XRF scientific

2009

ANNUAL REPORT

XRF Scientific Ltd

• ABN: 80 107 908 314

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CHAIRMAN'S LETTER

Dear Shareholder,

The Directors of your Company are pleased to report that the 2008-2009 financial year has shown significant growth in both revenues and profits, despite the global financial crisis.

The excellent trading results, coupled with your company's strong balance sheet, and cash position, enable the payment of an increased, fully franked dividend. It is XRF's stated policy to make dividend payments if and as circumstances permit, whilst growing the asset-base of your company.

First-half earnings for the group were very strong, underpinned by a very buoyant mining industry, however the second half was more subdued, and this has carried forwards into the first part of financial 2009-2010.

However, at the time of writing, management is reporting increased activity in the consumables sectors of XRF, and higher enquiry levels for capital equipment. Hopefully this will translate into a resumption of the sales enjoyed in 2008-2009.

I wish to acknowledge the efforts and dedication shown by the staff and management of XRF, without whom these excellent results (and dividends) would not be possible.

As the Company develops and matures, there is recognition that different skills are required at Board (and all) levels, as demonstrated by the change of Chair of your Company earlier this year, and the stepping down of Mr. David Brown and Mr. John Parsons as Executive Directors. As founding Directors of XRF Scientific, their contribution to our success is hard to estimate.

I also thank you for your continued interest and support in XRF Scientific, and look forward to meeting some of you at the Shareholders Meeting, scheduled for late in November 2009.

Kenneth Baxter
Chairman

DIRECTORS' REPORT

Your directors present their report on the company XRF Scientific Limited and its controlled entities for the financial year ended 30 June 2009.

DIRECTORS

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

Kenneth Baxter (Chairman)
Paul Rengel
David Brown
John Parsons
Terry Sweet

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:

	2009	**2008**
	$	**$**
Final dividend for the year ended 30 June 2008	458,058	-

Post the end of the financial year, a final dividend out of retained profits for the year ended 30 June 2009 has been declared by the Board, of 0.75 cents per share. The record date is 10 September 2009, with payment of the dividend on 17 September 2009.

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 Earnings Before Interest and Tax (EBIT) of $2,120,144 for the year ended 30 June 2009, compared with $1,378,701 for the previous year.

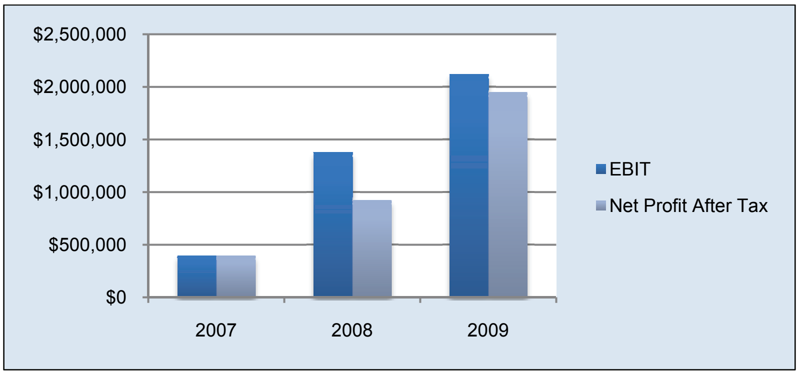
This has resulted in a Net Profit After Tax (NPAT) of $1,950,592 for the year ended 30 June 2009, compared with $920,607 for the previous year.

DIRECTORS' REPORT

REVIEW OF OPERATIONS continued

Details of the results for the financial year ended 30 June 2009 are as follows:

	June 2009	June 2008	Increase over prior year
	$	$	%
Total revenue and other income	17,121,361	14,997,021	14.17
EBITDA	2,377,783	1,602,825	48.35
EBIT	2,120,144	1,378,701	53.78
NPAT	1,950,592	920,607	111.88
Basic earnings per share – (cents per share)	2.1	1.1	
Earnings per share on a diluted basis – (cents per share)	2.1	1.1	



OPERATING RESULTS

XRF is the leader within Australia in the product niche which it occupies.

The growth in revenue for 2009 was substantially achieved in the first half of the financial year. The global financial crisis, which led to a marked reduction in mining activity worldwide, resulted in a marked downturn in sales in the second half of the year.

Iron ore mining has been ramping up significantly over the recent past, and export tonnages are forecast to go higher and be maintained at a high level over the next few years – the discovery, mining, blending and shipping of each tonne of iron ore requires laboratory analysis, which in turn requires the type of equipment, platinum laboratory ware and flux chemicals which we manufacture.

Profitability has been increased despite rising energy and labour costs, by careful control of costs of manufacture, improved financial controls, and by ensuring that all key personnel are committed to deliver profitable growth.

Further organic growth is foreseen by the continuing expansion of our markets geographically for our traditional products, and for several innovations now at the point of commercialization. Other new products are currently under development, for which we expect significant demand.

Extensive research and development has been undertaken within the X-ray Flux division, resulting in several new patents – the new products which will result from these patents have the potential to significantly impact on the way certain critical analyses are carried out, and if widely adopted will generate significant income for the Company.

DIRECTORS' REPORT

OPERATING RESULTS continued

Product development within Modutemp has also proved satisfactory, with a new system expected to be launched in November 2009.

Expansion of the group's activities is now possible, as positive cash-flow from existing operations is now firmly established, and management systems are in place. Possible acquisitions can now be seriously considered.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

There have been no significant changes in the affairs of the Company.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

A fully franked dividend of 0.75 cents per share was announced on 29 July 2009, and paid to shareholders who were recorded on 10 September 2009, leading to the distribution of some $687,087 plus $294,466 as Franking Credits.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

Likely results in the operations of the economic entity and the expected results of those operations in the future financial year have not been included in this report, as the disclosure of such information may lead to commercial prejudice to the economic entity. The Directors are optimistic that as the fallout of the world financial crisis recedes, economic activity in general, and mining in particular will continue on it's upward trend, underpinning XRF Scientifics' activities.

ENVIRONMENTAL ISSUES

All companies within the group continued to comply with all environmental requirements. Wherever possible, carbon emissions have been limited, and new production techniques adopted to reduce energy use.

The Directors have considered compliance with the National Greenhouse and Energy Reporting Act 2007 which requires entities to report greenhouse gas emissions and energy use. For the first measurement period 1 July 2008 to 30 June 2009 the directors have assessed that there are no current reporting requirements, but the Company may be required to do so in the future.

The economic entity is also 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

INFORMATION ON DIRECTORS

Kenneth Baxter	Chairman (non-executive)
Age:	65 years
Qualification:	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.
Special Responsibilities:	Chairman Mr Baxter was appointed Chairman effective 7 May 2009, following a change in Board responsibilities, as per the announcement made to ASX on 8 May 2009. Member of Audit, Remuneration and Corporate Governance Committees
No. of options:	500,000 options over ordinary shares in XRF Scientific Limited
No. of shares:	343,334 fully paid ordinary shares

Paul Rengel	Director (non-executive)
Age:	69 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:	38 years in professional practice with International Accounting Firms in Corporate services including 20 years as a professional company director.
Other current Directorship:	Chairman and non-executive director of Finbar Group Limited. Chairman and non-executive director: IMETT Queensland Pty Ltd (Large unlisted private company). Also director of several non reporting privately held companies.
Former directorship In last 3 years:	Computronics (ASX listed company), Astop Biohealth Limited (Unlisted) and Stonehenge Metals Limited (ASX listed company).
Special Responsibilities:	Mr Rengel stepped down as Chairman effective 7 May 2009, following a change in Board responsibilities, as per the announcement made to ASX on 8 May 2009. Member of Audit, Remuneration and Corporate Governance Committees
No. of options:	500,000 options over ordinary shares in XRF Scientific Limited
No. of shares:	304,240 fully paid ordinary shares

David Brown	Director (executive)
Age:	71 years
Qualifications:	Bachelor of Science, Bachelor of Economics
Experience:	Has 27 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.
Other current Directorship:	Private Companies only
Former directorship In last 3 years:	Private Companies only
Special Responsibilities:	General Manager of X-Ray Flux Pty Ltd
No. of options:	601,744 options over ordinary shares in XRF Scientific Limited
No. of shares:	10,558,393 fully paid ordinary shares

DIRECTORS' REPORT

INFORMATION ON DIRECTORS continued

John Parsons	Director (Executive)
Age:	56 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:	None
Special Responsibilities:	Director, Research & Development and IT
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	Managing Director (Executive)
Age:	62 years
Qualifications:	Tertiary qualifications in analytical chemistry, is a 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, Remuneration and Corporate Governance committee
No. of options:	3,000,000 options over ordinary shares in XRF Scientific Limited
No. of shares:	3,244,273 fully paid ordinary shares

COMPANY SECRETARY

The company secretary is Mr Vance Stazzonelli B.Comm, who is a Certified Practising Accountant. Vance has been in the role of Company Secretary since June 2008.

DIRECTORS' REPORT

OTHER KEY MANAGEMENT

Gino Manfredi (General Manager – Analytical Platinum Supplies Pty Ltd)
A senior manager in the precious metal industry for over 25 years, he is very experienced in the administration, sales and marketing this industry. In 1991 he participated in the start up of AGR Industrial products. AGR Industrial products was established to give different options to value-add precious metals it refined.
In ten years APS grew to become the premier precious metal company in Australia, and Analytical Platinum Supplies had its genesis from AGR.

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 over 14 years experience in the design, manufacture and marketing of scientific instruments for X-Ray Fluorescence and ICP-AE analysis sample preparation techniques.

Faizan Adjie (Chief Financial Officer – XRF Scientific Limited)
Faizan Adjie graduated from Washington State University with a Major in Accounting and Minor in Economics prior to migrating to Australia in 1982. He has held roles as a director and company secretary of private companies within the Australasia region. Since arriving in Australian he has been involved in the resources industry and in specific within the oil and gas industry having worked for listed and unlisted corporations involved in exploration drilling, through to production and completion equipment supply and complementary services.

Faizan has made a transition to operational roles where he has been successfully involved in Business Development within the Sub Sea and Marine area in the Asia Pacific Region, worked as a Testing Manager within a NATA accredited laboratory service specializing in Mechanical Testing and NDT, and building relationships within the resources industry.

Robert McConnell (General Manager – Modutemp Pty Ltd)
Rob graduated from UNSW in 1988 with a Bachelor of Engineering in Ceramics (Honours). Following university, Rob worked for Austral Bricks in supervisory and management roles in manufacturing and then as Technical Manager and later as Works Manager for Metro Bricks. Moving to Bristle Clay Tiles in 1999, Rob worked as Operations Manager until 2004 when he accepted the Operations Manager role at Rojan Advanced Ceramics where he was responsible for the production of high temperature technical ceramics.

Rob joined Modutemp as Production Manager in 2006 and was subsequently appointed General Manager. Rob has had extensive experience in manufacturing, industrial relations, scheduling, budgeting, strategic planning, safety and quality systems.

DIRECTORS' REPORT

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 2009 were as follows:

	Full meetings of Directors		Meetings of committees - Audit, Corporate Governance & Remuneration	
	A	B	A	B
Kenneth Baxter	11	11	2	2
David Brown	11	11	**	**
Paul Rengel	11	11	2	2
John Graham Parsons	11	11	**	**
Terry Sweet	11	11	2	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

REMUNERATION REPORT (Audited)

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

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 may receive share options.

DIRECTORS' REPORT

REMUNERATION REPORT (Audited) continued

Directors' fees

The current base remuneration was last reviewed November 2008, as ratified by a resolution passed at the 2008 Annual General Meeting. The maximum currently stands at $100,000 per annum and was approved by shareholders at the Annual General Meeting in November 2008.

Base Fees	From 1 January 2009 to 30 June 2009	From 1 July 2007 to 31 December 2008
Chairman	$37,500	$32,000
Non-Executive Directors	$32,500	$30,000

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) to key manager's compensation by way of bonus. This method is accepted by the Board as being an appropriate incentive for encouraging key management personnel to reach targets that are in excess of budgeted growth.

A bonus scheme is also in place for the Managing Director whereby if certain milestones are reached in the Company's share price, an amount will become payable whereby 2,000,000 performance shares that have been issued will convert into ordinary shares. Details of the milestones in the company's share price have not been disclosed to avoid prejudice against the company.

(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's pay is reviewed on promotion.

(ii) Benefits

Executives may receive benefits including car/mileage allowance.

(iii) Superannuation

Retirement benefits of 9% of the base pay are delivered to the individual super fund of the executive's choice.

(iv) Short-term performance incentives

Bonuses may be paid on the performance of the individual entity based on full year performance for the financial year. In most instances bonus payments are based on the achievement of a percentage of that year's budget and targets/objectives being met. A short term incentive (STI) pool is available for executives during the annual review, which is subject to caps that are in place.

Using a profit target ensures variable reward is only available when value has been created for shareholders and when profit is consistent with the business plan. Specific details of key management personnel bonuses can be found under the service contracts section of this report.

DIRECTORS' REPORT

REMUNERATION REPORT (Audited) continued

(v) Long-term incentives

Long-term incentives were previously provided to certain employees via the XRF Scientific Limited Option Plan, see page 15 for further information.

The XRF Scientific Option Plan expired during the year, and is no longer in force.

(b) Details of remuneration

(i) Non-Executive

Kenneth Peter Baxter	Chairman	
Paul Anthony Rengel	Non Executive Director	

(ii) Executive

David Brown	Executive Director	X-Ray Flux Pty Ltd
John Graham Parsons	Executive Director	Research & Development
Terry Sweet	Executive Director	Managing Director

(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
Faizan Adjie	Chief Financial Officer	XRF Scientific Limited
Allen Parsons (Resigned January 2009)	General Manager	Precious Metals Engineering (WA) Pty Ltd
Robert McConnell	General Manager	Modutemp Pty Ltd

Percentage of performance related compensation of total remuneration

Certain key management personnel are paid performance bonuses in addition to set remuneration amounts. The Board of Directors have set these bonuses to encourage growth and profitability. Bonuses are paid as per the conditions set out on page 10.

Fixed Remuneration

The level of fixed remuneration is set as to provide base level of remuneration which is both appropriate to the position and its competitive market. Fixed remuneration is reviewed annually by the remuneration committee based on market rates, as well as having regard to the Company, divisional and individual performance. The fixed remuneration of the five most highly remunerated executives and other key management personnel is contained in information that follows.

Variable Remuneration

To assist in achieving the objective of retaining a high quality executive team, the remuneration committee links the nature and amount of the executive emoluments to the Company's financial and operating performance.

Options issued as part of total remuneration

Options are issued to Directors and employees as part of their remuneration. The options issued to employees are based upon criteria outlined on page 15 of this report. The purpose of the issue of these options is to align the interests of Directors, employees and shareholders. 3,000,000 options were issued to the Managing Director during the 2008 financial year as outlined in various other parts of this report.

DIRECTORS' REPORT

(b) Details of remuneration 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:

	Short-term Benefits			Post-employment Benefits	Other Long-term Benefits	Share based payments		
2009	**Cash Salary $**	**Non-monetary Benefits $**	**Cash Bonuses $**	**Superannuation $**	**Long Service Leave $**	**Shares and Units $**	**Options & Rights $**	**Total $**
Non-executive directors								
Ken Baxter	[2]29,798	–	–	3,221	–	–	–	33,019
Paul Rengel	[2]34,283	–	–	–	–	–	–	34,283
Sub-total non-executive directors	64,081	–	–	3,221	–	–	–	67,302
Executive directors								
Terry Sweet*	111,482	–	45,872	59,875	5,570	–	–	222,799
David Brown	124,843	–	45,872	43,608	7,400	–	–	221,723
John Parsons	154,027	–	45,872	17,696	7,400	–	–	224,995
Sub-total executive directors	390,352	–	137,616	121,179	20,370	–	–	669,517
Other key management personnel								
Gino Manfredi^	74,336	[1]22,984	10,970	28,266	6,636	–	–	143,192
Stephen Prossor^	87,363	20,491	–	29,102	5,822	–	–	142,778
Faizan Adjie^*	70,158	–	–	13,808	1,207	–	–	85,173
Allen Parsons^	50,144	–	–	98,263	5,235	–	–	153,642
Robert McConnell^	94,269	–	–	14,860	5,625	–	–	114,754
Sub-total key management personnel	376,270	43,475	10,970	184,299	24,525	–	–	639,539
	830,703	**43,475**	**148,586**	**308,699**	**44,895**	–	–	**1,376,358**

	Short-term Benefits			Post-employment Benefits	Other Long-term Benefits	Share based payments		
2008	**Cash Salary $**	**Non-monetary Benefits $**	**Cash Bonuses $**	**Superannuation $**	**Long Service Leave $**	**Shares and Units $**	**Options & Rights $**	**Total $**
Non-executive directors								
Ken Baxter	27,272	–	–	3,419	–	–	–	30,691
Paul Rengel	32,010	–	–	–	–	–	–	32,010
Sub-total non-executive directors	59,282	–	–	3,419	–	–	–	62,701
Executive directors								
Terry Sweet*	124,579	–	–	11,189	2,124	–	45,207	183,099
David Brown	123,852	–	–	11,146	1,930	–	–	136,928
John Parsons	123,852	–	–	11,146	1,930	–	–	136,928
Sub-total executive directors	372,283	–	–	33,481	5,984	–	45,207	456,955
Other key management personnel								
Gino Manfredi^	70,927	22,650	35,506	26,422	2,691	–	–	158,196
Stephen Prossor^	71,893	12,408	–	35,578	267	–	–	120,146
Allen Parsons^	35,999	–	–	73,999	8,403	–	–	118,401
Dr Bruce Chadwick^	83,182	–	–	16,879	–	–	–	100,061
Kiran Badlani^*	76,875	–	–	6,574	–	–	–	83,449
Sub-total key management personnel	338,876	35,058	35,506	159,452	11,361	–	–	580,253
	770,441	**35,058**	**35,506**	**196,352**	**17,345**	–	**45,207**	**1,099,909**

^ denotes one of the 5 highest paid executives of the Group, as required to be disclosed under the Corporations Act 2001.

* denotes XRF Scientific Limited personnel.

[1] granted on 17 September 2008 in relation to Analytical Platinum Supplies' performance in the 2008 financial year, as per the conditions outlined in service contract section of this report.

[2] remuneration for K. Baxter changed to Chairman fees of $37,500 pa following a change in Board responsibilities effective 7 May 2009. Remuneration for P. Rengel changed to $32,500 pa after standing down as Chairman, effective 7 May 2009.

DIRECTORS' REPORT

REMUNERATION REPORT (Audited) continued

(b) Details of remuneration (audited) continued

The relative proportions of remuneration that are linked to performance and those that are fixed are as follows:

	Fixed Remuneration		At risk - STI		At risk - LTI	
	2009	2008	2009	2008	2009	2008
Executive directors						
Terry Sweet	79%	75%	21%	–	–	25%
David Brown	79%	100%	21%	–	–	–
John Graham Parsons	80%	100%	20%	–	–	–
Other key management personnel						
Gino Manfredi	93%	78%	7%	22%	–	–
Stephen Prossor	100%	100%	–	–	–	–
Faizan Adjie	100%	–	–	–	–	–
Allen Parsons	100%	100%	–	–	–	–
Robert McConnell	100%	100%	–	–	–	–

Shareholder Wealth

The following is a summary of key shareholder wealth statistics for the Company over the past 3 years while it has been listed on the ASX.

	EBIT	Earnings Per Share	Dividends Per Share	Share Price	Market Capitalisation
	$	Cents	Cents	Cents	$
2006/07	397,760	0.20	–	12	8,515,051
2007/08	1,378,701	1.10	–	9.5	8,703,110
2008/09	2,120,144	2.1	0.5	12	10,993,402

Service Agreements

Remuneration for the majority of key executives are set out in service agreements, which are detailed below.

Terry Sweet, Managing Director
Terms of agreement - A new supplementary contract with a commencement date of 1 November 2008 was executed, which has no set term. The Base Salary exclusive of Superannuation was $165,000. The initial contract of appointment from June 2007 provided performance bonus payable whereby if certain milestones are reached in the Company's share price, an amount will become payable by consideration of the issue of ordinary shares. Payment of a termination benefit on early termination by the Company, other than for gross misconduct, equal to the remaining contractual period.

DIRECTORS' REPORT

REMUNERATION REPORT (Audited) continued

(b) Details of remuneration continued

David Brown, Executive Director & General Manager of X-Ray Flux Pty Ltd
Terms of agreement - A new contract with a commencement date of 1 November 2008 was executed, which has no set term. The Base Salary exclusive of Superannuation was $165,000.The Board took a strategic view to vary the existing contract to a consultancy based contract agreement effective 1 October 2009, when David Brown will become a Non Executive Director. The new terms and conditions are currently being negotiated.

John Parsons, Executive Director, Manager of Research & Development and IT
Terms of agreement - A new contract with a commencement date of 1 November 2008 was executed, which has no set term. The Base Salary exclusive of Superannuation was $165,000.The Board took a strategic view to vary the existing contract to a consultancy based contract agreement effective 1 October 2009, when John Parsons will become a Non Executive Director. The new terms and conditions are currently being negotiated.

Gino Manfredi, General Manager of Analytical Platinum Supplies Pty Ltd
Terms of agreement - Ongoing commencing June 2007. Base Salary, inclusive of superannuation, for the years ended 30 June 2008 and 2009 of $120,000 to be reviewed annually by the remuneration committee. A performance bonus based on the achievement of a percentage of that year's budget and targets/objectives being met, which is part of the STI pool for the branch. Payment of a termination benefit on early termination by the Company, other than for gross misconduct, equal to the statutory amount stipulated by the legislation of the time.

Allen Parsons, General Manager of Precious Metals Engineering Pty Ltd
Terms of agreement - 2 years commencing 30 October 2006, was extended by mutual agreement until 17 July 2009. Agreement was terminated in January 2009 following his resignation. Base Salary, inclusive of superannuation, for the year ended 30 June 2009 was $120,000. Payment of a termination benefit on early termination by the Company, other than for gross misconduct.

Steve Prosser, General Manager of Automated Fusion Technologies Pty Ltd
Terms of agreement - 2 years commencing 30 October 2006, was extended on an ongoing basis by mutual agreement with the Board of Directors. Base Salary, inclusive of superannuation, for the year ended 30 June 2008 of $120,000. Payment of a termination benefit on early termination by the Company, other than for gross misconduct, equal to 12 months remuneration being received at the level at the date of termination or as required by Section 200g of the Corporations Act, whichever is lesser, plus for a minimum 3 month written notice period.

Faizan Adjie, Chief Financial Officer of XRF Scientific Limited
Terms of agreement - Ongoing contract commencing October 2008. Base Salary, inclusive of superannuation for the year ended 30 June 2009 of $120,000 to be reviewed annually by the remuneration committee.

Robert McConnell, Manager of Modutemp Pty Ltd
Terms of agreement - Ongoing commencing 30 January 2006. Base Salary, inclusive of superannuation for the year ended 30 June of $109,243 plus the provision of a commercially licensed crew cab vehicle. Payment of a termination benefits on early termination by the Company, other than or gross misconduct, equal to two weeks full pay.

DIRECTORS' REPORT

REMUNERATION REPORT (Audited) continued

Share-based compensation

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. The XRF Scientific Option Plan expired on 22 August 2008, and the Board is currently reviewing whether or not to adopt a new plan. Under the previous plan, participants were 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 was 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 this or future reporting periods are as follows:

Grant date	Date vested and exercisable	Expiry date	Exercise price	Value per option at grant date
23 November 2007	23 November 2008	31 October 2010	$0.16	$0.025

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. In addition 3,000,000 options were provided to the Managing Director as per the resolution passed at the 2007 AGM, the details of which can be found at note 34 of the financial report.

Name	Number of options granted during the year			Number of options vested during the year		
	2009	2008	2007	2009	2008	2007
Directors of XRF Scientific Limited						
Kenneth Peter Baxter	–	–	–	–	–	500,000
Paul Anthony Rengel	–	–	–	–	–	500,000
David Brown	–	–	–	–	–	601,744
John Graham Parsons	–	–	–	–	–	697,674
Terry Sweet	–	3,000,000	–	3,000,000	–	–
Other key management personnel of the Group						
Gino Manfredi	–	–	–	–	–	–
Steve Prosser	–	–	–	–	–	392,442
Faizan Adjie	–	–	–	–	–	–
Allen Parsons	–	–	–	–	–	523,256
Robert McConnell	–	–	–	–	–	–

No shares were issued on the exercise of remuneration options.

DIRECTORS' REPORT

REMUNERATION REPORT (Audited) continued

Additional Information

For each cash bonus and grant of options included in the tables on pages 12 and 15, the percentage vested in the current and prior financial years, and the percentage that was forfeited in 2009 because the person did not meet the service and performance criteria is set out below.

	Cash bonus		Options					
	Paid	Forfeited	Year granted	Vested	Forfeited	Financial years in which options may vest	Minimum total value of grant yet to vest	Maximum total value of grant yet to vest
	%	%		%	%		$	$
Directors								
Kenneth Peter Baxter	–	–	2006	100	–	–	–	–
Paul Anthony Rengel	–	–	2006	100	–	–	–	–
David Brown	100	–	2006	100	–	–	–	–
John Graham Parsons	100	–	2006	100	–	–	–	–
Terry Sweet	100	–	2008	100	–	–	–	–
Other key management personnel								
Gino Manfredi	100	–	–	–	–	–	–	–
Stephen Prossor	–	–	2006	100	–	–	–	–
Faizan Adjie	–	–	–	–	–	–	–	–
Allen Parsons	–	–	–	–	–	–	–	–
Robert McConnell	–	–	–	–	–	–	–	–

DIRECTORS' REPORT

REMUNERATION REPORT (Audited) continued

Further details relating to options are set out below:

	Remuneration consisting of options	Value at grant date	Value at exercise date	Value at lapse date
	%	$	$	$
Directors				
Paul Anthony Rengel	–	–	–	–
Kenneth Peter Baxter	–	–	–	–
David Brown	–	–	–	–
John Graham Parsons	–	–	–	–
Terry Sweet	–	–	–	–
Other key management personnel				
Gino Manfredi	–	–	–	–
Stephen Prossor	–	–	–	–
Faizan Adjie	–	–	–	–
Allen Parsons	–	–	–	–
Robert McConnell	–	–	–	–

DIRECTORS' REPORT

LOANS TO DIRECTORS AND EXECUTIVES

No loans were made to directors and executives during the financial years ending 30 June 2009.

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 2010	20 cents	3,215,116
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
23 November 2007	Managing Director	31 October 2010	16 cents	3,000,000

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 may be 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.

NON AUDIT SERVICES

Details of the non audit services provided by the Company's external auditor BDO Kendalls Audit & Assurance (WA) Pty Ltd during the year ended 30 June 2009 are outlined in the Audit Services section of this Directors Report on page 19. Based on advice from the Company's Audit Committee, the Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and the scope of each type of non audit service provided means that auditor independence was not compromised.

DIRECTORS' REPORT

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	
	2009 $	**2008 $**
(a) Assurance and other services		
BDO Kendalls Audit & Assurance (WA) Pty Ltd		
Audit and review of financial reports	102,580	98,966
Taxation and assistance with 2007 Annual Report	-	102,577
Other services	6,035	-
Total remuneration for audit and other services	**108,615**	**201,525**

The Board is satisfied that the auditors of the Company, BDO Kendalls Audit & Assurance (WA) Pty Ltd remains independent.

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 20.

AUDITOR

BDO Kendalls Audit & Assurance (WA) 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
21 September 2009

BDO Kendalls

BDO Kendalls Audit & Assurance (WA) Pty Ltd
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PO Box 700 West Perth WA 6872
Phone 61 8 9380 8400
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www.bdo.com.au

ABN 79 112 284 787

21 September 2009

The Directors
XRF Scientific Limited
88 Guthrie Street
OSBORNE PARK WA 6017

Dear Sirs

DECLARATION OF INDEPENDENCE BY GLYN O'BRIEN TO THE DIRECTORS OF XRF SCIENTIFIC LIMITED

As lead auditor of XRF Scientific Limited for the year ended 30 June 2009, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

This declaration is in respect of XRF Scientific Limited and the entities it controlled during the period.

Glyn O'Brien

Glyn O'Brien
Director

BDO Kendalls

BDO Kendalls Audit & Assurance (WA) Pty Ltd
Perth, Western Australia.

CORPORATE GOVERNANCE DISCLOSURE

ROLE OF THE BOARD

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. 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 practices 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 (both independent) and three executive Directors. The chairman is an independent director, and the role of CEO is exercised by the Managing Director. It is XRF Scientifics' aim to have a majority of non-executive directors on the Board. The Board has further moved to convert the two remaining Executive Directors to non-executive directors.

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. The Company's board is responsible for such nominations and appointment rather than a separate committee.

COMMITTEES OF THE BOARD

The Board has established the following committees:

Audit Committee
The Audit Committee comprises three Board members, two being the independent non-executive Directors, the Managing Director and the Company Secretary. The Chairman of the committee is not the Chairman of the Board. 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. There is no formal charter for this committee.

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. Further information on directors' and executives' remuneration is set out in the Remuneration Report.

CORPORATE GOVERNANCE DISCLOSURE

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 of 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 GOVERNANCE DISCLOSURE

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 revised 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 STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

		Consolidated		Parent Entity	
	Note	2009	2008	2009	2008
		$	$	$	$
Sales revenue	5	16,807,060	14,706,204	–	30,817
Cost of sales		(10,228,562)	(9,224,893)	–	(16,463)
Gross profit		6,578,498	5,481,311	–	14,354
Other revenue	5	314,301	290,817	1,364,454	566,592
Occupancy expenses		(368,554)	(308,268)	(15,599)	(38,903)
Employee benefits expenses		(2,427,110)	(2,232,160)	(689,162)	(724,189)
Motor vehicle expense		(55,593)	(66,545)	(1,443)	(2,726)
Depreciation & amortisation	6	(257,639)	(224,124)	(14,931)	(17,056)
Other expenses		(1,450,281)	(1,328,618)	(738,894)	(627,542)
Impairment losses	6	–	–	–	(60,984)
Finance costs	6	(25,163)	(84,013)	(5,830)	(47,700)
Profit/(loss) before income tax		2,308,459	1,528,400	(101,405)	(938,154)
Income tax revenue (expense)	7	(357,867)	(607,793)	607,087	300,503
Profit/(loss) after income tax		1,950,592	920,607	505,682	(637,651)
Profit/(loss) attributable to equity holders of XRF Scientific Limited		1,950,592	920,607	505,682	(637,651)
Basic earnings per share (cents per share)	36	2.1	1.1		
Diluted earnings per share (cents per share)		2.1	1.1		

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

BALANCE SHEETS AS AT 30 JUNE 2009

	Note	Consolidated 2009 $	Consolidated 2008 $	Parent Entity 2009 $	Parent Entity 2008 $
CURRENT ASSETS					
Cash and cash equivalents	8	5,080,876	3,626,598	4,650,962	3,428,082
Trade and other receivables	9	1,713,855	3,280,374	1,122,357	1,034,225
Inventories	10	1,965,024	1,350,021	–	–
Other assets	11	158,920	194,652	15,078	21,398
Total Current Assets		8,918,675	8,451,645	5,788,397	4,483,705
NON-CURRENT ASSETS					
Property, plant and equipment	13	1,494,110	928,832	32,911	34,885
Intangible assets	15	5,920,265	5,620,642	83,385	87,268
Deferred tax asset	14	620,734	653,817	380,275	455,351
Other financial assets	12	–	–	6,251,647	6,251,647
Total Non-Current Assets		8,035,109	7,203,291	6,748,218	6,829,151
Total Assets		16,953,784	15,654,936	12,536,615	11,312,856
CURRENT LIABILITIES					
Trade and other payables	16	852,673	1,214,098	2,229,890	1,348,780
Borrowings	17	–	41,536	–	–
Provisions	18	535,281	388,446	263,972	195,000
Other current liabilities	19	84,101	197,036	–	–
Current income tax liability		86,832	(31,308)	120,338	(76,718)
Total Current Liabilities		1,558,887	1,809,808	2,614,200	1,467,062
NON-CURRENT LIABILITIES					
Borrowings	20	–	94,362	–	–
Deferred tax liability	21	176,207	79,558	448	176
Provisions	22	92,331	67,180	3,881	4,950
Total Non-Current Liabilities		268,538	241,100	4,329	5,126
Total Liabilities		1,827,425	2,050,908	2,618,529	1,472,188
Net Assets		15,126,359	13,604,028	9,918,086	9,840,668
EQUITY					
Issued capital	23	10,894,963	10,894,963	10,894,963	10,894,963
Reserves	24(a)	610,310	580,517	610,310	580,517
Retained profits/(Accumulated losses)	24(b)	3,621,086	2,128,548	(1,587,187)	(1,634,812)
Total Equity		15,126,359	13,604,028	9,918,086	9,840,668

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

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2009

	Note	Consolidated 2009 $	Consolidated 2008 $	Parent Entity 2009 $	Parent Entity 2008 $
Total equity at the beginning of the financial year		13,604,028	12,195,420	9,840,668	9,990,140
Restatement to opening balances		–	(10,820)	–	(10,820)
Restated total equity at the beginning of the financial year		13,604,028	12,184,600	9,840,668	9,979,320
Net income recognised directly in equity		–	–	–	–
Profit (loss) for the year		1,950,592	920,607	505,682	(637,651)
Total recognised income and expense for the year		1,950,592	920,607	505,682	(637,651)
Transactions with equity holders in their capacity as equity holders					
Contributions of equity, net of transaction costs	23	–	953,794	–	953,792
Dividends paid or provided for	25	(458,054)	–	(458,057)	–
Share options	24	29,793	45,207	29,793	45,207
Exchange differences on translation of foreign operations	24	–	(180)	–	–
Reduction of capital	23	–	(500,000)	–	(500,000)
		(428,261)	498,821	(428,264)	498,999
Total equity at the end of the financial year		15,126,359	13,604,028	9,918,086	9,840,668
Total recognised income and expense for the year is attributable to:					
Members of XRF Scientific Limited	24	1,950,592	920,607	505,682	(637,651)

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

CASH FLOW STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

	Note	Consolidated 2009 $	Consolidated 2008 $	Parent Entity 2009 $	Parent Entity 2008 $
Cash flows from operating activities					
Receipts from customers		18,258,298	13,842,201	300,000	331,084
Payments to suppliers and employees		(15,420,506)	(13,135,944)	(1,451,151)	(950,591)
Finance costs		(16,289)	(76,287)	(5,830)	(47,700)
Other revenue		100,822	56,643	7,930	761
Income taxes paid		(112,727)	(566,126)	(112,727)	(118,342)
Interest received		213,479	233,712	209,718	206,042
Net cash inflow (outflow) from operating activities	32	3,023,077	354,199	(1,052,060)	(578,746)
Cash flows from investing activities					
Payments for property, plant and equipment		(767,052)	(415,433)	(8,583)	(3,412)
Payments for intangible assets		(363,844)	(208,592)	(491)	–
Proceeds from sale of financial assets (listed shares)		–	12,516	–	12,516
Dividends received from subsidiaries		–	–	849,999	–
Proceeds from sale of property, plant and equipment		13,182	–	–	–
Net cash inflow (outflow) from investing activities		(1,117,714)	(611,509)	840,925	9,104
Cash flows from financing activities					
Proceeds from issue of shares and other equity securities (net of transaction costs)		–	1,063,543	–	1,063,543
Repayment of borrowings		–	(859,456)	–	(847,874)
Borrowings from subsidiaries		–	–	1,885,100	1,134,960
Dividends paid		(451,085)	–	(451,085)	–
Net cash inflow (outflow) from financing activities		(451,085)	204,087	1,434,015	1,350,629
Net increase in cash and cash equivalents					
Cash and cash equivalents at the beginning of the financial year		3,626,598	3,679,821	3,428,082	2,647,095
Net cash movement		1,454,278	(53,223)	1,222,880	780,987
Cash and cash equivalents at the end of the financial year	8	5,080,876	3,626,598	4,650,962	3,428,082

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

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2009

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 Scientific Limited for the year ended 30 June 2009 was authorised for issue in accordance with a resolution of the directors on 21 September 2009 and covers XRF Scientific Limited as an individual entity as well as the consolidated entity consisting of XRF Scientific Limited and its subsidiaries as required by the Corporations Act 2001.

The financial report is presented in the Australian currency.

XRF Scientific 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 Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Australian Accounting 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.

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 2009 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 30 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 entities. All intercompany 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 2009

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

The Group applies a policy of treating transactions with minority interests as transactions with equity owners of the Group. For purchases from minority interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is deducted from equity. Gains or losses on disposals to minority interests are also recorded in equity. For disposals to minority interests, differences between any proceeds received and the relevant share of minority interests are also recorded to equity.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Accounting policies of subsidiaries are consistent with the policies adopted by the Group.

(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.

Group Companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary currency economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows.

Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet. Income and expenses for each income statement are translated at average exchange rates. All resulting exchange differences are recognised as a separate component of equity.

(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.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2009

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

(iii) Dividends

Dividend revenue is recognised when the right to receive a dividend has been established.

(iv) 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 labor 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.

(f) Income tax

The income tax expense or revenue for the period is the tax payable on the current years 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.

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 substantially 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.

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 deferred tax amounts. Current tax is accounted for by each subsidiary entity, which is then consolidated up into the tax consolidated group, as per the tax sharing agreement. In addition to its own share of 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. Income tax is allocated under the separate taxpayer within group approach. Details about the tax funding agreement are disclosed in note 7.

(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 29(b)(ii)). 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 2009

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES 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 29(b)(i)). 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.

(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.

(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.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2009

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Trade receivables are due for settlement no more than 90 days from the date of recognition. Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off to the income statement. 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. Other indicators that determine the trade receivable is impaired is if the party is deemed to be bankrupt.

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 movement in 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 of 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. Costs are assigned to individual items of inventory on the 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: other financial assets, 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) 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).

(ii) 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 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 2009

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

(iii) Subsequent measurement
Loans and receivables are carried at amortised cost using the effective interest method.

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.

Details of how the fair value of financial instruments is determined is discussed in note 2.

(iv) Fair value
The fair value of quoted investments are based on current bid prices. If the market for a financial asset is not active (or 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.

(v) Impairment
The Company assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired.

If there is evidence of impairment for any of the Group's financial assets carried at amortised cost, the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, excluding future credit losses that have not been incurred. The cash flows are discounted at the financial asset's original effective interest rate. The loss is recognised in 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 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 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.

(o) Property, plant and equipment
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.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2009

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

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.

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

Plant and Equipment	5%-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.

(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 15(a)).

(ii) Patents, trademarks and licences
Patents, trademarks and licences 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 patents, 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.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2009

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

(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.

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 removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in other income or other expenses.

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.

(t) Provisions

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.
Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions for legal claims, service warranties and make good obligations are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

(u) 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.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2009

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

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 as nominated by the individual employee.

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

(iv) Share-based payments
Share-based compensation benefits were provided to employees via the XRF Scientific Limited Employee Options Plan and an employee share scheme. However the scheme expired in August 2008, and has not since been renewed by the Board. Information relating to these schemes is set out in note 23.

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 4,000,000 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 2010;
Options will be exercisable at 20 cents each;
All options vested immediately on 31 May 2006; and
Options are unlisted.

This total has reduced to 3,215,116 following the resignation of two employees. The fair value of options granted under the Company Employee 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.

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.

(v) 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.

(v) Contributed equity
Ordinary shares are classified as equity.

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

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2009

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

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.

(w) 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.

(x) 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.

(y) 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.

(z) Financial guarantee contracts

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of the amount determined in accordance with AASB 137 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less cumulative amortisation, where appropriate.

(aa) 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 not 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.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2009

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(ab) New accounting standards and interpretations

(i) AASB 8 Operating Segments

AASB 8 should not result in a significant change in the approach to segment reporting, which requires adoption of a 'management approach' to reporting on financial performance. The information being reported will be based on what the key decision makers use internally for evaluating segment performance and deciding how to allocate resources to operating segments. The standard is not expected to impact on the group's segment reporting significantly, as under the management approach, segments will be disclosed in a similar manner to how they are currently. The revised standard will become mandatory for the group's 2010 consolidated financial statements, including 31 December 2009 interim report.

(ii) AASB 123 Borrowing Costs

The revised standard has removed the option to expense all borrowing costs and - when adopted - will require capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. The revised standard will remove the group's current practice option of expensing borrowing costs in full. There would have been no impact on the current year results had this policy been adopted and future impacts will depend on the future acquisition, construction and production of qualifying assets not yet to be undertaken. The revised standard will become mandatory for the group's 2010 consolidated financial statements.

Borrowing costs are now defined to include the interest expense calculated using the effective interest rate method. As such various components of the definition have been deleted as these are included in the effective interest calculation. The revised standard will become mandatory for the group's 2010 consolidated financial statements. There will be no impact as these amendments merely clarify existing practice.

(iii) AASB 3 Business Combinations

The revised standards will include changes such as the requirement to expense all transaction costs in full, which are currently included in the cost of the acquisition. The consolidated group has not yet determined the potential effect of the revised standard on the consolidated financial statements. The revised standard will become mandatory for the group's 2010 consolidated financial statements.

(iv) AASB 101 Presentation of Financial Statements and AASB 2007-8 Amendments to Australian Accounting Standards arising from AASB 101

It requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity, but will not effect any of the amounts recognised in the financial statements. The revised standard will become mandatory for the group's 30 June 2010 consolidated financial statements, including 31 December 2009 interim report. The consolidated group has not yet determined the potential effect of the revised standard on the consolidated disclosures.

(v) AASB 127 Consolidated and Separate Financial Statements

The revised standard clarifies that changes in ownership interest which result in control being retained are accounted for within equity as transactions with owners. Losses will be attributed to the non-controlling interest even if this results in a debit balance for the non-controlling interest. Investments retained where there has been a loss of control will be recognised at fair value at date of sale. The revised standard will become mandatory for the group's 30 June 2010 consolidated financial statements. The consolidated group has not yet determined the potential effect of the revised standard on the consolidated disclosures.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2009

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

(vi) AASB 136 Impairment of Assets

The revised standard required additional disclosure requirements about discounted cash flow assumptions used for the fair value less costs to sell method. The revised standard will become mandatory for the group's 30 June 2010 consolidated financial statements. There will be no financial impact when these amendments are first adopted because these amendments relate to additional disclosure requirements only.

(vii) AASB 138 Intangible Assets

Clarifies that the amortisation method for intangible assets could result in a lower amount of accumulated amortisation than under the straight line method. The revised standard will become mandatory for the group's 30 June 2010 consolidated financial statements. Initial adoption of this amendment will have no impact on the group as it will continue to use the straight line basis as the most appropriate amortisation method for intangibles.

None of the other amendments or interpretations are expected to affect the accounting policies of the group.

NOTE 2: FINANCIAL RISK MANAGEMENT

The Company'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 company'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 Company.

Risk management is carried out by management under policies approved by the Board of Directors. Management 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, Euros and US Dollar.

Foreign currency risk arises where settlement of a trade receivable, payable or borrowings is denominated in a currency that is not the entity's functional currency, which may result in a foreign currency gain or loss. The group seeks to mitigate this risk by engaging in a majority of commercial transactions that are generally in AUD.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2009

NOTE 2: FINANCIAL RISK MANAGEMENT continued

The group's exposure to foreign currency risk at the reporting date was as follows:

	30 June 2009		30 June 2008	
	EUR	USD	EUR	USD
Trade receivables	21,875	47,739	122,360	–
Trade payables	–	–	54,187	–

The parent's exposure to foreign currency risk at the reporting date was nil (2008: Nil).

Group sensitivity

Based on the financial instruments held at 30 June 2009, had the Australian dollar weakened/strengthened by 10% (based on historical reasonableness movements) against the exchange rates in the above tables, with all other variables held constant, the Group's post-tax profit for the year would have been $8,805 lower/$10,797 higher (2008: $20,742 lower/$25,389 higher), mainly as a result of foreign currency exchange gains/losses on translation of foreign currency denominated financial instruments as detailed in the table above.

Parent entity sensitivity

The parent entity's post-tax profit for the year would have been $Nil lower/$Nil higher (2008: $Nil higher/$Nil lower) had the Australian dollar weakened/strengthened by 10% against the US dollar, mainly as a result of foreign exchange gains/losses on translation of foreign currency denominated financial instruments as detailed in the table above.

(ii) Price risk

As the group does not have any investments in equities or commodities, it's exposure to equities price risk and commodity price risk is minimal.

While the group uses commodities in its operations, customer commitments to spot rates purchased result in the Group's exposure to commodities price risk being immaterial.

(iii) Cash flow and fair value interest rate risk

As at 30 June 2009 the group had no fixed or variable interest rate debt, and therefore consider fair value interest rate risk to be minimal. Further details can be found in note 20(d).

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2009

NOTE 2: FINANCIAL RISK MANAGEMENT continued

Group sensitivity

At 30 June 2009, if interest rates had changed by -/+ 100 basis points from the year-end rates with all other variables held constant, post tax profit for the year would have been $21,348 lower/higher (2008: $23,371 lower/higher), mainly as a result of higher/lower interest income from cash and cash equivalents. Cash and cash equivalent balances at 30 June 2009 would have been higher/lower by the same amount.

Parent entity sensitivity

The parent entity's main interest rate risk arises from cash and cash equivalents with variable interest rates. At 30 June 2009, if interest rates had changed by -/+ 100 basis points from the year-end rates with all other variables held constant, post-tax profit would have been $20,972 lower/higher (2008: $20,604 lower/higher) as a result of interest income from these financial assets. Cash and cash equivalent balances at 30 June 2009 would have been higher/lower by the same amount.

(b) Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit risk arises from cash and cash equivalents, trade receivables and other receivables. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted. The Group trades only with recognised, creditworthy third parties. 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 of cash and cash equivalents, and trade and other receivables, the Group's exposure to credit risk arises from the default of the counter party, with a maximum exposure equal to the carrying amount of these financial assets.

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

The following table represents the group's exposure to credit risk:

	Consolidated		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
Cash and cash equivalents	5,080,876	3,626,598	4,650,962	3,428,082
Trade receivables	1,700,463	3,263,244	1,122,357	1,031,332
Other receivables (external parties)	13,392	17,130	–	3,193
	6,794,731	6,906,972	5,773,319	4,462,607

Credit risk exposure is not significantly different for any of the segments of the group.

Details of impaired trade receivables, and trade receivables overdue but not impaired can be found at note 9. An analysis of the group's consolidated trade receivables is as follows:

	Current	Over 30 days	Over 60 days	Over 90 days	Total
2009	900,342	572,937	109,052	118,132	1,700,463
2008	1,780,078	883,317	246,553	353,296	3,263,244

There were no balances overdue but not impaired at 30 June 2009 or 2008 in the parent entity, being predominantly balances owed by subsidiary entities.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2009

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. The below analyses the group and parent entity financial liabilities into relevant maturity groupings based on the remaining period at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. There have been no breaches or defaults on the repayment of debt.

	Consolidated		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
Financial liabilities & Chattel Mortgages				
Fixed rate				
Less than one year	–	41,535	–	–
Between 1 and 2 years	–	38,033	–	–
Between 2 and 5 years	–	56,329	–	–
Total fixed rate	–	135,897	–	–
Non interest bearing				
Less than one year	658,508	1,151,586	204,443	305,779
Between 1 and 2 years	–	–	–	–
Between 2 and 5 years	–	–	–	–
Total non interest bearing	658,508	1,151,586	204,443	305,779
Total contractual cash flows	658,508	1,287,483	204,443	305,779

All amounts owing are non derivatives.

(d) Fair value estimation

The fair value bases of financial assets and financial liabilities are outlined in note 1(n).

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2009

NOTE 3: CRITICAL ACCOUNTING ESTIMATES AND SIGNIFICANT 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). Please refer to note 15 for the details on impairment tests performed on goodwill.

(ii) Capitalisation of research and development expenditures

The group capitalises research and development costs where management considers it probable that the related projects will be commercially and technically feasible and successful, in accordance with the accounting policy stated in note 1(p)(iii).

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.

Chemicals

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 X-Ray Flux Products.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2009

NOTE 4: SEGMENT INFORMATION continued

(b) Primary reporting format – business segments

2009	Customised Fusion Machines and Furnace Technology $	Platinum Labware $	LIBS Instruments $	Chemicals $	Unallocated Corporate and Eliminations $	Consolidated $
Segment revenue						
Sales to external customers	6,651,243	7,151,455	455,283	3,079,053	(529,974)	16,807,060
Inter-segment sales	–	404,278	306,125	–	(710,403)	–
Total sales revenue	6,651,243	7,555,733	761,408	3,079,053	(1,240,377)	16,807,060
Interest income					213,478	213,478
Other revenue/income	57,120	38,494	–	473	4,737	100,823
Total external segment revenue/income	6,708,363	7,594,227	761,408	3,079,526	(1,022,162)	17,121,361
Segment result	1,434,312	995,012	(4,697)	974,341	(1,090,509)	2,308,459
Profit before income tax						2,308,459
Income tax expense						(357,867)
Profit for the year						1,950,592
Segment assets	2,870,253	3,484,236	340,204	2,322,549	7,936,542	16,953,784
Segment liabilities	710,779	974,373	348,398	540,930	(747,055)	1,827,425
Other segment information						
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	397,683	190,777	11,294	671,428	(131,035)	1,140,147
Depreciation and amortisation expense	57,057	80,639	52,648	67,934	(639)	257,639

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2009

NOTE 4: SEGMENT INFORMATION continued

2008	Customised Fusion Machines and Furnace Technology $	Platinum Labware $	LIBS Instruments $	Chemicals $	Unallocated Corporate and Eliminations $	Consolidated $
Segment revenue						
Sales to external customers	4,931,141	7,016,601	638,844	2,215,358	(95,740)	14,706,204
Inter-segment sales	100,766	144,973	40,603	438,870	–	(725,212)
Total sales revenue	5,031,907	7,161,574	679,447	2,654,228	(95,740)	15,431,416
Interest income					233,712	233,712
Other revenue/income	37,783	15,436	100	1,201	2,585	57,105
Total external segment revenue/income	4,968,924	7,032,037	638,944	2,216,559	140,557	14,997,021
Segment result	823,083	1,039,778	(153,422)	719,797	(900,836)	1,528,400
Profit before income tax						1,528,400
Income tax expense						(607,793)
Profit for the year						920,607
Segment assets	2,490,581	3,032,640	639,275	1,667,352	7,825,088	15,654,936
Segment liabilities	1,013,620	816,400	660,031	310,159	(861,409)	1,938,801
Other segment information						
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	138,200	387,553	136,300	87,532	4,404	753,989
Depreciation and amortisation expense	53,058	54,554	54,246	42,069	20,197	224,124

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2009

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, borrowings and a provision for employee benefits. Segment assets and liabilities do not include income taxes.

(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.

	Consolidated		Parent Entity	
	2009 $	2008 $	2009 $	2008 $
NOTE 5: REVENUE				
From continuing operations				
Sales revenue				
Sale of goods	16,807,060	14,706,204	–	30,817
Other revenue				
Interest	213,479	233,712	209,718	206,042
Recoveries	1,973	7,857	–	–
Dividends received from subsidiaries	–	–	849,999	–
Management fees	–	–	300,000	360,000
Other revenue	98,849	49,248	4,737	550
	17,121,361	14,997,021	1,364,454	597,409

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2009

	Consolidated		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
NOTE 6: EXPENSES				
Profit/(loss) before income tax includes the following specific expenses				
Depreciation				
Depreciation	188,154	146,035	10,557	12,462
Amortisation				
Patents and trademarks	16,636	61,991	4,374	4,593
Research and development	52,849	16,098	–	-
Total amortisation	69,485	78,089	4,374	4,593
Finance costs				
Interest and finance charges paid/payable	25,163	84,013	5,830	47,700
Finance costs expensed	25,163	84,013	5,830	47,700
Rental expense relating to operating leases				
Minimum lease payments	294,554	232,926	–	–
Total rental expense relating to operating leases	294,554	232,926	–	–
Other administration costs				
Share based payments	–	45,207	–	45,207
Exchange losses/(gains)	(44,620)	17,124	–	–
Impairment losses				
Loans impaired*	–	–	–	60,984
Total impairment losses	–	–	–	60,984
Employee superannuation expense				
Employee superannuation expense	517,416	335,917	87,441	38,978

*The loan impairment losses of $60,984 recorded in the parent entity relate to the write off of the loan to XRF USA Inc which no longer trades.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2009

NOTE 7: INCOME TAX EXPENSE

	Consolidated 2009 $	Consolidated 2008 $	Parent Entity 2009 $	Parent Entity 2008 $
(a) Income tax expense				
Current tax	630,847	409,614	(297,891)	(370,904)
Deferred tax	27,614	83,002	(26,770)	70,401
Adjustments for current tax of prior periods	(300,594)	115,177	(282,426)	–
	357,867	607,793	(607,087)	(300,503)
Income tax expense is attributed to:				
Profit from continuing operations	357,867	607,793	(607,087)	(300,503)
Deferred income tax expense included in income tax expense comprises:				
Decrease (increase) in deferred tax assets (note 14)	(69,035)	6,277	(27,042)	72,123
(Decrease) increase in deferred tax liabilities (note 21)	96,649	76,725	272	(1,722)
	27,614	83,002	(26,770)	70,401
(b) Numerical reconciliation of income tax expense to prima facie tax payable				
Profit/(loss) from continuing operations before income tax expense	2,308,459	1,528,400	(101,405)	(938,154)
	2,308,459	1,528,499	(101,405)	(938,154)
Tax at the Australian rate of 30% (2008: 30%)	692,538	458,520	(30,421)	(281,446)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income				
Share-based payments	8,934	13,549	8,934	13,549
Entertainment	2,173	1,837	306	384
Impairment losses	–	–	–	18,295
Dividends received from subsidiaries	–	–	(255,000)	–
Sundry items	(45,184)	18,710	(48,480)	(51,285)
	658,461	492,616	(324,661)	(300,503)
Adjustments for current tax of prior periods	(300,594)	115,177	(282,426)	-
Income tax expense/(revenue)	357,867	607,793	(607,087)	(300,503)
(c) Amounts recognised directly in equity				
Aggregate current and deferred tax arising in the reporting period and not recognised in the net profit or loss but directly debited to equity:				
Net deferred tax – debited (credited) directly to equity	102,118	83,475	102,118	83,475
	102,118	83,475	102,118	83,475

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2009

	Consolidated		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$

NOTE 7: INCOME TAX EXPENSE
continued

(d) Tax losses

Unused tax losses for which no deferred tax asset has been recognised				
Potential benefit @ 30%	–	–	–	–

All unused tax losses were incurred by Australian entities.

(e) 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 entered into a tax funding agreement 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 are 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 installments. The funding amounts are recognised as current intercompany receivables or payables.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2009

NOTE 8: CASH ASSETS – CASH AND CASH EQUIVALENTS

	Consolidated 2009 $	Consolidated 2008 $	Parent Entity 2009 $	Parent Entity 2008 $
Cash at bank and on hand	636,292	226,415	206,378	27,900
Deposits at call	4,444,584	3,400,183	4,444,584	3,400,182
	5,080,876	3,626,598	4,650,962	3,428,082
Reconciliation to cash at the end of the year				
Balances as above	5,080,876	3,626,598	4,650,962	3,428,082
Balance per cash flow statements	5,080,876	3,626,598	4,650,962	3,428,082

(a) Cash at bank and on hand

Cash at bank earns interest at floating rates based on daily bank deposit rates of between 0.01% to 3.05% (2008: 0.01% to 1.00%). Cash available for use is as reported above, with no restrictions applicable.

(b) Deposits at call

Short-term deposits are made for varying periods of between no set term and 3 months, depending on the immediate cash requirements of the company, and earn interest at the respective short-term deposit rates. Deposits at call are subject to interest rates of 3.05% pa (2008: 7.5% pa).

(c) Risk exposure

The Group's and the parent entity's exposure to interest rate risk is discussed in note 2. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of cash and cash equivalents mentioned above.

NOTE 9: CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

	Consolidated 2009 $	Consolidated 2008 $	Parent Entity 2009 $	Parent Entity 2008 $
Trade receivables	1,727,313	3,278,421	–	–
Allowance for impairment of receivables	(26,850)	(15,177)	–	–
	1,700,463	3,263,244	–	–
Other receivables from:				
Wholly owned entities	–	–	1,122,357	1,031,032
Other external parties	13,392	17,130	–	3,193
	1,713,855	3,280,374	1,122,357	1,034,225
Past due but not impaired				
Up to 3 months	681,989	934,778	–	–
Up to 6 months	144,981	353,237	–	–
	826,970	1,288,015	–	–
Allowance for impairment of receivables				
Balance at 1 July	(15,177)	(7,897)	–	–
Increase in allowance during the year	(11,673)	(7,280)	–	–
	(26,850)	(15,177)	–	–

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2009

NOTE 9: CURRENT ASSETS – TRADE AND OTHER RECEIVABLES continued

(a) Impaired trade receivables

The consolidated entity has recognised a loss of $5,080 (2008: $2,000) and the parent entity has recognised a loss of $Nil (2008: $Nil) in respect of impaired trade receivables during the year ended 30 June 2009. The losses have been included as 'other expenses' in the income statement.

(b) Past due but not impaired

As at 30 June 2009, trade receivables of the Group of $826,970 (2008: $1,228,015) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is on the previous page. The other classes within trade and other receivables do not contain impaired assets and are not past due. Based on the credit history of these classes, it is expected that these amounts will be received when due. The Group does not hold any collateral in relation to these receivables.

(c) 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(k).

(d) 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 note 2.

	Consolidated		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
NOTE 10: CURRENT ASSETS – INVENTORIES				
Raw material and stores				
- at cost	1,636,456	878,486	–	–
Work-in-progress	105,709	276,747	–	–
Finishes goods				-
- at cost	222,859	194,788	–	–
	1,965,024	1,350,021	–	–

Stock was valued at lower of cost and net realisable value on 30 June 2009 and 30 June 2008.

NOTE 11: OTHER CURRENT ASSETS

Security deposits	3,500	–	–	–
Prepayments	155,420	194,652	15,078	21,398
	158,920	194,652	15,078	21,398

NOTE 12: NON-CURRENT ASSETS – OTHER FINANCIAL ASSETS

	Consolidated		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
Shares in subsidiaries (note 31)	–	–	6,251,647	6,251,647
	–	–	6,251,647	6,251,647

These financial assets are carried at cost.

The carrying amount of shares in subsidiaries can be compared against the fair value of the goodwill on consolidation at note 15(a).

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2009

NOTE 13: NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

Consolidated	Plant & Equipment $	Motor Vehicles $	Furniture Fixtures & Fittings $	Office Equipment $	Total $
At 1 July 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
Year ended 30 June 2008					
Opening net book amount	610,306	38,613	11,734	84,171	744,824
Additions	326,036	30,726	159,706	34,023	550,491
Disposals	(213,166)	(725)	(294)	(6,263)	(220,448)
Depreciation charge	(82,699)	(11,011)	(22,772)	(29,553)	(146,035)
Closing net book amount	640,477	57,603	148,374	82,378	928,832
At 30 June 2008					
Cost of fair value	863,539	110,697	195,323	213,336	1,382,895
Accumulated depreciation	(223,062)	(53,094)	(46,949)	(130,958)	(454,063)
Net book amount	640,477	57,603	148,374	82,378	928,832
Year ended 30 June 2009					
Opening net book amount	640,477	57,603	148,374	82,378	928,832
Additions	707,731	28,663	7,803	26,841	771,038
Disposals	–	(17,606)	–	–	(17,606)
Depreciation charge	(120,443)	(12,676)	(20,901)	(34,135)	(188,154)
Closing net book amount	1,227,765	55,985	135,276	75,083	1,494,110
At 30 June 2009					
Cost of fair value	1,570,944	104,253	199,566	240,177	2,114,939
Accumulated depreciation	(343,179)	(48,268)	(64,289)	(165,093)	(620,829)
Net book amount	1,227,765	55,985	135,276	75,083	1,494,110

All items of property, plant and equipment were recorded at cost as at 30 June 2009 and 30 June 2008. The cost values of all items are not considered to be materially different to their fair values.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2009

NOTE 13: NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT continued

Parent	Plant & Equipment $	Motor Vehicles $	Furniture Fixtures & Fittings $	Office Equipment $	Total $
At 1 July 2007					
Cost or fair value	52,641	–	–	–	52,641
Accumulated depreciation	(8,798)	–	–	–	(8,798)
Net book amount	43,843	–	–	–	43,843
Year ended 30 June 2008					
Opening net book amount	43,843	–	–	–	43,843
Additions	3,505	–	–	–	3,505
Disposals	–	–	–	–	–
Depreciation charge	(12,462)	–	–	–	(12,462)
Closing net book amount	34,886	–	–	–	34,886
At 30 June 2008					
Cost of fair value	56,054	–	–	–	56,054
Accumulated depreciation	(21,168)	–	–	–	(21,168)
Net book amount	34,886	–	–	–	34,886
Year ended 30 June 2009					
Opening net book amount	34,886	–	–	–	34,886
Additions	8,908	–	–	–	8,908
Disposals	–	–	–	–	–
Depreciation charge	(10,883)	–	–	–	(10,883)
Closing net book amount	32,911	–	–	–	32,911
At 30 June 2009					
Cost of fair value	64,635	–	–	–	64,635
Accumulated depreciation	(31,724)	–	–	–	(31,724)
Net book amount	32,911	–	–	–	32,911

	Consolidated		Parent Entity	
	2009 $	2008 $	2009 $	2008 $
(a) Leased assets				
Property, plant and equipment includes the following amounts where the consolidated entity is a lessee under a finance lease:				
Plant and equipment				
Cost	–	112,224	–	–
Accumulated depreciation*	–	(17,941)	–	–
Motor vehicles				
Cost	–	92,238	–	–
Accumulated depreciation**	–	(34,612)	–	–
	–	151,909	–	–

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2009

NOTE 13: NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT continued

*Depreciation expense of $Nil was recorded to the income statement during the 2009 financial year (2008: $12,641).
**Depreciation expense of $Nil was recorded to the income statement during the 2009 financial year (2008: $8,961).

(b) Non-current assets pledged as security
Refer to note 20(a) for information on non-current assets pledged as security by the parent entity and its controlled entities.

(c) Assets in the course of construction
Carrying amounts of the assets disclosed above include $Nil (2008: $116,118) relating to plant and equipment which is in the course of construction.

NOTE 14: DEFERRED TAX ASSETS

	Consolidated		Parent Entity	
	2009 $	2008 $	2009 $	2008 $
The balance comprises temporary differences attributable to:				
Amounts recognised directly in equity:				
Share issue expenses	250,699	352,817	250,699	352,817
Amounts recognised in profit or loss:				
Employee benefits	254,470	199,666	86,591	60,550
Depreciation of tangible assets	12,766	11,921	14	–
Accruals	40,844	30,851	25,851	30,249
Provisions	16,096	3,726	5,100	–
Other	45,859	54,836	12,020	11,735
	370,035	301,000	129,576	102,534
Net deferred tax assets	620,734	653,817	380,275	455,351
Movements:				
Opening balance at 1 July	653,817	752,388	455,351	619,768
Charges to the income statement (note 7)	69,035	(6,277)	27,042	(72,123)
Credited/(charges) to equity	(102,118)	(92,294)	(102,118)	(92,294)
Closing balance at 30 June	620,734	653,817	380,275	455,351

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2009

NOTE 15: NON-CURRENT ASSETS – INTANGIBLE ASSETS

Consolidated	Research & Development $	Goodwill $	Patents trademarks & other rights $	Total $
At 1 July 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
Year ended 30 June 2008				
Opening net book amount	53,232	5,165,284	276,717	5,495,233
Additions	166,608	–	36,890	203,498
Amortisation charge*	(61,991)	–	(16,098)	(78,089)
Closing net book amount	157,849	5,165,284	297,509	5,620,642
At 30 June 2008				
Cost of fair value	263,501	5,305,284	338,824	5,907,609
Accumulated amortisation and impairment	(105,652)	(140,000)	(41,315)	(286,967)
Net book amount	157,849	5,165,284	297,509	5,620,642
Year ended 30 June 2009				
Opening net book amount	157,849	5,165,284	297,508	5,620,642
Additions	357,461	–	11,646	369,108
Amortisation charge*	(52,849)	–	(16,636)	(69,485)
Closing net book amount	462,461	5,165,284	292,519	5,920,264
At 30 June 2009				
Cost of fair value	620,963	5,305,284	350,300	6,276,546
Accumulated amortisation and impairment	(158,502)	(140,000)	(57,781)	(356,282)
Net book amount	462,461	5,165,284	292,519	5,920,264

*Amortisation of $69,485 (2008: $78,089) is included in depreciation and amortisation expense in the income statement.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2009

NOTE 15: NON-CURRENT ASSETS – INTANGIBLE ASSETS continued

Parent	Research & Development $	Goodwill $	Patents trademarks & other rights $	Total $
At 1 July 2007				
Cost or fair value	–	–	100,300	100,300
Accumulated amortisation and impairment	–	–	(8,169)	(8,169)
Net book amount	–	–	82,131	82,131
Year ended 30 June 2008				
Opening net book amount	–	–	91,861	91,861
Additions	–	–	–	–
Amortisation charge*	–	–	(4,593)	(4,593)
Closing net book amount	–	–	87,268	87,268
At 30 June 2008				
Cost of fair value	–	–	100,030	100,030
Accumulated amortisation and impairment	–	–	(12,762)	(12,762)
Net book amount	–	–	87,268	87,268
Year ended 30 June 2009				
Opening net book amount	–	–	87,268	87,268
Additions	–	–	491	491
Amortisation charge*	–	–	(4,374)	(4,374)
Closing net book amount	–	–	83,385	83,385
At 30 June 2009				
Cost of fair value	–	–	100,521	100,521
Accumulated amortisation and impairment	–	–	(17,136)	(17,136)
Net book amount	–	–	83,385	83,385

(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	
	2009 $	2008 $	2009 $	2008 $
Customised Fusion Machines and Furnace Technology	1,980,171	1,980,171	–	–
Platinum Labware	776,456	776,456	–	–
LIBS Instruments	363,314	363,314	–	–
Chemicals	1,038,039	1,038,039	–	–
Eliminations and unallocated	1,007,304	1,007,304	–	–
	5,165,284	5,165,284	–	-

Eliminations and unallocated goodwill relates to unallocated corporate assets and activities that benefit the specific reportable segments identified.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2009

NOTE 15: NON-CURRENT ASSETS – INTANGIBLE ASSETS continued

(b) Key assumptions used for fair value less costs to sell calculations

The recoverable amount of a CGU is predominantly determined based on fair value less cost to sell calculations. These calculations typically use EBIT multipliers that are reflective of current market prices being achieved on the sale of businesses in similar industries. Management has determined that the EBIT profit figures used in these calculations will be sustainable into the foreseeable future.

(c) Impact of possible changes in key assumptions

If the EBIT multiplier factors used decrease, the recoverable amount of goodwill would be reduced. Management does not believe there will be any changes to the EBIT multipliers great enough to reduce the goodwill beyond its current carrying amount. Management does not consider a change in any of the other key assumptions to be a reasonably possible.

(d) Impairment charge

There were no impairment charges to goodwill recorded in the year ended 30 June 2009. The balance of the accumulated goodwill impairment at 30 June 2009 was recorded during the year ended 30 June 2006 and was related to a single entity within the LIBS business segment. The impairment charge arose as a result of a new product launch that did not achieve the desired sales goals.

	Consolidated		Parent Entity	
	2009	2008 Restated	2009	2008 Restated
	$	$	$	$

NOTE 16: CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

	Consolidated 2009 $	Consolidated 2008 Restated $	Parent Entity 2009 $	Parent Entity 2008 Restated $
Trade payables	283,050	551,101	29,043	160,850
Sundry creditors and accruals	291,357	403,449	175,400	144,929
Employee benefits – annual leave (a)*	278,266	259,548	6,635	8,398
Other payables to:				
- Controlled entities	–	–	2,018,812	1,034,603
	852,673	1,214,098	2,229,890	1,348,780

Terms and conditions of trade payables vary between suppliers, however terms of trade are generally 30 days.

*Employee benefits – annual leave has been reclassified from a provision to an accrual, as the Company deems it to be a liability that it can accurately measure. The reclassified amounts for 2008 are $259,548 for the consolidated Group and $8,398 for the Parent.

(a) Amounts not expected to be settled within the next 12 months

The entire obligation is presented as current, since the Group does not have an unconditional right to defer settlement. However, based on past experience, the Group does not expect all employees to take the full amount of accrued leave within the next 12 months. The following amounts reflect leave that is not expected to be taken within the next 12 months:

	Consolidated		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
Annual leave obligations expected to be settled after 12 months	191,356	164,000	2,000	2,000

(b) Risk exposure

Information about the Group's and the parent entity's exposure to foreign exchange risk is provided in note 2.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2009

	Consolidated		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
NOTE 17: CURRENT LIABILITIES – BORROWINGS				
Secured				
Finance lease liabilities (note 29 (ii))	–	29,323	–	–
Chattel mortgage liability	–	12,213	–	–
Total secured current borrowings	–	41,536	–	–
Total current borrowings	–	41,536	–	–

All leases have been settled during the financial year ended 30 June 2009.

(a) Interest rate exposure

Details of the Company's exposure to interest rate changes on borrowings are set out in note 20(d).

(b) Fair value disclosures

Details of the fair value of borrowings for the Company are set out in note 20.

(c) Convertible notes

The parent entity issued 800,000 5% convertible notes for $800,000 on 12 June 2007. The notes were 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 was 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	
	2009	2008	2009	2008
	$	$	$	$
Face value of notes issued	–	–	–	–
Other equity securities – value of conversion rights	–	–	–	–
Net value of notes issued	–	–	–	–
Interest expense*	–	40,000	–	40,000
Interest paid	–	(40,000)	–	(40,000)
Non-current liability	–	–	–	–

*$40,000 in interest expense has been paid for the year ended 30 June 2008 when the convertible notes were redeemed by the holder AGR Mathey on 5 June 2008. The effective interest rate on the convertible notes was 9%.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2009

	Consolidated		Parent Entity	
	2009	2008 Restated	2009	2008 Restated
	$	$	$	$
NOTE 18: CURRENT LIABILITIES – PROVISIONS				
Employee benefits				
– bonuses	311,795	212,008	240,000	190,000
– long service leave (b)	199,514	171,438	–	–
Dividends payable to ordinary shareholders	6,972	–	6,972	–
Making good of leases	17,000	5,000	17,000	5,000
	535,281	388,446	263,972	195,000
Movements in provision for Making good of leases:				
Opening balance at 1 July	5,000	–	5,000	–
Charged to the income statement	12,000	5,000	12,000	5,000
Closing balance at 30 June	17,000	5,000	17,000	5,000

(a) Making good of leases provision

XRF Scientific Limited is required to restore leased premises to their original condition at the end of the respective lease terms. A provision has been recognised for the present value of the estimated expenditure required for general repairs to premises. All amounts provided for have been expensed in full through the income statement as occupancy expenses.

(b) Amounts not expected to be settled within the next 12 months

The current provision for long service leave includes all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount is presented as current, since the Group does not have an unconditional right to defer settlement. However, based on past experience, the Group does not expect all employees to take the full amount of accrued long service leave or require payment within the next 12 months. The following amounts reflect leave that is not to be expected to be taken or paid within the next 12 months:

	Consolidated		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
Long service leave obligations expected to be settled after 12 months	188,874	160,798	–	–

NOTE 19: CURRENT LIABILITIES – OTHER FINANCIAL LIABILITIES

Customer deposits	84,101	197,036	–	–

	Consolidated		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
NOTE 20: NON-CURRENT LIABILITIES – BORROWINGS				
Secured				
Finance lease liabilities (note 29)	–	46,055	–	–
Chattel mortgage liability	–	48,307	–	–
Total secured non-current borrowings	–	94,362	–	–
Total non-current borrowings	–	94,362	–	–

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2009

NOTE 20: NON-CURRENT LIABILITIES – BORROWINGS continued

(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	
	2009	2008	2009	2008
	$	$	$	$
Non-current				
Finance lease liabilities				
Plant and equipment	–	42,192	–	–
Motor vehicles	–	57,626	–	–
Chattel mortgage liability				
Motor vehicles	–	52,091	–	–
Total assets pledged as security	–	151,909	–	–

(b) Finance lease liabilities

Refer to note 29(b) (ii).

(c) Chattel mortgage liability

There were minor chattel mortgage liabilities amongst members of the Group, which were undertaken for the purchase of various pieces of Plant & Equipment.

(d) 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

Liabilities were fully discharged early in the 2009 financial year.

(i) Fair value of borrowings

	2009		2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	$	$	$	$
On-balance sheet non-traded financial liabilities				
Consolidated				
Finance lease liabilities (note 29)	–	–	75,378	75,378
Chattel mortgage liability	–	–	60,520	60,520
Total	–	–	135,898	135,898

There were no borrowings owed by the parent at 30 June 2009 or 2008.

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.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2009

NOTE 20: NON-CURRENT LIABILITIES – BORROWINGS continued

(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

The Company has potential liabilities which may arise from certain contingencies disclosed in notes 28 and 29.

	Consolidated		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
NOTE 21: CURRENT LIABILITIES – DEFERRED TAX LIABILITIES				
The balance comprises temporary differences attributed to:				
Amounts recognised in profit or loss				
Research and development	130,151	24,321	–	–
Depreciation	46,056	55,237	448	176
	176,207	79,558	448	176
Net deferred tax liabilities	176,207	79,558	448	176
Movements:				
Opening balance at 1 July	79,558	11,652	176	10,717
Charged/(credited) to the income statement (note 7)	96,649	76,725	272	(1,722)
Charged/(credited) to equity	–	(8,819)	–	(8,819)
Closing balance 30 June	176,207	79,558	448	176

	Consolidated		Parent Entity	
	2009	2008 Restated	2009	2008 Restated
	$	$	$	$
NOTE 22: NON-CURRENT LIABILITIES – PROVISIONS				
Employee benefit – long service leave	92,331	67,180	3,881	4,950

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2009

NOTE 23: CONTRIBUTED EQUITY

		Consolidated and Parent Entity		Consolidated and Parent Entity	
	Note	2009 Shares	2008 Shares	2009 $	2008 $
(a) Share Capital					
Ordinary shares fully paid	(c),(e)	91,611,683	91,611,683	10,894,963	10,894,963
Total contributed equity		91,611,683	91,611,683	10,894,963	10,894,963

Effective 1 July 1998 the corporations legislation abolished the concept of authorised capital and par value of shares. Accordingly these are not disclosed.

(b) Movements in ordinary share capital:

Consolidated

Date	Details	Number of shares	Issue Price	$
01/07/2007	**Opening balance**	70,958,762		10,441,170
01/11/2007	Rights issue	23,652,921	0.05	1,182,646
11/12/2007	Share cancellation	(3,000,000)	0.17	(500,000)
31/12/2007	Share issue costs (net of deferred income tax)			(228,853)
30/06/2008	**Closing balance**	91,611,683		10,894,963
01/07/2008	**Opening balance**	91,611,683		10,894,963
30/06/2009	**Closing balance**	91,611,683		10,894,963

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2009

NOTE 23: CONTRIBUTED EQUITY continued

(c) 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.

(d) 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.

(e) 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. As the plan expired on 22 August 2008, the Board is currently reviewing whether or not it should be renewed, or a new plan should be adopted. 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 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 2009

NOTE 23: CONTRIBUTED EQUITY continued

(e) 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, by way of a general meeting, or by ASX if required. The Share Option Plan may be terminated at any time by resolution of the Board.

As of 30 June 2009, 3,215,116 (2008: 3,215,116) options were outstanding under the Share Option Plan, the detail of which has been provided in note 34. The amount of options has been reduced since 2007 due to employees who have not met the conditions of the employee share option plan.

(f) Share cancellation

On 3 August 2007 XRF Scientific Limited made a company announcement regarding the proposed reduction of capital of 3 million shares for Socachim, which was finalised on 11 December 2007. Due to operational and financial reasons, it had been determined that XRF Scientifics'' interest are best served by Socachim operating autonomously, as a commission agent rather than a wholly-owned subsidiary, hence the entity was not consolidated for the group as at 30 June 2007.

(g) Rights issue

On 8 November 2008 the company complete a non-renounceable 1 for 3 rights issue of 23,652,921 ordinary shares for 5c raising a total of $1,182,646 before costs. The funds were raised for working capital purposes.

(h) Managing Director options

As per 2007 AGM resolution number four, 3,000,000 million options exercisable at 16c were issued to the Managing Director. The options are due to expire on 31 October 2010.

(i) Capital risk management

The Group's and the parent entity's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide returns to shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2009

	Consolidated		Parent Entity	
	2009 $	2008 $	2009 $	2008 $
NOTE 24: RESERVES AND RETAINED PROFITS/ (ACCUMULATED LOSSES)				
(a) Reserves				
Share-based payments reserve	610,310	580,517	610,310	580,517
	610,310	580,517	610,310	580,517
Movements:				
Share-based payments reserve				
Balance at 1 July	580,517	535,310	580,517	535,310
Option expense				
Employee share options	29,793	45,207	29,793	45,207
Balance 30 June	610,310	580,517	610,310	580,517
Foreign currency translation reserve				
Balance 1 July	–	180	–	–
Currency translation experience arising during the year	–	(180)	–	–
Balance 30 June	–	–	–	–
(b) Retained Profits/(Accumulated Losses)				
Movements in retained profits/(accumulated losses) were as follows:				
Balance 1 July	2,128,548	1,207,941	(1,634,812)	(997,161)
Net profit/(loss) for the year	1,950,592	920,607	505,682	(637,651)
Dividends paid or provided for	(458,054)	–	(458,057)	–
Balance 30 June	3,621,086	2,128,548	(1,587,187)	(1,634,812)

(b) 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	
	2009 $	2008 $	2009 $	2008 $
NOTE 25: DIVIDENDS				
(a) Ordinary shares	458,055	–	458,055	–
Total dividends provided for or paid	458,055	–	458,055	–

A dividend has been declared post 30 June 2009, of which details can be found in the Directors' Report on page 3.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2009

NOTE 25: DIVIDENDS continued

(b) Franked Dividends

The franked portions of the final dividends recommended after 30 June 2009 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the year ending 30 June 2010.

	Consolidated		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
Franking credits available for subsequent financial years based on a tax rate of 30% (2008: 30%)	1,512,009	1,594,650	1,512,009	1,594,650

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

- **(a)** franking credits that will arise from the payment of the amount of the provision for income tax;
- **(b)** franking debits that will arise from the payment of dividends recognised as a liability at the reporting date; and
- **(c)** franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

The consolidated amounts include franking credits that would be available to the parent entity if distributable profits of subsidiaries were paid as dividends.

The impact on the franking account of the dividend recommended by the directors since year end, but not recognised as a liability at year end, will be a reduction in the franking account of $294,466 (2008: $196,311).

NOTE 26: 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	Non Executive Director	

(ii) Executive

David Brown	Executive Director	X-Ray Flux Pty Ltd
John Graham Parsons	Executive Director	Research & Development and IT
Terry Sweet	Executive Director	XRF Scientific Limited

(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
Faizan Adjie	Chief Financial Officer	XRF Scientific Limited
Allen Parsons (Resigned January 2009)	General Manager	Precious Metals Engineering (WA) Pty Ltd
Robert McConnell	General Manager	Modutemp Pty Ltd

All of the above persons were also key management persons during the year ended 30 June 2008, except for Mr Faizan Adjie.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2009

NOTE 26: KEY MANAGEMENT PERSONNEL continued

(c) Key management compensation

	Consolidated		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
Short-term employee benefits	1,022,764	841,005	291,593	260,737
Post employment benefits	308,699	196,352	76,904	21,182
Long-term benefits	44,895	17,345	6,777	2,124
Share-based payments	–	45,207	–	45,207
	1,376,358	1,099,909	375,274	329,249

No other post employment or termination benefits have been provided.

Detailed remuneration disclosures are available in the remuneration report from pages 9-17.

(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 2008	Granted as Compensat-ion	Options exercised	Balance at 30 June 2009	Total vested at 30 June 2009	Total vested and exercisable at 30 June 2009	Total vested and unexercisable at 30 June 2009
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	–
David Brown	601,744	–	–	601,744	601,744	601,744	–
John Parsons	697,674	–	–	697,674	697,674	697,674	–
Terry Sweet	3,000,000	–	–	3,000,000	3,000,000	3,000,000	–
Other key management personnel of the Group							
Stephen Prossor	392,442	–	–	392,442	392,442	392,442	–
Gino Manfredi	–	–	–	–	–	–	–
Faizan Adjie	–	–	–	–	–	–	–
Rob McConnell	–	–	–	–	–	–	–
Allen Roland Parsons	523,256	–	–	523,256	523,256	523,256	–
	6,215,116	–	–	6,215,116	6,215,116	6,215,116	–

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2009

NOTE 26: KEY MANAGEMENT PERSONNEL continued

(d) Equity Instruments continued

Name	Balance at 1 July 2007	Granted as Compensat-ion	Options exercised	Balance at 30 June 2008	Total vested at 30 June 2008	Total vested and exercisable at 30 June 2008	Total vested and unexercisa ble at 30 June 2008
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	–
David Brown	601,744	–	–	601,744	601,744	601,744	–
John Parsons	697,674	–	–	697,674	697,674	697,674	–
Terry Sweet	–	3,000,000	–	3,000,000	–	–	–
Other key management personnel of the Group							
Stephen Prossor	392,442	–	–	392,442	392,442	392,442	–
Gino Manfredi	–	–	–	–	–	–	–
Kiran Badlani	–	–	–	–	–	–	–
Dr Bruce Chadwick	–	–	–	–	–	–	–
Allen Roland Parsons	523,256	–	–	523,256	523,256	523,256	–
	3,215,116	3,000,000	–	6,215,116	3,215,116	3,215,116	–

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 no shares granted during the reporting period as compensation.

Name	Balance at 1 July 2008	Granted as compensati on	Received on exercise of options on rights	Other changes	Balance at 30 June 2009
Directors of XRF Scientific Limited					
Paul Anthony Rengel	304,240	–	–	–	304,240
Kenneth Peter Baxter	13,334	–	–	330,000	343,334
David Brown[1]	10,238,478	–	–	319,915	10,558,393
John Graham Parsons[2]	7,500,000	–	–	–	7,500,000
Terry Sweet	3,044,273	–	–	200,000	3,244,273
Other key management personnel of the Group					
Stephen Prossor[3]	5,102,502	–	–	70,000	5,172,502
Gino Manfredi	–	–	–	–	–
Faizan Adjie	–	–	–	–	–
Robert McConnell	13,334	–	–	–	13,334
Allen Roland Parsons	5,134,647	–	–	(4,870,744)	263,903
	31,350,808	–	–	(3,950,829)	27,339,979

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2009

NOTE 26: KEY MANAGEMENT PERSONNEL continued

(d) Equity Instruments continued

Name	Balance at 1 July 2007	Granted as compensation	Received on exercise of options on rights	Other changes	Balance at 30 June 2008
Directors of XRF Scientific Limited					
Paul Anthony Rengel	228,180	–	76,060	–	304,240
Kenneth Peter Baxter	10,000	–	3,334	–	13,334
David Brown[1]	6,900,036	–	3,338,442	–	10,238,478
John Graham Parsons[2]	7,500,000	–	2,500,000	(2,500,000)	7,500,000
Terry Sweet	38,000	–	2,986,273	20,000	3,044,273
Other key management personnel of the Group					
Stephen Prossor[3]	4,511,502	–	550,000	30,000	5,102,502
Gino Manfredi	–	–	–	–	–
Kiran Badlani	–	–	–	–	–
Dr Bruce Chadwick	–	–	–	–	–
Allen Roland Parsons	4,020,984	–	1,293,663	(180,000)	5,134,647
	23,219,702	–	10,747,772	(2,630,000)	31,337,474

[1] Includes 2,618,477 shares which are indirectly held by David Brown's son's private company.
[2] Includes 3,500,000 shares which are indirectly held by John Parsons' wife Julie Parsons.
[3] Includes 40,002 shares which are indirectly held by Steve Prosser's children.

(e) Loans to key management personnel

There were no loans to any key management personnel during either of the years ended 30 June 2008 or 30 June 2009.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2009

NOTE 26: KEY MANAGEMENT PERSONNEL continued

(f) Other transactions with key management personnel

Other Goods & Services

Premises were rented from related entities of General Manager of AFT, S Prossor during the financial year. These properties were rented on normal commercial terms and conditions, totalling $61,806 (2008: $67,042). No amounts were outstanding at the end of the year.

Premises were rented from a related entity of General Manager of PME, A Parsons up to February 2009. These properties were rented on normal commercial terms and conditions, totalling $9,000 (2008: $12,000).

Premises were rented from a related entity of Director D Brown during the financial year. These properties were rented on normal commercial terms and conditions, totalling $104,008 (2008: $44,000). No amounts were outstanding at the end of the year.

Inventories were purchased from a related entity of the former General Manager LAT (B Chadwick). General Manger of AFT, S Prosser also has a minority interest in the entity. These purchases were conducted under normal terms and conditions, totalling $Nil (2008: $91,240).

Crucibles were hired during the financial year from a director's related entity (D Brown). The hiring agreement ceased on February 2009. These hire arrangement was conducted under normal terms and conditions, totalling $26,610 (2008: $39,506). These crucibles were subsequently purchased by the group in June 2009 for $404,278, from the related entity of David Brown (2008: $Nil).

Management fees (including book-keeping services) have been paid to a director's related entity (D Brown) under normal terms and conditions, totalling $43,077 (2008: $56,127).

D Brown is the guarantor on an X-Ray Flux Pty Ltd lease in Osborne Park.

Other Transactions
During the financial year wages were paid in relation to a directors' D Brown's son and J Parsons' son under normal terms and conditions, totalling $136,893 (2008: $136,812).

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

	2009 $	2008 $
Amounts recognised as expense		
Rent of office building	175,414	123,041
Purchase of inventory	–	91,240
Hire of crucible	26,610	39,506
Management fees	43,077	56,127
Wages paid	136,893	136,812
	381,994	446,726
Amounts recognised as a purchase of property, plant & equipment		
Plant & equipment	404,278	–
	404,278	–

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2009

NOTE 27: 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	
	2009	2008	2009	2008
	$	$	$	$
(a) Assurance & other services				
BDO Kendalls Audit & Assurance (WA) Pty Ltd				
Audit and review of financial reports	102,580	98,966	102,580	98,966
Taxation and assistance with 2007 Annual Report	–	102,559	–	102,559
Other services	6,035	–	6,035	–
Total remuneration for audit and other services	108,615	201,525	108,615	201,525

NOTE 28: CONTINGENCIES

(a) Contingent liabilities

At 30 June 2009, the consolidated entity had no material contingent liabilities in respect of claims, contingent considerations, associates and joint ventures or any other matters except.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2009

	Consolidated		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$

NOTE 29: COMMITMENTS

(a) Capital commitments

The consolidated entity has not entered into any commitments to acquire capital at 30 June 2009 or subsequent to year end.

(b) Lease commitments

	Consolidated 2009 $	Consolidated 2008 $	Parent Entity 2009 $	Parent Entity 2008 $
Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable:				
Within one year	239,443	306,332	–	–
Later than one year but not later than five years	427,101	321,636	–	–
Later than five years	–	–	–	–
	666,544	627,698	–	–
Representing:				
Cancellable operating leases	1,580	2,580	–	–
Non-cancellable operating leases (i)	664,964	625,388	–	–
	666,544	627,968	–	–

(i) Operating leases

X-Ray Flux Pty Ltd had a hire agreement with David and Glenys Brown, entered into on 1st July 2004, for the hiring of 5 platinum/gold crucibles as at cost of $2,992.91 per month. A new agreement was negotiated based on the market price of platinum. A rate of 6% on the daily market price of platinum was negotiated.

This agreement was terminated during the 2009 financial year and the company has purchased the crucibles from the associated entity (note 26(f)).

Analytical Platinum Supplies Pty Ltd has a lease agreement with an external supplier for the provision of 26kg of platinum, which is used for working capital purposes. The lease agreement is renewed annually and fees are currently paid at a rate of 6% on the daily market price of platinum. The current annual agreement expires in April 2010.

	Consolidated 2009 $	Consolidated 2008 $	Parent Entity 2009 $	Parent Entity 2008 $
Commitments for minimum lease payments in relation to non-cancelable operating leases are payable as follows:				
Within one year	237,863	303,752	–	–
Later than one year but not later than five years	427,101	321,636	–	–
Later than five years	–	–	–	–
	664,964	625,388	–	–

The specific terms of each operating lease vary and are on normal commercial terms.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2009

	Consolidated		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
(ii) Finance leases				
The Company leases various property, plant and equipment with a carrying amount of $Nil (2008: $99,818) under finance leases expiring within 1 year.				
Commitments in relation to finance leases are payable as follows:				
Within one year	–	34,652	–	–
Later than one year but not later than five years	–	50,800	–	–
Later than five years	–	–	–	–
Minimum lease payments	–	85,452	–	–
Future finance charges				
Recognised as a liability	–	(10,074)	–	–
Lease incentives on non-cancellable operating leases included in lease liabilities	–	75,378	–	–
Total lease liabilities	–	75,378	–	–
Representing lease liabilities:				
Current (note 17)	–	29,323	–	–
Non-current (note 20)	–	46,055	–	–
	–	75,378	–	–

The weighted average interest rate implicit in the leases was 8.76% (2008: 8.76%).

(c) Remuneration commitments

	Consolidated		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
Commitments for the payment of salaries and other remuneration under long-term employment contracts in existence at the reporting date but not recognised as liabilities, payable:				
Within one year	–	–	–	–
Later than one year and not later than five years	–	–	–	–
Later than five years	–	–	–	–
	–	–	–	–

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2009

NOTE 30: RELATED PARTY TRANSACTIONS

(a) Parent entity

The ultimate parent and controlling entity is XRF Scientific Limited which at 30 June 2009 owns 100% of all subsidiaries listed in note 31.

(b) Interests in subsidiaries

Interests in subsidiaries are set out in note 31.

(c) Key management personnel

Disclosures relating to key management personnel are set out in note 26.

	Consolidated		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
(d) Transactions with related parties (subsidiaries)				
The following transactions occurred with related parties:				
Dividend revenue				
Subsidiaries	–	–	849,999	–
Sales of goods and services				
Management fees	–	–	300,000	360,000
(e) Relates party transaction disclosure				
The following balances are outstanding at the reporting date in relation to transactions with related parties:				
Current tax payable assumed from wholly-owned tax consolidated entities	–	–	964,975	781,836
Tax losses assumed from wholly-owned tax consolidated entities	–	–	7,004	62,383
Current receivables (tax funding agreement)				
Wholly-owned tax consolidated entities	–	–	967,200	800,551
Current payables (tax funding agreement)				
Wholly-owned tax consolidated entities	–	–	2,101	18,715
(f) Loans to/from related parties				
Loans to subsidiaries				
Beginning of the year	–	–	(3,571)	370,908
Loans advanced	–	–	14,044,590	8,059,737
Loan repayments received	–	–	(14,937,475)	(8,434,216)
End of the year	–	–	896,456	(3,571)
No interest is charged or received on loans to subsidiaries				
(g) Superannuation contributions				
Contributions to superannuation funds on behalf of employees	517,416	335,917	87,441	38,978

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.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2009

NOTE 31: 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(b):

Name of entity	Country of Incorporation	Class of shares	Entity holding 2008 %	Entity holding 2007 %
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	100
XRF USA Inc	United States of America	Ordinary	100	100

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

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2009

NOTE 32: RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH FLOW PROVIDED BY OPERATING ACTIVITIES

	Consolidated		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
Profit/(loss) for the year	1,950,592	920,607	505,682	(637,651)
Depreciation and amortisation	257,639	224,124	14,931	17,056
Impairment of goodwill, intangible assets and loans	–	–	–	60,984
Share-based payments	29,793	45,164	29,793	45,164
Net (gain) loss on sale of non-current assets	(11,796)	113,512	–	864
Net exchange differences	–	–	(6,970)	–
Deferred tax expense recognised in equity	–	(92,294)	–	(92,294)
(Increase) decrease in trade and other debtors	1,566,519	(661,685)	3,193	(802,002)
(Increase) decrease in inventories	(615,003)	(219,742)	–	15,086
(Increase) decrease in other current asset	35,732	(92,522)	6,320	26,907
(Increase) decrease in deferred tax asset	33,083	98,571	75,076	164,417
(Decrease) increase in trade and other creditors	(380,143)	(278,551)	(1,945,316)	153,939
(Decrease) increase in provision for income taxes	115,409	(147,693)	197,056	281,796
(Decrease) increase in provision for deferred income tax	96,649	67,906	272	(10,541)
(Decrease) increase in other liabilities	(246,102)	121,230	–	–
(Decrease) increase in other provisions	190,705	255,572	67,903	197,529
Net cash inflow (outflow) from operating activities	3,023,077	354,199	(1,052,060)	(578,746)

NOTE 33: NON-CASH INVESTING AND FINANCING ACTIVITIES

	Consolidated		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
Acquisition of assets by assuming directly related liabilities	–	92,950	–	–

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2009

NOTE 34: SHARE-BASED PAYMENTS

(a) Employee option plan

For details on options issues to employees being the key management personnel see pages 15 – 17 of the remuneration report.

(b) Expenses arising from share-based payment transactions

	Consolidated		Parent Entity	
	2009	2008	2009	2008
Managing Director	–	3,000,000	–	3,000,000
	–	3,000,000	–	3,000,000

(i) For options which were issued during the 2008 and 2009 years they were independently valued using 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 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:

Issued to	Date issued	Number options issued	Exercise price	Valuation	30 June 2009 expense
Managing Director	21 November 2007	3,000,000	$0.16	$75,000	$29,793

The model inputs used to calculate the valuation of the 3,000,000 options granted were as follows:

Underlying security spot rate in	$0.09
Dividend rate	nil
Volatility	60%
Risk free rate	6.42%
Expiration period (days)	1,073
Black Scholes Valuation ($ per security)	0.025

Issued to	Date issued	Number options issued	Exercise price	Valuation	30 June 2008 expense
Managing Director	21 November 2007	3,000,000	$0.16	$75,000	$45,207

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2009

NOTE 34: SHARE-BASED PAYMENTS continued

The below summarises movements in options during the current and past year:

Category	Grant date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at end of the year	Vested and exercisable at end of the year
			$	Number	Number	Number	Number	Number	Number
Consolidated and parent entity - 2009									
Employees	1 June 2006	30 June 2010	0.20	3,215,116	–	–	–	3,215,116	3,215,116
Broker/consultants	28 August 2006	30 June 2010	0.16	4,300,000	–	–	–	4,300,000	4,300,000
Consultants	21 November 2006	31 January 2009	0.20	1,000,000	–	–	–	1,000,000	1,000,000
Managing Director	23 November 2007	31 October 2010	0.16	3,000,000	–	–	–	3,000,000	3,000,000
Total				11,515,116	–	–	–	11,515,116	11,515,116
Weighted average exercise price				**$0.17**	**–**	**–**	**–**	**$0.17**	**$0.17**

Category	Grant date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at end of the year	Vested and exercisable at end of the year
			$	Number	Number	Number	Number	Number	Number
Consolidated and parent entity - 2008									
Employees	1 June 2006	30 June 2010	0.20	4,000,000	–	–	784,884	3,215,116	3,215,116
Broker/consultants	28 August 2006	30 June 2010	0.16	4,300,000	–	–	–	4,300,000	4,300,000
Consultants	21 November 2006	31 January 2009	0.20	1,000,000	–	–	–	1,000,000	1,000,000
Managing Director	23 November 2007	31 October 2010	0.16	–	3,000,000	–	–	3,000,000	–
Total				9,300,000	3,000,000	–	784,884	11,515,116	8,515,116
Weighted average exercise price				**$0.18**	**$0.16**	**–**	**$0.20**	**$0.17**	**$0.17**

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2009

NOTE 34: SHARE-BASED PAYMENTS continued

See note 6 for details of share based payments recognised as an expense during 2009 and 2008 in the parent entity and consolidated.

The weighted average remaining contractual life of share options outstanding at the end of the period was 0.94 years (2008: 1.94 years)

NOTE 35: EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

A fully franked dividend of 0.75 cents per share was announced on 29 July 2009, and paid to shareholders who were recorded on 10 September 2009, leading to the distribution of some $687,087 plus $294,466 as Franking Credits.

NOTE 36: EARNINGS PER SHARE

	Consolidated	
	2009	**2008**
	Cents	**Cents**
(a) Basic earnings per share		
Profit from continuing operations attributable to the ordinary equity holders of the company	2.1	1.1
(b) Diluted earnings per share		
Profit from continuing operations attributable to the ordinary equity holders of the	2.1	1.1
	$	**$**
(c) Reconciliations of earnings used in calculation earnings per share		
Profit from continuing operations attributable to the ordinary equity holders of the company	1,950,592	920,607
Profit attributable to the ordinary equity holders of the company	1,950,592	920,607
	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		
Options on issue are not dilutive on the current or prior periods.	91,611,683	90,332,777

DIRECTORS' DECLARATION FOR THE YEAR ENDED 30 JUNE 2009

XRF Scientific Limited and its controlled entities

ACN 107 908 314

The directors of the company declare that:

1. The financial statements, comprising the income statement, balance sheet, cash flow statement, statement of changes in equity, accompanying notes, are in accordance with the Corporations Act 2001 and:

(a) Comply with Accounting Standards and the Corporations Regulations 2001;

(b) Give a true and fair view of the financial position as at 30 June 2009 and of the performance for the year ended on that date of the company and consolidated entity.

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

3. The remuneration disclosures included in the directors' report (as part of the audited Remuneration Report), for the year ended 30 June 2009, comply with section 300A of the Corporations Act 2001.

4. The directors have been given the declarations by the chief executive officer and chief financial officer as required by section 295A.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the directors by.

Ken Baxter
Chairman

Terry Sweet
Managing Director

Dated this 21 day of September 2009

BDO Kendalls

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INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF XRF SCIENTIFIC LIMITED

We have audited the accompanying financial report of XRF Scientific Limited, which comprises the balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the entity comprising the disclosing entity and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial 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 controls 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 AASB101 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.

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.

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 judgement, 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.

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

BDO Kendalls

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* would be in the same terms if it had been given to the directors at the same time that this auditor's report was made.

Auditor's Opinion

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 the company's and consolidated entity's financial position as at 30 June 2009 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*; and

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

Report on the Remuneration Report

We have audited the Remuneration Report included within the Directors' Report for the year ended 30 June 2009. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001.* Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion, the Remuneration Report of XRF Scientific Limited for the year ended 30 June 2009, complies with section 300A of the *Corporations Act 2001.*

BDO Kendalls Audit and Assurance (WA) Pty Ltd

BDO Kendalls
Glyn O'Brien

Glyn O'Brien
Director

Dated this 21st day of September 2009
Perth, Western Australia

SHAREHOLDER INFORMATION FOR THE YEAR ENDED 30 JUNE 2009

Additional information (as at 12 August 2008) 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]	7,939,916

[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 2010	6
Options exercisable at $0.16 and expiring on 30 June 2010	5
Options exercisable at $0.20 and expiring on 31 January 2009	2
Options exercisable at $0.16 and expiring on 31 October 2010	1

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 of Options
1-1,000	4	–
1,000-5,000	33	–
5,001-10,000	102	–
10,001-100,000	325	–
100,001 and above	125	14

SHAREHOLDER INFORMATION FOR THE YEAR ENDED 30 JUNE 2009

TOP 20 SHAREHOLDERS

No.	Name	Number of Ordinary Shares	Percentage of Ordinary Shares
1	D & GD Brown Nom PL[1]	7,939,916	8.67%
2	Sydney Fund Managers Ltd	4,350,000	4.75%
3	Parsons, John Graham[3]	3,750,000	4.09%
4	Parsons, Julie Ann[3]	3,750,000	4.09%
5	Countclock PL	3,282,130	3.58%
6	Tzelepis Nom PL	3,280,000	3.58%
7	Grosvenor Pirie Mgnt Ltd	3,200,000	3.49%
8	Sparrow Hldgs PL[4]	3,166,939	3.46%
9	Great Western Cap PL	2,951,811	3.22%
10	Seaweir PL[2]	2,532,500	2.76%
11	Prossor, Stephen W & F C	2,500,000	2.73%
12	Metz, Jorg & Carr Wendy	2,437,500	2.66%
13	National Nom Ltd	1,666,666	1.82%
14	J G H Metz PL	1,500,000	1.64%
15	Higgins, Peter & Gail	1,337,651	1.46%
16	Connaught Sec PL	976,000	1.07%
17	Parisi Hldgs PL	963,213	1.05%
18	Metz, Jorg	888,334	0.97%
19	Bluegrass Entps PL	700,000	0.76%
20	Dypso PL	695,830	0.76%
	Total	51,868,490	56.61%

[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 Technology Pty Ltd.
[3] Parsons John and Julie are husband and wife, John Graham Parsons is a director.
[4] Sparrow Hldgs PL is a company associated with the Managing Director Terry Sweet.

RESTRICTED SECURITIES

There are no restricted securities.

SHAREHOLDER INFORMATION FOR THE YEAR ENDED 30 JUNE 2009

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 2010	3,215,116	6
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
Options exercisable at $0.16 and expiring on 31 October 2010	3,000,000	1

ON-MARKET BUY BACK

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

IPO OBJECTIVES

The use of cash raised from the IPO in October 2006 is consistent with the initial business objectives.

CORPORATE DIRECTORY FOR THE YEAR ENDED 30 JUNE 2009

DIRECTORS

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

COMPANY SECRETARY

Vance Stazzonelli

REGISTERED OFFICE

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COMPANY AUDITOR

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BANKERS

Westpac Banking Corporation
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Perth WA 6000

SOLICITORS

Steinepreris Paganin
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SHARE REGISTRY

Security Transfer Registrars Pty Ltd
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WEBSITE

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ASX

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