $21,522) is included in depreciation and amortisation expense in the income statement.

** The carrying amount of the customised fusion and machines furnace technology segment in Australia has been reduced to its recoverable amount through recognition of an impairment loss against goodwill. This loss has been disclosed as impairment of goodwill in the income statement.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007 continued

NOTE 16: NON-CURRENT ASSETS – INTANGIBLE ASSETS continued

Consolidated	Research & Development	Goodwill	Patents trademarks & other rights	Total
At 1 July 2005				
Cost or fair value	–	–	–	–
Accumulated amortisation and impairment	–	–	–	–
Net book amount	–	–	–	–
Year ended 30 June 2006				
Opening net book amount	–	–	–	–
Additions	–	–	100,030	100,030
Amortisation charge **	–	–	(3,334)	(3,334)
Closing net book amount	–	–	96,696	96,696
At 30 June 2006				
Cost or fair value	–	–	100,030	100,030
Accumulated amortisation and impairment	–	–	(3,334)	(3,334)
Net book amount	–	–	96,696	96,696
Year ended 30 June 2007				
Opening net book amount	–	–	96,696	96,696
Additions	–	–	–	–
Acquisition of subsidiary	–	–	–	–
Impairment charge ***	–	–	–	–
Amortisation charge *	–	–	(4,835)	(4,835)
Closing net book amount	–	–	91,861	91,861
At 30 June 2007				
Cost or fair value	–	–	100,030	100,030
Accumulated amortisation and impairment	–	–	(8,169)	(8,169)
Net book amount	–	–	91,861	91,861

(a) Impairment tests for goodwill

Goodwill is allocated to the consolidated entity's cash-generating units (CGU's) identified according to business segment

A segment-level summary of the goodwill allocation is presented below.

	Consolidated		Parent Entity	
	2007 $	2006 $	2007 $	2006 $
Customised Fusion Machines and Furnace Technology	1,980,171	1,980,171	–	–
Platinum Labware	776,456	451,554	–	–
LIBS Instruments	363,314	363,314	–	–
Xray Flux Products	1,038,039	1,038,039	–	–
Eliminations and Unallocated	1,007,304	1,007,304	–	–
	5,165,284	4,840,382	–	–

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007 continued

NOTE 16: NON-CURRENT ASSETS – INTANGIBLE ASSETS continued

(b) Key assumptions used for value in use calculations

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on year financial budgets approved by management covering an actual on one year and then growth of five year period. Management has determined budgeted gross margins and budgeted growth rates based on past performance and its expectations for the future. The pre-tax discount rates used in the calculation were based on the prime lending rates as at 30 June 2007.

(c) Impact of possible changes in key assumptions

If the pre-tax discount rates applied in the value-in-use calculations increase, the recoverable amount of goodwill would be reduced. Management does not believe there will be any changes to the discount rate great enough to reduce goodwill beyond it's current carrying amount. Management does not consider a change in any of the other key assumptions to be reasonably possible.

(d) Impairment charge

There were no impairment charges to goodwill recorded in the year ended 30 June 2007. The balance of the accumulated goodwill impairment at 30 June 2007 was recorded during the year ended 30 June 2006 and was related to a single entity within the LIBS instruments business segment. The impairment charge arose as a reult of a new product launch that did not acheive the desired sales goals.

	Consolidated		Parent Entity	
	2007 $	2006 $	2007 $	2006 $

NOTE 17: CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

Trade payables	857,251	1,105,552	27,464	122,861
Sundry creditors and accruals	375,850	199,462	115,949	28,553
Other payables to:				
– controlled entities	–	–	687,054	498,555
– related entities	–	241,480	8,283	8,283
	1,233,101	1,546,494	838,750	658,252

	Consolidated		Parent Entity	
	2007 $	2006 $	2007 $	2006 $

NOTE 18: CURRENT LIABILITIES – BORROWINGS

Secured				
Bank overdrafts	–	52,052	–	–
Finance lease liabilities (note 21)	73,704	70,116	47,874	–
Chattel mortgage liability	80,814	32,159	–	–
Total secured current borrowings	154,517	154,327	47,874	–
Convertible notes	770,604	–	770,604	–
Total unsecured current borrowings	770,604	–	770,604	–
Total current borrowings	925,121	154,327	818,478	–

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007 continued

(a) Interest rate exposure
Details of the Company's exposure to interest rate changes on borrowings are set out in note 21.

(b) Fair value disclosures
Details of the fair value of borrowings for the Company are set out in note 21.

(c) Convertible notes
The parent entity issued 800,000 5% convertible notes for $800,000 on 12 June 2007. The notes are convertible into ordinary shares of the parent entity, at the option of the holder, or repayable on 12 June 2008. The number of ordinary shares to be issued for each convertible note will be determined by dividing the issue price of the note ($1) by the lesser of $0.125 (the market price per share at the date of issue of the notes and the market price per share at the settlement date. The convertible notes are presented in the balance sheet as follows:

	Consolidated		Parent Entity	
	2007 $	2006 $	2007 $	2006 $
Face value of notes issued	800,000	–	800,000	–
Other equity securities – value of conversion rights	(29,396)	–	(29,396)	–
	770,604	–	770,604	–
Interest expense*	–	–	–	–
Interest paid	–	–	–	–
Non-current liability	770,604	–	770,604	–

* No interest expense has been recognized for the year ended 30 June 2007 as the notes were issued less than one month before the balance sheet date. The net present value of future interest payments over the life of the convertible notes is expected to be $29,396, calculated by applying the effective interest rate of 9.0% to the liability component.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007 continued

	Consolidated		Parent Entity	
	2007 $	2006 $	2007 $	2006 $
NOTE 19: CURRENT LIABILITIES – PROVISIONS				
Employee benefits – annual leave and bonuses	242,254	87,458	–	–
Dividends	–	27,177	–	27,177
	242,254	114,635	–	27,177
NOTE 20: CURRENT LIABILITIES – OTHER FINANCIAL LIABILITIES				
Customer deposits	75,806	223,086	–	–

(a) Financial guarantees

The parent entity has provided financial guarantees and this is set out in note 29.

NOTE 21: NON-CURRENT LIABILITIES – BORROWINGS

	Consolidated 2007 $	Consolidated 2006 $	Parent Entity 2007 $	Parent Entity 2006 $
Secured				
Finance lease liabilities	40,835	103,865	–	–
Chattel mortgage liability	–	122,117	–	–
Total secured non-current borrowings	40,835	225,982	–	–
Total non-current borrowings	40,835	225,982	–	–

* Further information relating to loans from related parties is set out in note 35.

(a) Assets pledged as security

Lease liabilities are effectively secured as the rights to the leased assets recognised in the financial statements revert to the lessor in the event of default.

The chattel mortgage is effectively secured as the rights to the assets acquired under the chattel mortgage revert to the lender in the event of default.

The carrying amounts of assets pledged as security for current and non-current borrowings are:

	Consolidated		Parent Entity	
	2007 $	2006 $	2007 $	2006 $
Non-current				
Finance lease liabilities				
Furnace	90,000	102,000	–	–
Chattel mortgage liability				
Press brake and guillotine	44,699	47,199	–	–
Total assets pledged as security	134,699	149,199	–	–

NOTES TO THE ACCOUNTS **FOR THE YEAR ENDED 30 JUNE 2007 continued**

NOTE 21: NON-CURRENT LIABILITIES – BORROWINGS continued

(b) Finance lease liabilities
refer to note 29.

(c) Chattel mortgage liability
Modutemp Pty Ltd has two Chattel mortgages, one for an amount of $35,200 for a 2006 Holden Commodore Crewman Utility and one for an initial amount of $50,000 for a Maddison Guillotine and Press Brake.

(h) Interest rate risk exposures
Interest rate risk exposures to the consolidated entity are minimal as all interest-bearing debt incurs interest at a fixed rate. Interest rates being incurred on consolidated entity liabilities are as follows:

Liability	Rate	Expiration
Finance leases	8.475%	Feb 2011
Chattel mortgage	7.9%	April 2010
Convertible note	5%	June 2008

(i) Fair value
The carrying amounts and fair values of borrowings at balance date are:

	2007		2006	
	Carrying Amount $	Fair Value $	Carrying Amount $	Fair Value $
On-balance sheet				
Non-traded financial liabilities				
Bank overdrafts	–	–	52,052	52,052
Finance lease liabilities	114,539	114,539	173,981	173,981
Chattel mortgage liability	80,814	80,814	154,276	154,276
Convertible notes	770,604	770,604	–	–
	965,956	965,956	380,309	380,309

None of the classes are readily traded on organised markets in standardised form.

Fair value is inclusive of costs which would be incurred on settlement of a liability.

(i) On-balance sheet
The fair value of borrowings is based upon market prices where a market exists or by discounting the expected future cash flows by the current interest rates for liabilities with similar risk profiles.

(ii) Off-balance sheet
There were off-balance sheet liabilities for the years ended 30 June 2007 and 2006 refer to note 30.

The Company has potential liabilities which may arise from certain contingencies disclosed in notes 29 and 31.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007 continued

	Consolidated		Parent Entity	
	2007 $	2006 $	2007 $	2006 $
NOTE 22: NON-CURRENT LIABILITIES – DEFERRED TAX LIABILITIES				
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
Research and development				
Depreciation	2,833	–	1,898	–
	2,833	–	1,898	–
Amounts recognised directly in equity				
Equity component of convertible notes (note29(b))	8,819		8,819	
	8,819	–	8,819	–
Net deferred tax liabilities	11,652	–	10,717	–
Movements:				
Opening balance at 1 July				
Change on adoption of AASB 132 and AASB 139 (note 1)				
Charged/(credited) to the income statement (note 8)	2,833	–	1,898	–
Charged/(credited) to equity (notes 28(b))	8,819	–	8,819	–
Closing balance 30 June	11,652	–	10,717	–
Deferred tax liabilities to be settled after more than 12 months				
Deferred tax liabilities to be settled within 12 months	2,833		1,898	
	2,833	–	1,898	–

	Consolidated		Parent Entity	
	2007 $	2006 $	2007 $	2006 $
NOTE 23: NON-CURRENT LIABILITIES – PROVISIONS				
Employee benefits – long service leave	206,528	57,683	–	–

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007 continued

NOTE 24: CONTRIBUTED EQUITY

	Note	Consolidated and Parent Entity 2007 Shares	Consolidated and Parent Entity 2006 Shares	Consolidated and Parent Entity 2007 $	Consolidated and Parent Entity 2006 $
(a) Share Capital					
Ordinary shares fully paid	(c),(e)	70,958,762	42,130,084	10,739,866	7,021,682
7% non-redeemable participating preference shares fully paid	(d)	–	2,463,334	–	295,600
Total contributed equity		70,958,762	44,593,418	10,739,866	7,317,282
(b) Other equity securities					
Value of conversion rights – convertible notes				29,396	–
Deferred tax expense				(8,819)	–
				20,577	–
Total consolidated contributed equity				10,760,443	7,317,282

(c) Movements in ordinary share capital:

Consolidated

Date	Details	Number of shares	Issue Price	$
01/07/2005	Opening balance	42,130,084	0.16667	7,021,682
	Share issue for information memorandum (i)	2,463,334	0.12000	295,600
30/06/2006	Closing balance	44,593,418		7,317,282
20/10/2006	Share issue at initial public offering	22,818,000	0.20	4,563,600
23/10/2006	Share issue to vendors at initial public offering	1,500,000	0.20	300,000
30/10/2006	Share issue to vendors at initial public offering	200,000	0.20	40,000
01/11/2006	Share issue for acquisition of of Socachim	3,000,000	0.17	500,000
08/11/2006	Share issue to vendors at initial public offering	100,000	0.20	20,000
21/11/2006	Share issue to vendors at initial public offering	250,000	0.20	50,000
12/12/2006	Share issue to vendors at initial public offering	20,000	0.20	4,000
31/12/2006	Share issue costs			(1,774,761)
15/03/2007	Share issue to vendors at initial public offering	456,360	0.20	91,272
08/06/2007	Share buy back	(1,979,016)	0.19	(371,527)
29/06/2007	Value of net conversion rights on convertible note			20,577
30/06/2007	**Closing balance**	70,958,762		10,760,443

(i) XRF Scientific Limited converted 2,463,334 of $0.12 preference shares to 2,463,334 $0.20 ordinary shares effective 10 October 2006 in preparation for listing on the Australian Stock Exchange. Ordinary shares issued upon conversion had a value of $492,667. The $.08 difference per share value in shares issued and consideration received totalling $197,067 was recorded directly against contributed equity as a share issue cost, for a net increase of $295,600.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007 continued

NOTE 24: CONTRIBUTED EQUITY continued

(d) Movements in 7% non-redeemable participating preference share capital:

Consolidated Date	Details	Number of shares	Issue Price	$
30/06/2006	Closing balance	2,463,334	0.12	295,600
20/10/2006	Conversion of preference shares to ordinary shares	(2,463,334)	0.12	(295,600)
30/06/2007	**Closing balance**	–		–

(e) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amount paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

(f) Other equity securities

The amount shown for other equity securities is the value of the conversion rights relating to the 5% convertible notes, details of which are shown in note 19.

(g) Dividend reinvestment plan

The parent entity has adopted but not yet commenced operations of a Dividend Reinvestment Plan to provide its shareholders with the choice of reinvesting some or all of their dividends in shares (without the usual share acquisition costs) rather than receiving those dividends in cash. The actual issue price of shares under the Dividend Reinvestment Plan will be determined by the directors at their sole discretion.

(h) Employee share option plan

The parent entity has adopted an employee Share Option Plan for a three year period beginning 22 August 2005, the objectives of which are to provide an incentive and reward eligible employees for their contributions to the parent entity and establish a method by which eligible employees can participate in the future growth and profitability of the parent entity. Each option will be free of consideration and entitle the holder to one share to be issued once an application is received and approved by the Board. All shares issued upon the exercise of an option will be ranked equally with the parent entity's then issued shares. An option may not be exercised within one year from the date of issue. Any options issued under the Share Option Plan automatically lapse, unless otherwise determined by the Board, upon cessation of employment with the parent entity, except for reasons of retirement or redundancy.

The Board shall set aside such number of ordinary shares as it determines for the purposes of the Share Option Plan. The Board shall not offer or issue options to any employee if the total number of shares the subject of the options, together with:

– the number of shares which would be issued should each outstanding offer or option made or acquired pursuant to the Share Option Plan or any other employee or executive share plan be accepted or exercised; and
– the number of shares issued during the previous five years pursuant to the Share Option Plan or any other employee or executive share plan;

exceeds five percent of the parent entity's shares issued.

The Board has absolute discretion regarding:

– the employees to whom shares and options shall be offered;
– the number of shares and options that may be issued to those employees;
– the exercise price of the options, provided that the exercise price is not less than the average market price on ASX on the five trading days prior to the day the Board resolves to grant the options; and
– any performance criteria that may apply.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007 continued

NOTE 24: CONTRIBUTED EQUITY continued

(h) Employee share option plan continued
Options may not be offered to a Director except where approval is given by the shareholders of the parent entity in general meeting. The Share Option Plan may not be amended without the prior approval of the parent entity, in general meeting and ASX if required. The Share Option Plan may be terminated at any time by resolution of the Board.

As of 30 June 2007, 4,000,000 options were outstanding under the Share Option Plan, the detail of which has been provided in note 27.

(i) Share buy-back
During June 2007 the parent entity cancelled 1,979,016 ordinary shares a reduction in paid up capital was $371,527 as per the Share Buy-Back Agreement. The purpose of the Selective Buy-Back is to retire debt owing by Allen Parsons ("the loan") to the Company by way of surrender and transfer of Shares to the Company from Allen Parsons, representing a portion of his shareholding in the Company.

Please refer to the EGM documentation posted on ASX website on the 8 May 2007. The formal cancellation of these shares occured after 30 June 2007 on 17 July 2007.

	Consolidated		Parent Entity	
	2007 $	2006 $	2007 $	2006 $
NOTE 25: RESERVES AND RETAINED PROFITS				
(a) Reserves				
Share-based payments reserve	116,835	–	116,835	–
Foreign currency translation reserve	180	–	–	–
	117,015	–	–	–
Movements:				
Share-based payments reserve				
Balance 1 July	–	–	–	–
Option expense				
Employee share options	28,678	–	28,678	–
Consultant share options (capital raising costs)	88,157	–	88,157	–
Balance 30 June	116,835	–	116,835	
Foreign currency translation reserve				
Balance 1 July	–	–	–	–
Currency translation experience arising during the year	180	–	–	–
Balance 30 June	180	–	–	
(b) Retained profits				
Movements in retained profits were as follows:				
Balance 1 July	1,094,313	543,742	(260,369)	8,635
Adjustment for minority interest on opening balance	206,649	–	–	–
Net profit for the year	276,624	630,905	(619,201)	(242,104)
Outside equity interest	–	(53,434)	–	–
Dividends	(219,624)	(26,900)	(7,569)	(26,900)
Balance 30 June	1,317,963	1,094,313	(887,139)	(260,369)

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007 continued

NOTE 25: RESERVES AND RETAINED PROFITS continued

(c) Nature and purpose of reserves

Share-based payment reserve
The share-based payments reserve is used to recognise the fair value of options issued but not exercised.

Foreign currency translation reserve
Exchange differences arising on translation of the foreign controlled entity are taken to the foreign currency translation reserve, as described in note 1(d). The reserve is recognised in profit and loss when the net investment is disposed of.

	Consolidated		Parent Entity	
	2007 $	2006 $	2007 $	2006 $
NOTE 26: DIVIDENDS				
(a) Ordinary shares				
There were no dividends issued to ordinary shareholders for the years ending 30 June 2007 and 2006.				
(b) 7% non-redeemable participating preference shares				
Final dividend of 0.0031 cents payout to IM shareholders for the period of 01.07.06-30.10.06	(7,569)	(26,900)	(7,569)	(26,900)
Dividend paid Minority Interest	(212,055)	–	–	–
Total dividends provided for or paid	(219,624)	(26,900)	(7,569)	(26,900)

NOTE 27: KEY MANAGEMENT PERSONNEL

(a) Directors

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

(i) Non-Executive

Paul Anthony Rengel	Chairman
Kenneth Peter Baxter	
Terry Sweet	

Subsequent to year end, on 3rd July 2007 Terry Sweet was appointed as Managing Director of XRF Scientific Limited.

(ii) Executive

Peter Higgins	Executive Director (resigned 8 June 2007)	Automated Fusion Technology Pty Ltd
Jorg Georg Hubert Metz	Executive Director (resigned 8 June 2007)	Automated Fusion Technology Pty Ltd
Allen Roland Parsons	Executive Director (resigned 8 June 2007)	Precious Metals Engineering (WA) Pty Ltd
David Brown	Executive Director	X-Ray Flux Pty Ltd
John Graham Parsons	Executive Director	Modutemp Pty Ltd

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007 continued

NOTE 27: KEY MANAGEMENT PERSONNEL continued

(b) Other Key Management Personnel

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year:

Name	Position	Employer
Gino Manfredi	General Manager	Analytical Platinum Supplies Pty Ltd
Stephen Prosser	General Manager	Automated Fusion Technology Pty Ltd
Dr Bruce Chadwick	General Manager	Laser Analysis Technologies Pty Ltd
James Foster	Group Sales and Marketing Manager	XRF Scientific Limited
Kiran Badlani	Chief Financial Officer	XRF Scientific Limited

All of the above persons were also key management persons during the year ended 30 June 2006.

(c) Key management compensation

	Consolidated		Parent Entity	
	2007 $	2006 $	2007 $	2006 $
Short-term employee benefits	1,161,757	864,436	182,829	34,798
Long-term benefits	93,284	25,700	787	–
Share-based payments	74,315	–	–	–
	1,329,356	890,136	183,616	34,798

(d) Equity Instruments

Option holdings

Details of options and rights held directly, indirectly or beneficially by key management personnel and their related parties are as follows:

(i) The numbers of options over ordinary shares in the company held during the financial year by each director of XRF Scientific Limited and other key management personnel of the Group.

Name	Balance at 1 July 2006	Granted as compen-sation	Options Exercised	Other Changes	Balance at 30 June 2007	Total vested at 30 June 2007	Total vested and exercisable at 30 June 2007	Total vested and unexercisable at 30 June 2007
Directors of XRF Scientific Limited								
Paul Anthony Rengel	500,000				500,000	500,000	500,000	–
Kenneth Peter Baxter	500,000				500,000	500,000	500,000	–
Peter Higgins	392,442				392,442	392,442	392,442	–
Jorg Georg Hubert Metz	392,442				392,442	392,442	392,442	–
Allen Roland Parsons	523,256				523,256	523,256	523,256	–
David Brown	601,744				601,744	601,744	601,744	–
John Graham Parsons	697,674				697,674	697,674	697,674	–
Other key management personnel of the Group								
Stephen Prossor	392,442				392,442	392,442	392,442	–
Total	4,000,000	–	–	–	4,000,000	4,000,000	4,000,000	–

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007 continued

NOTE 27: KEY MANAGEMENT PERSONNEL continued

(d) Equity Instruments continued

Name	Balance at 1 July 2005	Granted as compen-sation	Options Exercised	Other Changes	Balance at 30 June 2006	Total vested at 30 June 2006	Total vested and exercisable at 30 June 2006	Total vested and unexercisable at 30 June 2006
Directors of XRF Scientific Limited								
Paul Anthony Rengel	–	500,000	–	–	500,000	500,000	500,000	–
Kenneth Peter Baxter	–	500,000	–	–	500,000	500,000	500,000	–
Peter Higgins	–	392,442	–	–	392,442	392,442	392,442	–
Jorg Georg Hubert Metz	–	392,442	–	–	392,442	392,442	392,442	–
Allen Roland Parsons	–	523,256	–	–	523,256	523,256	523,256	–
David Brown	–	601,744	–	–	601,744	601,744	601,744	–
John Graham Parsons	–	697,674	–	–	697,674	697,674	697,674	–
Other key management personnel of the Group								
Stephen Prossor	–	392,442	–	–	392,442	392,442	392,442	–
Total	–	4,000,000	–	–	4,000,000	4,000,000	4,000,000	–

Shareholdings

Details of equity instruments (other than options and rights) held directly, indirectly or beneficially by key management personnel and their related parties are as follows:

(ii) The numbers of shares in the company held during the financial year by each director of XRF Scientific Limited and other key management personnel of the Group. There were shares granted during the reporting period as compensation. These shares was granted to the Chairman (Paul Anthony Rengel) in lieu of services provided.

Name	Balance at 1 July 2006	Granted as compen-sation	Received on exercise of options or rights	Other changes	Balance at 30 June 2007
Directors of XRF Scientific Limited					
Paul Anthony Rengel	–	228,180	–	–	228,180
Kenneth Peter Baxter	–	–	–	–	–
Peter Higgins	4,512,500	–	–	–	4,512,500
Jorg Georg Hubert Metz	9,025,000	–	–	–	9,025,000
Allen Roland Parsons	6,000,000	–	–	(1,979,016)	4,020,984
David Brown	6,900,036	–	–	–	6,900,036
John Graham Parsons	7,500,000	–	–	–	7,500,000
Other key management personnel of the Group					
Stephen Prossor	4,512,500	–	–	–	4,512,500
Dr Bruce Chadwick	250,000	–	–	–	250,000
Total	38,700,036	228,180	–	(1,979,016)	36,949,200

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007 continued

NOTE 27: KEY MANAGEMENT PERSONNEL continued

(d) Equity Instruments continued

Name	Balance at 1 July 2005	Granted as compen-sation	Received on exercise of of options or rights	Other changes	Balance at 30 June 2006
Directors of XRF Scientific Limited					
Paul Anthony Rengel	–	–	–	–	–
Kenneth Peter Baxter	–	–	–	–	–
Peter Higgins	4,512,500	–	–	–	4,512,500
Jorg Georg Hubert Metz	9,025,000	–	–	–	9,025,000
Allen Roland Parsons	6,000,000	–	–	–	6,000,000
David Brown	6,900,036	–	–	–	6,900,036
John Graham Parsons	7,500,000	–	–	–	7,500,000
Other key management personnel of the Group					
Stephen Prossor	4,512,500	–	–	–	4,512,500
Dr Bruce Chadwick	250,000	–	–	–	250,000
Total	38,700,036	–	–	–	38,700,036

(e) Loans to key management personnel

Loans to key management

(iii) Details of loans made to directors of XRF Scientific Limited and other key management personnel of the Group, including their personally related parties, are set out below.

Name	Balance at 1 July 2006 $	Interest paid and payable on loan $	loan repayment $	share buyback $	Balance at 30 June 2007 $	Highest indebted-ness during the year $
Allen Parsons	423,102	29,617	(81,192)	(371,527)	–	–

Name	Balance at 1 July 2005 $	Interest paid and payable on loan $	loan $	Write-downs and allowances for doubtful debts $	Balance at 30 June 2006 $	Highest indebted-ness during the year $
Allen Parsons	203,751	34,792	184,559	–	423,102	423,102

Loans outstanding at the end of the current year are unsecured and repayable on demand. Interest is payable on the loans at 7% (2006: 7%).

There were no other loan transactions with other Key Management personnel

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007 continued

NOTE 27: KEY MANAGEMENT PERSONNEL continued

(f) Other transactions with key management personnel

Consulting Services

The Chairman, Paul Anthony Rengel,provided specialist consulting services to the group during the financial year. These services were based upon normal commercial terms and conditions.

	2007 $	2006 $
Consulting services provided in preparation of listing of the company by director recognised as a cost of capital raising during the year		
– Non executive director (Chairman)	114,894	45,964
	114,894	45,964

Premises were rented from Directors related entities, (P Higgins, J Metz, D Brown and A Parsons General Manager of AFT, S Prossor) during the financial year. These properties were rented on normal commercial terms and conditions, totalling $98,532 (2006: $107,097).

Inventories were purchased from General Manager LAT (B Chadwick) Directors and General Manager have indirect interest (J Metz, P Higgins, S Prossor), and from a relation of Director (P Higgins and D Brown). These purchases were conducted under normal terms and conditions, totalling $265,679 (2006: $191,153).

Crucibles were hired during the financial year from a director related entities (D Brown). These hirings were conducted under normal terms and conditions, totalling $39,506 (2006: $29,357).

Management fees (including book-keeping services) have been paid to director related entities (D Brown) under normal terms and conditions, totalling $56,127 (2006: 56,127).

(i) Other transactions

During the financial year wages were paid to relation of a directors P Higgins's sister-in-law, D Brown's son and J Parsons's son under normal terms and conditions, totalling $196,090 (2006: $40,698).

Aggregate amounts of each of the above types of other transactions with key management personnel of XRF Scientific Limited:

	2007 $	2006 $
Amounts recognised as expense		
Rent of office building	98,532	107,097
Purchase of Inventory	265,679	191,153
Hire of Crucible	39,506	29,357
Management fees	56,127	56,127
Wages paid	196,090	40,698
	655,934	424,432

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007 continued

NOTE 28: REMUNERATION OF AUDITORS

During the year the following fees were paid or payable for services provided by the auditor of the Company, its related practices and non-related audit firms:

	Consolidated		Parent Entity	
	2007 $	2006 $	2007 $	2006 $
(a) Assurance services				
William Buck				
Audit and review of financial reports	95,000	37,500	95,000	37,500
Due diligence services	25,000	–	20,000	–
Total remuneration for audit and other services	120,000	37,500	115,000	37,500

There was no other services received from William Buck but assurance services

NOTE 29: CONTINGENCIES

(a) Contingent liabilities

At 30 June 2007, the consolidated entity had no contingent liabilities in respect of claims, contingent considerations, associates and joint ventures or any other matters except those guarantees described below.

(b) Guarantees

The parent entity has provided gaurantees in respect of

	Consolidated		Parent Entity	
	2007 $	2006 $	2007 $	2006 $
Metal Lease of subsidiary	1,255,000	–	1,255,000	–
Convertible notes of subsidiaries	840,000	–	840,000	–
Lease of head office	7,800	–	7,800	–
	2,102,800	–	2,102,800	–

Bank guarantee for metal lease of subsidiary expiring on 30 September 2007, 31 December 2007 and 30 June 2008.
Bank guarantee for the convertible note expires on the 12 June 2008.
Bank guarantee for the lease of head office expires on the 14 January 2010.

(c) Terms and conditions

All other transactions were made on normal commercial terms and conditions and at market rates except that there are no fixed terms for the repayment of loans between related parties. The avreage interest rate on loans during the year was 7% (2006 - 7%)

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007 continued

	Consolidated		Parent Entity	
	2007 $	2006 $	2007 $	2006 $

NOTE 30: COMMITMENTS

(a) Capital commitments

The consolidated entity has not entered into any commitments to acquire capital at 30 June 2007 or subsequent to year end.

(b) Lease commitments

Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable:

	Consolidated 2007 $	Consolidated 2006 $	Parent Entity 2007 $	Parent Entity 2006 $
Within one year	165,908	43,041	–	–
Later than one year but not later than five years	260,800	128,338	–	–
Later than five years	–	–	–	–
	426,708	171,379	–	–
Representing:				
Cancellable operating leases	2,186		–	–
Non-cancellable operating leases (i)	424,522		–	–
Future finance charges on finance leases	–		–	–
	426,708	–	–	–

(b) Lease commitments continued

(i) Operating leases

X-Ray Flux Pty Ltd has a hire agreement with David and Glenys Brown, entered into on 1st July 2004, for the hiring of 5 auralloy crucibles as at cost of $2,992.91 per month.

The initial term of the contract has come to an end, however X-Ray Flux continues to hire these crucibles on an ongoing basis on similar terms.

	Consolidated 2007 $	Consolidated 2006 $	Parent Entity 2007 $	Parent Entity 2006 $
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:				
Within one year	163,722	–	–	–
Later than one year but not later than five years	260,800	–	–	–
Later than five years	–	–	–	–
	424,522	–	–	–

(ii) Finance leases

The Company leases various plant and equipment with a carrying amount of $90,000 (2006: $102,000) under finance leases expiring within 1 year.

	Consolidated 2007 $	Consolidated 2006 $	Parent Entity 2007 $	Parent Entity 2006 $
Commitments in relation to finance leases are payable as follows:				
Within one year	71,704	–	47,874	–

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007 continued

Later than one year but not later than five years	39,335	–	–	–
Later than five years	–	–	–	–
Minimum lease payments	111,039	–	47,874	–
Future finance charges	3,500	–	–	–
Recognised as a liability	114,539	–	47,874	–
Lease incentives on non-cancellable operating leases included in lease liabilities	–	–	–	–
Total lease liabilities	114,539	–	47,874	–
Representing lease liabilities:				
Current (note 23)	73,704	70,116	47,874	–
Non-current (note 26)	40,835	103,865	–	–
	114,539	173,981	47,874	–

The weighted average interest rate implicit in the leases is 8.15% (2006: 8.15%).

NOTE 31: RELATED PARTY TRANSACTIONS

(a) Parent entity

The ultimate parent and controlling entity is XRF Scientific Limited which at 30 June 2007 owns 100% of all subsidiaries listed in note 33. At 30 June 2006, the parent entity owned 100% of all subsidiaries except for Analytical Platinum Supplies Pty Ltd which was 50% owned by an unrelated third party. Analytical Platinum Supplies Pty Ltd was accounted for in the financial statements under the equity method of accounting until 100% ownership was achieved by the parent (15 June 2007).

(b) Interests in subsidiaries

Interests in subsidiaries are set out in note 33.

(c) Key management personnel

Disclosures relating to key management personnel are set out in note 27.

	Consolidated		Parent Entity	
	2007 $	2006 $	2007 $	2006 $
(d) Transactions with related parties				
The following transactions occurred with related parties:				
Sales of goods and services				
Management fees	–	–	149,091	–
(e) Related party transaction disclosure				
The following balances are outstanding at the reporting date in relation to transactions with related parties:				

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007 continued

NOTE 31: RELATED PARTY TRANSACTIONS continued

(f) Loans to/from related parties

Loans to subsidiaries				
Beginning of the year	–	–	233,196	
Loans advanced	–	–		233,196
Loan repayments received	–	–	(233,196)	
Interest charged	–	–		
Interest received	–	–		
End of the year	–	–	–	233,196

No provisions for bad debts have been raised in relation to any outstanding balances, and no expense has been recognised in respect of bad or doubtful debts due from related parties.

NOTE 32: BUSINESS COMBINATION

(a) Summary of acquisition

On 13 June 2007 the remainding 15% of issued share capital of Analytical Platinum Supplies Pty Ltd was acquired.

Convertible note was issued to purchase the remaining 50% of Analytical Platinum Supplies refer to note 23(c).

Details of the fair value of the assets and liabilities acquired and goodwill are as follows:

Purchase consideration (refer to (b) below):

Convertible note issued	600,000
Total purchase consideration	600,000
Fair value of net identifiable assets acquired (refer to (c) below)	275,098
Goodwill (refer to (c) below and note 1(p)(i))	324,902

(b) Purchase consideration

Outflow of cash to acquire subsidiary, net of cash acquired	
Cash consideration*	–
Less: balances acquired	
Cash	131,124
Bank overdraft	–
	131,124
Inflow of cash	131,124

* Convertible note was issued to purchase the remaining 50% of Analytical Platinum Supplies refer to note 23(c).

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007 continued

NOTE 32: BUSINESS COMBINATION continued

(c) Assets and liabilities acquired

The assets and liabilities arising from the acquisition are as follows:

	Acquiree's carrying amount	Fair value
Cash	131,124	131,124
Trade and other receivables	281,435	281,435
Inventories	18,415	18,415
Other assets	(61,931)	(61,931)
Property, plant and equipment	15,537	15,537
Deferred tax asset	1,535	1,535
Trade and other payables	(59,428)	(59,428)
Provisions	(51,590)	(51,590)
Net assets	275,098	275,098
Minority interests		
Net identifiable assets acquired*		275,098

The goodwill is attributable to the high profitability of the acquired business. The fair value of assets and liabilities acquired are based on discounted cash flow models.

On 15 May 2006, XRF Scientific Limited acquired 100% of the voting share capital of Modutemp Pty Ltd. Details of the transaction are:

Cash consideration	1,333,334
Assets and liabilities held at acquisition date:	
Cash	207,433
Receivables	242,247
Inventories	64,286
Other	16,749
Property, plant and equipment	80,864
Liabilities	(500,101)
	111,478
Goodwill on consolidation	(1,221,856)
	(1333,334)

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007 continued

NOTE 33: SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities, and results of the following subsidiaries in accordance with the accounting policy described in note 1(x):

Name of entity	Country of Incorporation	Class of shares	Entity holding 2007 %	Entity holding 2006 %
Automated Fusion Technology Pty Ltd	Australia	Ordinary	100	100
X-Ray Flux Pty Ltd	Australia	Ordinary	100	100
Precious Metals Engineering (WA) Pty Ltd	Australia	Ordinary	100	100
Crucible Investments Pty Ltd	Australia	Ordinary	100	100
Laser Analysis Technologies Pty Ltd	Australia	Ordinary	100	100
Modutemp Pty Ltd	Australia	Ordinary	100	100
Analytical Platinum Supplies Pty Ltd *	Australia	Ordinary	100	50

* XRF Scientific Limited through its subsidiary Crucible Investments Pty Ltd gain control of Analytical Platinum Supplies Pty Ltd on 13 June 2007 prior to this date Analytical Platinum Supplies Pty Ltd was an associate of the XRF Scientific Limited.

The proportion of ownership interest is equal to the proportion of voting power held.

NOTE 34: INVESTMENTS IN ASSOCIATE

(a) Carrying amount

Information relating to associates is set out below:

Name of Company	Principal activity	Ownership interest 2007 %	Ownership interest 2006 %	Consolidated 2007 $	Consolidated 2006 $	Parent Entity 2007 $	Parent Entity 2006 $
Unlisted							
Analytical Platinum Supplies Pty Ltd	(i)	100	50	–	206,662	–	12

(i) see note 4 for details

Analytical Platinum Supplies Pty Ltd is incorporated in Australia.

	Consolidated 2007 $	Consolidated 2006 $
(b) Movements in carrying amount		
Carrying amount at the beginning of the financial year	206,662	204,419
Share of profits after income tax		202,243
Dividends received/receivable		
Reduction in carrying amount due to purchase of remaining 50% interest	(206,662)	(200,000)
Carrying amount at the end of the financial year	–	206,662
(c) Share of associates's profits or losses		
Profit before income tax	–	276,531
Income tax expense	–	(74,288)
Profit after income tax	–	202,243

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007 continued

(d) Summarised financial information of associate

	Consolidated entity's share of:			
	Assets $	Liabilities $	Revenues $	Profit $
2006				
Analytical Platinum Supplies Pty Ltd	705,293	498,631	1,481,829	401,773

NOTE 35: EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

The company made an announcement on the 3 August 2007 regards cancellation of the shares issued to Socachim refer to note 13(i)

NOTE 36: RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH FLOW PROVIDED BY OPERATING ACTIVITIES

	Consolidated		Parent Entity	
	2007 $	2006 $	2007 $	2006 $
Profit for the year	517,115	630,905	(619,201)	(242,104)
Depreciation and amortisation	143,566	96,809	10,699	5,918
Impairment of goodwill and other intangible assets	133,416	140,000	133,416	–
Non-cash employee benefits expense				
– share-based payments	29,648	–	29,648	–
Fair value of adjustment of listed shares	(3,110)	(5,258)	(3,122)	(5,258)
Net (gain) loss on sale of non-current assets	35,113	–	–	–
Net exchange differences	180	–	180	–
Deferred tax expense recognised in equity	722,830	–	722,830	–
Fair value of adjustment to borrowings	(29,396)	–	–	–
Share of associated company's net profit after income tax and dividends	–	(2,243)	–	–
Change in operating assets and liabilities, net of effects of purchase of Analytical Platinum Supplies Pty Ltd	–	–	–	–
(Increase) decrease in trade and other debtors	(6,838)	(1,156,084)	4,791	1,345
(Increase) decrease in inventories	(194,291)	(157,672)	708	(739)
(Increase) decrease in other current asset	(14,992)	(8,721)	(75,087)	30,000
(Increase) decrease in Deferred tax asset	(660,201)	–	(608,518)	(91,462)
(Decrease) increase in trade and other creditors	(467,739)	427,069	(8,755)	121,117
(Decrease) increase in provision for income taxes	(262,179)	175,720	(283,755)	–
(Decrease) increase in provision for deferred income tax	11,652	(92,187)	10,717	–
(Decrease) increase in other liabilities	(147,280)	223,085	–	–
(Decrease) increase in other provisions	243,387	29,846	–	–
Net cash inflow (outflow) from operating activities	50,881	301,269	(685,448)	(181,183)

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007 continued

NOTE 37: NON-CASH INVESTING AND FINANCING ACTIVITIES

Conversion of preference shares to ordinary shares	492,667	–	492,667	–

On 10 October 2006, XRF Scientifc Limited converted 2,463,334 of $0.12 preference shares with a total value of $295,600 to 2,463,334 of $0.20 ordinary shares in preparation for listing of shares on the Australian Stock Exchange.

NOTE 38: SHARE-BASED PAYMENTS

(a) Employee option plan

For details on options issues to employees being the key management personnel see note 31.

(b) Expenses arising from share-based payment transactions

		Consolidated		Parent Entity	
		2007 $	2006 $	2007 $	2006 $
Key management personnel options	(i)		4,000,000	–	4,000,000
Consultants options	(ii)	5,300,000		5,300,000	–
		5,300,000	4,000,000	5,300,000	4,000,000

Fair value of options granted

(i) Refer the Directors report under the audited remuneration details for fair value assessments of options issued to Key management personnel options:
exercise price: 20 cents
expiry date: 30 June 2009

Issued to	Date	Number options Issued	Exercise Price	Valuation	30 June 2007 expense
Key management personnell options		4,000,000	0.20	152,880	28,678

The model inputs used to calculate the valuation of the	4,000,000
options granted were as follows:	
Underlying security spot rate in	$0.20
Volatility	40% to 60%
Cash flow rate	5.75%
Vesting Date	3 years
Expected date and expected life	1.5 years for employees and 3 years for directors
Expected dividends	nill

(ii) For options which were issued to consultants during this and previous year was independently determined using Black-Shcoles option pricing model that takes into account the exercise price, th term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying shares the expected dividend yield and the risk free interest rate for the term of the option. The model inputs for the options issued during the year are as follows:

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007 continued

Issued to	Date	Number options Issued	Exercise Price	Valuation	30 June 2007 expense
Consultants		4,300,000	0.16	301,430	65,837
Consultants	21 November 2006	1,000,000	0.20	81,000	22,320

The model inputs used to calculate the valuation of the	1,000,000
options granted were as follows:	
Underlying security spot rate in	$0.205
Dividend rate	0
Standard deviation of returns (annualised)	60%
Risk free rate	6.01%
Expiration period (years)	2.197
Black Scholes Valuation ($ per security)	0.081
Binomial valuation ($ per security)	0.081

The model inputs used to calculate the valuation of the	4,300,000
options granted were as follows:	
Underlying security spot rate in	$0.20
Volatility	40% to 60%
Cash flow rate	5.75%
Vesting Date	3.8 years
Expected date and expected life	1 year
Expected dividends	nill

	Consolidated	
	2007 Cents	2006 Cents
NOTE 39: EARNINGS PER SHARE		
(a) Basic earnings per share		
Profit from continuing operations attributable to the ordinary equity holders of the company	0.004	0.019
(b) Diluted earnings per share		
Profit from continuing operations attributable to the ordinary equity holders of the	0.003	0.018
	$	**$**
(c) Reconciliations of earnings used in calculation earnings per share		
Profit from continuing operations attributable to	517,115	630,905
the ordinary equity holders of the company	(280,971)	–
Profit attributable to the ordinary equity holders of the company	236,624	630,905

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007 continued

	Number	Number
(d) Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	63,864,271	33,653,376
Adjustments for calculation of diluted earnings per share:		
Options	3,176,712	635,616
Convertible notes	8,500,000	–
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	75,540,983	34,288,992

DIRECTORS' DECLARATION

The directors of the economic entity declare that:

1. The financial statements and notes, as set out on pages 19 to 72 and the audited remuneration disclosures on pages 9 to 13 are in accordance with the Corporations Act 2001 (Cth) and:

   (a) comply with Accounting Standards and the Corporations Regulations 2001 (Cth) and other mandatory professional reporting requirements; and

   (b) give a true and fair view of the financial position as at 30 June 2007 and of the performance for the financial period ended on that date; and

2. In the directors' opinion there are reasonable grounds to believe that the economic entity will be able to pay its debts as and when they become due and payable.

The Directors have been given the declarations by the Managing Director and Chief Financial Officer required by section 295A of the Corporations Act 2001 (Cth).

This declaration is made in accordance with a resolution of the directors.

Paul Rengel
Chairman

John Graham Parsons
Director

Terry Sweet
Managing Director

Dated this 28 day of September 2007

INDEPENDENT AUDIT REPORT

William Buck
Business Advisors
Chartered Accountants

INDEPENDENT AUDITOR'S REPORT

To the members of XRF Scientific Limited

Report on the Financial Report

We have audited the accompanying financial report of XRF Scientific Limited (the Company), which comprises the balance sheets as at 30 June 2007, and the income statements, statements of changes in equity and cash flow statements for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

As permitted by the *Corporations Regulations 2001*, the Company has disclosed information about the remuneration of directors and executives ("remuneration disclosures"), as required by Australian Accounting Standard AASB 124 Related Party Disclosures, under the heading Remuneration Report on pages 9-13 of the Directors' report and not in the financial report. We have audited the remuneration disclosures on pages 9-13 of the Directors' report.

Directors' Responsibility for the Financial Report and the AASB 124 Remuneration Disclosures Contained in the Directors' Report

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

In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

The directors of the Company are responsible for the remuneration disclosures contained in the Directors' report.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement. Our responsibility is also to express an opinion on the remuneration disclosures contained in the Directors' report based on our audit.

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INDEPENDENT AUDIT REPORT continued

William Buck
Business Advisors
Chartered Accountants

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report and the remuneration disclosures contained in the Directors' report.

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

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, has been provided to the directors on the same date as this auditor's report.

Auditor's Opinion on the financial report

In our opinion:

a) the financial report of XRF Scientific Limited is in accordance with the Corporations Act 2001, including:

   i) giving a true and fair view of company and consolidated entity's financial position as at 30 June 2007 and of their performance for the year ended on that date; and

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

b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Auditor's Opinion on the AASB 124 remuneration disclosures contained in the directors' report

In our opinion, the remuneration disclosures on pages 9-13 of the Directors' report comply with Australian Accounting Standard AASB 124 Related Party Disclosures.

William Buck	Brad Taylor
Chartered Accountants	Partner

Dated this 28th day of September 2007.
Melbourne, Australia.

AUDITOR'S INDEPENDENCE DECLARATION

William Buck
Business Advisors
Chartered Accountants

Auditor's Independence Declaration

Under Section 307C of the Corporations Act 2001

To the Directors of XRF Scientific Limited:

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2007 there have been:

- no contraventions of the auditor independence requirements as set out in the Corporations Act 2001; and
- no contraventions of any applicable code of professional conduct in relation to the audit.

William Buck	Brad Taylor
Chartered Accountants	Partner

Dated this 28th day of September 2007.

Melbourne, Australia.

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SHAREHOLDER INFORMATION

Additional information (as at 27 August 2007) required by the ASX Listing Rules and not disclosed elsewhere in this Annual Report is set out below:

SUBSTANTIAL SHAREHOLDINGS

The number of shares held by substantial shareholders and their associates is as follows:

Shareholder	Number of Ordinary Shares
Parsons John Graham and Julie[1]	7,500,000
D & GD Brown Nom PL[2]	6,900,036

[1] Parsons John and Julie are husband and wife, John Graham Parsons is a director.
[2] D & GD Brown Nom PL is a company owned by David Brown and his wife, David Brown is a director.

NUMBER OF OPTION HOLDERS

Class of Security	Number of Holders
Options exercisable at $0.20 and expiring on 30 June 2009	8
Options exercisable at $0.16 and expiring on 30 June 2010	5
Options exercisable at $0.20 and expiring on 31 January 2009	2

VOTING RIGHTS

In accordance with the Constitution of the Company and the Corporations Act 2001(Cth), every member present in person or by proxy at a general meeting of the members of the Company has:

- on a vote taken by a show of hands, one vote; and
- on a vote taken by a poll, one vote for every fully paid ordinary share held in the Company

A poll may be demanded at a general meeting of the members of the Company in the manner permitted by the Corporations Act 2001 (Cth).

DISTRIBUTION OF SHARE AND OPTION HOLDERS

Distribution of Shares & Options	Number of Holders of Ordinary Shares	Number of Holders
1-1,000	1	–
1,000-5,000	23	–
5,001-10,000	138	–
10,001-100,000	264	–
100,001-	81	15

SHAREHOLDER INFORMATION continued

TOP 20 SHAREHOLDERS

No.	Name	Number of Ordinary Shares	Percentage of Ordinary Shares
1	D & GD Brown Nom PL[1]	6,900,036	9.72%
2	Seaweir PL[2]	4,482,500	6.32%
3	Countlock PL[3]	3,810,125	5.37%
4	Parsons John Graham[4]	3,750,000	5.28%
5	Parsons Julie Ann[4]	3,750,000	5.28%
6	Parsons Allen Roland[5]	3,680,984	5.19%
7	Generation Technology Research	2,751,146	3.88%
8	Metz Jorg + Carr Wendy[6]	2,600,030	3.67%
9	Tzelepis Nom PL	2,500,000	3.52%
10	Metz Jorg[6]	1,900,000	2.68%
11	Switajewski Andrew John	1,809,546	2.55%
12	Brogniet Christiane	1,500,000	2.11%
13	Davidts Michel	1,500,000	2.11%
14	National Nom Ltd	1,250,000	1.76%
15	Grosvenor Pirie Mgmt Ltd	1,037,667	1.46%
16	Connaught Sec PL	732,000	1.03%
17	Higgins Peter + Gail[3]	658,708	0.93%
18	Scientific C + Organisation	543,426	0.77%
19	Cabble Ronald	500,000	0.70%
20	Jackson Peter John + CA	450,000	0.63%

[1] D & GD Brown Nom PL is a company owned by David Brown and his wife, David Brown is a director.
[2] Seaweir PL is a company associated with Stephen Prossor, General Manger of Automated Fusion Technolgy Pty Ltd.
[3] Countlock PL is a company associated with Peter Higgins who was the director until 8 June 2007.
[4] Parsons John and Julie are husband and wife, John Graham Parsons is a director.
[5] Parsons Allen Roland was a director until 8 June 2007
[6] Metz Jorg +Carr Wendy are husband and wife, Jorg Metz was a director until 8 June 2007.

RESTRICTED SECURITIES

The seed capitalist have a voluntary escrow in place this will expire 12 months from quotation

No.	Name	Number of Ordinary Restricted Shares	Expiry Date
1	D & GD Brown Nom PL	5,865,031	24 October 2007
2	Seaweir PL	3,810,125	24 October 2007
3	Countlock PL	3,810,125	24 October 2007
4	Parsons John Graham	3,187,500	24 October 2007
5	Parsons Julie Ann	3,187,500	24 October 2007
6	Parsons Allen Roland	2,433,484	24 October 2007
7	Generation Technology Research	2,715,572	24 October 2007
8	Metz Jorg + Carr Wendy	2,212,125	24 October 2007
9	Metz Jorg	1,615,000	24 October 2007

SHAREHOLDER INFORMATION continued

UNQUOTED SECURITIES

The details of unquoted securities in the Company are as follows:

Class of Security	Number of Securities	Number of Holders
Options exercisable at $0.20 and expiring on 30 June 2009	4,000,000	8
Options exercisable at $0.16 and expiring on 30 June 2010	4,300,000	5
Options exercisable at $0.20 and expiring on 31 January 2009	1,000,000	2

ON-MARKET BUY BACK

The Company does not have a current on-market buy-back.

CORPORATE DIRECTORY

DIRECTORS

Paul Anthony Rengel (Chairman)
Terry Sweet (Managing Director)
Kenneth Peter Baxter
David Brown
John Parsons

COMPANY SECRETARY

Kiran Badlani

REGISTERED OFFICE

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COMPANY AUDITOR

William Buck
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SHARE REGISTRY

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