XRF scientific

2010

ANNUAL REPORT

XRF Scientific Ltd

• ABN: 80 107 908 314

CONTENTS

CHAIRMAN'S LETTER

Dear Shareholder,

Your company is now entering what promises to be a significant growth phase, with the acquisition of certain new business assets.

Following lengthy discussions and negotiation with private owners, XRF Scientific has been successful in purchasing a chemicals (flux) manufacturing business, and also a precious metals laboratory supply business, for a total of $6.0 million in cash and 6.67 million shares.

These profitable businesses are a natural and complementary bolt-on to our existing flux and platinum activities. Their addition to the XRF Scientific group provides your company with a very strong market position in this specialised niche.

The purchase agreement was signed on 28 July 2010, and the transfer was completed shortly thereafter. The amalgamation of production was completed seamlessly, thanks in large part to the management and staff of your company, as well as the assistance of the vendors' directors and management. The synergies resulting from this transaction have become apparent immediately.

Our new clients, which include major mining companies as well as large contract laboratories, have been fully appraised of the changes. We believe they are more than happy to be trading with what is now the biggest and best supplier in its' field.

What this means for you, the shareholder, is a more profitable, growing, sustainable company, with the ability to generate significant free cash-flow and pay future dividends.

Our internal financial modelling indicates a significantly improved return to worthwhile profitability this financial year, and very early results substantiate this view. It is the Board's intention to report on first-quarter financial results before the company's AGM, which is to be held in November. This should provide an indication as to the 2011 financial results.

I would like to thank the non-executive members of your board for their continued input, and also the dedicated Management and staff of XRF Scientific. Your Managing Director, Terry Sweet, and CFO, Vance Stazzonelli, were instrumental in bringing about the new acquisitions and deserve particular mention.

Your continuing financial support for XRF Scientific is appreciated. For the first time since the Company was floated, the Annual General Meeting will be held in Melbourne on 23 November 2010, where a number of our manufacturing facilities and shareholders are based.

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 2010.

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 (Resigned 27 November 2009 at Annual General Meeting)
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:

	2010	**2009**
	$	**$**
Final dividend for the year ended 30 June 2008	-	458,058
Final dividend for the year ended 30 June 2009	687,087	-

No dividends have been declared for the year ended 30 June 2010.

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 $382,807 for the year ended 30 June 2010, compared with $2,120,144 for the previous year.

This has resulted in a Net Profit After Tax (NPAT) of $302,879 for the year ended 30 June 2010, compared with $1,950,592 for the previous year.

DIRECTORS' REPORT

REVIEW OF OPERATIONS continued

Details of the results for the financial year ended 30 June 2010 are as follows:

	June 2010	June 2009	Increase/(Decrease) over prior year
	$	$	%
Total revenue and other income	12,675,259	17,121,361	(25.97)
EBITDA	709,541	2,377,783	(70.16)
EBIT	382,807	2,120,144	(81.94)
NPAT	302,879	1,950,592	(84.47)
Basic earnings per share – (cents per share)	0.3	2.1	
Diluted earnings per share – (cents per share)	0.3	2.1	

OPERATING RESULTS

XRF Scientific designs and manufactures consumables and equipment which is used in laboratories to facilitate accurate analyses of ores, metals, minerals, cement and ceramics. It is the market leader in this specialized field, and has consolidated this position by recent acquisitions (please refer to the Chairman's Letter).

As indicated in the previous year's Annual Report, the second half of that year was characterized by a marked downturn in mining activity, due to the global financial crisis. This resulted in lower sales of our products, and this reduced activity carried on through financial 2010.

Below is a chart showing 3-month rolling average sales for the 2009 and 2010 financial years. A slowly improving trend emerged during the year, with obvious setbacks when the problems in Europe were publicised (coinciding with the usual slowdown in January), and most recently the Labour-proposed mining tax.

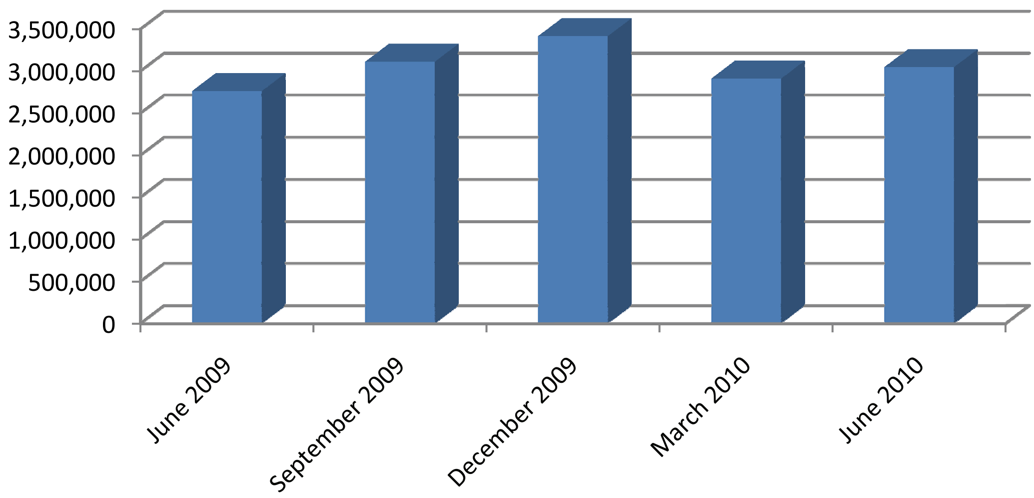

Figure 1. Quarterly Sales Revenue

The improvement was most obvious in the consumables (flux) sector of our business, with refurbishment of platinum laboratory equipment also improving, although sales of new platinum laboratory were subdued.

Sales of capital equipment (fusion furnaces) continued to languish. An optimistic view of this is that a catch-up phase will occur at some stage in the future, and so XRF has continued to develop novel products, to be in a position to take advantage of new equipment purchasing, either as replacement, or for new projects as they come on-line.

DIRECTORS' REPORT

OPERATING RESULTS continued

Despite what was a very difficult year, a small profit was generated even despite after writing off our investment in our Laser development program. We retain the patents and IP for this technology, and are currently seeking a buyer or licensee who can take the product to market, allowing us to concentrate on the business of manufacturing and selling our core products.

XRF Scientific continues to rely primarily upon the mining industry, and in particular iron ore and base metals for its sales. The long-term outlook for these commodities remains strong, and having weathered a most difficult trading year, we remain confident of a return to significant profitability.

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

In July 2010 XRF Scientific signed a binding agreement to acquire the Platinum Labware and X-ray Flux manufacturing businesses from the Sigma Group of companies, for total consideration of $7 million in cash and scrip, as per the announcement made to the ASX on 30 July 2010. The acquisition has since settled and XRF Scientific has obtained full control of the businesses.

The purchase consideration of $7 million comprises:

- $5 million cash paid on settlement
- $1 million deferred cash settlement – until 31 December 2010
- 6.67mil XRF shares at $0.15 per share (with a 1:2 option) – issued on settlement

The purchase was funded using existing cash reserves and ongoing cash flows from the businesses acquired. In addition $0.75 million of Convertible Notes were placed to Sophisticated Investors. The notes, which are unsecured, carry a coupon of 12% pa and mature on 31 August 2012. They are convertible at any time into ordinary shares in XRF at $0.15 per share and may also be redeemed by XRF at any time after 1 July 2011 (options on the same terms as those issued to the vendors).

As a precaution the Company has put in place a $1 million overdraft facility to safeguard against any working capital contingencies.

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.

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 measurement period 1 July 2009 to 30 June 2010 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)
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.
Other current Directorship:	Chairman of PNG Energy Developments Ltd, Chairman of PNG Sustainable Infrastructure Ltd, Other Private Companies
Former directorship In last 3 years:	Chairman of The Traffic Group Limited, Other Private Companies
Special Responsibilities:	Chairman of the Board, Chairman of the Audit, Remuneration and Corporate Governance Committee
No. of options:	Nil
No. of shares:	343,334 fully paid ordinary shares

David Brown	Director (Non Executive) (Executive Director to 30 September 2009)
Qualifications:	Bachelor of Science, Bachelor of Economics
Experience:	Has 38 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:	Technical consultant to X-Ray Flux Pty Ltd
No. of options:	Nil
No. of shares:	8,139,916 fully paid ordinary shares

John Parsons	Director (Non Executive) (Executive Director to 30 September 2009)
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:	Private Companies only
Former directorship In last 3 years:	Private Companies only
Special Responsibilities:	Technical consultant to Modutemp Pty Ltd
No. of options:	Nil
No. of shares:	7,500,000 fully paid ordinary shares

Terry Sweet	Managing Director (Executive)
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

DIRECTORS' REPORT

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.

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.

Vance Stazzonelli (Chief Financial Officer – XRF Scientific Limited)
Vance is a Certified Practising Accountant with a public practice background of specialising in corporate taxation and business services, in a wide range of industries, including to various public companies. Having worked as an external accountant for the Company since January 2008, Vance joined as CFO in October 2009. He has also been in the role of Company Secretary since June 2008.

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.

Jeff Brown (General Manager – X-Ray Flux Pty Ltd)
Jeff has 20 years experience in the design, manufacture and commissioning of specialised equipment for the chemical manufacturing industry. He was instrumental in the development of fluidised mining equipment for the gold industry as well as being responsible for the production of X-Ray flux.

Jeff has qualifications in engineering including a Trade Certificate in Fitting and Machining, a Certificate of Engineering and an Associate Diploma of Engineering. He also holds an Advanced Certificate of Business Management.

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 2010 were as follows:

	Full meetings of Directors		Meetings of committees - Audit, Corporate Governance & Remuneration	
	A	B	A	B
Kenneth Baxter	11	11	3	3
David Brown	11	9	**	**
Paul Rengel	4	4	2	2
John Graham Parsons	11	11	**	**
Terry Sweet	11	11	3	3

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 2010**	**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.

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

There are no specific long term incentives in place.

(b) Details of remuneration

(i) Non-Executive

Kenneth Peter Baxter	Chairman
Paul Anthony Rengel	Non Executive Director (Resigned 27 November 2009 at AGM)
David Brown	Non Executive Director (Executive Director to 30 September 2009)
John Graham Parsons	Non Executive Director (Executive Director to 30 September 2009)

(ii) Executive

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
Vance Stazzonelli	Chief Financial Officer	XRF Scientific Limited
Jeff Brown	General Manager	X-Ray Flux 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 9.

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

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:

2010	Short-term Benefits				Post-employment Benefits	Long-term Benefits		
	Cash Salary $	Non-monetary Benefits $	Cash Bonuses $	Other	Superannuation $	Long Service Leave $	Termination Benefits	Total $
Non-executive directors								
Ken Baxter	33,962	–	–	–	3,057	–	–	37,019
David Brown[3]	43,154	–	–	143,605	4,605	–	[4]28,559	219,923
John Parsons[3]	43,154	–	–	132,162	4.605	–	[4]106,210	286,131
Paul Rengel	14,796	–	–	–	–	–	–	14,796
Sub-total non-executive directors	135,066	–	–	275,767	12,267	–	134,769	557,869
Executive directors								
Terry Sweet*	167,016	–	–	–	14,651	2,672	–	184,339
Sub-total executive directors	167,016	–	–	–	14,651	2,672	–	184,339
Other key management personnel								
Gino Manfredi^	113,174	–	[2]28,241	–	12,727	1,853	–	155,995
Stephen Prossor^	117,079	–	–	–	10,382	1,889	–	129,350
Vance Stazzonelli^*	91,262	–	–	–	8,190	1,554	–	101,006
Jeff Brown^	105,501	–	–	–	9,495	4,542	–	119,538
Robert McConnell^	100,213	–	–	–	8,916	1,623	–	110,752
Sub-total key management personnel	527,229	–	28,241	–	49,710	11,461	–	616,641
	829,311	**–**	**28,241**	**275,767**	**76,628**	**14,133**	**134,769**	**1,358,849**

2009	Short-term Benefits				Post-employment Benefits	Long-term Benefits		
	Cash Salary $	Non-monetary Benefits $	Cash Bonuses $	Other	Superannuation $	Long Service Leave $	Termination Benefits	Total $
Non-executive directors								
Ken Baxter	29,798	–	–	–	3,221	–	–	33,019
Paul Rengel	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	22,984	[1]10,970	–	28,266	6,636	–	143,192
Stephen Prossor^	87,363	20,491	–	–	29,102	5,822	–	142,778
Allen Parsons^	50,144	–	–	–	98,263	5,235	–	153,642
Faizan Adjie^*	70,158	–	–	–	13,808	1,207	–	85,173
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**

^ 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 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] granted October 2009 in relation to Analytical Platinum Supplies' performance in the 2009 financial year, as per the conditions outlined in service contract section of this report.

[3] Resigned as Executive Director effective 30 September 2009. From 1 October 2009 provides ongoing technical services to the Group, which has been classified as Other Short Term Benefits in the above table.

[4] Payment of employee benefits on resignation. For J Parsons amount also includes $89,925 golden handshake.

DIRECTORS' REPORT

REMUNERATION REPORT (Audited) continued

(b) Details of remuneration 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	
	2010	2009	2010	2009	2010	2009
Executive directors						
Terry Sweet	100%	79%	–	21%	–	–
David Brown	100%	79%	–	21%	–	–
John Graham Parsons	100%	80%	–	20%	–	–
Other key management personnel						
Gino Manfredi	82%	93%	18%	7%	–	–
Stephen Prossor	100%	100%	–	–	–	–
Vance Stazzonelli	100%	–	–	–	–	–
Jeff Brown	100%	100%	–	–	–	–
Robert McConnell	100%	100%	–	–	–	–

Shareholder Wealth

The following is a summary of key shareholder wealth statistics for the Company over the past 4 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
2009/10	382,807	0.3	0.75	15	13,741,752

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 or the cash equivalent. Payment of a termination benefit on early termination by the Company, other than for gross misconduct, equal to three months full pay.

DIRECTORS' REPORT

REMUNERATION REPORT (Audited) continued

(b) Details of remuneration continued

Gino Manfredi, General Manager of Analytical Platinum Supplies Pty Ltd
Terms of agreement - Ongoing commencing June 2007. Base Salary, inclusive of superannuation, for the year ended 30 June 2010 of $124,800 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 division. 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.

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 2010 of $131,127. 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.

Vance Stazzonelli, Chief Financial Officer of XRF Scientific Limited
Terms of agreement - Ongoing contract commencing October 2009. Base Salary, exclusive of superannuation for the year ended 30 June 2010 of $130,000 to be reviewed annually by the remuneration committee. Payment of a termination benefit on early termination by the Company, other than for gross misconduct, equal to three months full pay.

Jeff Brown, General Manager of X-Ray Flux Pty Ltd
Terms of agreement - Ongoing contract commencing November 2009. Base Salary, exclusive of superannuation for the year ended 30 June 2010 of $120,000 to be reviewed annually by the remuneration committee. Payment of a termination benefit on early termination by the Company, other than for gross misconduct, equal to three months full pay.

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 2010 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

There was no share based compensation to any Director of Key Management personnel for the years ended 30 June 2009 and 2010. The Company has not adopted an employee share option scheme.

Additional Information

For each cash bonus and grant of options included in the tables on page 11, the percentage vested in the current and prior financial years, and the percentage that was forfeited in 2010 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	–	–	–	–	–	–	–	–
David Brown	–	–	–	–	–	–	–	–
John Graham Parsons	–	–	–	–	–	–	–	–
Terry Sweet	–	–	–	–	–	–	–	–
Other key management personnel								
Gino Manfredi	100	–	2010	–	–	–	–	–
Stephen Prossor	–	–	–	–	–	–	–	–
Vance Stazzonelli	–	–	–	–	–	–	–	–
Jeff Brown	–	–	–	–	–	–	–	–
Robert McConnell	–	–	–	–	–	–	–	–

End of remuneration report.

DIRECTORS' REPORT

LOANS TO DIRECTORS AND EXECUTIVES

No loans were made to directors and executives during the financial years ending 30 June 2010 or 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
28 August 2006	Consultant	31 October 2010	16 cents	2,800,000
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 Audit (WA) Pty Ltd during the year ended 30 June 2010 are outlined in the Audit Services section of this Directors Report on page 16. 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	
	2010	**2009**
	$	**$**
(a) Assurance & other services		
BDO Audit (WA) Pty Ltd		
Audit and review of financial reports	95,372	102,580
Taxation services	32,169	–
Other services	836	6,035
Total remuneration for audit and other services	128,377	108,615

The Board is satisfied that the auditors of the Company, BDO Audit (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 17.

AUDITOR

BDO Audit (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 and signed for on behalf of the Board by:

T Sweet
Managing Director

Perth
24 September 2010

BDO

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38 Station Street
Subiaco, WA 6008
PO Box 700 West Perth WA 6872
Australia

24th September 2010

Board of 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 2010, 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
- 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
Director

BDO

BDO Audit (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 three non-executive Directors (one independent) and one executive Director. 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 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 two Board members, one being the non-executive Chairman, the Managing Director and the Company Secretary. The Chairman of the committee is 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 two Board members, being the non-executive Chairman 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.

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2010

	Note	Consolidated 2010 $	Consolidated 2009 $	Parent Entity 2010 $	Parent Entity 2009 $
Revenue from continuing operations	5	12,477,575	16,807,060	–	–
Cost of sales		(7,866,600)	(10,228,562)	–	–
Gross profit		4,610,975	6,578,498	–	–
Other revenue	5	197,684	314,301	2,231,851	1,364,454
Occupancy expenses		(303,647)	(368,554)	(14,399)	(15,599)
Employee benefits expenses		(2,017,739)	(2,427,110)	(606,279)	(689,162)
Motor vehicle expense		(49,402)	(55,593)	–	(1,443)
Depreciation & amortisation	6	(326,734)	(257,639)	(13,799)	(14,931)
Other expenses		(1,246,099)	(1,450,281)	(520,214)	(738,894)
Acquisition of business costs		(41,329)	–	(41,329)	–
Impairment losses	6	(298,445)	–	(646,364)	–
Finance costs	6	(2,913)	(25,163)	(2,100)	(5,830)
Profit before income tax expense		522,351	2,308,459	387,367	(101,405)
Income tax revenue (expense)	7	(219,472)	(357,867)	362,423	607,087
Profit after income tax from continuing operations		302,879	1,950,592	749,790	505,682
Net profit for full year		302,879	1,950,592	749,790	505,682
Other comprehensive income for the period, net of income tax		–	–	–	–
Total comprehensive income for the full year		302,879	1,950,592	749,790	749,790
Profit and total comprehensive income attributable to equity holders of XRF Scientific Limited		302,879	1,950,592	749,790	505,682
Basic earnings per share (cents per share)	35	0.3	2.1		
Diluted earnings per share (cents per share)		0.3	2.1		

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

STATEMENTS OF FINANCIAL POSITION

AS AT 30 JUNE 2010

	Note	Consolidated 2010 $	Consolidated 2009 $	Parent Entity 2010 $	Parent Entity 2009 $
CURRENT ASSETS					
Cash and cash equivalents	8	4,264,777	5,080,876	3,630,771	4,650,962
Trade and other receivables	9	2,095,495	1,713,855	1,956,144	1,122,357
Inventories	10	1,968,217	1,965,024	–	–
Other assets	11	240,778	158,920	52,811	15,078
Total Current Assets		8,569,267	8,918,675	5,639,726	5,788,397
NON-CURRENT ASSETS					
Property, plant and equipment	13	2,045,065	1,494,110	26,505	32,911
Intangible assets	15	5,733,689	5,920,265	79,892	83,385
Deferred tax asset	14	464,875	620,734	464,875	380,275
Other financial assets	12	–	–	5,908,334	6,251,647
Total Non-Current Assets		8,243,629	8,035,109	6,479,606	6,748,218
Total Assets		16,812,896	16,953,784	12,119,332	12,536,615
CURRENT LIABILITIES					
Trade and other payables	16	1,264,621	852,673	1,763,290	2,229,890
Borrowings	17	183,710	–	97,510	–
Provisions	18	307,222	535,281	42,210	263,972
Other current liabilities	19	1,073	84,101	–	–
Current income tax liability		(40,492)	86,832	(40,492)	120,338
Total Current Liabilities		1,716,134	1,558,887	1,862,518	2,614,200
NON-CURRENT LIABILITIES					
Deferred tax liability	20	269,462	176,207	269,462	448
Provisions	21	85,149	92,331	6,563	3,881
Total Non-Current Liabilities		354,611	268,538	276,025	4,329
Total Liabilities		2,070,745	1,827,425	2,138,543	2,618,529
Net Assets		14,742,151	15,126,359	9,980,789	9,918,086
EQUITY					
Contributed equity	22	10,894,963	10,894,963	10,894,963	10,894,963
Reserves	23(a)	610,310	610,310	610,310	610,310
Retained profits/(Accumulated losses)	23(b)	3,236,878	3,621,086	(1,524,484)	(1,587,187)
Total Equity		14,742,151	15,126,359	9,980,789	9,918,086

The above Statements of Financial Position should be read in conjunction with the accompanying notes.

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2010

30 JUNE 2010 – CONSOLIDATED	Issued Share Capital $	Share Option Reserve $	Retained Profits $	Total $
Balance at 1 July 2009	10,894,963	610,310	3,621,086	15,126,359
Total comprehensive income for the year				
Profit for the year	–	–	302,879	302,879
Total comprehensive income	–	–	302,879	302,879
Transactions with Equity Holders in their capacity as Equity Holders				
Dividends paid	–	–	(687,087)	(687,087)
	–	–	(687,087)	(687,087)
Balance at 30 June 2010	10,894,963	610,310	3,236,878	14,742,151

30 JUNE 2009 – CONSOLIDATED	Issued Share Capital $	Share Option Reserve $	Retained Profits $	Total $
Balance at 1 July 2008	10,894,963	580,517	2,128,549	13,604,029
Total comprehensive income for the year				
Profit for the year	–	–	1,950,592	1,950,592
Total comprehensive income	–	–	1,950,592	1,950,592
Transactions with Equity Holders in their capacity as Equity Holders				
Employee options	–	29,793	–	29,793
Dividends paid	–	–	(458,055)	(458,055)
	–	29,793	(458,055)	(428,262)
Balance at 30 June 2009	10,894,963	610,310	3,621,086	15,126,359

30 JUNE 2010 – PARENT	Issued Share Capital $	Share Option Reserve $	Retained Profits $	Total $
Balance at 1 July 2009	10,894,963	610,310	(1,587,187)	9,918,086
Total comprehensive income for the year				
Profit for the year	–	–	749,790	749,790
Total comprehensive income	–	–	749,790	749,790
Transactions with Equity Holders in their capacity as Equity Holders				
Dividends paid	–	–	(687,087)	(687,087)
	–	–	(687,087)	(687,087)
Balance at 30 June 2010	10,894,963	610,310	(1,524,484)	9,980,789

30 JUNE 2009 – PARENT	Issued Share Capital $	Share Option Reserve $	Retained Profits $	Total $
Balance at 1 July 2008	10,894,963	580,517	(1,634,814)	9,840,666
Total comprehensive income for the year				
Profit for the year	–	–	505,682	505,682
Total comprehensive income	–	–	505,682	505,682
Transactions with Equity Holders in their capacity as Equity Holders				
Employee options	–	29,793	–	29,793
Dividends paid	–	–	(458,055)	(458,055)
	–	29,793	(458,055)	(428,262)
Balance at 30 June 2009	10,894,963	610,310	(1,587,187)	9,918,086

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

STATEMENTS OF CASH FLOW AS AT 30 JUNE 2010

	Note	Consolidated 2010 $	Consolidated 2009 $	Parent Entity 2010 $	Parent Entity 2009 $
Cash flows from operating activities					
Receipts from customers		12,018,523	18,258,298	300,000	300,000
Payments to suppliers and employees		(11,299,300)	(15,420,506)	(1,066,160)	(1,451,151)
Finance costs		(2,913)	(16,289)	(2,100)	(5,830)
Other revenue		45,523	100,822	577	7,930
Income taxes paid		(94,950)	(112,727)	(94,950)	(112,727)
Interest received		106,874	213,479	105,690	209,718
Net cash inflow (outflow) from operating activities	31	773,757	3,023,077	(756,943)	(1,052,060)
Cash flows from investing activities					
Payments for property, plant and equipment		(756,148)	(767,052)	(2,360)	(8,583)
Payments for intangible assets		(220,557)	(363,844)	(1,540)	(491)
Payments associated with acquisition of business		(41,329)	–	(41,329)	–
Dividends received from subsidiaries		–	–	1,790,000	849,999
Proceeds from sale of property, plant and equipment		11,517	13,182	–	–
Net cash inflow (outflow) from investing activities		(1,006,517)	(1,117,714)	1,744,771	840,925
Cash flows from financing activities					
Proceeds from borrowings		121,888	–	121,888	–
Repayment of borrowings		(24,378)	–	(24,378)	–
Loans to subsidiaries		–	–	(1,424,680)	
Loans from subsidiaries		–	–	–	1,885,100
Dividends paid		(680,849)	(451,085)	(680,849)	(451,085)
Net cash inflow (outflow) from financing activities		(583,339)	(451,085)	(2,008,019)	1,434,015
Net increase in cash and cash equivalents					
Cash and cash equivalents at the beginning of the financial year		5,080,876	3,626,598	4,650,962	3,428,082
Net cash movement		(816,099)	1,454,278	(1,020,191)	1,222,880
Cash and cash equivalents at the end of the financial year	8	4,264,777	5,080,876	3,630,771	4,650,962

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

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements 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 2010 was authorised for issue in accordance with a resolution of the directors on 24 September 2010 and covers XRF Scientific Limited as an individual entity as well as the consolidated entity consisting of XRF Scientific Limited and its subsidiaries.

These financial statements are 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.

These general purpose financial statements have 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.

Critical accounting estimates
The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

Financial statement presentation
The group has applied the revised AASB 101 *Presentation of Financial Statements* which became effective on 1 January 2009. The revised standard requires the separate presentation of a statement of comprehensive income and a statement of changes in equity. All non-owner changes in equity must now be presented in the statement of comprehensive income. As a consequence, the group had to change the presentation of its financial statements. Comparative information has been re-presented so that it is also in conformity with the revised standard.

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 2010 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.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

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.

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.

(ii) Changes in ownership interests

The group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of XRF Scientific Limited.

When the group ceases to have control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, jointly controlled entity or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in a jointly-controlled entity or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

(iii) Changes in accounting policy

The group has changed its accounting policy for transactions with non-controlling interests and the accounting for loss of control, joint control or significant influence from 1 July 2009 when a revised AASB 127 *Consolidated and Separate Financial Statements* became operative. The revisions to AASB 127 contained consequential amendments to AASB 128 *Investments in Associates* and AASB 131 *Interests in Joint Ventures.*

Previously transactions with non-controlling interests were treated as transactions with parties external to the group. Disposals therefore resulted in gains or losses in profit or loss and purchases resulted in the recognition of goodwill. On disposal or partial disposal, a proportionate interest in reserves attributable to the subsidiary was reclassified to profit or loss or directly to retained earnings.

Previously when the group ceased to have control, joint control or significant influence over an entity, the carrying amount of the investment at the date control, joint control or significant influence ceased became its cost for the purposes of subsequently accounting for the retained interests as associates, jointly controlled entity or financial assets.

The group has applied the new policy prospectively to transactions occurring on or after 1 July 2009. As a consequence, no adjustments were necessary to any of the amounts previously recognised in the financial statements.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the strategic steering committee.

Change in accounting policy

The group has adopted AASB 8 *Operating Segments* from 1 July 2009. AASB 8 replaces AASB 114 *Segment Reporting.* The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. This has resulted in no change to the number of reportable segments presented. In addition, the segments are reported in a manner that is consistent with the internal reporting provided to the chief operating decision maker.

(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 statements of financial position presented are translated at the closing rate at the date of that statement of financial position. Income and expenses for each profit or loss item are translated at average exchange rates. All resulting exchange differences are recognised in other comprehensive income.

(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 2010

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 labour hours incurred to date as a percentage of total estimated labour hours for each contract. When the contract outcome cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

(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 28(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 profit and loss 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 2010

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 28(b)(i)). Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit and loss 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 acquisition 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. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

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.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

Change in accounting policy

A revised AASB 3 *Business Combinations* became operative on 1 July 2009. While the revised standard continues to apply the acquisition method to business combinations, there have been some significant changes.

All purchase consideration is now recorded at fair value at the acquisition date. Contingent payments classified as debt are subsequently remeasured through profit or loss. Under the group's previous policy, contingent payments were only recognised when the payments were probable and could be measured reliably and were accounted for as an adjustment to the cost of acquisition.

Acquisition-related costs are expensed as incurred. Previously, they were recognised as part of the cost of acquisition and therefore included in goodwill.

Non-controlling interests in an acquiree are now recognised either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. This decision is made on an acquisition-by-acquisition basis. Under the previous policy, the non-controlling interest was always recognised at its share of the acquiree's net identifiable assets.

If the group recognises previous acquired deferred tax assets after the initial acquisition accounting is completed there will no longer be any adjustment to goodwill. As a consequence, the recognition of the deferred tax asset will increase the group's net profit after tax.

(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.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

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.

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).

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

(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.

(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 profit or loss.

(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 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.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

(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.

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 profit and loss during the financial period in which they are incurred.

Depreciation is calculated using a mixture of the straight line and diminishing value methods 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 profit or loss.

(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 2010

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 profit or loss 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 profit or loss 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) Short-term obligations

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) Other long-term employee benefit obligations

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experiences of employee departures and periods of service.

Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

(iii) Retirement benefit obligations

The amount charged to profit or loss 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

For options issued 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.

(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 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

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 statement of financial position.

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.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

(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) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2010 reporting periods. The group's and the parent entity's assessment of the impact of these new standards and interpretations is set out below.

AASB 2009-8 *Amendments to Australian Accounting Standards – Group Cash-Settled Share based Payment Transactions [AASB 2]* (effective from 1 January 2010)
The amendments made by the AASB to AASB 2 confirm that an entity receiving goods or services in a group share-based payment arrangement must recognise an expense for those goods or services regardless of which entity in the group settles the transaction or whether the transaction is settled in shares or cash. They also clarify how the group share-based payment arrangement should be measured, that is, whether it is measured as an equity- or a cash-settled transaction. The group will apply these amendments retrospectively for the financial reporting period commencing on 1 July 2010. There will be no impact on the group's or the parent entity's financial statements.

AASB 2009-10 *Amendments to Australian Accounting Standards – Classification of Rights Issues [AASB 132]* (effective from 1 February 2010)
In October 2009 the AASB issued an amendment to AASB 132 *Financial Instruments: Presentation* which addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The amendment must be applied retrospectively in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. The group will apply the amended standard from 1 July 2010. As the group has not made any such rights issues, the amendment will not have any effect on the group's or the parent entity's financial statements.

AASB 9 *Financial Instruments* and AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9* (effective from 1 January 2013)
AASB 9 *Financial Instruments* addresses the classification and measurement of financial assets and is likely to affect the group's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. The group is yet to assess its full impact. The group has not yet decided when to adopt AASB 9.

Revised AASB 124 *Related Party Disclosures* and AASB 2009-12 *Amendments to Australian Accounting Standards* (effective from 1 January 2011)
In December 2009 the AASB issued a revised AASB 124 *Related Party Disclosures*. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities and clarifies and simplifies the definition of a related party. The group will apply the amended standard from 1 July 2011. When the amendments are applied, the group and the parent will need to disclose any transactions between its subsidiaries and its associates. However, it has yet to put systems into place to capture the necessary information. It is therefore not possible to disclose the financial impact, if any, of the amendment on the related party disclosures.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

AASB Interpretation 19 *Extinguishing financial liabilities with equity instruments* and AASB 2009-13 *Amendments to Australian Accounting Standards arising from Interpretation 19* (effective from 1 July 2010)
AASB Interpretation 19 clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished by the debtor issuing its own equity instruments to the creditor (debt for equity swap). It requires a gain or loss to be recognised in profit or loss which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. The group will apply the interpretation from 1 July 2010. It is not expected to have any impact on the group or the parent entity's financial statements since it is only retrospectively applied from the beginning of the earliest period presented (1 July 2009) and the group has not entered into any debt for equity swaps since that date.

AASB 2009-14 *Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement* (effective from 1 January 2011)
In December 2009, the AASB made an amendment to Interpretation 14 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.* The amendment removes an unintended consequence of the interpretation related to voluntary prepayments when there is a minimum funding requirement in regard to the entity's defined benefit scheme. It permits entities to recognise an asset for a prepayment of contributions made to cover minimum funding requirements. The group does not make any such prepayments. The amendment is therefore not expected to have any impact on the group's or the parent entity's financial statements. The group intends to apply the amendment from 1 July 2011.

AASB 107 Statement of Cash Flows – *Clarifies that only expenditures that result in a recognised asset in the statement of financial position are eligible for classification as cash flows from investing* activities (effective from 1 January 2010)
Initial adoption of this amendment will have no impact as the entity only recognises cash flows from investing activities for expenditures that result in a recognised asset in the statement of financial position.

AASB 136 Impairment of Assets – *Clarifies that CGUs to which goodwill is allocated cannot be larger than an operating segment as defined in AASB 8 Operating Segments before aggregation* (effective from 1 January 2010)
There will be no impact as these requirements are only required to be applied prospectively to goodwill impairment calculations for periods commencing on or after 1 July 2010.

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 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 2010

NOTE 2: FINANCIAL RISK MANAGEMENT continued

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

	30 June 2010		30 June 2009	
	EUR	USD	EUR	USD
Trade receivables	43,482	39,271	21,875	47,739
Trade payables	–	–	–	–

The parent's exposure to foreign currency risk at the reporting date was nil (2009: Nil).

Group sensitivity

Based on the financial instruments held at 30 June 2010, 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 $9,622 lower/$11,760 higher (2009: $8,805 lower/$10,797 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 (2009: $Nil higher/$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, fair value and interest rate risk

As at 30 June 2010 the group had no variable interest rate debt, therefore consider fair value interest rate risk minimal. Further details can be found in note 17(c).

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 2: FINANCIAL RISK MANAGEMENT continued

Group sensitivity

At 30 June 2010, if interest rates had changed by -/+ 100 basis points (based upon forward treasury rates) from the year-end rates with all other variables held constant, post tax profit for the year would have been $14,246 lower/higher (2009: $21,348 lower/higher), mainly as a result of higher/lower interest income from cash and cash equivalents. Cash and cash equivalent balances at 30 June 2010 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 2010, if interest rates had changed by -/+ 100 basis points (based upon forward treasury rates) from the year-end rates with all other variables held constant, post-tax profit would have been $14,127 lower/higher (2009: $20,972 lower/higher) as a result of interest income from these financial assets. Cash and cash equivalent balances at 30 June 2010 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. Counterparties without external credit ratings are in majority existing customers (>6months) with no history of defaults (Group 2).

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	
	2010	2009	2010	2009
	$	$	$	$
Cash and cash equivalents	4,264,777	5,080,876	3,630,771	4,650,962
Trade receivables	2,101,294	1,700,463	1,956,144	1,122,357
Other receivables (external parties)	12,703	13,392	–	–
	6,378,774	6,794,731	5,586,915	5,773,319

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
2010	1,489,275	276,264	149,324	186,431	2,101,294
2009	900,342	572,937	109,052	118,132	1,700,463

There were no balances overdue but not impaired at 30 June 2010 or 2009 in the parent entity, being predominantly balances owed by subsidiary entities.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2010

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. The group had no undrawn borrowing facilities as at the balance date.

	Consolidated		Parent Entity	
	2010 $	2009 $	2010 $	2009 $
Financial liabilities				
Fixed rate				
Less than one year	183,710	–	97,510	–
Between 1 and 2 years	–	–	–	–
Between 2 and 5 years	–	–	–	–
Total fixed rate	183,710	–	97,510	–
Non interest bearing				
Less than one year	1,059,989	658,508	500,715	204,443
Between 1 and 2 years	–	–	–	–
Between 2 and 5 years	–	–	–	–
Total non interest bearing	1,059,989	658,508	500,715	204,443
Total contractual cash flows	1,243,699	658,508	598,225	204,443

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).

All financial assets and liabilities have carrying values that are reasonable approximates of their fair values, for both the Consolidated Entity and Parent Entity.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2010

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 development expenditures

The Group capitalises 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

Operating Segments – AASB 8 requires a management approach under which segment information is presented on the same basis as that used for internal reporting purposes. This is consistent to the approach used in previous periods.

Operating segments are reported in a uniform manner to which is internally provided to the chief operating decision maker. The chief operating decision maker has been identified as the Managing Director.

An operating segment is a component of the group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. Each operating segment's results are reviewed regularly by the Managing Director to make decisions about the resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

The Managing Director monitors segment performance based on profit before income tax expense. Segment results that are reported to the Managing Director include results directly attributable to a segment as well as those allocated on a reasonable basis. Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment and intangible assets other than goodwill.

The consolidated entity has determined that strategic decision making is facilitated by evaluation of operations on the customer segments of Customised Fusion Machines and Furnace Technology, Platinum Labware, LIBS Instruments & Chemicals. For each of the strategic operating segments, the Managing Director reviews internal management reports on a monthly basis.

(a) Description of segments

The following summary describes the operations in each of the group's reportable segments:

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.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 4: SEGMENT INFORMATION continued

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. As of 1 June 2010 Precious Metals Engineering (WA) Pty Ltd no longer trades as the business has been rolled into Analytical Platinum Supplies Pty Ltd in order to consolidate on costs and provide a more efficient service to customers.

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 2010

NOTE 4: SEGMENT INFORMATION continued

(b) Primary reporting format – business segments

Segment information provided to the Managing Director for the full-year ended 30 June 2010 is as follows:

	Customised Fusion Machines and Furnace Technology	Platinum Labware	LIBS Instruments	Chemicals	Total continuing operations
Full-year ended 30 June 2010	**$**	**$**	**$**	**$**	**$**
Segment revenue					
Total segment revenue	4,088,335	5,721,041	197,918	2,980,437	12,987,731
Inter segment sales	(129,691)	(327,721)	(32,458)	(19,103)	(508,973)
Revenue from external customers	3,958,644	5,393,320	165,460	2,961,334	12,478,758
Profit before income tax expense	**173,676**	**974,554**	**(290,251)**	**692,448**	**1,550,427**
Full-year ended 30 June 2009	**$**	**$**	**$**	**$**	**$**
Segment revenue					
Total segment revenue	6,455,683	7,536,021	761,408	3,079,052	17,832,164
Inter segment sales	(121,795)	(548,966)	(354,343)	–	(1,025,104)
Revenue from external customers	6,333,888	6,987,055	407,065	3,079,052	16,807,060
Profit before income tax expense	**1,434,312**	**995,012**	**(4,697)**	**974,340**	**3,398,967**
Depreciation expense					
For the year ended 30 June 2010	42,734	87,625	7,171	92,918	230,448
For the year ended 30 June 2009	46,071	72,691	8,786	60,606	188,154
Impairment of goodwill					
At 30 June 2010	–	–	298,445	–	–
At 30 June 2009	–	–	–	–	–
Segment assets					
At 30 June 2010	4,237,115	4,958,724	118,142	3,084,289	12,398,270
At 30 June 2009	4,850,424	4,260,692	703,518	3,360,588	13,175,222
Segment liabilities					
At 30 June 2010	737,040	466,030	32,011	339,758	1,574,839
At 30 June 2009	710,779	974,373	348,398	540,930	2,574,480

Full-year ended 30 June 2010	**2010** **$**	**2009** **$**
Revenue from external customers - segments	**12,478,758**	**16,807,060**
Unallocated revenue	141,274	–
Revenue from external customers - total	**12,620,032**	**16,807,060**
Profit before income tax expense	**1,550,427**	**3,398,967**
Eliminations and unallocated (corporate)	(1,028,076)	(1,090,508)
Profit before income tax expense from continuing operations	**522,351**	**2,308,459**
Total segment assets	**12,398,270**	**13,175,222**
Eliminations and unallocated (corporate)	4,414,626	3,778,562
Total assets	**16,812,896**	**16,953,784**
Total segment liabilities	**1,574,839**	**2,574,480**
Eliminations and unallocated (corporate)	495,906	(747,055)
Total liabilities	**2,070,745**	**1,827,425**

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2010

	Consolidated		Parent Entity	
	2010	2009	2010	2009
	$	$	$	$
NOTE 5: REVENUE				
From continuing operations				
Sales revenue				
Sale of goods	12,477,575	16,807,060	–	–
Other revenue				
Interest	142,457	213,479	141,274	209,718
Recoveries	3,636	1,973	577	–
Dividends received from subsidiaries	–	–	1,790,000	849,999
Management fees	–	–	300,000	300,000
Other revenue	51,591	98,849	–	4,737
	12,675,259	17,121,361	2,231,851	1,364,454

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 6: EXPENSES

	Consolidated 2010 $	Consolidated 2009 $	Parent Entity 2010 $	Parent Entity 2009 $
Profit/(loss) before income tax includes the following specific expenses				
Depreciation				
Depreciation	230,448	188,154	8,766	10,557
Amortisation				
Patents and trademarks	17,584	16,636	5,033	4,374
Research and development	78,702	52,849	–	–
Total amortisation	96,286	69,485	5,033	4,374
Finance costs				
Interest and finance charges paid/payable	2,913	25,163	2,100	5,830
Finance costs expensed	2,913	25,163	2,100	5,830
Rental expense relating to operating leases				
Minimum lease payments	273,829	294,554	–	–
Total rental expense relating to operating leases	273,829	295,554	–	–
Other administration costs				
Exchange losses/(gains)	34,350	(44,620)	–	–
Share based payments	–	29,793	–	29,793
Impairment losses				
Financial assets – investment in subsidiary*	–	–	343,313	–
Goodwill**	298,445	–	–	–
Loans impaired***	–	–	303,051	–
Total impairment losses	298,445	–	646,364	–
Employee superannuation expense				
Employee superannuation expense	355,287	517,416	46,978	87,441

*Relates to investment in subsidiary Laser Analysis Technologies Pty Ltd.
**Relates to LIBS segment. See note 15 for further details.
***Relates to loan to subsidiary Laser Analysis Technologies Pty Ltd, partly impaired as at 30 June 2010.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2010

	Consolidated		Parent Entity	
	2010	2009	2010	2009
	$	$	$	$
NOTE 7: INCOME TAX EXPENSE				
(a) Income tax expense				
Current tax	81,498	630,847	(369,882)	(297,891)
Deferred tax	249,114	27,614	154,836	(26,770)
Adjustments for current tax of prior periods	(111,140)	(300,594)	(147,377)	(282,426)
	219,472	357,867	(362,423)	(607,087)
Income tax expense is attributed to:				
Profit from continuing operations	219,472	357,867	(362,423)	(607,087)
Deferred income tax expense included in income tax expense comprises:				
Decrease (increase) in deferred tax assets (note 14)	155,859	(69,035)	143,041	(27,042)
(Decrease) increase in deferred tax liabilities (note 20)	93,255	96,649	11,795	272
	249,114	27,614	154,836	(26,770)
(b) Numerical reconciliation of income tax expense to prima facie tax payable				
Profit/(loss) from continuing operations before income tax expense	522,351	2,308,459	387,367	(101,405)
	522,351	2,308,459	387,367	(101,405)
Tax at the Australian rate of 30% (2009: 30%)	156,705	692,538	116,210	(30,421)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income				
Share-based payments	–	8,934	–	8,934
Entertainment	3,251	2,173	410	306
Impairment losses	89,533	–	193,909	–
Dividends received from subsidiaries	–	–	(537,000)	(255,000)
Sundry items	3,189	(45,184)	245	(48,480)
	252,678	658,461	(226,226)	(324,661)
Adjustments for deferred tax of prior periods	77,934	–	11,180	–
Adjustments for current tax of prior periods	(111,140)	(300,594)	(147,377)	(282,426)
Income tax expense/(revenue)	219,472	357,867	(362,423)	(607,087)
(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	–	102,118
	–	102,118	–	102,118

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2010

	Consolidated		Parent Entity	
	2010	2009	2010	2009
	$	$	$	$

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 2010

	Consolidated		Parent Entity	
	2010	2009	2010	2009
	$	$	$	$
NOTE 8: CASH ASSETS – CASH AND CASH EQUIVALENTS				
Cash at bank and on hand	669,549	636,292	35,543	206,378
Deposits at call	3,595,228	4,444,584	3,595,228	4,444,584
	4,264,777	5,080,876	3,630,771	4,650,962
Reconciliation to cash at the end of the year				
Balances as above	4,264,777	5,080,876	3,630,771	4,650,962
Balance per statements of cash flows	4,264,777	5,080,876	3,630,771	4,650,962

(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 3.70% (2009: 0.01% to 3.05%). 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 3.70% pa (2009: 3.05% 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.

	Consolidated		Parent Entity	
	2010	2009	2010	2009
	$	$	$	$
NOTE 9: CURRENT ASSETS – TRADE AND OTHER RECEIVABLES				
Trade receivables	2,101,293	1,727,313	–	–
Allowance for impairment of receivables	(18,502)	(26,850)	–	–
	2,082,791	1,700,463	–	–
Other receivables from:				
Wholly owned entities	–	–	1,956,144	1,122,357
Other external parties	12,704	13,392	–	–
	2,095,495	1,713,855	1,956,144	1,122,357
Past due but not impaired				
Up to 3 months	425,587	681,989	–	–
Up to 6 months	186,432	144,981	–	–
	612,019	826,970	–	–
Allowance for impairment of receivables				
Balance at 1 July	(26,850)	(15,177)	–	–
(Increase)/Decrease in allowance during the year	8,348	(11,673)	–	–
Balance at 30 June	(18,502)	(26,850)	–	–

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 9: CURRENT ASSETS – TRADE AND OTHER RECEIVABLES continued

(a) Impaired trade receivables

The consolidated entity has recognised a loss of $1,364 (2009: $5,080) and the parent entity has recognised a loss of $Nil (2009: $Nil) in respect of impaired trade receivables during the year ended 30 June 2010. The losses have been included as 'other expenses' in the statement of comprehensive income.

(b) Past due but not impaired

As at 30 June 2010, trade receivables of the Group of $612,019 (2009: $826,970) 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.

NOTE 10: CURRENT ASSETS – INVENTORIES

	Consolidated		Parent Entity	
	2010	2009	2010	2009
	$	$	$	$
Raw material and stores				
- at cost	1,410,026	1,636,456	–	–
Work-in-progress	125,893	105,709	–	–
Finishes goods			-	-
- at cost	432,298	222,859	–	–
	1,968,217	1,965,024	–	–

Stock was valued at lower of cost and net realisable value on 30 June 2010 and 30 June 2009.

(a) Inventory expense

Inventories recognised as expense during the year ended 30 June 2010 amounted to $4,687,909 (2009: $6,809,737).

Write downs of inventories to net realisable value recognised as an expense during the year ended 30 June 2010 amounted to $13,043 (2009: $Nil). The expense has been included in 'cost of sales' in the statements of comprehensive income.

NOTE 11: OTHER CURRENT ASSETS

	Consolidated 2010 $	Consolidated 2009 $	Parent Entity 2010 $	Parent Entity 2009 $
Security deposits	3,500	3,500	–	–
Accrued income	36,952	–	35,584	–
Prepayments	200,326	155,420	17,227	15,078
	240,778	158,920	52,811	15,078

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 12: NON-CURRENT ASSETS – OTHER FINANCIAL ASSETS

	Consolidated		Parent Entity	
	2010 $	2009 $	2010 $	2009 $
Shares in subsidiaries (note 30)*	–	–	5,908,334	6,251,647
	–	–	5,908,334	6,251,647
Movements:				
Balance at 1 July	–	–	6,251,647	6,251,647
Impairment charges*	–	–	(343,313)	–
Balance at 30 June	–	–	5,908,334	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).

*Balance reduced by $343,313 in 2010 due to impairment of investment in Laser Analysis Technologies Pty Ltd.

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

Consolidated	Plant & Equipment $	Motor Vehicles $	Furniture Fixtures & Fittings $	Office Equipment $	Total $
At 1 July 2008					
Cost or 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
Year ended 30 June 2010					
Opening net book amount	1,227,765	55,985	135,276	75,084	1,494,110
Additions	717,570	19,518	84,143	29,376	850,607
Disposals	(52,255)	(7,019)	(934)	(8,995)	(69,203)
Depreciation charge	(173,876)	(8,567)	(19,299)	(28,706)	(230,448)
Closing net book amount	1,719,204	59,917	199,186	66,759	2,045,065
At 30 June 2010					
Cost of fair value	2,212,498	78,907	280,813	178,154	2,750,371
Accumulated depreciation	(493,294)	(18,990)	(81,627)	(111,395)	(705,306)
Net book amount	1,719,204	59,917	199,186	66,759	2,045,065

All items of property, plant and equipment were recorded at cost as at 30 June 2010 and 30 June 2009. 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 2010

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

Parent	Plant & Equipment $	Motor Vehicles $	Furniture Fixtures & Fittings $	Office Equipment $	Total $
At 1 July 2008					
Cost or 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
Year ended 30 June 2010					
Opening net book amount	32,911	–	–	–	32,911
Additions	2,360	–	–	–	2,360
Disposals	–	–	–	–	–
Depreciation charge	(8,766)	–	–	–	(8,766)
Closing net book amount	26,505	–	–	–	26,505
At 30 June 2010					
Cost of fair value	66,997	–	–	–	66,997
Accumulated depreciation	(40,492)	–	–	–	(40,492)
Net book amount	26,505	–	–	–	26,505

	Consolidated		Parent Entity	
	2010 $	2009 $	2010 $	2009 $
(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	86,200	–		–
Accumulated depreciation*	–	–		–
	86,200	–		–

*Depreciation expense of $Nil was recorded to the profit and loss during the 2010 financial year (2009: $Nil).

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2010

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

(b) Non-current assets pledged as security
Refer to note 17(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 $74,400 (2009: $Nil) relating to plant and equipment which is in the course of construction.

NOTE 14: DEFERRED TAX ASSETS

	Consolidated		Parent Entity	
	2010 $	2009 $	2010 $	2009 $
The balance comprises temporary differences attributable to:				
Amounts recognised directly in equity:				
Share issue expenses	99,014	250,699	99,014	250,699
Amounts recognised in profit or loss:				
Employee benefits	166,706	254,470	166,706	86,591
Depreciation of tangible assets	1,507	12,766	1,507	14
Accruals	169,107	40,844	169,107	25,851
Provisions	8,700	16,096	8,700	5,100
Other	19,841	45,859	19,841	12,020
	365,861	370,035	365,861	129,576
Net deferred tax assets	464,875	620,734	464,875	380,275
Movements:				
Opening balance at 1 July	620,734	653,817	380,275	455,351
(Charged)/credited to profit and loss (note 7)	(155,859)	69,035	(143,041)	27,042
Balances transferred from subsidiaries	–	–	227,641	–
(Charged)/credited to equity	–	(102,118)	–	(102,118)
Closing balance at 30 June	464,875	620,734	464,875	380,275

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 15: NON-CURRENT ASSETS – INTANGIBLE ASSETS

Consolidated	Research & Development $	Goodwill $	Patents trademarks & other rights $	Total $
At 1 July 2008				
Cost or 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
Year ended 30 June 2010				
Opening net book amount	462,461	5,165,284	292,519	5,920,264
Additions	215,123	–	5,433	220,556
Disposals	(12,400)	–	–	(12,400)
Impairment charges	–	(298,445)	–	(298,445)
Amortisation charge*	(78,702)	–	(17,584)	(96,286)
Closing net book amount	586,482	4,866,839	280,368	5,733,689
At 30 June 2010				
Cost of fair value	780,363	5,305,284	355,733	6,441,380
Accumulated amortisation and impairment	(193,881)	(438,445)	(75,365)	(707,691)
Net book amount	586,482	4,866,839	280,368	5,733,689

*Amortisation of $96,286 (2009: $69,485) is included in depreciation and amortisation expense in the income statement.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 15: NON-CURRENT ASSETS – INTANGIBLE ASSETS continued

Parent	Research & Development $	Goodwill $	Patents trademarks & other rights $	Total $
At 1 July 2008				
Cost or 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
Year ended 30 June 2010				
Opening net book amount	–	–	83,385	83,385
Additions	–	–	1,540	1,540
Amortisation charge*	–	–	(5,033)	(5,033)
Closing net book amount	–	–	79,892	79,892
At 30 June 2010				
Cost of fair value	–	–	102,061	102,061
Accumulated amortisation and impairment	–	–	(22,169)	(22,169)
Net book amount	–	–	79,892	79,892

(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	
	2010 $	2009 $	2010 $	2009 $
Customised Fusion Machines and Furnace Technology	1,980,171	1,980,171	–	–
Platinum Labware	1,848,629	1,848,629	–	–
LIBS Instruments	–	298,445	–	–
Chemicals	1,038,039	1,038,039	–	–
	4,866,839	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 2010

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) Value in use calculations

The carrying values of goodwill associated with the Custom Fusion Machines and Furnace Technology CGU were supported in the 2010 financial year using the value in use method. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

(e) Impairment charge

There was an impairment charge of $298,445 for the year ended 30 June 2010, relating to the group's LIBS segment. The balance of the accumulated goodwill impairment at 30 June 2010 was recording during the years 2006: $140,000 and 2010: $298,445 for a total of $438,445, which related to the group's LIBS segment.

NOTE 16: CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

	Consolidated		Parent Entity	
	2010 $	2009 $	2010 $	2009 $
Trade payables	380,285	283,050	31,331	29,043
Sundry creditors and accruals	678,631	291,357	469,384	175,400
Employee benefits – annual leave (a)*	205,705	278,266	12,563	6,635
Other payables to:				
- Controlled entities	–	–	1,250,012	2,018,812
	1,264,621	852,673	1,763,290	2,229,890

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

(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	
	2010 $	2009 $	2010 $	2009 $
Annual leave obligations expected to be settled after 12 months	165,705	191,356	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 2010

	Consolidated 2010 $	Consolidated 2009 $	Parent Entity 2010 $	Parent Entity 2009 $
NOTE 17: CURRENT LIABILITIES – BORROWINGS				
Secured				
Finance lease liabilities (note 28(b) (ii))	183,710	–	97,510	–
Total secured current borrowings	183,710	–	97,510	–
Total current borrowings	183,710	–	97,510	–

(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.

(b) Finance lease liabilities

Refer to note 28(b) (ii).

(c) 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	7.5%	June 2011

(i) Fair value of borrowings

	2010 Carrying Amount $	2010 Fair Value $	2009 Carrying Amount $	2009 Fair Value $
On-balance sheet non-traded financial liabilities				
Consolidated				
Finance lease liabilities (note 28)	183,710	183,710	135,898	135,898
Total	183,710	183,710	135,898	135,898
Parent				
Finance lease liabilities (note 28)	97,510	97,510	–	–
Total	97,510	97,510	–	–

None of the classes are readily traded on organised markets in standardised form. Fair value is inclusive of costs which would be incurred on settlement of a liability.

(i) On-balance sheet

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

(ii) Off-balance sheet

The Company has potential liabilities which may arise from certain contingencies disclosed in note 28.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2010

	Consolidated		Parent Entity	
	2010	2009	2010	2009
	$	$	$	$
NOTE 18: CURRENT LIABILITIES – PROVISIONS				
Employee benefits				
– bonuses	78,247	311,795	–	240,000
– long service leave (b)	186,583	199,514	–	–
Dividends payable to ordinary shareholders	13,210	6,972	13,210	6,972
Plant and equipment repairs & maintenance	182	–	–	–
Making good of leases	29,000	17,000	29,000	17,000
	307,222	535,281	42,210	263,972
Movements in provision for Making good of leases:				
Opening balance at 1 July	17,000	5,000	17,000	5,000
Charged to profit and loss	12,000	12,000	12,000	12,000
Closing balance at 30 June	29,000	17,000	29,000	17,000

(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 profit and loss 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	
	2010	2009	2010	2009
	$	$	$	$
Long service leave obligations expected to be settled after 12 months	167,924	188,874	–	–

NOTE 19: CURRENT LIABILITIES – OTHER FINANCIAL LIABILITIES

Customer deposits	1,073	84,101	–	–

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 20: CURRENT LIABILITIES – DEFERRED TAX LIABILITIES

	Consolidated		Parent Entity	
	2010 $	2009 $	2010 $	2009 $
The balance comprises temporary differences attributed to:				
Amounts recognised in profit or loss				
Research and development	175,944	130,151	175,944	–
Depreciation	58,819	46,056	58,819	448
Other	34,699	–	34,699	–
	269,462	176,207	269,462	448
Net deferred tax liabilities	269,462	176,207	269,462	448
Movements:				
Opening balance at 1 July	176,207	79,558	448	176
Charged/(credited) to profit and loss (note 7)	93,255	96,649	11,795	272
Balances transferred from subsidiaries	–	–	257,219	–
Closing balance 30 June	269,462	176,207	269,462	448

NOTE 21: NON-CURRENT LIABILITIES – PROVISIONS

	Consolidated		Parent Entity	
	2010 $	2009 $	2010 $	2009 $
Employee benefit – long service leave	85,149	92,331	6,563	3,881

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 22: CONTRIBUTED EQUITY

	Note	Consolidated and Parent Entity 2010 Shares	Consolidated and Parent Entity 2009 Shares	Consolidated and Parent Entity 2010 $	Consolidated and Parent Entity 2009 $
(a) Contributed equity					
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	$
01/07/2008	**Opening balance**	91,611,683		10,894,963
30/06/2009	**Closing balance**	91,611,683		10,894,963
01/07/2009	**Opening balance**	91,611,683		10,894,963
30/06/2010	**Closing balance**	91,611,683		10,894,963

(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 does not have a dividend reinvestment plan in place.

(e) 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 2010

	Consolidated		Parent Entity	
	2010	2009	2010	2009
	$	$	$	$
NOTE 23: RESERVES AND RETAINED PROFITS/ (ACCUMULATED LOSSES)				
(a) Reserves				
Share-based payments reserve	610,310	610,310	610,310	610,310
	610,310	610,310	610,310	610,310
Movements:				
Share-based payments reserve				
Balance at 1 July	610,310	580,517	610,310	580,517
Option expense				
Employee share options	–	29,793	–	29,793
Balance 30 June	610,310	610,310	610,310	610,310
(b) Retained Profits/(Accumulated Losses)				
Movements in retained profits/(accumulated losses) were as follows:				
Balance 1 July	3,621,086	2,128,549	(1,587,187)	(1,634,814)
Net profit/(loss) for the year	302,879	1,950,592	749,790	505,682
Dividends paid or provided for	(687,087)	(458,055)	(687,087)	(458,055)
Balance 30 June	3,236,878	3,621,086	(1,524,484)	(1,587,187)

(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.

	Consolidated		Parent Entity	
	2010	2009	2010	2009
	$	$	$	$
NOTE 24: DIVIDENDS				
(a) Ordinary shares	687,087	458,055	687,087	458,055
Total dividends provided for or paid	687,087	458,055	687,087	458,055

No dividends have been declared post 30 June 2010.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 24: DIVIDENDS continued

(b) Franked Dividends

The franked portions of the final dividends recommended after 30 June 2010 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 2011.

	Consolidated		Parent Entity	
	2010 $	2009 $	2010 $	2009 $
Franking credits available for subsequent financial years based on a tax rate of 30% (2009: 30%)	1,312,494	1,512,009	1,312,494	1,512,009

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 $Nil (2009: $294,466).

NOTE 25: KEY MANAGEMENT PERSONNEL

(a) Directors

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

(i) Non-Executive

Kenneth Peter Baxter	Non Executive Director	
David Brown	Non Executive Director	
John Graham Parsons	Non Executive Director	
Paul Rengel	Non Executive Director (Resigned 27 November 2009 at Annual General Meeting)	

(ii) Executive

Terry Sweet	Managing 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
Vance Stazzonelli	Chief Financial Officer	XRF Scientific Limited
Jeff Brown	General Manager	X-Ray Flux 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 2009, except for Vance Stazzonelli and Jeff Brown.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 25: KEY MANAGEMENT PERSONNEL continued

(c) Key management compensation

	Consolidated		Parent Entity	
	2010	2009	2010	2009
	$	$	$	$
Short-term employee benefits	1,133,319	1,022,764	307,036	291,593
Post employment benefits	76,628	308,699	25,898	76,904
Long-term benefits	148,902	44,895	4,226	6,777
	1,358,849	1,376,358	337,160	375,274

No other post employment or termination benefits have been provided.

Detailed remuneration disclosures are available in the remuneration report from pages 8-14.

(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 2009	Granted as Compensat-ion	Options exercised	Other changes	Balance at 30 June 2010	Total vested and exercisable at 30 June 2010
Directors of XRF Scientific Limited						
Kenneth Peter Baxter	500,000	–	–	(500,000)	–	–
David Brown	601,744	–	–	(601,744)	–	–
John Parsons	697,674	–	–	(697,674)	–	–
Terry Sweet	3,000,000	–	–	–	3,000,000	3,000,000
Paul Rengel	500,000	–	–	[3](500,000)	–	–
Other key management personnel of the Group						
Stephen Prossor	392,442	–	–	(392,442)	–	–
Gino Manfredi	–	–	–	–	–	–
Vance Stazzonelli	–	–	–	–	–	–
Jeff Brown	–	–	–	–	–	–
Rob McConnell	–	–	–	–	–	–

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 25: KEY MANAGEMENT PERSONNEL continued

(d) Equity Instruments continued

Name	Balance at 1 July 2008	Granted as Compensat -ion	Options exercised	Other changes	Balance at 30 June 2009	Total vested and exercisable at 30 June 2009
Directors of XRF Scientific Limited						
Paul Anthony Rengel	500,000	–	–	–	500,000	500,000
Kenneth Peter Baxter	500,000	–	–	–	500,000	500,000
David Brown	601,744	–	–	–	601,744	601,744
John Parsons	697,674	–	–	–	697,674	697,674
Terry Sweet	3,000,000	–	–	–	3,000,000	3,000,000
Other key management personnel of the Group						
Stephen Prossor	392,442	–	–	–	392,442	392,442
Gino Manfredi	–	–	–	–	–	–
Faizan Adjie	–	–	–	–	–	–
Rob McConnell	–	–	–	–	–	–
Allen Roland Parsons	523,256	–	–	–	523,256	523,256

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 2009	Granted as compensati on	Received on exercise of options on rights	Other changes	Balance at 30 June 2010
Directors of XRF Scientific Limited					
Kenneth Peter Baxter	343,334	–	–	–	343,334
David Brown	7,939,916	–	–	200,000	8,139,916
John Graham Parsons[1]	7,500,000	–	–	–	7,500,000
Terry Sweet	3,244,273	–	–	–	3,244,273
Paul Rengel	304,240	–	–	[3](304,240)	–
Other key management personnel of the Group					
Stephen Prossor[2]	5,172,502	–	–	–	5,172,502
Gino Manfredi	–	–	–	–	–
Vance Stazzonelli	–	–	–	–	–
Jeff Brown	2,985,145	–	–	–	2,985,145
Robert McConnell	13,334	–	–	–	13,334

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 25: KEY MANAGEMENT PERSONNEL continued

(d) Equity Instruments continued

Name	Balance at 1 July 2008	Granted as compensation	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	7,620,001	–	–	319,915	7,939,916
John Graham Parsons[1]	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[2]	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

[1] Includes 3,500,000 shares which are indirectly held by John Parsons' wife Julie Parsons.
[2] Includes 40,002 shares which are indirectly held by Steve Prosser's children.
[3] Change resulted from resignation as Director on 27 November 2009 at Annual General Meeting.

(e) Loans to key management personnel

There were no loans to any key management personnel during either of the years ended 30 June 2009 or 30 June 2010.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 25: 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 $62,857 (2009: $61,806). No amounts were outstanding at the end of the year.

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 $89,232 (2009: $104,008). No amounts were outstanding at the end of the year.

Directors D Brown, T Sweet and J Parsons are guarantors on an X-Ray Flux Pty Ltd lease in Osborne Park.

Other Transactions

During the current and prior financial years wages were paid in relation to director D Brown's son, and in the prior year to director J Parsons' son under normal terms and conditions totalling $114,996 (2009: $136,893).

X-Ray Flux Pty Ltd has entered into a conditional purchase agreement with Chemisales Trust, an entity associated with Director D Brown, for the purchase of plant and equipment used in X-Ray Flux manufacturing. The total amount of the agreement is for $86,200, which has been reflected in the financial reports as current borrowings. The value of the equipment used in the agreement was independently valued by a third party valuations company. Interest is payable on the agreement at a rate of 7.5%pa. The amount of $86,200 is payable under the agreement by 19 November 2011.

In the prior year platinum crucibles were purchased from a related entity of director D Brown for $404,278 at a market value.

An amount of $300,000 has accrued as owing to Managing Director Terry Sweet in relation to his employment contract that commenced in June 2007. Further details in relation to T Sweet's employment contract are set out on page 12 of the remuneration report.

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

	2010 $	2009 $
Amounts recognised as expense		
Rent of office building	152,089	175,414
Interest paid on conditional purchase agreement	838	–
Wages paid	114,996	136,893
	267,923	381,994
Amounts recognised as a purchase of property, plant & equipment		
Plant & equipment	86,200	404,278
	86,200	404,278
Amounts payable at end of year		
Managing Director bonus	300,000	–
	300,000	–

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 26: 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	
	2010	2009	2010	2009
	$	$	$	$
(a) Assurance & other services				
BDO Audit (WA) Pty Ltd				
Audit and review of financial reports	95,372	102,580	95,372	102,580
Taxation services	32,169	–	32,169	–
Other services	836	6,035	836	6,035
Total remuneration for audit and other services	128,377	108,615	128,377	128,377

NOTE 27: CONTINGENCIES

(a) Contingent liabilities

At 30 June 2010, 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 2010

NOTE 28: COMMITMENTS

	Consolidated 2010 $	Consolidated 2009 $	Parent Entity 2010 $	Parent Entity 2009 $
(a) Capital commitments				
Commitments in relation to capital at the reporting date but not recognised as liabilities, payable:				
Within one year	111,600	–	–	–
Later than one year but not later than five years	–	–	–	–
Later than five years	–	–	–	–
	111,600	–	–	–
(b) Lease commitments				
Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable:				
Within one year	248,835	239,443	–	–
Later than one year but not later than five years	223,044	427,101	–	–
Later than five years	–	–	–	–
	471,879	666,544	–	–
Representing:				
Cancellable operating leases	1,000	1,580	–	–
Non-cancellable operating leases (i)	470,879	664,964	–	–
	471,879	666,544	–	–

(i) Operating leases

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 2011.

	Consolidated 2010 $	Consolidated 2009 $	Parent Entity 2010 $	Parent Entity 2009 $
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:				
Within one year	247,835	237,863	–	–
Later than one year but not later than five years	223,044	427,101	–	–
Later than five years	–	–	–	–
	470,879	664,964	–	–

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

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2010

	Consolidated		Parent Entity	
	2010	2009	2010	2009
	$	$	$	$
(ii) Finance leases				
The Company leases various property, plant and equipment with a carrying amount of $86,200 (2009: $Nil) under finance leases expiring within 1 year. The Company also has liabilities in respect of its insurance policies which are financed through insurance premium funding of $97,510 (2009: $Nil).				
Commitments in relation to finance leases are payable as follows:				
Within one year	189,513	–	103,313	–
Later than one year but not later than five years	–	–	–	–
Later than five years	–	–	–	–
Minimum lease payments	189,513	–	103,313	–
Future finance charges	(5,803)	–	(5,803)	–
Recognised as a liability	183,710	–	97,510	–

The weighted average interest rate implicit in the leases was 6.17% (2009: 8.76%).

(c) Remuneration commitments

	Consolidated		Parent Entity	
	2010	2009	2010	2009
	$	$	$	$
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	300,000	–	300,000	–
Later than one year and not later than five years	–	–	–	–
Later than five years	–	–	–	–
	300,000	–	300,000	–

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 29: RELATED PARTY TRANSACTIONS

(a) Parent entity

The ultimate parent and controlling entity is XRF Scientific Limited which at 30 June 2010 owns 100% of all subsidiaries listed in note 30.

(b) Interests in subsidiaries

Interests in subsidiaries are set out in note 30.

(c) Key management personnel

Disclosures relating to key management personnel are set out in note 25.

	Consolidated		Parent Entity	
	2010	2009	2010	2009
	$	$	$	$
(d) Transactions with related parties (subsidiaries)				
The following transactions occurred with related parties:				
Dividend revenue				
Subsidiaries	–	–	1,790,000	849,999
Sales of goods and services				
Management fees	–	–	300,000	300,000
(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	–	–	451,380	964,975
Tax losses assumed from wholly-owned tax consolidated entities	–	–	289,727	7,004
Current receivables (tax funding agreement)				
Wholly-owned tax consolidated entities	–	–	538,298	967,200
Current payables (tax funding agreement)				
Wholly-owned tax consolidated entities	–	–	86,918	2,101
(f) Loans to/(from) related parties				
Loans to subsidiaries				
Beginning of the year	–	–	(896,456)	(3,571)
Loans advanced	–	–	11,161,082	14,044,590
Loan repayments received	–	–	(9,558,314)	(14,937,475)
End of the year	–	–	706,132	(896,456)
No interest is charged or received on loans to subsidiaries				

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 2010

NOTE 30: 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 %	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 2010

NOTE 31: RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH FLOW PROVIDED BY OPERATING ACTIVITIES

	Consolidated		Parent Entity	
	2010	2009	2010	2009
	$	$	$	$
Profit/(loss) for the year	302,879	1,950,592	749,790	505,682
Depreciation and amortisation	326,734	257,639	13,799	14,931
Impairment of goodwill, intangible assets and loans	298,445	–	646,364	–
Share-based payments	–	29,793	–	29,793
Net (gain) loss on sale of non-current assets	51,485	(11,796)	–	–
Acquisition of business costs	41,329	–	41,329	–
Net exchange differences	4,107	–	(6,239)	(6,970)
Deferred tax expense recognised in equity	–	–	–	–
(Increase) decrease in trade and other debtors	(381,639)	1,566,519	–	3,193
(Increase) decrease in inventories	(3,193)	(615,003)	–	–
(Increase) decrease in other current asset	(81,858)	35,732	(37,733)	6,320
(Increase) decrease in deferred tax asset	155,859	33,083	(86,400)	75,076
(Decrease) increase in trade and other creditors	411,948	(380,143)	(1,966,957)	(1,945,316)
(Decrease) increase in provision for income taxes	(127,325)	115,409	(160,830)	197,056
(Decrease) increase in provision for deferred income tax	93,255	96,649	269,014	272
(Decrease) increase in other liabilities	(83,028)	(246,102)	–	–
(Decrease) increase in other provisions	(235,241)	190,705	(219,080)	67,903
Net cash inflow (outflow) from operating activities	773,757	3,023,077	(756,943)	(1,052,060)

NOTE 32: NON-CASH INVESTING AND FINANCING ACTIVITIES

	Consolidated		Parent Entity	
	2010	2009	2010	2009
	$	$	$	$
Acquisition of assets by assuming directly related liabilities	86,200	–	–	–

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 33: SHARE-BASED PAYMENTS

(a) Expenses arising from share-based payment transactions

	Consolidated		Parent Entity	
	2010 Number	2009 Number	2010 Number	2009 Number
Managing Director	–	–	–	–
	–	–	–	–

(i) For options which were issued during 2008 year, 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

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 33: 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 - 2010									
Employees	1 June 2006	30 June 2010	0.20	3,215,116	–	–	3,215,116	–	–
Broker	28 August 2006	30 June 2010	0.16	1,500,000	–	–	1,500,000	–	–
Consultant	31 October 2006	31 October 2010	0.16	2,800,000	–	–	–	2,800,000	2,800,000
Managing Director	23 November 2007	31 October 2010	0.16	3,000,000	–	–	–	3,000,000	3,000,000
Total				10,515,116	–	–	–	5,800,000	5,800,000
Weighted average exercise price				**$0.17**	**–**	**–**	**$0.19**	**$0.16**	**$0.16**

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	28 August 2006	30 June 2010	0.16	1,500,000	–	–	–	1,500,000	1,500,000
Consultant	31 October 2006	31 October 2010	0.16	2,800,000	–	–	–	2,800,000	2,800,000
Consultants	21 November 2006	31 January 2009	0.20	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	–	–	–	10,515,116	10,515,116
Weighted average exercise price				**$0.17**	**–**	**–**	**$0.20**	**$0.17**	**$0.17**

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 33: SHARE-BASED PAYMENTS continued

See note 6 for details of share based payments recognised as an expense during 2010 and 2009 in the parent entity and consolidated profit and loss.

The weighted average remaining contractual life of share options outstanding at the end of the period was 0.33 years (2009: 1.17 years).

NOTE 34: EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

In July 2010 XRF Scientific signed a binding agreement to acquire the Platinum Labware and X-ray Flux manufacturing businesses from the Sigma Group of companies, for total consideration of $7 million in cash and scrip, as per the announcement made to the ASX on 30 July 2010. The acquisition has since settled and XRF Scientific has obtained full control of the businesses.

The purchase consideration of $7 million comprises:

- $5 million cash paid on settlement
- $1 million deferred cash settlement – until 31 December 2010
- 6.67mil XRF shares at $0.15 per share (with a 1:2 option) – issued on settlement

The purchase was funded using existing cash reserves and ongoing cash flows from the businesses acquired. In addition $0.75 million of Convertible Notes were placed to Sophisticated Investors. The notes, which are unsecured, carry a coupon of 12% pa and mature on 31 August 2012. They are convertible at any time into ordinary shares in XRF at $0.15 per share and may also be redeemed by XRF at any time after 1 July 2011 (options on the same terms as those issued to the vendors).

As a precaution the Company has put in place a $1 million overdraft facility to safeguard against any working capital contingencies.

NOTE 35: EARNINGS PER SHARE

	Consolidated	
	2010	**2009**
	Cents	**Cents**
(a) Basic earnings per share		
Profit from continuing operations attributable to the ordinary equity holders of the company	0.3	2.1
(b) Diluted earnings per share		
Profit from continuing operations attributable to the ordinary equity holders of the	0.3	2.1
	$	**$**
(c) Reconciliations of earnings used in calculation earnings per share		
Profit from continuing operations attributable to the ordinary equity holders of the company	302,879	1,950,592
Profit attributable to the ordinary equity holders of the company	302,879	1,950,592
	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	91,611,683

DIRECTORS' DECLARATION FOR THE YEAR ENDED 30 JUNE 2010

XRF Scientific Limited and its controlled entities

ACN 107 908 314

The directors of the company declare that:

1. The financial statements, comprising the statement of comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity and 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 company's and consolidated entity's financial position as at 30 June 2010 and of their 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 2010, 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.

5. The company has included in the notes to the financial statements an explicit and unreserved statement of compliance with international financial reporting standards.

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 24 day of September 2010

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

Report on the Financial Report

We have audited the accompanying financial report of XRF Scientific Limited, which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

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 AASB 101 *Presentation of Financial Statements,* that the financial statements comply 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.

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 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 2010 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 in the directors' report for the year ended 30 June 2010. 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 2010, complies with section 300A of the *Corporations Act 2001.*

BDO Audit (WA) Pty Ltd

BDO

Glyn O'Brien
Director

Perth, Western Australia
Dated this 24 day of September 2010

SHAREHOLDER INFORMATION FOR THE YEAR ENDED 30 JUNE 2010

Additional information (as at 1 September 2009) 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
Sigma Chemicals (1986) Pty Ltd	6,666,666

[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 $0.16 and expiring on 31 October 2010	2

VOTING RIGHTS

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

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

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

DISTRIBUTION OF SHARE AND OPTION HOLDERS

Distribution of Shares & Options	Number of Holders of Ordinary Shares	Number of Holders of Options
1-1,000	7	–
1,000-5,000	52	–
5,001-10,000	133	–
10,001-100,000	368	–
100,001 and above	131	2

SHAREHOLDER INFORMATION FOR THE YEAR ENDED 30 JUNE 2010

TOP 20 SHAREHOLDERS

No.	Name	Number of Ordinary Shares	Percentage of Ordinary Shares
1	D & GD Brown Nom PL[1]	8,139,916	8.28%
2	Sigma Chemicals (1986) Pty Ltd	6,666,666	6.78%
3	Sydney Fund Managers Ltd	4,350,000	4.43%
4	Parsons, John Graham[3]	3,750,000	3.82%
5	Parsons, Julie Ann[3]	3,750,000	3.82%
6	Tzelepis Nom PL	3,280,000	3.34%
7	Sparrow Hldgs PL[4]	3,176,939	3.23%
8	Great Western Cap PL	2,951,811	3.00%
9	Prossor, Stephen W & F C	2,570,000	2.62%
10	Seaweir PL[2]	2,532,500	2.58%
11	Countclock PL	2,311,130	2.35%
12	Grosvenor Pirie Mgnt Ltd	2,281,800	2.32%
13	Metz, Jorg & Carr Wendy	2,137,500	2.17%
14	National Nom Ltd	1,666,666	1.70%
15	J G H Metz PL	1,500,000	1.53%
16	Grosvenor Pirie Mgnt Ltd	1,440,891	1.47%
17	Higgins, Peter & Gail	1,237,651	1.26%
18	Parisi Hldgs PL	1,104,547	1.12%
19	Metz, Jorg	888,334	0.90%
20	Lost Ark Nom PL	712,633	0.73%
	Total	56,448,984	57.45%

[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 2010

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 $0.16 and expiring on 31 October 2010	2,800,000	1
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.

CORPORATE DIRECTORY FOR THE YEAR ENDED 30 JUNE 2010

DIRECTORS

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

COMPANY SECRETARY

Vance Stazzonelli

REGISTERED OFFICE

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Subiaco WA 6008

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Perth WA 6000

SOLICITORS

Steinepreris Paganin
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SHARE REGISTRY

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ASX

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