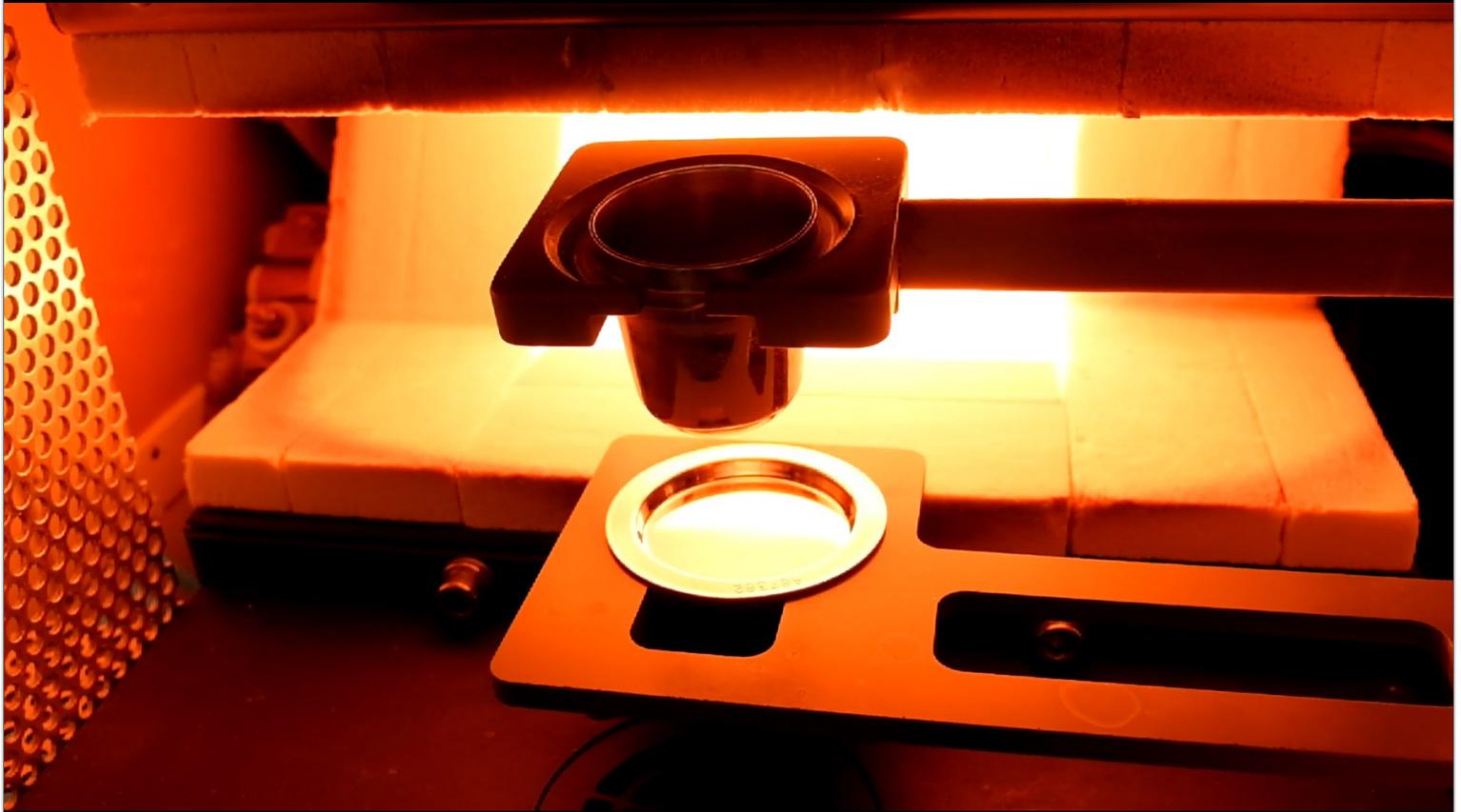


XRF SCIENTIFIC LIMITED

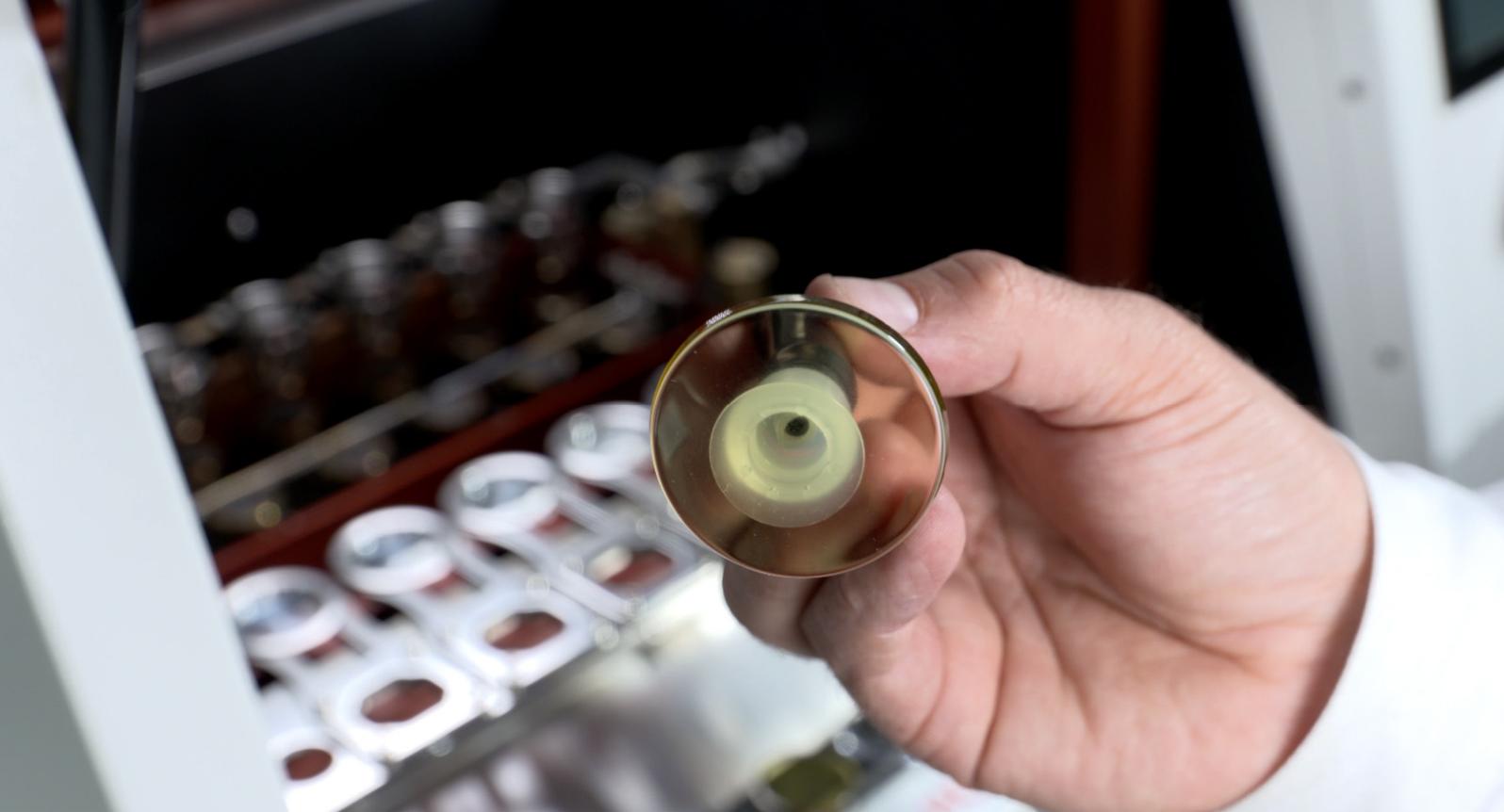
ABN 80 107 908 314

# ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2018



**XRF**  
scientific

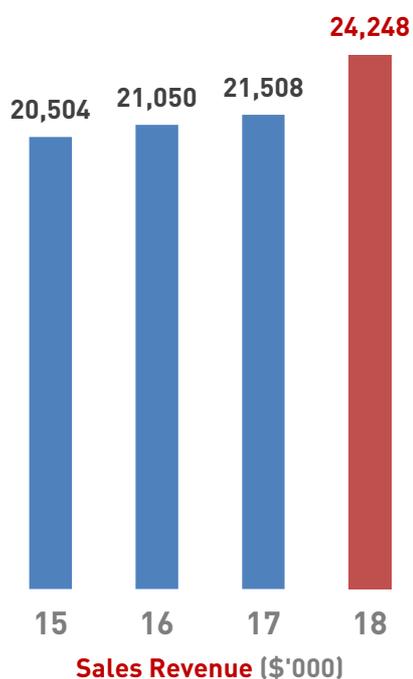


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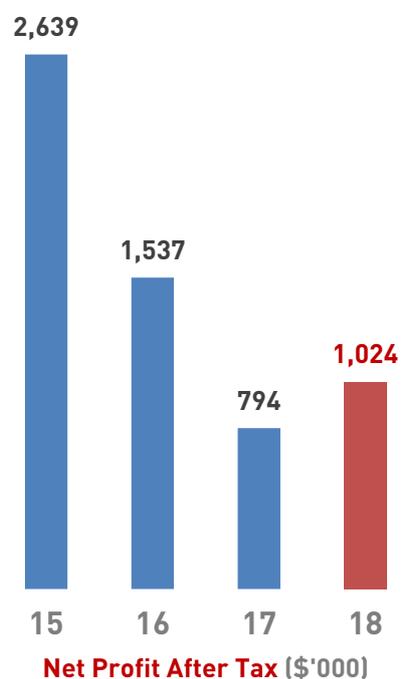
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# FINANCIAL RESULTS SUMMARY

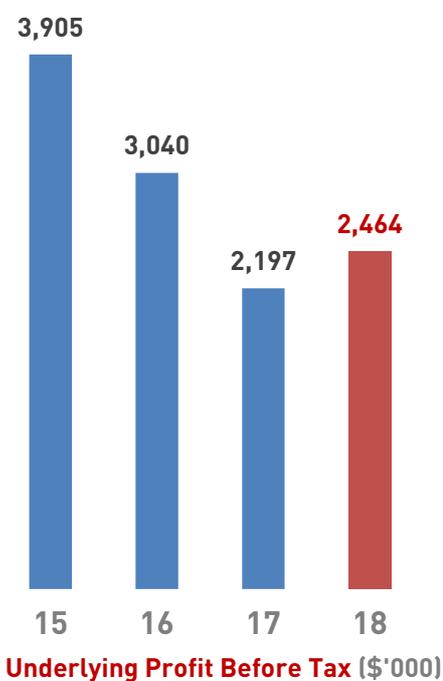
Sales up 13%



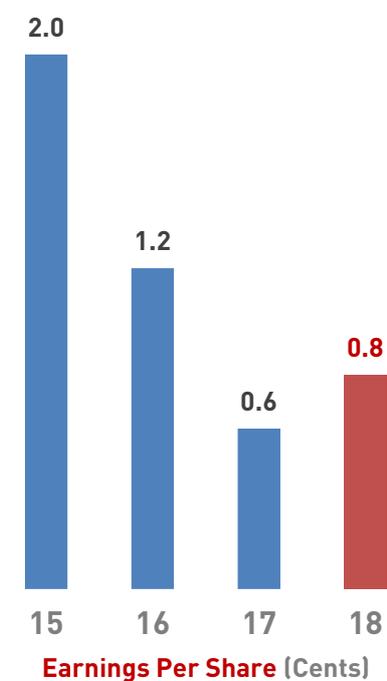
Net Profit After Tax up 29%



Underlying Profit Before Tax\* up 12%



Earnings Per Share up 33%



\* Non-IFRS financial measure. Refer to page 5 for reconciliation to net profit before tax.



## CHAIRMAN'S LETTER

Dear Shareholder

The last twelve months have been a period of major changes for the Company. They have been part of a planned programme to consolidate our position as a major laboratory services business in both Australia and overseas.

Major steps are underway with the expansion of our business in Europe – mainly in Germany, Belgium, France and the UK. A major, specific project is underway in Germany and should enhance the export returns of the business. Canada and the USA are important markets which are being and will continue to be serviced from Australia and our office in Canada. We do not anticipate being adversely affected by the spat between the USA and China over tariffs. We are a major buyer of Chinese raw material products and expect to remain so.

The Company's plant in Melbourne has been significantly upgraded and will play an ever-important part in expanding the business and improving profitability.

Unfortunately, over the last twelve months, the Company's share price has languished between 16-22 cents per share. Measures are being implemented to improve sales and profitability. One of the aims is to form the basis for lifting the share price for the benefit of our loyal shareholders.

The Board has noted the increasing focus upon introducing and maintaining higher standards of corporate governance for listed public companies, both small and large which have been the subject of wide publicity. These will apply to XRF Scientific alongside the larger companies listed on the Australian Stock Exchange.

The staff, led by the Managing Director, Vance Stazzonelli, have done an excellent job in challenging circumstances during the last financial year and the company is looking to improve returns to shareholders in 2018-19.

This is my last year as a Director and Chair of the Company and I'm confident that the Board and management team will be able to expand, grow strongly and deliver improved returns to the shareholders in 2018-19 and beyond.

**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 2018.

### DIRECTORS

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

Kenneth Baxter (Chairman)  
 David Brown  
 David Kiggins  
 Fred Grimwade  
 Vance Stazonelli (since 22 February 2018)

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, analytical and mining industries. 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:

	2018	2017
	\$	\$
Final dividend for the year	321,181	401,476

In addition to the above dividends, since the end of the financial year the directors have declared the payment of a fully franked final dividend of 0.3 cents per share to be paid on 19 October 2018 out of retained earnings at 30 June 2018.

# DIRECTORS' REPORT

## 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 and the results and financial position are disclosed in the attached financial statements.

The consolidated entity has produced a Net Profit After Tax (NPAT) of \$1,024,007 for the year ended 30 June 2018, compared with \$793,851 for the previous year.

Details of the results for the financial year ended 30 June 2018 are as follows:

	June 2018	June 2017	Increase / (decrease) over prior year
	\$	\$	%
Total revenue and other income	24,304,543	21,508,891	13
NPAT	1,024,007	793,851	29
Basic earnings per share – (cents per share)	0.8	0.6	33
Diluted earnings per share – (cents per share)	0.8	0.6	33
Underlying profit before tax <sup>1</sup>	2,463,669	2,196,581	12

<sup>1</sup> Non-IFRS financial information. Normalised for unusual amounts recorded in the P&L. Refer below for details:

	June 2018	June 2017
	\$	\$
Profit before tax	1,502,092	968,429
Acquisition related costs	217,730	113,167
Precious metals factory relocation expenses	-	162,339
Precious metals division expansion costs	743,847	841,335
Research and development costs expensed	-	111,311
Underlying profit before tax	<u>2,463,669</u>	<u>2,196,581</u>

## OPERATING RESULTS

XRF Scientific Ltd (“XRF” or “Company”) is pleased to report its June 2018 full-year results to shareholders. The Company has generated revenue of \$24.3m and Net Profit After Tax of \$1,024k, which increased by 29% on FY17. Underlying profit before tax has increased by 12% on the PCP to \$2,464k, before expensing costs associated with acquisitions, R & D and expansion of the Precious Metals Division. Acquisition-related costs were \$218k during the year, compared to \$113k in the PCP, which related to the acquisition and integration of Scancia into the group, including the factory closure in Canada and the cost of relocating production to Perth.

The Board has determined to maintain the dividend payout ratio for the year at approximately 40% of NPAT, declaring a final fully franked dividend of 0.3 cents per share.

In general, activity in the second half was slower than the first, which was mainly linked to a lower level of mining exploration activity, as reflected in lower Consumable product sales. Looking forward to FY19 we are expecting a significant improvement to results. Activity in July has been strong, and we are maintaining a good sales order book for long lead-time production items.

# DIRECTORS' REPORT

## OPERATING RESULTS continued

The Company's cash position was \$0.4m as at 30 June 2018 and has improved to \$0.6m as at 31 July 2018. Short-term borrowings have increased from \$54k as at 30 June 2017 to \$1.4m as at 30 June 2018. This is mainly due to the reclassification of the \$1.1m building loan for the Company's precious metals factory in Melbourne, which had an initial three-year term, and will now be renegotiated prior to the expiry in November 2018. Debt increased during the year due to the finalisation of a \$1.2m purchase of equipment for the precious metals factory, which was commissioned in late November 2017. \$0.5m of this loan value was to refund the Company for a deposit paid to the supplier in FY17. The new equipment significantly expands our precious metals fabrication capabilities, into product areas not previously accessible.

The Consumables Division experienced a 9% increase in sales activity, with revenue of \$7.5m and profit before tax of \$1.6m for the year. Revenue in the 2H was \$3.4m vs \$4.1m in 1H, with June being slower than previous years, which can typically be a busy month as customers in Australia close their operating budgets. However, activity in July has already started very strongly, with \$1m in sales invoiced for the month, which is at record levels. The demand is being generated from mining customers globally, across a range of commodities.

During the last year, lithium prices remained relatively stable, as did production costs for our consumable products. The Scancia flux factory in Quebec was closed in October 2017 and the equipment was shipped to the division's main factory in Perth. The production plant was recommissioned during the second half and is now in full-scale production. It is expected that the new micro-beads flux product offering will allow XRF to expand its market share in FY19.

The Capital Equipment Division improved again during the second half, delivering a profit before tax of \$181k for the year, as opposed to \$70k in the PCP. The main driver of this improvement has been the strong level of electric fusion machine orders, which are manufactured in the Perth factory. Results are expected to improve strongly in FY19, as the factory in Perth is maintaining an order book of more than three months for electric fusion machines.

The launch of the "xrFuse 1" one-position fusion machine has been highly successful, with numerous units already sold. The machine is a good sample preparation partner for smaller benchtop x-ray spectrometers, which are increasing in popularity. The sale of gas fusion machines is continually improving, with a good order book now being maintained. In late November, a new machine, the "Phoenix GO" was launched. Advances in our R & D program have allowed for this new product to be released, which uses gas only, without the need for oxygen or compressed air for operation. The machine is aimed at the lower pricing end of the market, and is ideally suited for cost-conscious users, with savings available both on the initial infrastructure and ongoing operating costs. Sales are progressing well, with machines sold into Europe, South America and Southern Africa.

The Precious Metals Division delivered a profit before tax of \$56k for the year, as compared to a loss of \$575k in the PCP, which includes the result for the Germany office. The significant turnaround in results was due to increased sales activity, and non-recurring relocation costs of the precious metals factory that were in the PCP. The factory in Melbourne has been extremely busy, expanding its product portfolio and capabilities, in line with the sales activity occurring in Germany. New products are being developed both for the traditional labware portfolio and precision customised platinum products.

Sales development at our office in Germany is progressing well, which achieved \$1.86m of revenue during the year as compared to \$609k last year. The office is still in a loss position, which amounted to \$743k for the year, compared to \$841k for last year. The size of the loss was increased due to forex differences caused by the strength of the Euro against the AUD, which was on average 5.7% stronger during the year. Offsetting against this loss is \$232k in gross profits that were made by other parts of the group, as a result of sales made directly by the Germany office and new customers introduced to other parts of the group.

# DIRECTORS' REPORT

## OPERATING RESULTS continued

Our current expectation is still that the office will be breaking even on a monthly basis within this calendar year. XRF's precision products are experiencing a strong level of acceptance in the European markets, with the first order for an aerospace customer delivered in November. Late in FY18, our margins started to expand, with new significant customers being acquired in the Labware and Glass industry markets. July was its best performance yet with revenue of EUR 102k and its monthly loss reduced to EUR 28k (unaudited), compared to the average of EUR 43k in FY18.

## MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

A final dividend of 0.3 cents per share fully franked was declared on 28 August 2018, bringing the total dividend for the year to 0.3 cents per share fully franked (FY17: 0.24 cents per share fully franked), with a record date of 5 October 2018 and payment date of 19 October 2018.

There were no other events subsequent to the reporting date which have significantly affected or may significantly affect the XRF Scientific Limited operations, results or state of affairs in future years.

## 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.

## SIGNIFICANT CHANGES IN STATE OF AFFAIRS

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

## ENVIRONMENTAL REGULATION

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 2017 to 30 June 2018 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.

## CORPORATE GOVERNANCE DISCLOSURE

The Group's Corporate Governance Statement for the year ended 30 June 2018 can be found at:

- <http://www.xrfscientific.com/corporate-governance/>

The statement also summarises the extent to which the Group has complied with the Corporate Governance Council's recommendations.

# DIRECTORS' REPORT

## INFORMATION ON DIRECTORS

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<b>Kenneth Baxter</b>	<b>Chairman (Non-Executive)</b>
<i>Date of appointment:</i>	5 July 2005 (13 years)
<i>Qualifications:</i>	Bachelor of Economics, Fellow of Australian Institute of Management and Fellow of the Australian Institute of Company Directors
<i>Experience:</i>	Part time Commissioner with the Australian Government Productivity Commission; former Chairman of PNG Energy Developments Ltd, TFG International Pty Ltd, and the Australian Dairy Corporation & Thai Dairy Industries Ltd; former Director of the Hydro Electric Corporation of Tasmania, and Air Niugini Ltd; former Secretary of Department of Premier & Cabinet Victoria
<i>Other current directorships:</i>	Private companies only
<i>Former directorships in last 3 years:</i>	Chairman of PNG Sustainable Infrastructure Ltd and Infracore Asia Developments Pte Ltd; Director of Dairy NSW and other private companies
<i>Special responsibilities:</i>	Chairman of the Board, member of the Audit & Governance and Remuneration Committees
<i>No. of shares:</i>	1,215,623 fully paid ordinary shares
<hr/>	
<b>David Brown</b>	<b>Director (Non-Executive)</b>
<i>Date of appointment:</i>	7 June 2004 (14 years)
<i>Qualifications:</i>	Bachelor of Science, Bachelor of Economics
<i>Experience:</i>	Has over 40 years of experience in research and development and manufacturing of X-Ray Flux chemicals. Formerly Chief Chemist for Swan Brewery Co. Ltd and Chairman of Scientific Industries Council of WA.
<i>Other current directorships:</i>	Private companies only
<i>Former directorships in last 3 years:</i>	Private companies only
<i>Special responsibilities:</i>	Technical consultant to XRF Chemicals Pty Ltd
<i>No. of shares:</i>	8,670,894 fully paid ordinary shares
<hr/>	
<b>David Kiggins</b>	<b>Director (Non-Executive)</b>
<i>Date of appointment:</i>	1 May 2012 (6 years)
<i>Qualifications:</i>	Bachelor of Science (Hons), member of the Institute of Chartered Accountants of England and Wales, member of the Institute of Chartered Secretaries and Administrators, and member of Australian Institute of Company Directors
<i>Experience:</i>	Ten years at Arthur Andersen, working in audit and business consulting in the UK, Australia, Africa and the Middle East. Formerly GM Business Development and Company Secretary at Automotive Holdings Group Ltd; Finance Director and Company Secretary at Global Construction Services Ltd. Currently the Chief Financial Officer at Heliwest.
<i>Other current directorships:</i>	Private companies only
<i>Former directorships in last 3 years:</i>	Private companies only
<i>Special responsibilities:</i>	Chairman of the Audit & Governance Committee, member of the Remuneration Committee
<i>No. of shares:</i>	212,900 fully paid ordinary shares
<hr/>	
<b>Fred Grimwade</b>	<b>Director (Non-Executive)</b>
<i>Date of appointment:</i>	1 May 2012 (6 years)
<i>Qualifications:</i>	Bachelor of Commerce and Law, Master of Business Administration, Fellow of the Governance Institute of Australia, Fellow of the Australian Institute of Company Directors, and Life Member of the Financial Services Institute of Australasia
<i>Experience:</i>	Has held general management positions at Colonial Agricultural Company, the Colonial Group, Western Mining Corporation and Goldman, Sachs & Co. Currently a Principal and Executive Director of Fawcner Capital.
<i>Other current directorships:</i>	Chairman of CPT Global Ltd; Non-Executive Director of Select Harvests Ltd, Australian United Investment Company Ltd and other private companies
<i>Former directorships in last 3 years:</i>	Chairman of Troy Resources Ltd; Non-Executive Director of NewSat Ltd and other private companies
<i>Special responsibilities:</i>	Chairman of the Remuneration Committee, member of the Audit & Governance Committee
<i>No. of shares:</i>	400,000 fully paid ordinary shares

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# DIRECTORS' REPORT

## INFORMATION ON DIRECTORS continued

<b>Vance Stazonelli</b>	<b>Managing Director</b>
<i>Date of appointment:</i>	22 February 2018 (6 months)
<i>Qualifications:</i>	Bachelor of Commerce (Professional Accounting)
<i>Experience:</i>	Vance joined XRF Scientific as Chief Financial Officer in October 2009. He was subsequently appointed to Chief Operating Officer in January 2011 and then Chief Executive Officer in August 2012. On 22 February 2018, he was appointed as Managing Director.
<i>Other current directorships:</i>	Private companies only
<i>Former directorships in last 3 years:</i>	Private companies only
<i>Special responsibilities:</i>	N/A
<i>No. of shares:</i>	450,000 fully paid ordinary shares

## COMPANY SECRETARIES

**Vance Stazonelli, B.Comm, CPA** – Vance has held the role of Company Secretary since June 2008.

**Andrew Watson, B.Comm, CA** – Andrew was appointed Joint Company Secretary in August 2013.

## OTHER KEY MANAGEMENT

### **Andrew Watson (Chief Financial Officer – XRF Scientific Limited)**

Andrew joined XRF Scientific as Group Accountant in August 2012 and was promoted to Chief Financial Officer in July 2014. He is a member of the Chartered Accountants Australia and New Zealand and holds a Graduate Diploma of Applied Corporate Governance.

## 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 2018 were as follows:

	Full meetings of Directors		Meetings of committees - Audit & Governance, Remuneration	
	A	B	A	B
Kenneth Baxter	13	13	3	3
David Brown	13	13	**	**
David Kiggins	13	13	3	3
Fred Grimwade	13	13	3	3
Vance Stazonelli *	4	4	**	**

**A** = Meetings held during the time the director held office or was a member of the Committee during the year.

**B** = Meetings attended.

**\*** = Attended 4 meetings as Managing Director after appointment on 22 February 2018. The prior 9 meetings were attended as Chief Executive Officer.

**\*\*** = Not a member of the relevant Committee.

# DIRECTORS' REPORT

## REMUNERATION REPORT (Audited)

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

#### Remuneration governance

The Remuneration Committee is a committee of the Board. Its objective is to ensure that remuneration policies and structures are fair and competitive and aligned with the long-term interests of the company. It is primarily responsible for making recommendations to the Board on:

- the over-arching executive remuneration framework
- operation of the incentive plans which apply to the executive team, including key performance indicators and performance hurdles
- remuneration levels of executive directors and other key management personnel, and
- non-executive director fees

#### 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 fees. Non-executive directors may receive share options.

#### Managing director

On 22 February 2018, the Chief Executive Officer was appointed as Managing Director. No additional remuneration will be paid to Mr Stazonelli as part of the appointment, and his contracted terms of employment remained unchanged.

#### Directors' fees

The current base remuneration was last reviewed in July 2016. The maximum currently stands at \$400,000 per annum and was approved by shareholders at the Annual General Meeting in November 2012.

#### Base director fees

Chairman	\$87,000
Non-Executive Directors	\$55,000
Committee Chairman	\$8,000

#### Executive pay

The executive pay and reward framework has three components:

1. Base pay and benefits, including superannuation
2. Short-term performance incentives, and
3. 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 they manage, and the performance of the Group of companies.

Where appropriate, there is a direct link between financial performance (profit or growth) to key managers' compensation by way of bonus, which is assessed under a weighted balanced scorecard method, as set out by the Remuneration Committee at the start of each year. 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.

#### *(i) Base Pay*

Executives are offered a competitive base pay that forms 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.

# DIRECTORS' REPORT

## REMUNERATION REPORT (Audited) continued

### *(ii) Benefits*

Executives may receive benefits including car/mileage allowance.

### *(iii) Superannuation*

Retirement benefits of 9.5% 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.

### *(v) Long-term incentives*

There are no specific long-term incentives in place, however the matter is currently being considered by the Remuneration Committee.

### *(vi) Assessing performance and claw-back of remuneration*

The Board is currently reviewing the Executive Performance Reward Policy with regards to the following: in the event of serious misconduct or a material misstatement in the Group's financial statements, the Board may cancel or defer remuneration and may also claw back performance-based remuneration paid in previous financial years.

## **(b) Details of remuneration**

### *(i) Non-Executive*

Kenneth Baxter	Chairman
David Brown	Non-Executive Director
David Kiggins	Non-Executive Director
Fred Grimwade	Non-Executive Director

### *(ii) Executive*

Vance Stazonelli	Managing Director
Andrew Watson	Chief Financial Officer

## **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 other key management personnel is contained in information that follows.

## **Variable Remuneration (Short-Term Incentive)**

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. For the Managing Director, variable remuneration is calculated based on an assessment of key performance indicators using a weighted balanced scorecard method, as set out by the Remuneration Committee at the start of each year. The maximum amount payable to the Managing Director for 2018 is \$70,000. There were five categories of STI performance measure (plus a discretionary component) for the year ended 30 June 2018. Those measures were chosen to provide a balance between corporate, individual, operational, strategic, financial and behavioural aspects of performance. The weighting assigned to each of the performance measures was as follows:

- Group financial performance (40%)
- Leadership (10%)
- Stakeholder & associated business relations (5%)
- Execution of business growth strategy (20%)
- Compliance and risk management (5%)
- Discretionary (20%)

# DIRECTORS' REPORT

## REMUNERATION REPORT (Audited) continued

### (b) Details of remuneration continued

The Remuneration Committee considered the performance of the Managing Director against the performance measures outlined above. A range of strategic targets were met, a key business acquisition was successfully completed and internal expansion plans are on schedule. All compliance obligations were met throughout the year with no reported issues and relationships with internal and external stakeholders were well managed. However, due to the Group's current level of financial performance, it was decided by the Remuneration Committee that no bonus would be paid to the Managing Director for the 30 June 2018 financial year.

### 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:

2018	Short-term			Post-employment	Long-term		Total \$
	Cash Salary \$	Cash Bonuses \$	Other	Super- annuation \$	Long Service Leave \$	Termination benefits \$	
<b>Non-executive directors</b>							
Kenneth Baxter	79,452	-	-	7,548	-	-	87,000
David Brown	50,228	-	171,000	4,772	-	-	226,000
David Kiggins	57,534	-	-	5,466	-	-	63,000
Fred Grimwade	57,534	-	-	5,466	-	-	63,000
<b>Sub-total non-executive directors</b>	<b>244,748</b>	<b>-</b>	<b>171,000</b>	<b>23,252</b>	<b>-</b>	<b>-</b>	<b>439,000</b>
<b>Executive directors</b>							
Vance Stazzonelli **	262,000	-	-	24,890	5,342	-	292,232
<b>Sub-total executive directors</b>	<b>262,000</b>	<b>-</b>	<b>-</b>	<b>24,890</b>	<b>5,342</b>	<b>-</b>	<b>292,232</b>
<b>Other key management personnel</b>							
Andrew Watson	159,650	-	-	15,167	3,036	-	177,853
<b>Sub-total key management personnel</b>	<b>159,650</b>	<b>-</b>	<b>-</b>	<b>15,167</b>	<b>3,036</b>	<b>-</b>	<b>177,853</b>
	<b>666,398</b>	<b>-</b>	<b>171,000</b>	<b>63,309</b>	<b>8,378</b>	<b>-</b>	<b>909,085</b>

2017	Short-term			Post-employment	Long-term		Total \$
	Cash Salary \$	Cash Bonuses \$	Other	Super- annuation \$	Long Service Leave \$	Termination benefits \$	
<b>Non-executive directors</b>							
Kenneth Baxter	79,452	-	-	7,548	-	-	87,000
David Brown	50,228	-	171,000	4,772	-	-	226,000
David Kiggins	57,534	-	-	5,466	-	-	63,000
Fred Grimwade	57,534	-	-	5,466	-	-	63,000
<b>Sub-total non-executive directors</b>	<b>244,748</b>	<b>-</b>	<b>171,000</b>	<b>23,252</b>	<b>-</b>	<b>-</b>	<b>439,000</b>
<b>Other key management personnel</b>							
Vance Stazzonelli	254,529	-	-	24,180	5,205	-	283,914
Andrew Watson	155,000	6,393	-	15,332	3,016	-	179,741
<b>Sub-total key management personnel</b>	<b>409,529</b>	<b>6,393</b>	<b>-</b>	<b>39,512</b>	<b>8,221</b>	<b>-</b>	<b>463,655</b>
	<b>654,277</b>	<b>6,393</b>	<b>171,000</b>	<b>62,764</b>	<b>8,221</b>	<b>-</b>	<b>902,655</b>

\* Technical services provided by consultancy (such as technical sales and support, analytical method development).

\*\* Appointed as Managing Director on 22 February 2018. There were no changes to remuneration or other contracted employment terms.

# DIRECTORS' REPORT

## REMUNERATION REPORT (Audited) continued

### (b) Details of remuneration continued

#### Percentage of performance related compensation of total remuneration

Certain executive 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 in page 11. 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	
	2018	2017	2018	2017	2018	2017
<i>Executive personnel</i>						
Vance Stazzonelli	100%	100%	-	-	-	-
Andrew Watson	100%	96%	-	4%	-	-

#### Options issued as part of total remuneration

No options have been issued in 2017 or 2018 as part of total remuneration.

#### Voting and comments made at the company's 2017 Annual General Meeting

The company received validly appointed proxies of 98% of "yes" votes on its remuneration report for the 2017 financial year. The remuneration resolution was carried on a show of hands. The company did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

### (c) Shareholder Wealth

The following is a summary of key shareholder wealth statistics for the Company over the past 5 years (listed since 2006).

	EBIT	Earnings Per Share	Dividends Declared Per Share	Share Price	Market Capitalisation
	\$	Cents	Cents	Cents	\$
2013/14	3,358,127	1.8	1.1	21	27,752,990
2014/15	3,477,167	2.0	0.7	21	27,752,990
2015/16	2,318,737	1.2	0.5	18	24,088,645
2016/17	982,440	0.6	0.24	17	22,750,387
2017/18	1,598,268	0.8	0.3	16	22,081,257

### (d) Bonuses

Each individual Key Management Personnel performance bonus was discussed and reviewed against the requirements set out on page 11. Although some of the performance criteria were met by the Managing Director, it was mutually decided that a bonus would not be paid due to the financial result.

# DIRECTORS' REPORT

## REMUNERATION REPORT (Audited) continued

### (e) Shares held by key management personnel

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:

Name	Balance at 1 July 2017	On-market trades	Balance at 30 June 2018
<i>Directors of XRF Scientific Limited</i>			
Kenneth Baxter	1,215,623	-	1,215,623
David Brown	8,400,000	270,894	8,670,894
David Kiggins	212,900	-	212,900
Fred Grimwade	400,000	-	400,000
Vance Stazzonelli	450,000	-	450,000

### 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.

### Option holdings

There were no options over ordinary shares in the company held during the financial year by directors of XRF Scientific Limited or other key management personnel of the Group.

### Dividends received by key management personnel

Details of dividends received directly, indirectly or beneficially by key management personnel and their related parties are as follows:

Name	2018	2017
<i>Directors of XRF Scientific Limited</i>		
Kenneth Baxter	2,917	2,012
David Brown	20,160	32,898
David Kiggins	511	639
Fred Grimwade	960	1,200
Vance Stazzonelli	1,080	1,350

### (f) Service Agreements

Remuneration for the Managing Director and Chief Financial Officer is set out in service agreements, which are detailed below:

#### Vance Stazzonelli, Managing Director of XRF Scientific Limited

Terms of agreement – Ongoing employment contract effective 1 July 2017. Base salary is \$270,000 per annum (effective 1 July 2017), plus superannuation benefits of 9.5%. Payment of a termination benefit on early termination by the Company, other than for gross misconduct, equal to six months full pay. Notice period by the employee of six months. Payment of bonuses is based on a range of strategic, financial, operational, personnel, and Board-related key performance indicators.

#### Andrew Watson, Chief Financial Officer of XRF Scientific Limited

Terms of agreement – Ongoing employment contract effective 1 July 2017. Base salary is \$170,000 per annum (effective 1 July 2018), plus superannuation benefits of 9.5%. Payment of a termination benefit on early termination by the Company, other than for gross misconduct, equal to three months full pay. Notice period by the employee of three months. Payment of bonuses is based on a range of strategic, financial, operational, personnel, and Board-related key performance indicators.

No other key management personnel are currently employed under service contracts.

# DIRECTORS' REPORT

## REMUNERATION REPORT (Audited) continued

### (g) Share-based compensation

There was no share-based compensation to any Director or Key Management Personnel for the years ended 30 June 2017 and 2018. The Company has not adopted an employee share option scheme.

### (h) Remuneration consultants

No remuneration consultants were used in the years ended 30 June 2018 and 30 June 2017.

### (i) Other transactions with key management personnel

Premises were rented from a related entity of Director David Brown during the financial year. These properties were rented on normal commercial terms and conditions, totalling \$115,975 (2017: \$115,169). No amounts were outstanding at the end of the year.

### (j) Loans to directors and executives

No loans were made to directors and executives during the financial years ended 30 June 2018 and 30 June 2017.

## End of remuneration report (Audited).

## NON-AUDIT SERVICES

Details of the non-audit services provided by the Company's external auditor BDO Audit (WA) Pty Ltd and its related practices during the year ended 30 June 2018 are outlined in the following table. 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.

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	
	2018	2017
	\$	\$
<i>BDO Audit (WA) Pty Ltd</i>		
Audit and review of financial reports	119,201	104,858
Taxation services	47,146	43,790
Other services	1,224	-
<i>BDO Réviseurs d'Entreprises Soc. Civ. SCRL (Belgium)</i>		
Audit and review of financial reports	30,791	25,764
Taxation services	6,611	10,121
<i>BDO Canada s.r.l. (Canada)</i>		
Taxation services	16,094	3,655
<i>BDO AG Wirtschaftsprüfungsgesellschaft (Germany)</i>		
Taxation services	-	11,797
<i>BDO LLP (UK)</i>		
Audit and review of financial reports	8,609	8,949
<b>Total remuneration for audit and other services</b>	<b>229,676</b>	<b>208,934</b>

The Board is satisfied that the auditors of the Company, BDO Audit (WA) Pty Ltd remain independent.

# DIRECTORS' REPORT

## OPTIONS

No unissued ordinary shares of XRF Scientific Limited remain under option at the date of this report.

## INSURANCE OF DIRECTORS AND OFFICERS

During the financial year, the company paid insurance premiums to insure the directors and officers of the company and its Australian-based controlled entities.

The liabilities insured are legal costs that may be incurred in defending civil or some 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.

## 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 and on behalf of the Board by:



**Kenneth Baxter**

Chairman

Perth

28 August 2018

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 2018, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of 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 Audit (WA) Pty Ltd  
Perth, 28 August 2018

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER  
COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2018**

	Note	Consolidated	
		2018 \$	2017 \$
Revenue from continuing operations	5	24,250,362	21,540,489
Cost of sales		(14,595,450)	(12,660,291)
Gross profit		9,654,912	8,880,198
Other income	5	54,181	36,994
Share of profit / (loss) of investments accounted for using the equity method		-	(68,592)
Administration expenses		(6,423,795)	(6,095,043)
Other expenses		(961,916)	(894,582)
Occupancy expenses		(722,718)	(844,237)
Finance costs		(98,572)	(46,309)
<b>Profit before income tax</b>		1,502,092	968,429
Income tax expense	7	(478,085)	(174,578)
<b>Profit after income tax from continuing operations attributable to equity holders of XRF Scientific Limited</b>		1,024,007	793,851
<b>Other comprehensive income</b>			
<b>Items that will be classified to profit or loss</b>			
Foreign currency translation differences	22(a)	258,567	(36,250)
<b>Total comprehensive income for the year</b>		1,282,574	757,601
<b>Total comprehensive income attributable to equity holders of XRF Scientific Limited</b>		1,282,574	757,601
<b>Earnings per share for the year attributable to equity holders of XRF Scientific Limited</b>			
Basic earnings per share (cents per share)	31	0.8	0.6
Diluted earnings per share (cents per share)	31	0.8	0.6

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 30 JUNE 2018

	Note	Consolidated	
		2018	2017
		\$	\$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	8	415,374	833,405
Trade and other receivables	9	4,119,689	4,634,866
Inventories	10	7,611,983	4,875,783
Other assets	11	414,802	484,879
<b>Total Current Assets</b>		<b>12,561,848</b>	<b>10,828,933</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	13	8,487,225	7,239,487
Intangible assets	14	15,964,438	15,942,626
Deferred tax asset	15	916,544	700,184
<b>Total Non-Current Assets</b>		<b>25,368,207</b>	<b>23,882,297</b>
<b>Total Assets</b>		<b>37,930,055</b>	<b>34,711,230</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	16	1,519,838	1,632,859
Provisions	17	1,510,310	422,247
Short-term borrowings	18	1,385,922	54,499
Other current liabilities		166,793	191,518
Current income tax liability		366,158	40,931
<b>Total Current Liabilities</b>		<b>4,949,021</b>	<b>2,342,054</b>
<b>NON-CURRENT LIABILITIES</b>			
Long-term borrowings	18	883,409	1,198,737
Deferred tax liability	19	278,176	282,574
Provisions	20	94,959	124,768
<b>Total Non-Current Liabilities</b>		<b>1,256,544</b>	<b>1,606,079</b>
<b>Total Liabilities</b>		<b>6,205,565</b>	<b>3,948,133</b>
<b>Net Assets</b>		<b>31,724,490</b>	<b>30,763,097</b>
<b>EQUITY</b>			
Issued capital	21	18,584,489	18,584,489
Reserves	22(a)	937,358	678,791
Retained profits	22(b)	12,202,643	11,499,817
<b>Total Equity</b>		<b>31,724,490</b>	<b>30,763,097</b>

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

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2018

30 JUNE 2018 – CONSOLIDATED	Issued Share Capital	Share Option Reserve	Foreign Currency Translation Reserve	Retained Profits	Total
	\$	\$	\$	\$	\$
<b>Balance at 1 July 2017</b>	18,584,489	759,243	(80,452)	11,499,817	30,763,097
Profit for the period	-	-	-	1,024,007	1,024,007
Other comprehensive income	-	-	258,567	-	258,567
<b>Total comprehensive income for the period</b>	-	-	258,567	1,024,007	1,282,574
<b>Transactions with Equity Holders in their capacity as Equity Holders</b>					
Ordinary shares issued, net of transaction costs	-	-	-	-	-
Dividends paid	-	-	-	(321,181)	(321,181)
	-	-	-	(321,181)	(321,181)
<b>Balance at 30 June 2018</b>	18,584,489	759,243	178,115	12,202,643	31,724,490

30 JUNE 2017 – CONSOLIDATED	Issued Share Capital	Share Option Reserve	Foreign Currency Translation Reserve	Retained Profits	Total
	\$	\$	\$	\$	\$
<b>Balance at 1 July 2016</b>	18,584,489	759,243	(44,202)	11,107,442	30,406,972
Profit for the year	-	-	-	793,851	793,851
Other comprehensive income / (loss)	-	-	(36,250)	-	(36,250)
<b>Total comprehensive income / (loss) for the period</b>	-	-	(36,250)	793,851	757,601
<b>Transactions with Equity Holders in their capacity as Equity Holders</b>					
Ordinary shares issued, net of transaction costs	-	-	-	-	-
Dividends paid	-	-	-	(401,476)	(401,476)
	-	-	-	(401,476)	(401,476)
<b>Balance at 30 June 2017</b>	18,584,489	759,243	(80,452)	11,499,817	30,763,097

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

CONSOLIDATED STATEMENT OF CASH FLOWS  
AS AT 30 JUNE 2018

	Note	Consolidated	
		2018	2017
		\$	\$
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of GST)		24,839,074	21,078,302
Payments to suppliers and employees (inclusive of GST)		(23,358,770)	(20,255,402)
Payment of expenses relating to business acquisitions		(202,730)	(113,167)
Finance costs		(98,572)	(46,309)
Income taxes paid		(373,616)	(537,031)
Interest received		2,397	29,788
<b>Net cash inflow (outflow) from operating activities</b>	29	<u>807,783</u>	<u>156,181</u>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(1,701,725)	(1,841,573)
Payment for acquisition of business		-	(45,663)
Payments for research and development		(232,619)	(322,771)
Proceeds from sale of property, plant and equipment		13,616	109,473
<b>Net cash inflow (outflow) from investing activities</b>		<u>(1,920,728)</u>	<u>(2,100,534)</u>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings	18	1,175,000	141,737
Repayment of borrowings	18	(158,905)	(267,276)
Dividends paid		(321,181)	(401,476)
<b>Net cash inflow (outflow) from financing activities</b>		<u>694,914</u>	<u>(527,015)</u>
Cash and cash equivalents at the beginning of the financial period		833,405	3,304,773
Net increase (decrease) in cash and cash equivalents		(418,031)	(2,471,368)
<b>Cash and cash equivalents at the end of the financial period</b>	8	<u>415,374</u>	<u>833,405</u>

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

## 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 2018 was authorised for issue in accordance with a resolution of the directors on 28 August 2018 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 and is a for-profit entity 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 IFRS*

The financial statements of XRF Scientific Limited also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

#### *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 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 2018 and the results of all subsidiaries for the year then ended.

XRF Scientific Limited and its subsidiaries together are referred to in this report as the Group or the consolidated entity.

The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its investment with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

All controlled entities have a 30 June financial year end.

The consolidated financial statements are prepared by combining the financial statements of all entities that comprise the consolidated entity, being the company (the parent company) and its subsidiaries. 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 exceed the cost of acquisition, the benefit is credited to profit or 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.

Accounting policies of subsidiaries are consistent with the policies adopted by the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

## NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

### *(ii) Investments in associates and joint-ventures*

Investment in associates is accounted for using the equity method of accounting in the consolidated financial statements.

Under the equity method, the investment in the associates is carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associate.

After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group's net investment in the associate.

The Group's share of the associate post-acquisition profits or losses is recognised in the statement of profit or loss and other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in the associate equals or exceeds its interest in the associate, including any unsecured long-term receivables and loans, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The reporting dates of the associate and the Group are identical and the associate's accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

### *(iii) Changes in ownership interests*

When the Group ceases to have control, joint control or significant influence, any retained interest in the entity is re-measured 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.

### **(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 Managing Director.

### **(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 Statement of Profit or Loss and Other Comprehensive Income, 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

## NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

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 or 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.

#### *(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 in the accounting period in which the services are rendered.

### **(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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

## NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

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. 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 or 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 are depreciated over the shorter of the asset's useful life and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases (note 25(a)). Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit or 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 re-measured to fair value with changes in fair value recognised in profit or loss.

All purchase consideration is recorded at fair value at the acquisition date. Contingent payments classified as debt are subsequently re-measured through profit or loss.

Acquisition-related costs are expensed as incurred.

Non-controlling interests in an acquiree are 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

## NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

If the Group recognises previously 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.

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 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 Statement of Financial Position.

### (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 Statement of Profit or Loss and Other Comprehensive Income. 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. Another indicator that determines 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 Statement of Profit or Loss and Other Comprehensive Income.

### (l) Inventories

*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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

## NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

### *(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 reporting date which are classified as non-current assets. Loans and receivables are included in receivables in the Statement of Financial Position (note 9).

### *(ii) Recognition and derecognition*

Regular purchases and sales of investments are recognised on trade-date – the date on which the Company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Financial assets are derecognised when the rights to receive the cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

### *(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 Statement of Profit or Loss and Other Comprehensive Income 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 reporting 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 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 CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

## 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 or 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	2%-40%
Property Improvements	4%-25%
Motor Vehicles	15%-25%
Office Equipment	5%-66.67%

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

For the purpose of impairment testing, goodwill is allocated to the consolidated entity's cash generating units identified according to business and geographical segments (note 14(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 4 years.

#### *(iv) Customer lists*

The customer lists were acquired as part of a business combination. They are recognised at their fair value at the date of acquisition and subsequently amortised on a straight-line basis over the estimated useful lives, between 3 to 5 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 CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

## 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.

Borrowings are removed from the Statement of Financial Position 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 reporting 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 reporting 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 wholly 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. These amounts are not expected to be settled wholly within 12 months of the reporting date.

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

#### *(iii) Retirement benefit obligations*

The amount charged to 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

## NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

### *(iv) 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 reporting 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 reporting 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.

### **(y) Earnings per share**

#### *(i) Basic earnings per share*

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

#### *(ii) Diluted earnings per share*

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

## NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

### (z) New accounting standards and interpretations

Certain new accounting Standards and Interpretations have been published that are not mandatory for 30 June 2018 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new Standards and Interpretations is set out below. In all cases the Group intends to apply these standards from the application date as indicated below.

#### (i) AASB 15 *Revenue from Contracts with Customers* (effective from 1 July 2018)

The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers contracts for goods and services and AASB111 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer, so the notion of control replaces the existing notion of risks and rewards. The standard permits a modified retrospective approach for the adoption. Under this approach entities will recognise any applicable transitional adjustments in retained earnings on the date of the initial application without restating the comparative period. Entities will only need to apply the new rules to contracts that are not completed as of the date of initial application. There will be no significant impact on the Group on the adoption of this standard.

#### (ii) AASB 16 *Leases* (effective from 1 July 2019)

##### Lessee accounting

Lessees are required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of a low value. A lessee measures right-of-use assets similarly to other non-financial assets and lease liabilities similarly to other financial liabilities. Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments, and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. AASB 16 contains disclosure requirements for leases.

##### Lessor accounting

AASB 16 substantially carries forward the lessor accounting requirements in AASB 117. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. AASB 16 also requires enhanced disclosures to be provided by lessors that will improve information disclosed about a lessor's risk exposure, particularly to residual value risk.

To the extent that the entity, as lessee, has significant operating leases outstanding at the date of initial application, 1 July 2019, right-of-use assets will be recognised for the amount of the unamortised portion of the useful life, and lease liabilities will be recognised at the present value of the outstanding lease payments. Thereafter, earnings before interest, depreciation, amortisation and tax (EBITDA) will increase because operating lease expenses currently included in EBITDA will be recognised instead as amortisation of the right-of-use asset, and interest expense on the lease liability. However, there will be an overall reduction in net profit before tax in the early years of a lease because the amortisation and interest charges will exceed the current straight-line expense incurred under AASB 117 Leases. This trend will reverse in the later years. There will be no change to the accounting treatment for short-term leases less than 12 months and leases of low value items, which will continue to be expensed on a straight-line basis.

#### (iv) AASB 9 *Financial Instruments* (effective from 1 July 2018)

AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting. In December 2014, the AASB made further changes to the classification and measurement rules and also introduced a new impairment model. These latest amendments now complete the financial instruments standard. There will be no significant impact on the Group on the adoption of this standard.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

## NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

(vi) IFRIC 23 *Uncertainty over Income Tax Treatments* (effective from 1 January 2019)

When assessing whether a taxation authority will accept an uncertain tax treatment, entities must assume that a tax audit will be conducted, with the taxation authority having full knowledge of all relevant information when conducting the tax audit. If it is not probable that a taxation authority will accept an uncertain income tax position, the effect of the uncertainty is to be reflected in determining the income tax expense and deferred tax assets and liabilities using either the 'most likely amount' method or the 'expected value' method. The probability of being selected for a tax audit is not factored in when assessing the probability of the taxation authority accepting an uncertain tax position, or in measuring the tax balances. If it is probable that the taxation authority will accept the income tax position, income tax expense and deferred tax balances will be measured consistently with the tax treatments to be used in the income tax returns/filings. There will be no significant impact on the Group on the adoption of this standard.

## NOTE 2: FINANCIAL RISK MANAGEMENT

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

Risk management is carried out by 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 guidance for overall risk management and other 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, the US Dollar, and the Canadian 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. The Group's exposure to foreign currency risk at the reporting date was as follows:

	30 June 2018			30 June 2017		
	CAD	EUR	USD	CAD	EUR	USD
Trade receivables	113,528	566,277	482,665	197,838	809,789	437,772
Trade payables	1,692	79,569	52,884	70,925	18,896	168,303

#### Group sensitivity

Based on the financial instruments held at 30 June 2018, had the Australian dollar strengthened / weakened 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 \$135,214 lower / \$165,262 higher (2017: \$149,795 lower / \$183,082 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

## NOTE 2: FINANCIAL RISK MANAGEMENT continued

### (ii) Price risk

As the Group does not have any investments in equities or commodities, its exposure to equities price risk and commodity price risk is minimal.

While the Group uses commodities in its operations, customer commitments to market 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 2018 the Group had no variable interest rate debt, therefore consider fair value interest rate risk minimal.

### Group sensitivity

At 30 June 2018, 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 \$6,732 higher / lower (2017: \$981 higher / lower), mainly as a result of higher/lower interest income from cash and cash equivalents. Cash and cash equivalent balances at 30 June 2018 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 reporting date.

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

	Consolidated	
	2018	2017
	\$	\$
Cash and cash equivalents (AA- rated)	415,374	833,405
Trade receivables, net of impairment provision (note 9) (Group 2)	4,117,736	4,603,159
Other receivables (external parties)	1,953	31,707
	<u>4,535,063</u>	<u>5,468,271</u>

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
2018	2,919,884	838,994	182,309	176,549	4,117,736
2017	3,161,176	723,288	405,662	347,954	4,638,080

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

### 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's 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.

Contractual maturities of financial liabilities	Less than 6 months	6 – 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual cash flows	Carrying Amount (assets)/ liabilities
As at 30 June 2018	\$	\$	\$	\$	\$	\$	\$
<b>Non-derivatives</b>							
Trade and other payables	986,931	-	-	-	-	986,931	986,931
Property loan	1,127,733	-	-	-	-	1,127,733	1,111,500
Plant & equipment loan	24,195	24,195	24,195	-	-	72,585	69,653
Motor vehicle loan	6,096	6,096	6,096	-	-	18,288	17,584
Plant & equipment loan	133,500	133,500	267,000	667,500	-	1,201,500	1,070,594
<b>Total non-derivatives</b>	<b>2,278,455</b>	<b>163,791</b>	<b>297,291</b>	<b>667,500</b>	<b>-</b>	<b>3,407,037</b>	<b>3,256,262</b>

#### As at 30 June 2017

#### Non-derivatives

Trade and other payables	1,168,922	-	-	-	-	1,168,922	1,168,922
Property loan	19,479	19,479	1,127,733	-	-	1,166,691	1,111,500
Plant & equipment loan	24,195	24,195	48,389	24,195	-	120,974	113,139
Motor vehicle loan	6,096	6,096	12,192	6,096	-	30,480	28,598
<b>Total non-derivatives</b>	<b>1,128,692</b>	<b>49,770</b>	<b>1,188,314</b>	<b>30,291</b>	<b>-</b>	<b>2,487,067</b>	<b>2,422,159</b>

The Group had access to the following undrawn borrowing facilities at the end of the reporting period:

	Consolidated	
	2018	2017
	\$	\$
Bank overdraft facility	483,713	649,677
Bank guarantee facility	313,245	1,459,634
	<u>796,958</u>	<u>2,109,311</u>

#### (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 the Consolidated Entity.

The fair values of current and non-current borrowings are based on discounted cash flows using a current borrowing rate. They are classified as level 3 fair values in the fair value hierarchy due to the use of unobservable inputs, including own credit risk.

Carrying value	\$2,269,330
Fair value	\$2,373,128

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

### 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. The Group 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.

**(a) Estimated impairment of goodwill**

The Group tests whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 1(p). Please refer to note 14 for the details on impairment tests performed on goodwill.

**(b) 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).

**(c) Tax**

The determination of the Group's provision for income tax as well as deferred tax assets and liabilities involves significant judgements and estimates on certain matters and transactions, for which the ultimate outcome may be uncertain. If the final outcome differs from the Group's estimates, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made. The Group has recognised a deferred tax asset relating to the start-up losses incurred during FY17 and FY18 by the new German division. The Group has concluded that the tax losses will be recovered against the estimated future taxable income based on the approved business plans and budgets of the German division.

### 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 those 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 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 Capital Equipment, Precious Metals and Consumables. 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:

*Capital Equipment*

Design, manufacture and service organisation, specialising in automated fusion equipment, high temperature test and production furnaces, as well as general laboratory equipment.

*Precious Metals*

Manufactures products for the laboratory and platinum alloy markets.

*Consumables*

Produces and distributes consumables, chemicals and other supplies for analytical laboratories.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018

**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 2018 is as follows:

	Capital Equipment	Precious Metals	Consumables	Total
<b>Full-year ended 30 June 2018</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Total segment revenue	7,124,324	10,978,026	7,532,596	25,634,946
Inter segment sales	(600,266)	(786,643)	-	(1,386,909)
Revenue from external customers	6,524,058	10,191,383	7,532,596	24,248,037
<b>Profit before income tax expense</b>	<b>181,496</b>	<b>55,590</b>	<b>* 1,594,042</b>	<b>1,831,128</b>
* Includes \$122k of acquisition costs expensed (2017: Nil)				
<b>Full-year ended 30 June 2017</b>				
Total segment revenue	6,316,245	8,950,963	6,904,731	22,171,939
Inter segment sales	(298,729)	(364,930)	-	(663,659)
Revenue from external customers	6,017,516	8,586,033	6,904,731	21,508,280
<b>Profit before income tax expense</b>	<b>69,628</b>	<b>(575,337)</b>	<b>1,739,356</b>	<b>1,233,647</b>
<b>Segment assets</b>				
At 30 June 2018	7,753,463	17,075,483	22,699,132	47,528,078
At 30 June 2017	7,667,006	14,133,174	22,098,986	43,899,166
<b>Segment liabilities</b>				
At 30 June 2018	1,558,208	8,827,815	624,079	11,010,103
At 30 June 2017	1,559,345	5,723,420	1,311,026	8,593,791
<b>Depreciation and amortisation expense</b>				
For the year ended 30 June 2018	282,188	317,860	110,926	710,974
For the year ended 30 June 2017	263,315	291,555	113,688	668,558
<b>Capital expenditure</b>				
For the year ended 30 June 2018	170,111	1,264,934	389,832	1,824,877
For the year ended 30 June 2017	122,222	1,431,353	674,620	2,228,195
			<b>2018</b>	<b>2017</b>
			<b>\$</b>	<b>\$</b>
<b>Revenue from external customers – segments</b>			<b>24,248,037</b>	<b>21,508,280</b>
Unallocated revenue			2,325	32,209
<b>Revenue from external customers – total</b>			<b>24,250,362</b>	<b>21,540,489</b>
<b>Profit before income tax expense – segments</b>			<b>1,831,128</b>	<b>1,233,647</b>
Loss incurred by parent entity			(329,036)	(265,218)
<b>Profit before income tax expense from continuing operations</b>			<b>1,502,092</b>	<b>968,429</b>
<b>Total segment assets</b>			<b>47,528,078</b>	<b>43,899,166</b>
Related party loan elimination			(10,351,760)	(10,319,290)
Cash and cash equivalents			(180,558)	315,626
Deferred tax asset			916,544	700,184
Other corporate assets			17,751	115,544
<b>Total assets</b>			<b>37,930,055</b>	<b>34,711,230</b>
<b>Total segment liabilities</b>			<b>11,010,103</b>	<b>8,593,791</b>
Related party loan elimination			(5,989,707)	(5,039,819)
Deferred tax liability			278,176	282,574
Income tax provision			384,566	68,772
Other corporate liabilities			522,427	42,815
<b>Total liabilities</b>			<b>6,205,565</b>	<b>3,948,133</b>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018

**NOTE 5: REVENUE**

	Consolidated	
	2018	2017
	\$	\$
<i>Revenue from continuing operations</i>		
Sale of goods	24,247,966	21,508,191
Interest received	2,396	32,298
	<u>24,250,362</u>	<u>21,540,489</u>
<i>Other income</i>		
Profit on sale of non-current assets	1,911	1,388
Recoveries	1,271	24,234
Other revenue	50,999	11,372
	<u>54,181</u>	<u>36,994</u>

**NOTE 6: EXPENSES**

	Consolidated	
	2018	2017
	\$	\$
Profit/(loss) before income tax includes the following specific expenses		
<b>Depreciation</b>		
Depreciation (included in administration expenses)	317,055	286,685
Depreciation (included in cost of goods sold)	245,749	231,885
Total depreciation	<u>562,804</u>	<u>518,570</u>
<b>Amortisation</b>		
Patents, trademarks and acquired customer lists (included in administration expenses)	102,806	68,601
Research and development (included in administration expenses)	188,977	180,356
Total amortisation	<u>291,783</u>	<u>248,957</u>
<b>Other specific expenses</b>		
Employee benefits expenses (included in administration expenses)	4,692,622	4,409,535
Rental expense relating to operating leases (included in occupancy expenses)	610,669	719,720
Acquisition of business costs (included in other expenses)	217,730	113,167

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018

NOTE 7: INCOME TAX EXPENSE

	Consolidated	
	2018	2017
	\$	\$
<b>(a) Income tax expense</b>		
Current tax	753,020	589,077
Deferred tax	(220,758)	(259,139)
Adjustments for current tax of prior periods	(54,177)	(155,360)
	<u>478,085</u>	<u>174,578</u>
Income tax expense is attributed to:		
Profit from continuing operations	<u>478,085</u>	<u>174,578</u>
Deferred income tax expense included in income tax expense comprises:		
Decrease (increase) in deferred tax assets (note 15)	(216,360)	(290,218)
(Decrease) increase in deferred tax liabilities (note 19)	(4,398)	31,079
	<u>(220,758)</u>	<u>(259,139)</u>
<b>(b) Numerical reconciliation of income tax expense to prima facie tax payable</b>		
Profit/(loss) from continuing operations before income tax expense	1,502,092	968,429
	<u>1,502,092</u>	<u>968,429</u>
Tax at the Australian rate of 27.5% (2017: 30%)	413,075	290,529
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Acquisition of business costs	65,319	33,950
Research and development expenditure	(62,841)	(88,135)
Sundry items	116,708	93,594
	<u>532,262</u>	<u>329,938</u>
Adjustments for current tax of prior periods	(54,177)	(155,360)
Income tax expense	<u>478,085</u>	<u>174,578</u>

**(c) 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 CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018

**NOTE 8: CURRENT ASSETS – CASH AND CASH EQUIVALENTS**

	Consolidated	
	2018	2017
	\$	\$
Cash at bank and on hand	370,022	288,052
Deposits at call	45,352	545,353
	<u>415,374</u>	<u>833,405</u>
<b>Reconciliation to cash at the end of the year</b>		
Balances as above	415,374	833,405
Balance per statements of cash flows	<u>415,374</u>	<u>833,405</u>

**(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 0.60% pa (2017: 0.01% to 0.95% pa). 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 4 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 an interest rate of 2.35% pa (2017: 2.32% to 2.7% pa).

**(c) Risk exposure**

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

**NOTE 9: CURRENT ASSETS – TRADE AND OTHER RECEIVABLES**

	Consolidated	
	2018	2017
	\$	\$
Trade receivables	4,141,059	4,638,080
Allowance for impairment of receivables	(23,323)	(34,921)
Other receivables – From external parties	1,953	31,707
Total trade and other receivables	<u>4,119,689</u>	<u>4,634,866</u>
Past due but not impaired		
Up to 3 months	1,021,303	1,128,950
Up to 6 months	176,549	347,954
	<u>1,197,852</u>	<u>1,476,904</u>
Allowance for impairment of receivables		
Balance at 1 July	(34,921)	(26,922)
(Increase)/Decrease in allowance during the year	11,598	(7,999)
Balance at 30 June	<u>(23,323)</u>	<u>(34,921)</u>

**(a) Impaired trade receivables**

During the 2018 financial year, the allowance for impaired receivables reduced by 11,598 (2017: \$7,999 increase). This was due to the settlement of a debt which was impaired in a prior period. \$7,540 was received as part of the settlement. This amount has been included as 'other income' in the statement of profit or loss and other comprehensive income.

**(b) Past due but not impaired**

As at 30 June 2018, trade receivables of the Group of \$1,197,852 (2017: \$1,476,904) 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 in note 2. 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

### NOTE 9: CURRENT ASSETS – TRADE AND OTHER RECEIVABLES continued

#### (c) Other receivables

These amounts generally arise from transactions outside the usual operating activities of the Group. All 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.

#### (e) Non-current receivables

There are no non-current receivables in the current year (2017: Nil).

### NOTE 10: CURRENT ASSETS – INVENTORIES

	Consolidated	
	2018	2017
	\$	\$
Raw materials and spare parts	3,618,489	2,941,620
Finished goods	2,130,989	1,387,492
Precious metals (general)	875,634	546,671
Platinum on loan (refer to note 17)	986,871	-
	<u>7,611,983</u>	<u>4,875,783</u>

Raw materials, spare parts and finished goods have increased over the last 12 months to support production of a number of additions to the Capital Equipment division's product range.

Stock was valued at lower of cost and net realisable value on 30 June 2018 and 30 June 2017.

#### Inventory expense

Inventories recognised as expense during the year ended 30 June 2018 amounted to \$9,292,003 (2017: \$8,235,143). The cost of writing down inventories to net realisable value during the year ended 30 June 2018 was \$nil (2017: \$nil).

### NOTE 11: OTHER CURRENT ASSETS

	Consolidated	
	2018	2017
	\$	\$
Deposits paid	68,589	126,246
Accrued income	-	10,827
Prepayments (insurance policies, rates and other fees)	346,213	347,806
	<u>414,802</u>	<u>484,879</u>

### NOTE 12: INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	Consolidated	
	2018	2017
	\$	\$
Opening amount	-	607,890
Share of net profit / (loss) of investments accounted for using the equity method	-	(68,592)
Conversion of investment to wholly-owned subsidiary	-	(539,298)
Closing amount	<u>-</u>	<u>-</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018

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

Consolidated	Plant & Equipment \$	Motor Vehicles \$	Property Improvements \$	Office Equipment \$	Land & Buildings \$	Total \$
At 30 June 2016						
Cost or fair value	5,205,492	183,307	467,549	825,380	1,823,217	8,504,945
Accumulated depreciation	(1,837,376)	(63,771)	(293,540)	(478,251)	-	(2,672,938)
Net book amount	3,368,116	119,536	174,009	347,129	1,823,217	5,832,007
Year ended 30 June 2017						
Opening net book amount	3,368,116	119,536	174,009	347,129	1,823,217	5,832,007
Additions (via business combination)	186,471	-	15,011	16,336	-	217,818
Additions (other)	733,712	42,923	999,188	65,750	-	1,841,573
Foreign currency adjustment	(9,366)	-	(1,050)	(945)	-	(11,361)
Disposals	(99,135)	(10,432)	(10,603)	(1,810)	-	(121,980)
Depreciation charge	(271,667)	(28,164)	(83,676)	(135,063)	-	(518,570)
Closing net book amount	3,908,131	123,863	1,092,879	291,397	1,823,217	7,239,487
At 30 June 2017						
Cost or fair value	6,017,173	215,798	1,470,095	904,711	1,823,217	10,430,994
Accumulated depreciation	(2,109,042)	(91,935)	(377,216)	(613,314)	-	(3,191,507)
Net book amount	3,908,131	123,863	1,092,879	291,397	1,823,217	7,239,487
Year ended 30 June 2018						
Opening net book amount	3,908,131	123,863	1,092,879	291,397	1,823,217	7,239,487
Additions	1,569,626	64,061	166,918	71,922	0	1,872,527
Foreign currency adjustment	19,511	0	(640)	(558)	0	18,313
Disposals	(49,477)	(17,923)	(11,850)	(1,048)	0	(80,298)
Depreciation charge	(292,118)	(32,741)	(98,489)	(139,456)	0	(562,804)
Closing net book amount	5,155,673	137,260	1,148,818	222,257	1,823,217	8,487,225
At 30 June 2018						
Cost or fair value	7,372,355	216,034	1,533,395	536,574	1,823,217	11,481,575
Accumulated depreciation	(2,216,682)	(78,774)	(384,577)	(314,317)	-	(2,994,350)
Net book amount	5,155,673	137,260	1,148,818	222,257	1,823,217	8,487,225

All items of property, plant and equipment were recorded at cost as at 30 June 2018 and 30 June 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018

**NOTE 14: NON-CURRENT ASSETS - INTANGIBLE ASSETS**

Consolidated	Research & Development	Goodwill	Patents trademarks & other rights	Total
	\$	\$	\$	\$
At 30 June 2016				
Cost or fair value	897,640	14,194,351	543,343	15,635,334
Accumulated amortisation and impairment	(236,249)	-	(171,602)	(407,851)
Net book amount	661,391	14,194,351	371,741	15,227,483
Year ended 30 June 2017				
Opening net book amount	661,391	14,194,351	371,741	15,227,483
Additions (via business combination)	-	318,825	393,404	712,229
Additions (other)	303,171	-	-	303,171
Disposals	-	-	-	-
Foreign currency adjustment	(553)	(54,802)	4,055	(51,300)
Amortisation charge	(180,356)	-	(68,601)	(248,957)
Closing net book amount	783,653	14,458,374	700,599	15,942,626
At 30 June 2017				
Cost or fair value	1,220,412	14,458,374	940,249	16,619,035
Accumulated amortisation and impairment	(436,759)	-	(239,650)	(676,409)
Net book amount	783,653	14,458,374	700,599	15,942,626
Year ended 30 June 2018				
Opening net book amount	783,653	14,458,374	700,599	15,942,626
Additions	225,750	-	-	225,750
Disposals	-	-	-	-
Foreign currency adjustment	(1,967)	72,718	17,094	87,845
Amortisation charge	(188,977)	-	(102,806)	(291,783)
Closing net book amount	818,459	14,531,092	614,887	15,964,438
At 30 June 2018				
Cost or fair value	1,316,160	14,531,092	908,657	16,755,909
Accumulated amortisation and impairment	(497,701)	-	(293,770)	(791,471)
Net book amount	818,459	14,531,092	614,887	15,964,438

All intangible assets were recorded at cost as at 30 June 2018 and 30 June 2017.

**(a) Impairment tests for goodwill**

Goodwill is allocated to the consolidated entity's cash generating units (CGUs) identified according to business and geographical segments.

	Consolidated	
	2018	2017
	\$	\$
Consumables CGU	8,621,063	8,613,049
Precious Metals CGU	3,863,684	3,821,660
Capital Equipment CGU	1,650,171	1,650,171
European Sales Office CGU	396,174	373,494
	14,531,092	14,458,374

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

### NOTE 14: NON-CURRENT ASSETS – INTANGIBLE ASSETS continued

#### (b) Significant estimate: key assumptions used for value-in-use calculations

The recoverable amount of a CGU is determined based on value-in-use calculations which require the use of assumptions. The forecast cash flows for 2019 are based on the Board-approved budget. The cash flows for 2020 to 2023 have been based on extrapolating the 2019 forecast by using growth rates. Average growth rates of 3.20% (see below) used do not exceed the long-term average growth rates for the industries in which each CGU operates. The value in use model for the Precious Metals CGU incorporates significant growth representing the forecast return on the \$3.4m invested between FY16 and FY18 as part of expansion plans (excluding the \$1.8m spent purchasing property). The annual growth rate is expected to be higher in the initial years following completion of the project (FY20: 52%), then normalising to 3.20% in the following years. The pre-tax discount rate of 12.62% reflects specific risks relating to the relevant CGU.

	Consumables	Precious Metals	Capital Equipment	European Sales Office (Belgium)
Net Profit [% average annual growth rate]	3.20%	* 3.2%	3.20%	3.20%

\* Average growth rate excludes the forecast return from the expansion project noted above

#### (c) Sensitivity to change in assumptions

Should the 2018 forecast cash flows for the European Sales Office CGU be 70% lower than the Board-approved forecast, this would result in a material impairment charge of \$218,000 against the carrying value of goodwill. This reasonably possible change in growth rates represent reasonably possible reductions in sales quantities of consumables, precious metals and capital equipment. Management believes that no other reasonably possible changes in any of the above key assumptions would cause the carrying values to materially exceed recoverable amounts.

#### (d) Impairment charge

No impairment charges have been deemed necessary for the current period.

### NOTE 15: NON-CURRENT ASSETS – DEFERRED TAX ASSETS

	Consolidated	
	2018	2017
	\$	\$
Amounts recognised directly in equity:		
Share issue expenses	804	1,205
Amounts recognised in profit or loss:		
Employee benefits	301,027	291,819
DTA recognised on FY17 and FY18 losses by German subsidiary	444,682	264,568
Business acquisition expenses	76,433	31,988
Depreciation of tangible assets	28,493	29,043
Accruals	48,979	66,585
Provisions	16,126	14,976
	<u>915,740</u>	<u>698,979</u>
Net deferred tax assets	<u>916,544</u>	<u>700,184</u>
<b>Movements:</b>		
Opening balance at 1 July	700,184	409,966
(Charged)/credited to profit or loss (note 7)	216,360	290,218
Closing balance at 30 June	<u>916,544</u>	<u>700,184</u>
Deferred tax assets expected to be recovered within 12 months	222,899	218,840
Deferred tax assets expected to be recovered after more than 12 months	693,645	481,344
	<u>916,544</u>	<u>700,184</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

## NOTE 16: CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

	Consolidated	
	2018	2017
	\$	\$
Trade payables	674,123	791,423
Sundry creditors and accruals	312,808	377,499
Employee benefits – annual leave (a)	532,907	463,937
	<u>1,519,838</u>	<u>1,632,859</u>

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	
	2018	2017
	\$	\$
Annual leave obligations expected to be settled after 12 months	351,719	306,198

### (b) Foreign exchange risk exposure

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

## NOTE 17: CURRENT LIABILITIES – PROVISIONS

	Consolidated	
	2018	2017
	\$	\$
Provision for platinum loan (a)	986,871	-
Long service leave (b)	414,687	330,855
Dividends payable to ordinary shareholders	78,321	76,392
Making good of leases	15,000	15,000
Other provisions	15,431	-
	<u>1,510,310</u>	<u>422,247</u>

### (a) Provision for platinum loan

In October 2017, XRF borrowed \$386,383 of platinum metal, which is inventoried to facilitate manufacturing processes and reduce lead times. The loan facility matures after 12 months and interest is calculated at market rates and payable annually. In January 2018, an additional \$600,488 was borrowed, increasing the total borrowed metal to \$986,871. The second loan facility matures after 12 months and interest is calculated at market rates and payable annually. At maturity, both facilities will be renewed for additional terms or the platinum will be returned. These liabilities are offset by an inventory asset of \$986,871.

### (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. 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 paid within the next 12 months:

	Consolidated	
	2018	2017
	\$	\$
Long service leave obligations expected to be settled after 12 months	311,015	248,141

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

### NOTE 18: CURRENT & NON-CURRENT LIABILITIES – LONG-TERM BORROWINGS

	Consolidated			
	2018		2017	
	Current	Non-Current	Current	Non-Current
	\$	\$	\$	\$
Property loan <sup>1</sup>	1,111,500	-	-	1,111,500
Plant & equipment loan <sup>2</sup>	45,825	23,828	43,486	69,653
Motor vehicle loan <sup>3</sup>	11,576	6,008	11,013	17,584
Plant & equipment loan <sup>4</sup>	217,021	853,573	-	-
	<u>1,385,922</u>	<u>883,409</u>	<u>54,499</u>	<u>1,198,737</u>

<sup>1</sup> Consists of a three-year, interest-only loan for \$1,111,500, used to fund the purchase of a property in Melbourne. Interest is paid monthly, at a rate of 3.505% per annum. The lender holds a fixed and floating charge over the assets of XRF Scientific and its subsidiaries (including the property acquired) as security for the loan facility. The fair value of the loan is estimated to be \$1,127,733, calculated using current market interest rates. The carrying value of the loan is \$1,111,500. Covenants applicable to the loan include: maintaining a group interest cover ratio of 3x; group shareholder funds to be no less than 85% of the previous year's closing balance; and maintaining a capital ratio of 50%. The Group has met all covenant requirements to date.

<sup>2</sup> Consists of a three-year, interest-bearing loan for \$134,042, used to fund the purchase of plant and equipment. Instalments are paid monthly (including principal and interest), at a rate of 5.25% per annum. The lender holds first registered security over the plant and equipment acquired as security for the loan facility. The fair value of the loan is estimated to be \$71,879, calculated using current market interest rates. The carrying value of the loan is \$69,652. No specific covenants are applicable to this loan.

<sup>3</sup> Consists of a three-year, interest-bearing loan for \$33,902, used to fund the purchase of a motor vehicle. Instalments are paid monthly (including principal and interest), at a rate of 4.99% per annum. The lender holds first registered security over the vehicle acquired as security for the loan facility. The fair value of the loan is estimated to be \$18,110, calculated using current market interest rates. The carrying value of the loan is \$17,584. No specific covenants are applicable to this loan.

<sup>4</sup> Consists of a five-year, interest bearing loan for \$1,175,000, used to fund the purchase of equipment. Instalments are paid monthly (including principal and interest), at a rate of 5.14% per annum. The lender holds first registered security over the equipment acquired as security for the loan facility. The fair value of the loan is estimated to be \$1,155,406, calculated using current market interest rates. The carrying value of the loan is \$1,070,594. No specific covenants are applicable to this loan.

	2018	2017
	\$	\$
<b>Net debt reconciliation</b>		
Total borrowings at 1 July	1,253,236	1,111,500
Borrowings acquired via business combination	-	267,275
Proceeds from borrowings	1,175,000	141,737
Repayment of borrowings	(158,905)	(267,276)
<b>Total borrowings at 30 June</b>	<u>2,269,331</u>	<u>1,253,236</u>

### NOTE 19: NON-CURRENT LIABILITIES – DEFERRED TAX LIABILITIES

	Consolidated	
	2018	2017
	\$	\$
<b>Amounts recognised in profit or loss</b>		
Research and development	245,538	232,445
Depreciation	19,446	37,581
Other	13,192	12,548
<b>Net deferred tax liabilities</b>	<u>278,176</u>	<u>282,574</u>
<b>Movements:</b>		
Opening balance at 1 July	282,574	251,495
Charged/(credited) to profit or loss (note 7)	(4,398)	31,079
<b>Closing balance 30 June</b>	<u>278,176</u>	<u>282,574</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

### NOTE 20: NON-CURRENT LIABILITIES – PROVISIONS

	Consolidated	
	2018	2017
	\$	\$
Employee benefit – long service leave	94,959	124,768

### NOTE 21: ISSUED CAPITAL

	Consolidated		Consolidated	
	2018	2017	2018	2017
	Shares	Shares	\$	\$
<b>Issued capital</b>				
Ordinary shares fully paid	133,825,803	133,825,803	18,584,489	18,584,489
<b>Total issued capital</b>	<b>133,825,803</b>	<b>133,825,803</b>	<b>18,584,489</b>	<b>18,584,489</b>

#### Movements in ordinary share capital:

Date	Details	Number of shares	Issue Price	\$
1 July 2016	Opening balance	133,825,803		18,584,489
30 June 2017	Closing balance	133,825,803		18,584,489
1 July 2017	Opening balance	133,825,803		18,584,489
30 June 2018	Closing balance	133,825,803		18,584,489

#### (a) 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.

#### (b) Dividend reinvestment plan

The parent entity does not have a dividend reinvestment plan in place.

#### (c) Capital risk management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it 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.

	Consolidated	
	2018	2017
	\$	\$
<i>The gearing ratios at 30 June 2018 and 30 June 2017 were as follows:</i>		
Total borrowings	2,269,331	1,253,237
Less: cash and cash equivalents	(415,374)	(833,405)
Net debt / (positive cash position)	1,853,957	419,832
Total equity	31,724,490	30,763,097
Total equity plus net debt	33,578,447	31,182,929
<b>Gearing ratio</b>	<b>Net debt</b>	<b>Net debt</b>
	<b>5.5%</b>	<b>1.3%</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

## NOTE 22: RESERVES AND RETAINED PROFITS

	Consolidated	
	2018	2017
	\$	\$
<b>(a) Reserves</b>		
Foreign currency translation reserve	178,115	(80,452)
Share-based payments reserve	759,243	759,243
<b>Balance 30 June</b>	<b>937,358</b>	<b>678,791</b>
<b>(b) Retained Profits</b>		
Movements in retained profits were as follows:		
Balance 1 July	11,499,817	11,107,442
Net profit for the year	1,024,007	793,851
Dividends paid or provided for	(321,181)	(401,476)
<b>Balance 30 June</b>	<b>12,202,643</b>	<b>11,499,817</b>

### (c) Nature and purpose of reserves

#### *Foreign currency translation reserve*

The foreign currency translation reserve is used to recognise the unrealised gains and losses arising from the consolidation of subsidiaries denominated in currencies other than Australian dollars.

#### *Share-based payment reserve*

The share-based payments reserve is used to recognise the value of equity-settled share-based payments.

## NOTE 23: DIVIDENDS

	Consolidated	
	2018	2017
	\$	\$
Final dividend for the prior financial year, paid in the current financial year	321,181	401,476
Interim dividend for the current financial year, paid in the current financial year	-	-
<b>Total dividends provided for or paid</b>	<b>321,181</b>	<b>401,476</b>

A fully franked dividend of 0.3 cents per share has been declared on ordinary shares post 30 June 2018.

### Franked Dividends

	Consolidated	
	2018	2017
	\$	\$
Franking credits available for subsequent financial years based on a tax rate of 27.5% (2017: 30%)	4,920,196	4,644,490

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 franked portions of the final dividends recommended after 30 June 2018 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the year ended 30 June 2018. 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 \$152,285 (2017: \$137,649).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

## NOTE 24: CONTINGENCIES

At 30 June 2018, the consolidated entity had no material contingent liabilities in respect of claims, contingent considerations, associates and joint ventures or any other matters.

## NOTE 25: COMMITMENTS

### (a) Lease commitments

	Consolidated	
	2018	2017
	\$	\$
Commitments in relation to non-cancellable operating leases contracted for at the reporting date but not recognised as liabilities, payable:		
Within one year	431,063	417,146
Later than one year but not later than five years	579,575	599,110
	<u>1,010,638</u>	<u>1,016,256</u>

Operating leases have been taken out for a number of sites, office facilities and a fleet of light motor vehicles. Operating leases typically run for a period of between 3 and 5 years with an option to renew the lease after that date. Lease payments for sites and office facilities are generally increased on an annual basis in line with market related / consumer price index increases.

XRF Labware Pty Ltd has lease agreements with external suppliers for the provision of 107kg of platinum, which is used for working capital purposes. The lease agreements are renewed annually and fees are paid on the current market price of platinum. The current annual agreements will expire on various dates between September 2018 and January 2019 and will be renewed accordingly.

### (b) Financing arrangements

The Group has an overdraft facility of \$1,000,000 as a safeguard on working capital requirements. An additional \$1,600,000 facility is utilised for bank guarantees. The Group's undrawn borrowing facilities were as follows as at 30 June 2018:

	Consolidated	
	2018	2017
	\$	\$
Bank overdraft facility	483,713	649,677
Bank guarantee facility	313,245	1,459,634
	<u>796,958</u>	<u>2,109,311</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

### 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	
	2018 \$	2017 \$
<i>BDO Audit (WA) Pty Ltd</i>		
Audit and review of financial reports	119,201	104,858
Taxation services	47,146	43,790
Other services	1,224	-
<i>BDO Réviseurs d'Entreprises Soc. Civ. SCRL (Belgium)</i>		
Audit and review of financial reports	30,791	25,764
Taxation services	6,611	10,121
<i>BDO Canada s.r.l (Canada)</i>		
Taxation services	16,094	3,655
<i>BDO AG Wirtschaftsprüfungsgesellschaft (Germany)</i>		
Taxation services	-	11,797
<i>BDO LLP (UK)</i>		
Audit and review of financial reports	8,609	8,949
	<u>229,676</u>	<u>208,934</u>

### NOTE 27: RELATED PARTY TRANSACTIONS

#### (a) Parent entity

The ultimate parent and controlling entity is XRF Scientific Limited which at 30 June 2018 owns 100% of all subsidiaries listed in note 28.

#### (b) Interests in subsidiaries

Interests in subsidiaries are set out in note 28.

#### (c) Directors and key management compensation

	Consolidated	
	2018 \$	2017 \$
Short-term employee benefits	837,398	831,670
Post-employment benefits	63,309	62,764
Long-term benefits	8,378	8,221
	<u>909,085</u>	<u>902,655</u>

No other post-employment or termination benefits have been provided. Detailed remuneration disclosures are available in the remuneration report from pages 10-15.

#### (d) Loans to key management personnel

There were no loans to any key management personnel during either of the years ended 30 June 2017 or 30 June 2018.

#### (e) Other transactions with key management personnel

Premises were rented from a related entity of Director David Brown during the financial year. These properties were rented on normal commercial terms and conditions, totaling \$115,975 (2017: \$115,169). No amounts were outstanding at the end of the year.

All directors of XRF Chemicals Pty Ltd are guarantors on a lease in Osborne Park. Vance Stazzonelli is currently the sole director.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

### NOTE 28: 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	
			2018 %	2017 %
XRF Chemicals Pty Ltd	Australia	Ordinary	100	100
XRF Labware Pty Ltd	Australia	Ordinary	100	100
XRF Technology (WA) Pty Ltd	Australia	Ordinary	100	100
XRF Technology (VIC) Pty Ltd	Australia	Ordinary	100	100
XRF Scientific Americas Inc	Canada	Ordinary	100	100
XRF Scientific Europe SPRL	Belgium	Ordinary	100	100
XRF Scientific Europe GmbH	Germany	Ordinary	100	100
XRF Scientific UK Ltd	United Kingdom	Ordinary	100	100
Precious Metals Engineering (WA) Pty Ltd	Australia	Ordinary	100	100
XFlux Pty Ltd	Australia	Ordinary	100	100
Gestion Scancia Inc	Canada	Ordinary	100	100

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

### NOTE 29: RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH FLOW PROVIDED BY OPERATING ACTIVITIES

	Consolidated	
	2018 \$	2017 \$
Profit for the year	1,024,007	793,851
Depreciation and amortisation	854,587	767,527
Net exchange differences	58,007	18,705
Net operating assets of acquired businesses reclassified as investing activities	-	16,699
Net (gain) loss on sale of non-current assets	(2,850)	13,895
(Increase) decrease in trade and other debtors	515,177	(601,753)
(Increase) decrease in inventories	(2,736,200)	(852,241)
(Increase) decrease in other current asset	70,077	(226,476)
(Increase) decrease in deferred tax asset	(216,360)	(290,218)
(Decrease) increase in trade and other creditors	(128,021)	523,605
(Decrease) increase in provision for income taxes	325,227	(103,315)
(Decrease) increase in provision for deferred income tax	(4,398)	31,079
(Decrease) increase in other liabilities	(24,725)	85,408
(Decrease) increase in other provisions	1,073,255	(20,585)
<b>Net cash inflow from operating activities</b>	<b>807,783</b>	<b>156,181</b>

### NOTE 30: SHARE-BASED PAYMENTS

There were no share-based payments during the year ended 30 June 2018 (2017: Nil).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

### NOTE 31: EARNINGS PER SHARE

	Consolidated	
	2018 Cents	2017 Cents
<b>(a) Basic earnings per share</b>		
Profit attributable to the ordinary equity holders of the company	0.8	0.6
<b>(b) Diluted earnings per share</b>		
Profit attributable to the ordinary equity holders of the Company	0.8	0.6
	\$	\$
<b>(c) Reconciliations of earnings used in calculation earnings per share</b>		
Profit attributable to the ordinary equity holders of the company	1,024,007	793,851
	Number	Number
<b>(d) Weighted average number of shares used as the denominator</b>		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	133,825,803	133,825,803

### NOTE 32: PARENT ENTITY FINANCIAL INFORMATION

#### (a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	2018 \$	2017 \$
<b>Statement of Financial Position</b>		
Current assets	8,015,499	6,343,558
Total assets	21,357,808	19,724,573
Current liabilities	12,717,756	11,012,869
Total liabilities	13,021,474	11,314,160
<i>Shareholder's equity</i>		
Issued capital	18,584,489	18,584,489
Reserves	1,040,077	721,275
Retained earnings	(11,288,230)	(10,895,351)
	8,336,336	8,410,413
<b>Total comprehensive income / (loss) for the year before tax</b>	(246,036)	(265,218)
<b>Tax benefit / (expense)</b>	174,338	179,627
<b>Total comprehensive income / (loss) for the year after tax</b>	<b>(71,698)</b>	<b>(85,591)</b>

#### (b) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 30 June 2018 or 30 June 2017.

### NOTE 33: EVENTS OCCURRING AFTER THE REPORTING DATE

#### Dividend

A final dividend of 0.3 cents per share fully franked was declared on 28 August 2018, bringing the total dividend for the year to 0.3 cents per share fully franked (FY17: 0.24 cents per share fully franked), with a record date of 5 October 2018 and payment date of 19 October 2018.

#### Other events

There were no other events subsequent to the reporting date which have significantly affected or may significantly affect the XRF Scientific Limited operations, results or state of affairs in future years.

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# DIRECTORS' DECLARATION

## FOR THE YEAR ENDED 30 JUNE 2018

XRF Scientific Limited and its controlled entities

ACN 107 908 314

The directors of the company declare that:

1. The financial statements, comprising the consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position, consolidated statement of cash flow, consolidated 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 and other mandatory professional reporting requirements after 2001; and
  - (b) Give a true and fair view of the consolidated entity's financial position as at 30 June 2018 and of its performance for the year ended on that date.
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 directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer as required by section 295A.
4. 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.



**Kenneth Baxter**  
Chairman

Dated this 28<sup>th</sup> day of August 2018

## INDEPENDENT AUDITOR'S REPORT

To the members of XRF Scientific Limited

### Report on the Audit of the Financial Report

#### Opinion

We have audited the financial report of XRF Scientific Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

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

- (i) Giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year ended on that date; and
- (ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### Basis for opinion

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

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

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

#### Key audit matters

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

## Goodwill impairment assessment

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>As disclosed in Note 14 of the financial report, goodwill represents a significant balance recorded in the statement of financial position. Under Australian Accounting Standards goodwill is required to be tested annually for impairment.</p> <p>This was determined to be a key audit matter due to the significance of goodwill to the Group's financial position and due to the determination of the "Value in Use" of each cash generating unit (CGU) and whether or not an impairment charge is necessary, involving judgments by management about the future growth rates of the business in each CGU, discount rates applied to future cash flow forecasts for each CGU and sensitivities of inputs and assumptions used in the cash flow models.</p>	<p>Our procedures included, but were not limited to the following:</p> <ul style="list-style-type: none"> <li>• Evaluating the Group's categorisation of CGUs and the allocation of assets to the carrying value of CGU's;</li> <li>• Obtaining the group's value in use model and agreeing amounts to a combination of board approved budgets and committed future plans;</li> <li>• Corroborating the assumptions for the key inputs in the value in use model for the forecast revenue, costs, discount rates and terminal growth rates by comparing forecasts to historical actuals;</li> <li>• Using our valuation specialists to assess management's discount rate based on external data were available;</li> <li>• Performing a sensitivity analysis on the key financial assumptions in the models. These included revenue forecasts, multipliers used in the terminal year of cash flows, and the discount rates applied; and</li> <li>• Evaluating the adequacy of the related disclosures in the financial report.</li> </ul>

### Other information

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 30 June 2018, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



## Responsibilities of the directors for the Financial Report

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

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

## Auditor's responsibilities for the audit of the Financial Report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (<http://www.auasb.gov.au/Home.aspx>) at:

[http://www.auasb.gov.au/auditors\\_responsibilities/ar1.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf)

This description forms part of our auditor's report.

## Report on the Remuneration Report

### Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 10 to 15 of the directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of XRF Scientific Limited, for the year ended 30 June 2018, complies with section 300A of the *Corporations Act 2001*.



## Responsibilities

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.

BDO Audit (WA) Pty Ltd

A handwritten signature in blue ink, appearing to read 'Glyn O'Brien', with the 'BDO' logo written above it.

Glyn O'Brien

Director

Perth, 28 August 2018

# SHAREHOLDER INFORMATION

Additional information (as at 31 July 2018) 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 <sup>2</sup>
Private Portfolio Managers	15,563,994
Skye Alba Pty Ltd	13,316,641
Michael Karl Korber	10,017,201
D & GD Brown Nominees Pty Ltd <sup>1</sup>	8,670,894
Washington H Soul Pattinson & Co Ltd	7,910,411

<sup>1</sup> D & GD Brown Nominees Pty Ltd is a company owned by David Brown and his wife. David Brown is a director of XRF Scientific Limited.

<sup>2</sup> Based on information available to the Company, including substantial holding announcements released to the market.

## NUMBER OF OPTION HOLDERS

Class of Security	Number of Holders
Nil	-

## 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	47	-
1,000-5,000	89	-
5,001-10,000	99	-
10,001-100,000	314	-
100,001 and above	143	-
	<b>692</b>	<b>-</b>

# SHAREHOLDER INFORMATION

## TOP 20 SHAREHOLDERS

No.	Holder name	Number of Ordinary Shares	Percentage of Ordinary Shares
1	NATIONAL NOM LTD	15,563,994	11.63%
2	SKYE ALBA PL	13,316,641	9.95%
3	KORBER, MICHAEL KARL	10,017,201	7.49%
4	BNP PARIBAS NOMS PL	7,820,000	5.84%
5	D & GD BROWN NOM PL <sup>1</sup>	7,000,000	5.23%
6	EVELIN INV PL	6,300,000	4.71%
7	J P MORGAN NOM AUST LTD	5,342,676	3.99%
8	TZELEPIS NOM PL	3,280,000	2.45%
9	PROSSOR, STEPHEN W + F C	2,669,767	1.99%
10	GREAT WESTERN CAP PL	2,649,578	1.98%
11	JGH METZ PL	2,000,480	1.49%
12	BETA GAMMA PL	2,000,000	1.49%
13	BROWN, DAVID + GLENYS D <sup>1</sup>	1,670,894	1.25%
14	DAVIDTS, FREDERIC	1,668,706	1.25%
15	BOYLES, DAVID LEROY	1,500,000	1.12%
16	BROWN, JEFFREY D + P N	1,392,977	1.04%
17	CREEL PL	1,230,069	0.92%
18	G & E PROPS PL	1,120,000	0.84%
19	IMAJ PL	1,000,000	0.75%
20	KLARIE PETER	890,576	0.67%
		<hr/>	
		88,433,559	66.08%

<sup>1</sup> D & GD Brown Nom PL is a company owned by David Brown and his wife. David Brown is a director of XRF Scientific Limited.

## RESTRICTED SECURITIES

There are currently no restricted securities.

## NON-MARKETABLE PARCELS

Class of Security	Number of Securities	Number of Holders
Ordinary shares	21,948	56

## UNQUOTED SECURITIES

The Company does not have any unquoted securities.

## ON-MARKET BUY BACK

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

# CORPORATE DIRECTORY

## DIRECTORS

Kenneth Baxter (Non-Executive Chairman)  
David Brown (Non-Executive Director)  
David Kiggins (Non-Executive Director)  
Fred Grimwade (Non-Executive Director)  
Vance Stazonelli (Managing Director since 22 February 2018)

## COMPANY SECRETARIES

Vance Stazonelli  
Andrew Watson

## KEY MANAGEMENT PERSONNEL

Andrew Watson (Chief Financial Officer)

## REGISTERED OFFICE

86 Guthrie Street  
Osborne Park WA 6017  
Tel: +61 8 9244 0600  
Fax: +61 8 9244 9611

## COMPANY AUDITOR

BDO Audit (WA) Pty Ltd  
38 Station Street  
Subiaco WA 6008

## BANKERS

Westpac Banking Corporation  
109 St George Terrace  
Perth WA 6000

## SOLICITORS

HWL Ebsworth  
Level 11, Westralia Plaza  
167 St Georges Terrace  
Perth WA 6000

## SHARE REGISTRY

Security Transfer Registrars  
770 Canning Highway  
Applecross WA 6153  
Tel: +61 8 9315 2333  
Fax: +61 8 9315 2233

## WEBSITE

[www.xrfscientific.com](http://www.xrfscientific.com)

## ASX

Company Code: XRF