



magnetic resources^{NL}

HALF-YEAR FINANCIAL REPORT
31 DECEMBER 2010

ABN 34 121 370 232



CONTENTS

HALF-YEAR FINANCIAL REPORT

	Page No.
Directors' Report	3
Auditor's Independence Declaration	15
Statement of Comprehensive Income	16
Statement of Financial Position	17
Statement of Changes in Equity	18
Statement of Cash Flows	19
Notes to and forming part of the Financial Statements	20
Directors' Declaration	24
Independent Review Report	25

Your directors submit the financial report of the Company for the half-year ended 31 December 2010.

DIRECTORS

The following persons were directors of Magnetic Resources NL ("Magnetic") during the whole of the half-year and up to the date of this report:

Mr Peter Thomas
Mr George Sakalidis
Mr Roger Thomson

REVIEW OF OPERATIONS

The total loss from continuing operations and other comprehensive income for the half-year ended 31 December 2010 was \$1,162,595 (2009 – \$557,839).

The Company's activities during the six month period are summarised in this report which unless otherwise stated, should be read as if dated 31 December 2010.

During the period Magnetic Resources carried out metallurgical testwork on the Jubuk magnetite project and commenced drilling of iron ore targets at Wubin and Mt Vernon. In addition exploration was carried out as gold targets at Tampia North and a uranium target at Mouroubra.

IRON ORE

Jubuk (Magnetic 100%)

During the period Magnetic released the results of metallurgical test work from consulting engineers Engenium Pty Ltd on reverse circulation (RC) drill samples and diamond core from the Jubuk magnetite project near Corrigin WA. The test results show that the Jubuk magnetite banded iron formation (BIF) responds well to conventional treatment and is capable of beneficiation to produce a premium magnetite product.

Engenium has been engaged to assist Magnetic Resources in assessing the economic potential of the Jubuk iron ore project. This is a magnetite based iron project, in the early stages of drilling. As the magnetite mineral only accounts for some 30% of the mineralisation, beneficiating the material to a higher grade is essential. This beneficiation processing requires metallurgical test work so an assessment program was developed for samples from the first two stages of drilling.

Davis Tube Recovery (DTR) tests on RC drill chips (97% passing 75 microns) are summarised in Table 1. DTR is a useful test as it quantifies the quality and recovery parameters of the magnetite. This analysis is performed on exploration drill samples, as a matter of routine, but the DTR parameters for every magnetite deposit differ. The particle size for the test, and the pulverisation method to get to that size, need to be determined for each deposit. The DTR performance was very encouraging, showing a high recovery of a high grade product.

Table1
Summary of RC DTR Results

Davis Tube Product	Mass (g)	Fe %	SiO ₂ %	Al ₂ O ₃ %	P %	LOI %
Magnetics	9.82	69.69	1.36	0.90	0.002	3.17
Non Magnetics	19.55	3.91	76.79	7.72	0.054	0.78
Davis Tube Recovery	29.4%	90.0%	0.9%	5.5%	1.8%	na
Calc Head Assay		25.9%	51.6%	5.4%	0.037%	

Testing of diamond drill core was carried out on a composite sample, the analysis results of which are shown in Table 2.

Table 2
Drill Core Composite, Head Assay (%)

Fe	SiO ₂	Al ₂ O ₃	TiO ₂	Mn	CaO	P	S	MgO	LOI
20.41	55.25	7.21	0.21	0.043	1.97	0.032	0.049	1.80	-0.45

This initial assessment indicated the mineralisation to be conventional in its hardness, abrasiveness and milling qualities as shown in Table 3.

Table 3
Drill Core Composite, Physical Properties

Hole ID	Interval		In-situ SG	UCS MPa	Abrasive Index	Bond Ball Mill Work Index
	From (m)	To (m)				
JDH01	79.80	80.00	3.35	93.4	0.44	17.5 kWh/t
JDH01	93.00	93.20	3.31	80.5		
JDH01	115.50	115.75	3.39	65.3		

These results indicate very few issues when processing using modern equipment.

A DTR was performed on this sample to indicate an expected performance and to check the robustness of the procedure. These results are shown below in Table 4.

Table 4
Drill Core Composite, DTR Results

DTR PRODUCT	Wt. (%)	Fe (%)	SiO ₂ (%)	Al ₂ O ₃ (%)	P (%)	S (%)	LOI 1000 (%)	FeO (%)
Magnetic Conc.	26.2	70.50	1.31	0.67	0.003	0.022	-3.24	30.68
Non-mag tailing*	73.8	2.66	74.35	9.52	0.042	0.059		
Recovery% to Magnetic Conc.	26.2	90.4	0.6	2.4	2.5	11.7		

*Non Magnetic fraction calculated

Following this test, a Low Intensity Magnetic Separation (LIMS) program was performed to check the performance of the mineralisation at industrial strength magnetic fields. The results, developed from the assay heads, are shown below in Table 5.

Table 5
Drill Core Composite, Two-Stage LIMS Separation Results

	Mass Dist (%)	Fe		SiO ₂		Al ₂ O ₃		P	
		Grade (%)	Dist (%)	Grade (%)	Dist (%)	Grade (%)	Dist (%)	Grade (%)	Dist (%)
		(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)
Calculated head	100.0	20.03	100.0	55.96	100.0	7.29	100.0	0.050	100.0
P ₈₀ 212µ Non-Mags	72.4	3.18	11.5	74.04	95.8	9.71	96.5	0.042	61.4
P ₈₀ 212µ Mags	27.6	64.24	88.5	8.54	4.2	0.92	3.5	0.069	38.6
Grind 212µ Mags to 75µ									
P ₈₀ 75µ Non-Mags	2.5	6.39	0.8	79.90	3.6	2.97	1.0	0.07	3.6
P ₈₀ 75µ Mags	25.1	70.00	87.7	1.43	0.6	0.72	2.5	0.07	35.0

The performance is excellent, in line with the DTR performed on the RC chip sample. Additional samples derived from the RC drilling have been submitted for DTR testing. These samples include samples from the weathered profile, in order to assess potential recoveries and quality of product from the oxidised BIF overburden.

The early testwork has shown that the Jubuk mineralisation responds to conventional treatment and that the mineralogy of the ore mineral makes it capable of producing a premium product.

Magnetic is planning a 30-hole, 3500m drilling program, increasing the total number of holes drilled at Jubuk to 55. The drilling will test the previously unrecognised western fold limb, test the known strike extensions of the BIF and commence resource definition drilling. The proposed drill hole locations are shown in Figure 1. A substantial percentage of the drilling will be collared on the western side of the magnetite BIF horizon to assess the continuity of the western limb as shown in the cross section in Figure 2. Further drilling, including diamond coring, will be required to define a resource. Subject to permitting and access during harvest time, it is anticipated that the proposed drilling will commence during the December quarter.

Follow up DTR testwork was completed on 134 four metre composite samples. Of these samples 14 have been sourced from the weathered profile and 120 from fresh rock. Table 6 summarises the weighted averages of the feed and concentrate grades and apparent recovery rates.

Table 6
DTR Testwork Summary

	Feed Grades %				Concentrate Grades %				Wt Rec% Fe
	Fe	SiO ₂	Al ₂ O ₃	P	Fe	SiO ₂	Al ₂ O ₃	P	
Weathered	22.2	53.1	7.07	0.03	68.6	1.4	1.2	0.01	47.6
Fresh	25.3	48.6	6.1	0.3	69.7	1.1	1.0	0.00	77.7

The fresh rock results continue to show the potential for the mineralisation to produce a high-grade concentrate. Whilst the recovery rate is lower for the weathered material it produces a concentrate of very similar quality to the concentrate derived from fresh rock.

Further RC drilling is being planned and is scheduled to start in early calendar 2011. The first stage of the drilling will test the eastern strike extension of the magnetite BIF where the magnetic response indicated the prospective sequence may extend for a further 2km to the east of the previous drilling, as shown in Figure 1. The second stage of the drilling will focus on the previously drilled north trending zone, testing the western side of the BIF sequence for additional magnetite horizons. A section of the interpreted eastern side of the BIF sequence is shown in Figure 2. The drilling is anticipated to provide information for the estimation of an initial resource over the 4km-long Jubuk target zone.

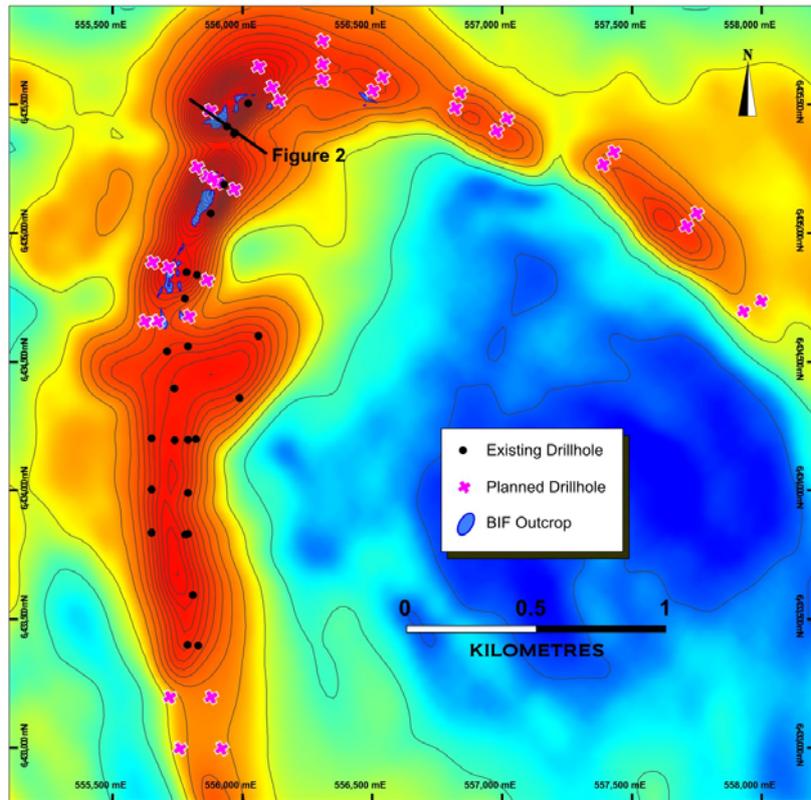


Figure 1
Jubuk Aeromagnetic Image Showing Proposed Drilling

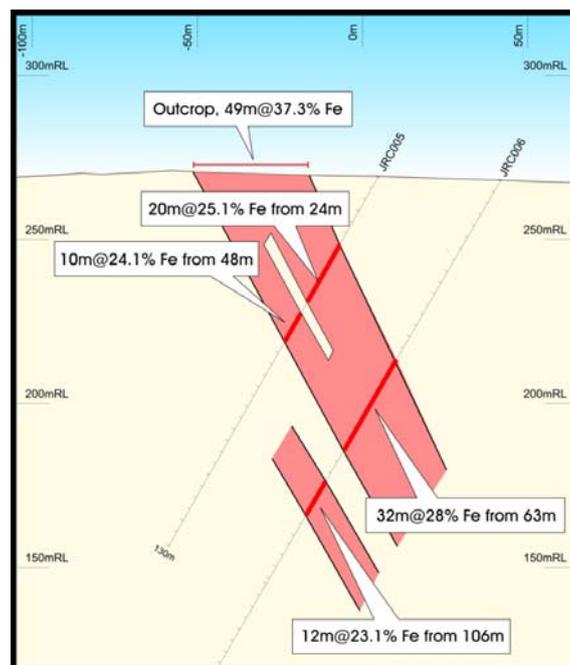


Figure 2
Jubuk Drill Section 6435420N

Wubin (Magnetic 100%)

Sampling of lateritic duricrust was carried out over aeromagnetic targets, as shown in Figure 3. 278 rock samples were collected of which 36 (13%) contained greater than 50% Fe ranging from 0.8% Fe to 59.5% Fe.

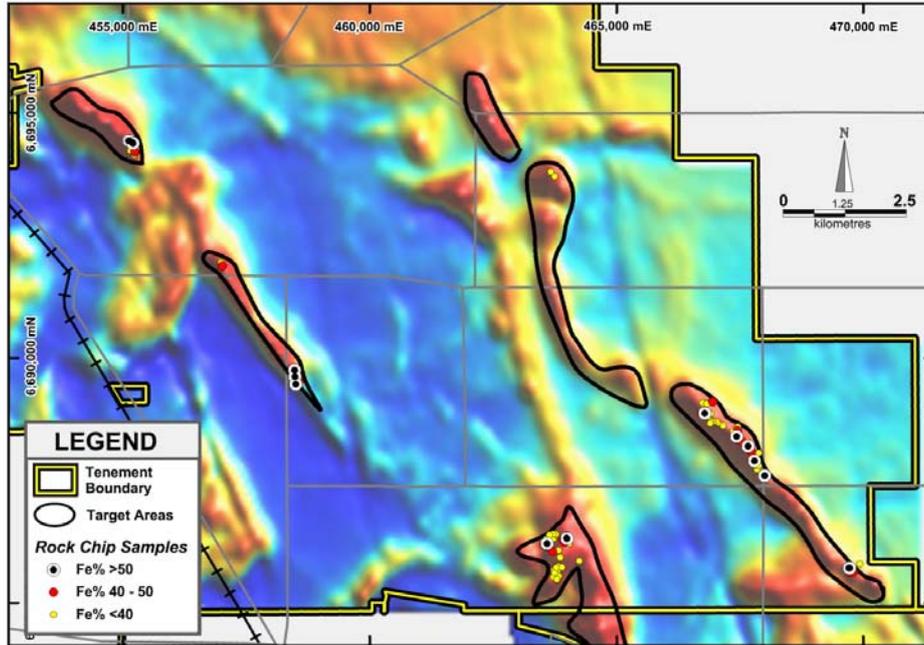


Figure 3
Wubin Target Areas on Aeromagnetic Image

A 73-hole 1,946 m aircore drilling programme was completed during the period followed by a 2,172 m RC drilling programme, see Figure 4.

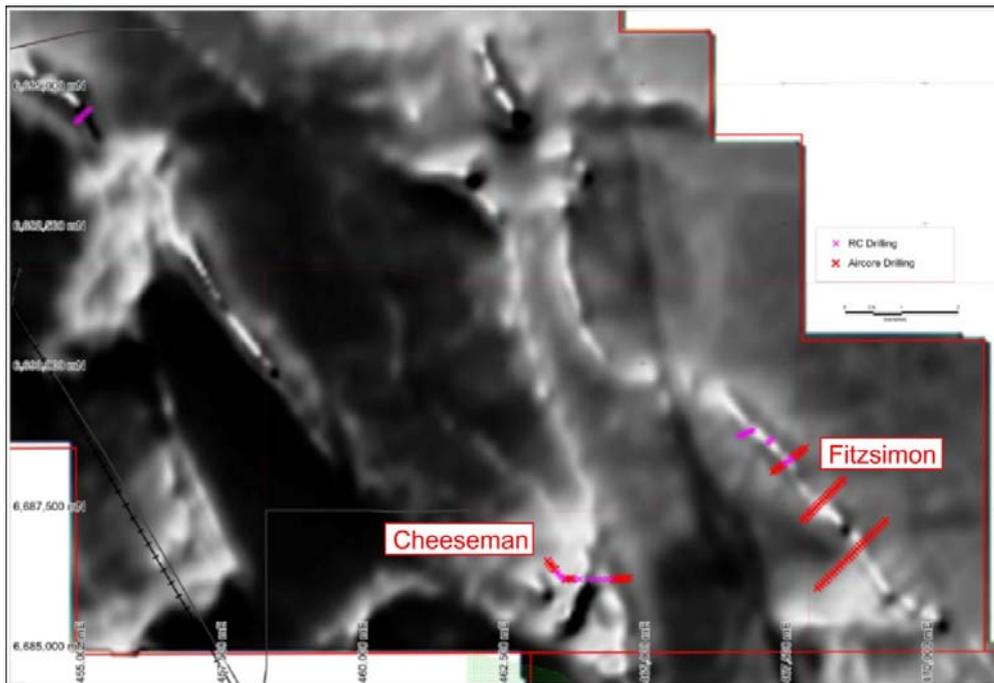


Figure 4
Wubin Greyscale Aeromagnetic Image Showing Drilling Locations

Significant results are summarised in Table 7:

Table 7
Wubin Aircore Drill Results

Hole	Collar Co-ordinates		Azimuth	Dip	From m	To m	Interval m	Fe %
	East	North						
BUNAC24	468066	6687448	225	-60	0	12	12	36.7
BUNAC46	463880	6686160	0	-90	16	22	6	28.3
BUNAC52	463563	6686169	0	-90	0	16	16	48.1
		Including			4	12	8	52.8
BUNAC72	468856	6686760	225	-60	4	12	8	34.1

4m composite samples. (Fe analysed by fused disc XRF method)

The results from BUNAC24 & 52 are considered significant as they appear to represent accumulations of lateritic iron oxides. Geomorphic studies have commenced to identify targets for further aircore drilling to determine the nature and extent of these occurrences.

The results from the RC drilling are twofold with both near surface goethite/hematite and deeper magnetite targets being tested. Significant near surface goethite/hematite results are shown in Table 8.

Table 8
Wubin RC Drill Results – Goethite/Hematite

Hole	Collar Co-ordinates		Azimuth	Dip	From m	To m	Interval m	Fe %
	East	North						
BRC01	463890	6686174	305	-60	4	24	20	32.8
BRC08	463562	6686163	90	-60	0	56	56	31.6
		including			0	16	16	39.0
BRC09	463521	6686165	295	-60	0	12	12	37.6

4m composite samples. (Fe analysed by fused disc XRF method)

Significant magnetite results are shown in Table 9 :

Table 9
Wubin RC Drill Results – Magnetite

Hole	Collar Co-ordinates		Azimuth	Dip	From m	To m	Interval m	Fe %
	East	North						
BRC01	463890	6686174	305	-60	52	64	12	30.31
BRC02	463940	6686172	270	-60	64	88	24	30.28
BRC25	455124	6694371	65	-55	32	44	12	31.35

4m composite samples. (Fe analysed by fused disc XRF method)

Drill hole locations and targets at the Cheeseman prospect are shown in Figure 5. RC drill hole BRC08, collared adjacent to air core hole BUNAC052 at this prospect, shows some variation to the iron grades intersected by the air core hole 16m @ 39.0%Fe compared to 16m @ 48.1%Fe.

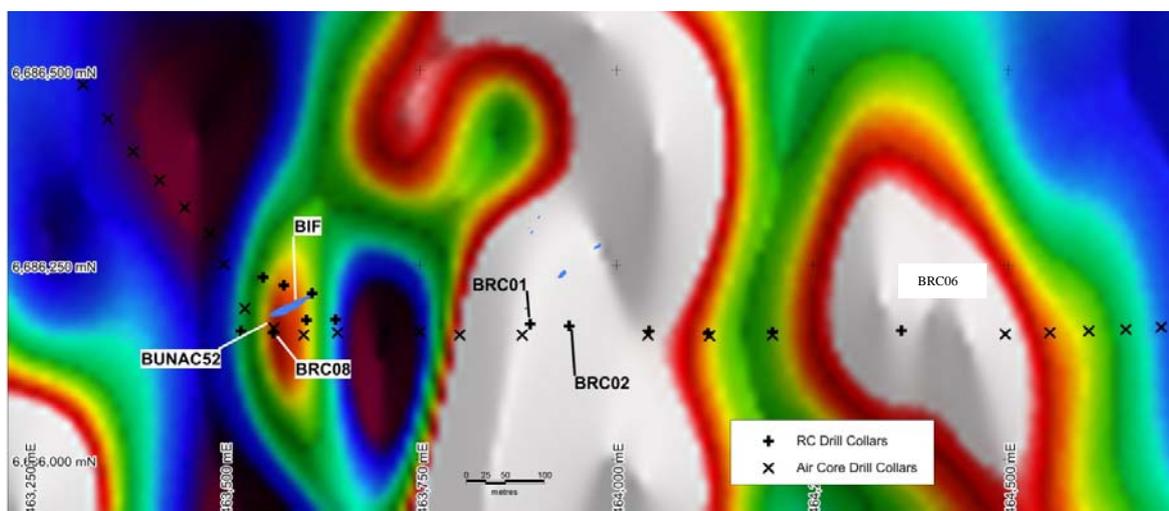


Figure 5

Cheeseman Prospect; Aeromagnetic Image Showing RC and Air Core Drilling Locations

The higher grade zone at the base of aircore drill hole BUNAC46 (6m @ 28.3%Fe) corresponds to the upper goethite/hematite zone in BRC01, as shown in Figure 6.

The magnetite rich intersections in BRC01 and BRC02 are hosted within fine grained amphibolite and coarser grained gabbroic gneiss. Drill hole BRC06, testing the eastern limb of the target magnetic anomaly, did not identify the source of the magnetic anomaly in that area. Interpretation and analysis of these drilling results is continuing.

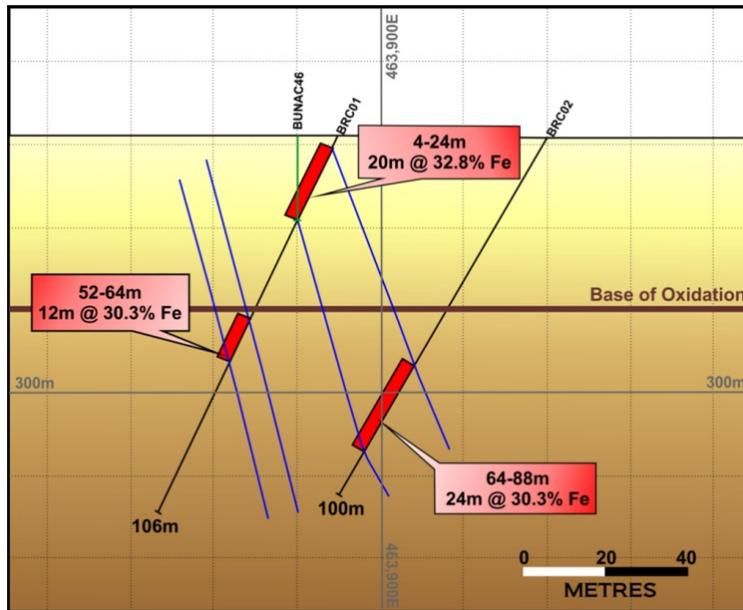


Figure 6
Cheeseman Prospect; BRC01 and BRC02 Drill Section

Mt Vernon (Magnetic 100%)

Ten magnetic anomalies have been identified and modelled based on the ground magnetic survey completed over the regional aeromagnetic anomaly, shown in Figure 7. Ground reconnaissance shows seven of the targets are covered by aeolian sand. Seven samples, mostly of surface lateritic detritus, collected from the target sites and surrounding area have iron contents ranging from 22.8%Fe to 50.6%Fe, including a sample of outcropping coarse-grained magnetite-bearing granite gneiss which contained 49.1%Fe.

An RC drilling program to complete first pass testing of the magnetic targets is expected to commence in February. This drilling will test the shallower of the modelled targets and the coarse-grained magnetite-bearing granite gneiss. This program has qualified for \$100,000 of funding from the WA Government's Exploration Incentive Scheme.

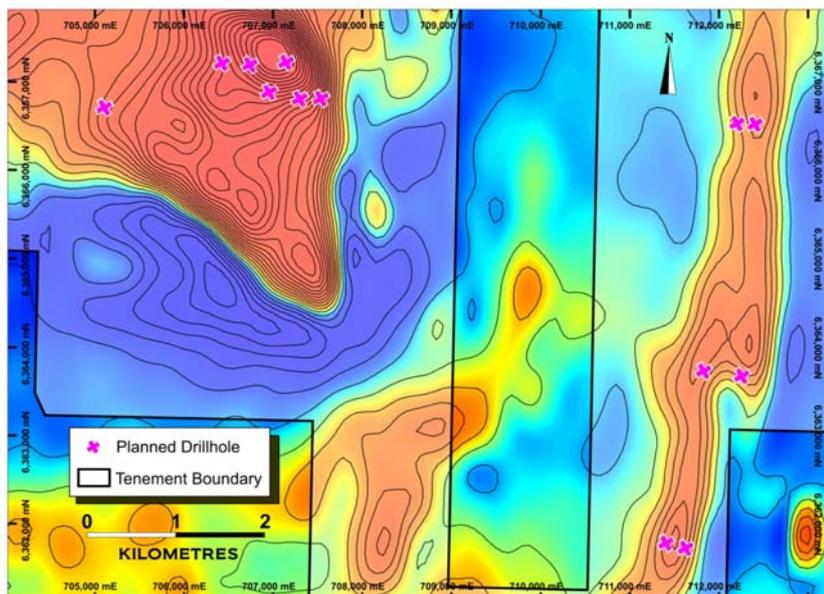


Figure 7
Mt Vernon Regional Aeromagnetic Image Showing Proposed Drilling

URANIUM

Mouroubra

A 500m x 500m soil sampling program was completed at Mouroubra to follow up on the regional radiometric signature and an anomalous reconnaissance water sampling result of 870ppb uranium.

The maximum uranium response in the soils was 139ppm which occurs in the central anomaly which is approximately 6km in length, as shown in Figure 8. Responses were highly variable as the calcareous horizon hosting the elevated uranium responses is only intermittently exposed.

Follow-up sampling will be completed to better define the anomalous zones for a targeted drilling program.

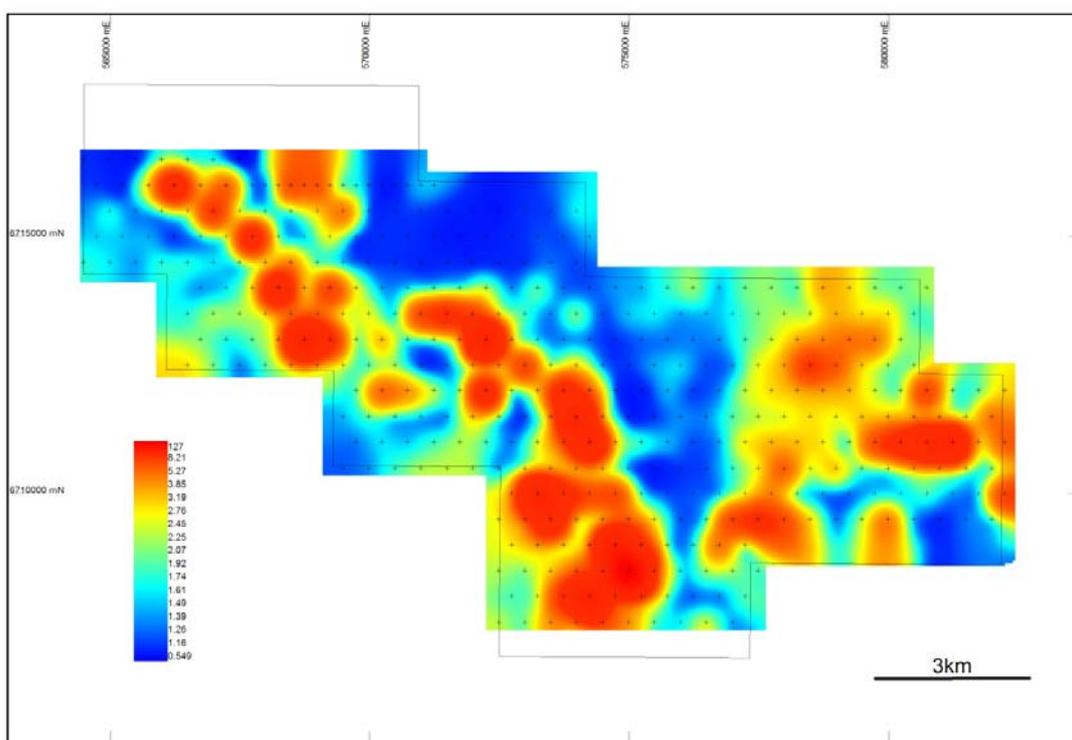


Figure 8
Mouroubra Uranium Soil Sampling Results

GOLD

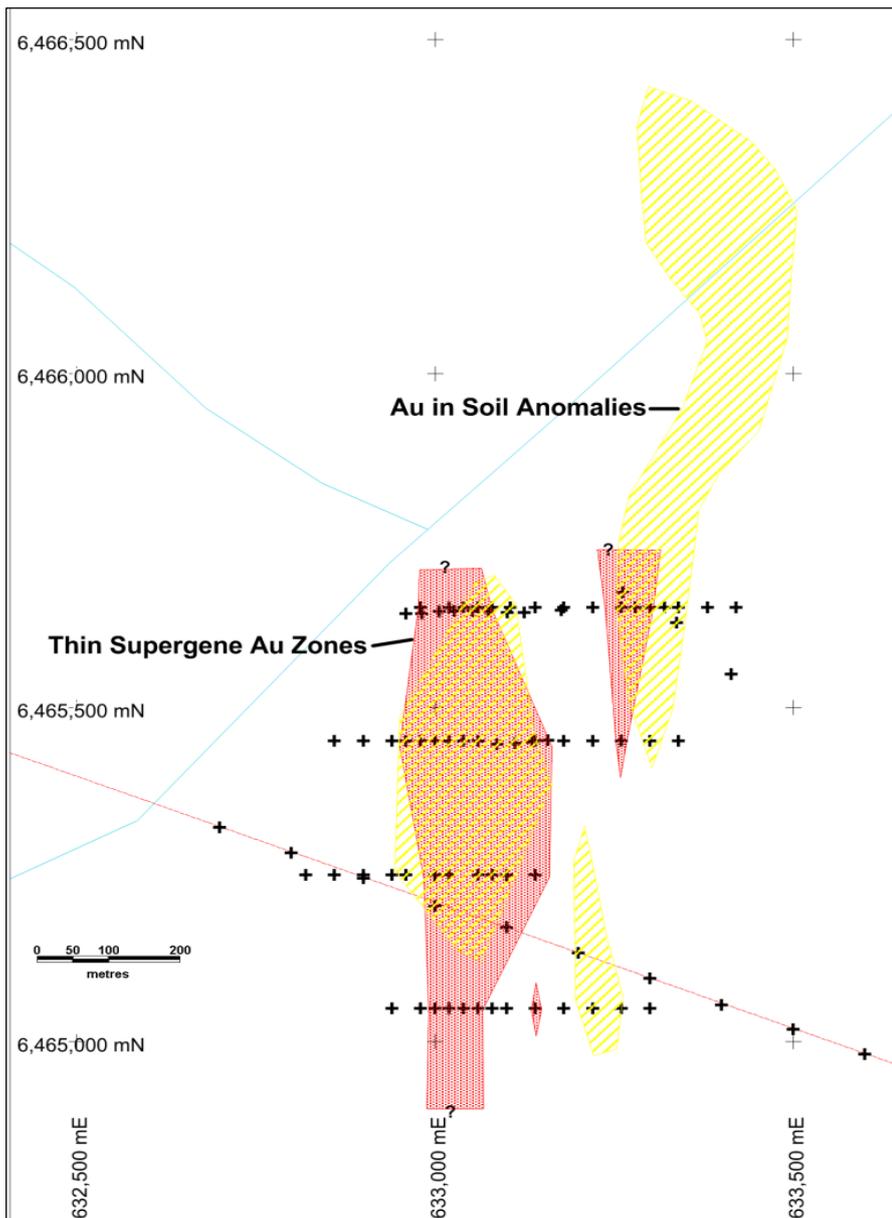
Tampia North (Magnetic 80%, diluting)

The Tampia North tenements, where Magnetic holds an 80% interest with rights to earn a 100% interest from Image Resources, cover a 30km strike length of an interpreted shear zone where gold anomalies and indications of gold mineralisation have been outlined by geochemical sampling and shallow drilling. The tenements are subject to a farm-in agreement with Pacific Ore Ltd under which Pacific Ore may earn a 51% interest from Magnetic.

A soil sampling program defined several gold target areas with the southern targets tested by a 49-hole, 890m air core drilling programme over both the gold anomalism and peripheral zones where pathfinder elements As and Mo show anomalism. The northern targets were not tested due to inclement conditions.

The air core drilling defined a 600m-long gold anomaly (100ppb Au threshold) in weathered bedrock. The bedrock anomaly is interpreted to be a supergene enrichment zone and remains open along strike. A second bedrock anomaly, with a peak result of 4m @ 137ppb Au from 24m in drill hole TNAC046, has been identified nearby and remains open to the north as shown in Figure 9. The bedrock anomalies correlate with gold-in-soil anomalies outlined by Pacific/Magnetic's sampling.

A single historical diamond drill hole into the larger bedrock anomaly intersected the supergene zone but does not appear to have tested the source of this bedrock anomaly. Further air core drilling is planned in order to define the full extent of the bedrock anomalies and to assess the potential of the source of these anomalies.



**Figure 9
Tampia North Soil and Bedrock Geochemistry.**

Lake Grace (Magnetic 100%, diluting)

The Lake Grace tenement covers a 12km strike length of an interpreted shear zone where geochemical sampling has identified several gold-anomalous areas and where limited historical drilling reported a best intersection of 1m @ 34g/t Au from 94m.

A soil sampling program has been completed over the northern extension of the shear zone. The sampling has defined coherent responses up to 15ppb Au which appear to be associated with a discrete magnetic unit evident on regional aeromagnetic data.

An air core drilling program has been lodged for statutory approval which will test the northern extent of the shear zone where coincident gold and arsenic anomalism occur.

The previous exploration identified supergene and primary bedrock mineralisation within a restricted area. The expression of this mineralisation was interpreted as being within shallowing dipping structures; however an alternative interpretation consists of multiple steep dipping zones. These interpretations are being reviewed in order to identify prospective areas for additional drill evaluation.

Holland Rocks (Magnetic 100%, diluting)

As previously reported, soil sampling has identified two gold and multi-element targets associated with an interpreted shear zone evident from regional magnetic data. A drilling programme has been lodged for statutory approval which will test three previously undrilled areas. One of the targets is situated in a previously unexplored area, where joint venture sampling shows coincident gold and arsenic anomalism.

The information in this report is based on information compiled or reviewed by Allan Younger (Dip Applied Geol), who is a member of the Australasian Institute of Mining and Metallurgy. Allan Younger is a consultant to Magnetic Resources NL. Allan Younger has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Allan Younger consents to the inclusion of this information in the form and context in which it appears in this report.

INDEPENDENCE DECLARATION BY AUDITOR

The lead auditor's independence declaration under section 307C of the Corporations Act 2001 is set out on page 15 for the half-year ended 31 December 2010.

This report has been signed in accordance with a resolution of directors.

For and on behalf of the Directors

Signed:

G SAKALIDIS

Managing Director

15 March 2011

AUDITOR'S INDEPENDENCE DECLARATION



Auditors Independence Declaration

To the directors of Magnetic Resources NL

As auditor for the review of Magnetic Resources NL for the half-year ended 31 December 2010, I declare that, to the best of my knowledge and belief, there have been:

- no contraventions of the independence requirements of the *Corporations Act 2001* in relation to the review; and
- no contraventions of any applicable code of professional conduct in relation to the review.

Somes and Cooke

Kevin Somes
Partner

Date: 15 March 2011

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010**



	Notes	Half Year Ended 31 Dec 2010 (\$)	Half Year Ended 31 Dec 2009 (\$)
Revenue:			
Interest income		101,275	17,794
Expenses:			
Depreciation expense		(26,573)	(17,261)
Exploration and tenement expenses written off		(812,336)	(352,960)
Share based payments	3	(160,200)	(84,000)
Other expenses		<u>(286,553)</u>	<u>(190,112)</u>
(Loss) before income tax expense		(1,184,387)	(626,539)
Income tax expense		<u>-</u>	<u>-</u>
(Loss) from continuing operations		<u>(1,184,387)</u>	<u>(626,539)</u>
Other comprehensive income:			
Changes in the fair value of available-for-sale financial assets	4	21,792	68,700
Income tax relating to other comprehensive income		<u>-</u>	<u>-</u>
Other comprehensive income for the period, net of tax		<u>21,792</u>	<u>68,700</u>
Total Comprehensive income for the period attributable to members of Magnetic Resources NL		<u>(1,162,595)</u>	<u>(557,839)</u>
Basic (loss) per share (cents per share)		(1.7625)	(1.3218)
Diluted (loss) per share (cents per share)		<u>(1.7043)</u>	<u>(1.3218)</u>

The accompanying notes form part of these financial statements.

**STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2010**



	Notes	31 Dec 2010 (\$)	30 June 2010 (\$)
Current Assets			
Cash and cash equivalents		4,521,058	4,669,988
Receivables		287,315	127,593
Prepayments		16,344	10,024
Total Current Assets		<u>4,824,717</u>	<u>4,807,605</u>
Non-Current Assets			
Plant, equipment and motor vehicles		179,867	155,809
Other financial assets	4	193,356	141,265
Total Non-Current Assets		<u>373,223</u>	<u>297,074</u>
TOTAL ASSETS		<u>5,197,940</u>	<u>5,104,679</u>
Current Liabilities			
Payables		269,643	404,518
Provisions		897	366
Total Current Liabilities		<u>270,540</u>	<u>404,884</u>
TOTAL LIABILITIES		<u>270,540</u>	<u>404,884</u>
NET ASSETS		<u>4,927,400</u>	<u>4,699,795</u>
Equity			
Contributed equity	5	12,351,526	11,121,526
Reserves	5	282,792	100,800
Accumulated losses		(7,706,918)	(6,522,531)
TOTAL EQUITY		<u>4,927,400</u>	<u>4,699,795</u>

The accompanying notes form part of these financial statements.

**STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010**



Contributed Equity	Employee Benefit Reserve	Available for Sale Asset Reserve	Accumulated Losses	Total
(\$)	(\$)	(\$)	(\$)	(\$)

Balance at 1.7.2009	4,888,592	9,000	-	(3,739,868)	1,157,724
Shares issued during the period	972,675	-	-	-	972,675
Share issue costs	(49,850)	-	-	-	(49,850)
Share based payments	-	84,000	-	-	84,000
Total comprehensive (loss) for the period	-	-	68,700	(626,539)	(557,839)
Balance at 31.12.2009	5,811,417	93,000	68,700	(4,366,407)	1,606,710

Balance at 1.7.2010	11,121,526	100,800	-	(6,522,531)	4,699,795
Shares issued during the period	1,260,000	-	-	-	1,260,000
Share issue costs	(30,000)	-	-	-	(30,000)
Share based payments	-	160,200	-	-	160,200
Total comprehensive (loss) for the period	-	-	21,792	(1,184,387)	(1,162,595)
Balance at 31.12.2010	12,351,526	261,000	21,792	(7,706,918)	4,927,400

The accompanying notes form part of these financial statements.

**STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010**



	Half Year Ended 31 Dec 2010 (\$)	Half Year Ended 31 Dec 2009 (\$)
CASH FLOWS FROM OPERATING ACTIVITIES		
GST refunds received	126,538	71,442
Payments to suppliers and contractors	(414,298)	(277,371)
Interest received	101,275	17,794
Net cash (used in) operating activities	<u>(186,485)</u>	<u>(188,135)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of plant and equipment	(50,631)	(676)
Payments for exploration and evaluation	(1,106,692)	(332,776)
Purchase of new prospects	(4,822)	(37,160)
Purchase of investments	(30,300)	-
Net cash (used in) investing activities	<u>(1,192,445)</u>	<u>(370,612)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from new issues of shares	1,260,000	972,675
Share issue costs	(30,000)	(49,850)
Net cash provided by financing activities	<u>1,230,000</u>	<u>922,825</u>
Net (decrease) / increase in cash held	(148,930)	364,078
Cash at the beginning of the financial period	4,669,988	822,377
Cash at the end of the financial period	<u>4,521,058</u>	<u>1,186,455</u>

The accompanying notes form part of these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010**



NOTE 1 BASIS OF PREPARATION

These general purpose financial statements for the interim half-year reporting period ended 31 December 2010 have been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards including AASB 134: Interim Financial Reporting. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards.

This interim financial report is intended to provide users with an update on the latest annual financial statements of the Company. As such, it does not contain information that represents relatively insignificant changes occurring during the half-year. It is therefore recommended that this financial report be read in conjunction with the annual financial statements for the year ended 30 June 2010, together with any public announcements made by the Company during the half-year in accordance with continuous disclosure requirements arising under the Corporations Act 2001.

The same accounting policies and methods of computation have been followed in this interim financial report as were applied in the most recent annual financial statements.

NOTE 2 OPERATING SEGMENTS

Segment Information

Identification of reportable segments

The Company has identified that it operates in only one segment based on the internal reports that are reviewed and used by the board of directors (chief operating decision makers) in assessing performance and determining the allocation of resources. The Company's principal activity is mineral exploration.

Revenue and assets by geographical region

The Company's revenue is received from sources and assets are located wholly within Australia.

Major customers

Due to the nature of its current operations, the Company does not provide products and services.

NOTE 3 SHARE BASED PAYMENTS

On 21 December 2010, 1,800,000 shareholder-approved options were granted to directors to take up ordinary shares at an exercise price of \$0.4607 each. The options are exercisable on or before 21 December 2015, are not listed, hold no voting or dividend rights, are transferable and vested immediately upon issue. Included under share based payments expense in the Statement of Comprehensive Income is \$160,200 which relates to this equity-settled share-based payment transaction (2009: \$84,000).

NOTE 4 OTHER FINANCIAL ASSETS

	Half Year Ended 31 Dec 2010 (\$)	Half Year Ended 31 Dec 2009 (\$)
Available for sale assets		
Balance 1 July	141,265	205,694
Purchase of investments	30,300	-
Increase in fair value	21,792	68,700
Balance 31 December	193,356	274,394

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010**



NOTE 5 CONTRIBUTED EQUITY

	Number	\$
Ordinary Fully Paid Shares		
Balance 1 July 2010	64,717,636	11,121,526
Shares issued during the period	2,800,000	1,260,000
Share issue costs		(30,000)
Total Ordinary Fully Paid Shares Issued at 31 December 2010	<u>67,517,636</u>	<u>12,351,526</u>
Contributing Shares		
Balance 1 July 2010	17,418,862	-
Total Contributing Shares Issued at 31 December 2010	<u>17,418,862</u>	<u>-</u>
Total Equity		<u>12,351,526</u>
Share Based Payments Reserve	Note	
Balance 1 July 2010		100,800
Share based payment this period	3	160,200
Balance 31 December 2010		<u>261,000</u>
Available for Sale Asset Reserve		
Balance 1 July 2010		-
Changes in the fair value of available-for-sale financial assets		21,792
Balance 31 December 2010		<u>21,792</u>
Total Reserves at 31 December 2010		<u>282,792</u>
Unlisted Options to acquire Fully Paid Ordinary Shares		
Issued to directors, company secretary and employees, exercisable at \$0.2709 each on or before 23 December 2014	2,295,000	-
Issued to directors exercisable at \$0.4607 each on or before 21 December 2015	1,800,000	-
Total Options to acquire Fully Paid Ordinary Shares at 31 December 2010	<u>4,095,000</u>	<u>-</u>

NOTE 6 TENEMENT EXPENDITURE COMMITMENTS

The Company has entered into certain obligations to perform minimum exploration work on tenements held or joint ventured into. These obligations vary from time to time in accordance with contracts signed. Tenement rentals and minimum expenditure obligations which may be varied or deferred on application are expected to be met in the normal course of business.

The minimum statutory expenditure requirement on the granted tenements for the next twelve months amounts to \$2,396,500. The Company continues to adopt a strategy as articulated in its IPO prospectus of prioritising and significantly rationalising its tenement holdings. The tenements are located in Western Australia and are subject to legislative requirements with respect to the processes for application, grant, conversion and renewal. The tenements are also subject to the payment of annual rent and the meeting of minimum annual expenditure commitments. There is no guarantee that any applications, conversions or renewals for the Company's tenements will be

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2010



granted. The inability of the Company to meet rent and expenditure requirements may adversely affect the standing of its tenements.

NOTE 7 EVENTS SUBSEQUENT TO REPORTING DATE

There have been no matters or circumstances that have arisen since 31 December 2010 which have significantly affected or may significantly affect:

- (a) the Company's operations in future years; or
- (b) the results of those operations in future years; or
- (c) the Company's state of affairs in future years.

NOTE 8 CONTINGENT LIABILITIES

Native Title

The Company's activities are subject to the Native Title Act and Aboriginal heritage legislation.

The Native Title Act recognises the title rights of indigenous Australians. State and Commonwealth native title legislation regulates the recognition, application and protection of native title. Native title may affect the status, renewal and conversion of existing tenements and the granting of new tenements. Indigenous land use agreements, including terms of compensation, heritage survey and protection agreements or other agreement types may need to be negotiated with affected parties.

The Native Title Act prescribes procedures applicable to the grant of tenements which may apply even in the case of, for instance, a granted exploration licence being "converted" to, say, a mining lease. Compensation may become payable in respect of any impact which the grant of any tenements or other activities have on native title. A tenement holder may be liable for the payment of compensation for the affect of mining and exploration activities on any native title rights and interests that exist in the area covered by a tenement. Compensation may be payable in forms other than money, including the transfer of property and the provision of goods and services.

It is not currently possible to assess whether compensation will be payable by the Company to native title holders in relation to any of the tenements but such compensation could be significant.

There may be sites and objects of significance to indigenous Australians located on the land relating to the Company's tenements. State and Commonwealth Aboriginal heritage legislation aims to preserve and protect these sites and objects from use in a manner inconsistent with Aboriginal tradition. The Company proposes carrying out 'clearance surveys' if it considers this to be appropriate before conducting any exploration work that would disturb the surface of the land. The Company's tenements may contain some such sites or objects of significance, which would need to be avoided or cause delays. It is possible that areas containing mineralisation or an economic resource may also contain sacred sites, in which case exploitation thereof may be entirely frustrated. Access agreements will need to be negotiated with affected parties.

Native title, Aboriginal heritage or other indigenous matters are matters of substantial risk (giving rise to the threat that certain tenements may not be granted, access to certain tenements may be denied or delayed in addition to potentially significant cost exposure in respect of things such as negotiations, surveys, incentive payments and compensation to name but a few) as the legislative frame works provide torturous and frequently uncertain routes to the endeavour by both stakeholders (that is explorers/miners and indigenous peoples) to attain certainty.

NOTE 8 CONTINGENT LIABILITIES (Continued)

Native Title (Continued)

It is not possible to quantify the financial or other impact native title and Aboriginal heritage will have upon the Company as, amongst other things, the processes involved with:

- (a) identifying all and only the indigenous peoples with a relevant interest;
 - (b) registering an indigenous land use agreement;
 - (c) obtaining access to land without infringing the provisions of the Aboriginal Heritage Act;
- are open ended, can involve substantial delay and cost and there can be no certainty as to the outcome with it being possible for projects to be entirely frustrated.

This could be the case, for instance, even in circumstances where:

- (a) a native title party consents to the grant of an exploration licence and assists the exploration endeavour thereon (and the discovery of an otherwise economic deposit);
- (b) the Company, in order to exploit that discovery, applies for a mining lease (or other required approval, consent, authority etc.) but such grant, approval, consent or authority is not forthcoming by reason of an objection by the same or another native title party.

Freehold Access

The interests of holders of freehold land encroached by tenements are given special recognition by the Mining Act (WA). As a general proposition, a tenement holder must obtain the consent of the owner of freehold before conducting operations on the freehold land. There can be no assurance that the Company will secure rights to access those portions of the tenements encroaching freehold land either at all or for all purposes but, importantly, the grant of freehold extinguished native title so wherever the tenements encroach freehold the Company is in the position of not having to abide by the Native Title Act albeit aboriginal heritage matters will still be of concern.

DIRECTORS' DECLARATION



The directors of the Company declare that:

1. the accompanying financial statements and notes:
 - (a) comply with Accounting Standard AASB 134 : Interim Financial Reporting and the Corporations Regulations 2001; and
 - (b) give a true and fair view of the financial position of the Company as at 31 December 2010 and its performance for the half-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.

This declaration is made in accordance with a resolution of the Board of Directors:

Signed at Perth: **George Sakalidis**
Managing Director

Dated this 15th day of March 2011.



Independent Auditor's Review Report

To the members of Magnetic Resources NL

Report on the Interim Financial Report

We have reviewed the accompanying interim financial report of Magnetic Resources NL, which comprises the statement of financial position as at 31 December 2010, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility for the Interim Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the company's financial position as at 31 December 2010 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Magnetic Resources NL, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Liability Limited by a Scheme approved under Professional Standards Legislation



Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We can confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Magnetic Resources NL, would be in the same terms if given to the directors as at the time of this auditor's report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Magnetic Resources NL is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the company's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

Somes and Cooke

Kevin Somes
Partner

15 March 2011

Perth.