magnetic resources NL

ABN: 34 121 370 232

ANNUAL REPORT

FINANCIAL YEAR
ENDED 30 JUNE 2010

CONTENTS

CORPORATE DIRECTORY

DIRECTORS

PETER THOMAS
Non-Executive Chairman

GEORGE SAKALIDIS
Managing Director

ROGER THOMSON
Executive Director

COMPANY SECRETARY
Rudolf Tieleman

REGISTERED OFFICE
2nd Floor
16 Ord Street, West Perth WA 6005
Telephone (08) 9226 1777
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WEBSITE
www.magres.com.au

FOR SHAREHOLDER INFORMATION CONTACT

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Security Transfer Registrars Pty Ltd
770 Canning Highway, Applecross WA 6153
Telephone (08) 9315 2333
Facsimile (08) 9315 2233

FOR INFORMATION ON THE COMPANY CONTACT

PRINCIPAL & REGISTERED OFFICE
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Telephone (08) 9226 1777
Facsimile (08) 9485 2840

SOLICITORS TO THE COMPANY
Smyth & Thomas
10 Walker Avenue, West Perth WA 6005

BANKERS
Bank of Western Australia Ltd
Hay Street, West Perth WA 6005

AUDITORS
Somes & Cooke
Chartered Accountants
Level 1, 1304 Hay Street, West Perth WA 6005

STOCK EXCHANGE
Australian Securities Exchange (ASX)

COMPANY CODE
MAU (Fully paid shares)
MAUCA (Partly paid shares)

ISSUED CAPITAL

67,517,636 fully paid ordinary shares.

17,418,862 partly paid shares ($0.20 unpaid).

2,295,000 options to acquire fully paid shares exercisable at $0.2709 by 23 December 2014

PROJECT SUMMARIES

2010 proved to be a significant year of progress for Magnetic Resources following the implementation of a strategy to acquire tenements prospective for iron ore in areas of good infrastructure, particularly railway lines, and in proximity to ports in the south western part of Western Australia.

During the year Magnetic expanded its tenement holdings in WA to more than 6,300sq km following detailed aeromagnetic surveys to totalling more than 16,000 line km to identify specific areas prospective for iron ore. In addition, Magnetic is continuing exploration on a number of uranium and gold prospects in this region and has identified potential for bauxite on some of its iron ore tenements. The locations of Magnetic's current projects are shown in Figure 1.

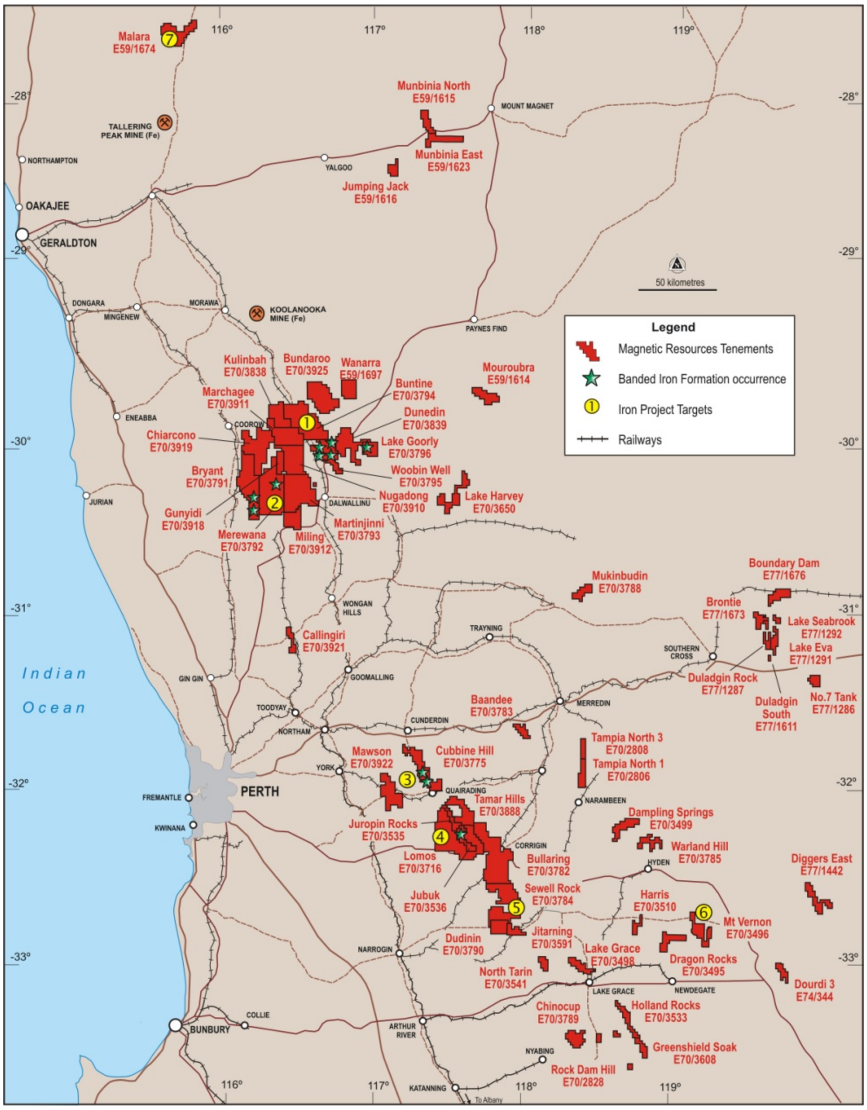


Figure 1
Location Map

IRON ORE

JUBUK (Magnetic 100%)

Magnetic completed 30 reverse circulation (RC) drill holes and one diamond drill hole for a total of 4,015m on the Jubuk magnetite project near Corrigin. The drilling has confirmed the presence of significant widths of near surface coarse grained magnetite in metamorphosed and recrystallised banded iron formation (BIF).

Significant intersections are summarised in Table 1.

Table 1
Jubuk RC Drill Intersections

Hole Number	From M	To M	Internal M	Fe %
JRC01	44	60	16	33.4
JRC06	63	95	32	28.0
JRC19	52	60	8	24.2
	80	88	8	26.7
JRC22	60	68	8	27.7
JRC23	64	92	28	23.7
	116	120eoh	4	22.5
JRC24	80	96	16	28.3

Eoh: end of hole. 1m samples, XRF determination

The drilling was carried out over a strike length of 2.2 km with detailed ground and aeromagnetics indicating a potential strike length for the target BIF of 7.6 km, as shown in Figure 2.

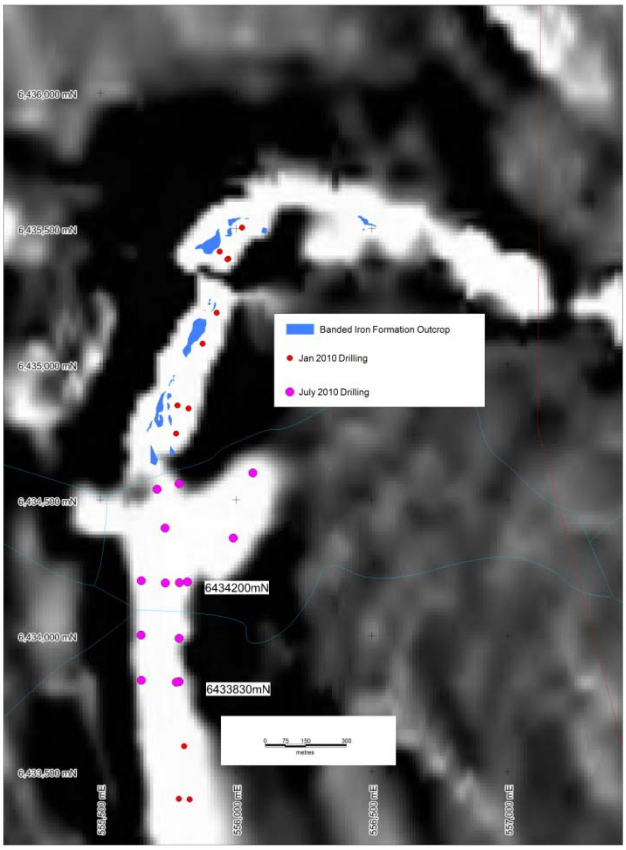


Figure 2
Known BIF Outcrop and Drill Collars on Greyscale Aeromagnetics Image

Significantly, the drilling identified a parallel zone of magnetite BIF interpreted to be the western limb of a tight anticlinal fold structure. A review of the geological and geophysical data suggests the presence of two major BIF units ranging in width from 20-30m. The presence of a second limb has positive implications for the tonnage potential at Jubuk. Cross sections of the drilling at Jubuk are shown in Figures 3 and 4.

Figure 3
Jubuk Drill Section 6434200N

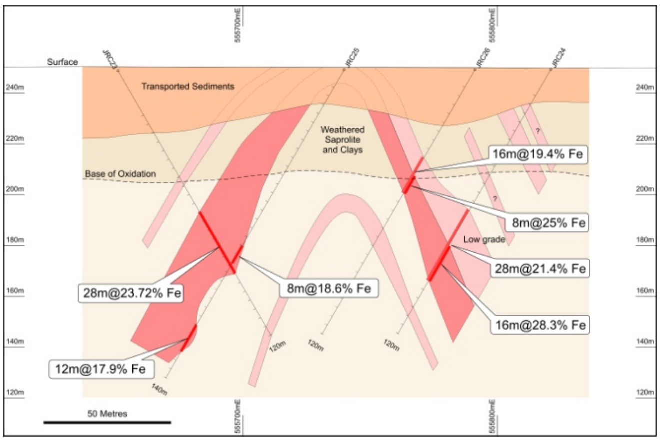
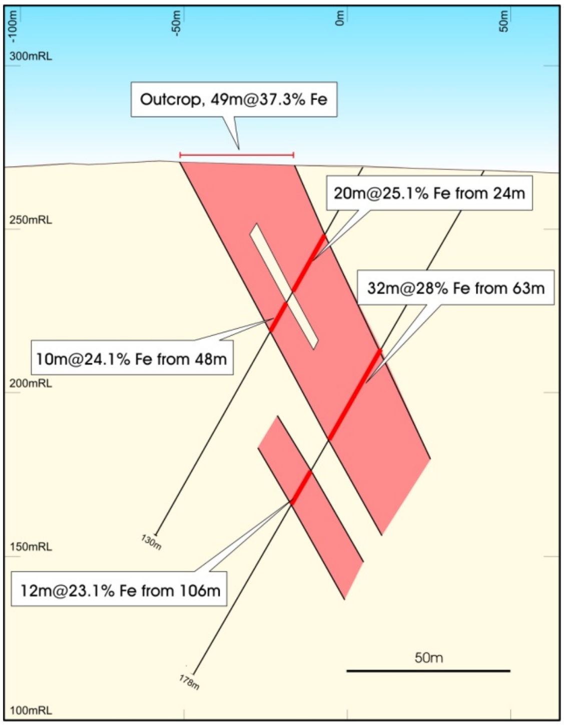


Figure 4
Jubuk Drill Section 6435400N



A composite sample from RC drill holes JRC01, 05, 06 and 10 over a 600m strike length was subject to Davis Tube Recovery (DTR) testing, with results summarised in Table 2.

Table 2
Jubuk RC DTR Results

Davis Tube Product	Weight %	Fe %	SiO_2 %	AlO_3 %	P %	L01 %
Magnetics	33.3	69.69	1.36	0.90	0.002	-3.17
Non Magnetics	66.7	3.91	76.79	7.72	0.054	
DTR to concentrate	29.4	90.0	0.9	5.5	1.8	

A composite sample from the diamond core hole was also tested as summarised in Table 3.

Table 3
Jubuk Drill Core DTR Results

Davis Tube Product	Weight %	Fe %	SiO_2 %	Al_2O_3 %	P %	L01 %
Magnetics	26.2	70.50	1.31	0.67	0.003	-3.24
Non Magnetics	73.8	2.66	74.35	9.52	0.042	
DTR to concentrate	26.2	90.4	0.6	2.4	2.5	

The Davis Tube Recovery tests from both RC and drill core samples indicate total iron over 70% and silica less than 1.4% confirming potential to produce a very high quality concentrate suitable for direct reduction feed. Iron recovery is very good at over 90% and expulsion of silica is excellent at over 99%.

An abrasive index test on drill core returned a value of 0.44 compared to an industry norm of 0.3 and a high abrasive index of 0.7. A Bond Ball Mill Work Index (BWI) test gave a result of 17 kWh/t indicating that the BIF is hard. BWI values for magnetic to BIF commonly range from 6 to 29 kWh/t with an average of 13 kWh/t. While the Jubuk magnetite may be harder than average it should not be an issue considering modern process equipment design.

Encouraged by these test results Magnetic is planning further drilling and the commencement of a scoping study with a view to fast tracking this high quality project.

Jubuk Crystalline Magnetite

WUBIN – DALWANLLINU (Magnetic 100%)

Magnetic completed a 3,480 sq km high resolution aeromagnetic survey over multiple target areas in the south west of WA. The aeromagnetic survey comprises 16,280 km of flying on 250m line spacing in areas where much of the historic aeromagnetic data is based on a line spacing of 1600m. Magnetic is targeting both magnetite and direct shipping ore (DSO) hematite in areas of good infrastructure close to railway lines and parts. This major survey, coupled with other magnetic data has defined a total cumulative strike length of more than 250km of targets in the Wubin, Dalwallinu, Sewell, Quairading and Mt Vernon areas.

Magnetic is targeting iron ore deposits ranging in size from 220Mt to 1000 Mt within its various project areas based on interpretation of geophysical data using an assured SG of 3.5 and projecting targets to an average depth of 100m below surface. The potential quality and grade is conceptual at this stage as there has not been sufficient exploration to define a mineral resource and it is uncertain if further exploration will result in the determination of a mineral resource.

In the Wubin area sampling has identified numerous outcrops with in excess of 50% Fe correlating with magnetic anomalies as shown in Figure 7. The sampling has identified a range of iron ore types ranging from magnetite BIF to massive goethite-hematite such as shown in Figure 5. A cemented pisolite hematite was also identified at Wubin as shown in Figure 6.

Figure 5
Wubin Goethite-Hematite

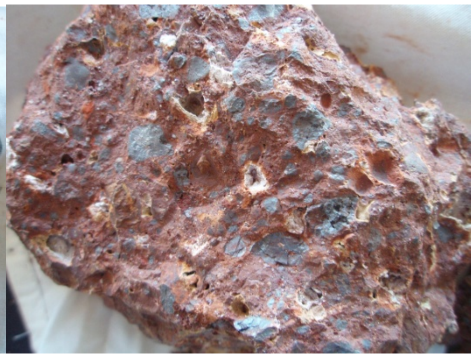


Figure 6
Wubin Pisolite

The extent of the goethite-hematite and pisolite types of mineralisation has yet to be determined. RC and aircore drilling programmes are being planned, to test the nature and extent of these iron occurrences.

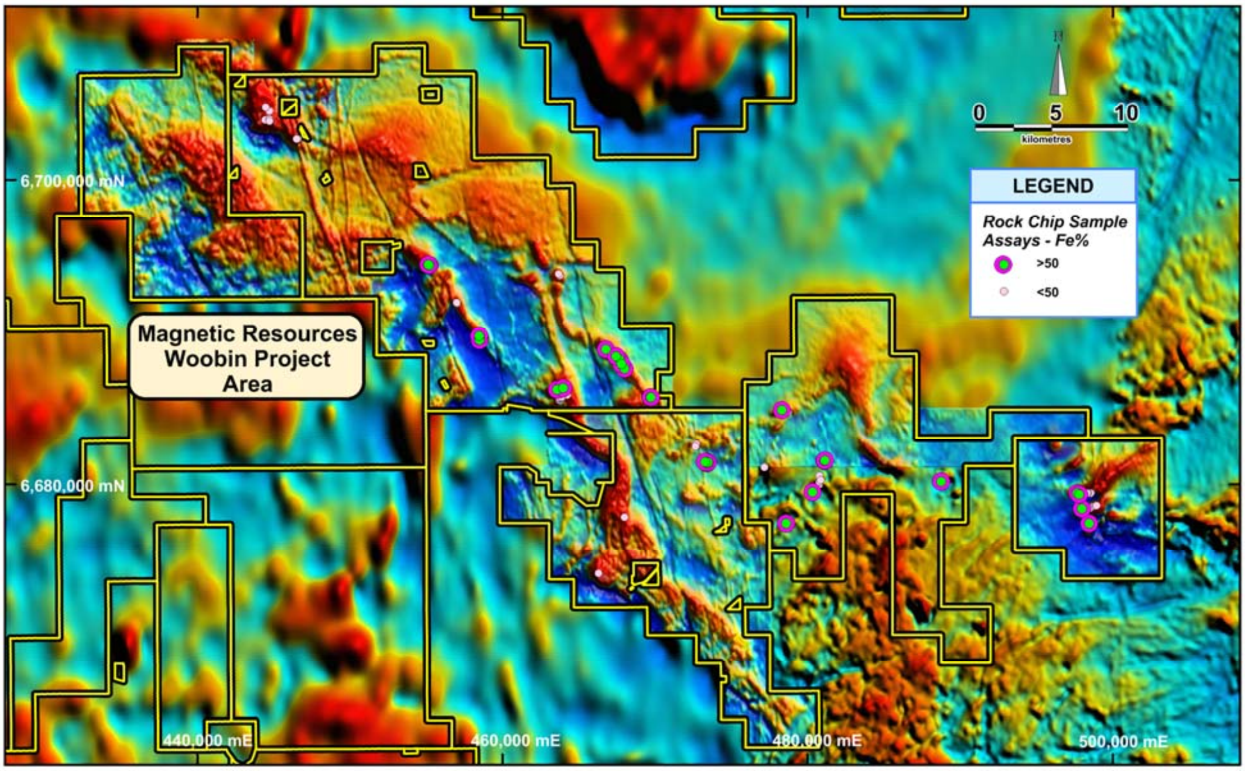


Figure 7
High Priority Hematite Targets (>50% Fe) on Wubin Aeromagnetic Image

BAUXITE

DALWALLUNU (Magnetic 100%)

Following a regional assessment for iron ore in the Dalwallinu area north of Perth, Magnetic Resources has identified strongly elevated alumina (Al_2O_3) contents in samples of lateritic duricrust collected throughout the Dalwallinu iron ore project area, with some samples containing up to 39.65% Al_2O_3 (range 0.68% to 39.65% Al_2O_3). A review of the iron and alumina results from Magnetic's sampling indicates only minor overlap between the iron and alumina results, as the elevated iron values are developed over areas of high magnetic response and the elevated alumina responses occur over granitic areas of low magnetic response.

Based on a subsequent review of regional open file data, Magnetic has acquired four exploration licences with a primary focus on the bauxite potential. The exploration licences total 889sq km situated in the Dalwallinu-Latham area north of what is generally recognised as the Darling Range bauxite province.

Significantly, wide-spaced historical sampling on 3km centres by a venture involving the CSIRO shows high alumina values in laterite up to 32.4% Al_2O_3 (range 12.9% to 32.4% Al_2O_3) within the new bauxite tenement areas. The elevated alumina values in the CSIRO samples and Magnetic's recent iron sampling are shown in Figure 5. Magnetic has completed reconnaissance validation sampling of this historical regional data, the results of which are pending. Also of significance, the historical data shows a clear correlation between elevated Al_2O_3 responses and the elevated lateritic plateau of the Darling Range. Preliminary investigations indicate that the region has not been subject to systematic exploration for bauxite.

Important chemical factors in assessing potential for bauxite include determining available (i.e. caustic soda-soluble) Al_2O_3, soluble or reactive silica, and iron content. The reconnaissance samples currently being analysed will provide indicators for some of these factors. Other factors such as Al_2O_3 distribution, thickness and tonnage potential have strong influences on bauxite project economics. Magnetic will evaluate these factors and others such as the mineralogy of the laterite and underlying saprolite, as part of the exploration process on the tenements. Magnetic Resources is most encouraged by the bauxite potential of its new tenements, which are well located near existing rail infrastructure and which abut those of Bauxite Resources to the south. Magnetic believes the new tenements could cover a significant northern extension to the Darling Range bauxite province.

GOLD

TAMPIA NORTH (Magnetic 80%, diluting)

The Tampia North tenements, where Magnetic holds an 80% interest with rights to earn a 100% interest, cover a 30km strike on 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 farmin agreement with Pacific Ore Ltd.

A soil sampling program has defined several target areas for RAB drilling to determine the source of the surface gold anomalies. A 49-hole, 890m drilling programme has been completed to cover both the gold anomalism and peripheral zones where pathfinder elements As and Mo show anomalism. Drilling commenced at the end of the June quarter and analytical results are pending.

LAKE GRACE and HOLLAND ROCKS (Magnetic 100%, diluting)

The Lake Grace and Holland Rocks tenements cover a cumulative 60km 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 at Lake Grace. The tenements are subject to a farm-in agreement with Pacific Ore Ltd.

At Lake Grace a soil sampling programme has been completed over those target areas where land access agreements are in place. The sampling has defined coherent gold responses up to 15ppb Au which appear to be associated with a discrete magnetic unit evident on regional aeromagnetic data. Subject to permitting and land access agreements, a drilling programme is being planned when harvesting in the area is complete.

At Holland Rocks a soil sampling programme (482 samples) was completed over the Holland Rocks project area. The maximum gold value is 12.7ppb Au. When considered in conjunction with the multi-element index the gold appears to define two potentially mineralised trends, as shown in Figure 8, within the structural zone apparent in the regional magnetic data. A drilling programme is being planned when harvesting is complete.

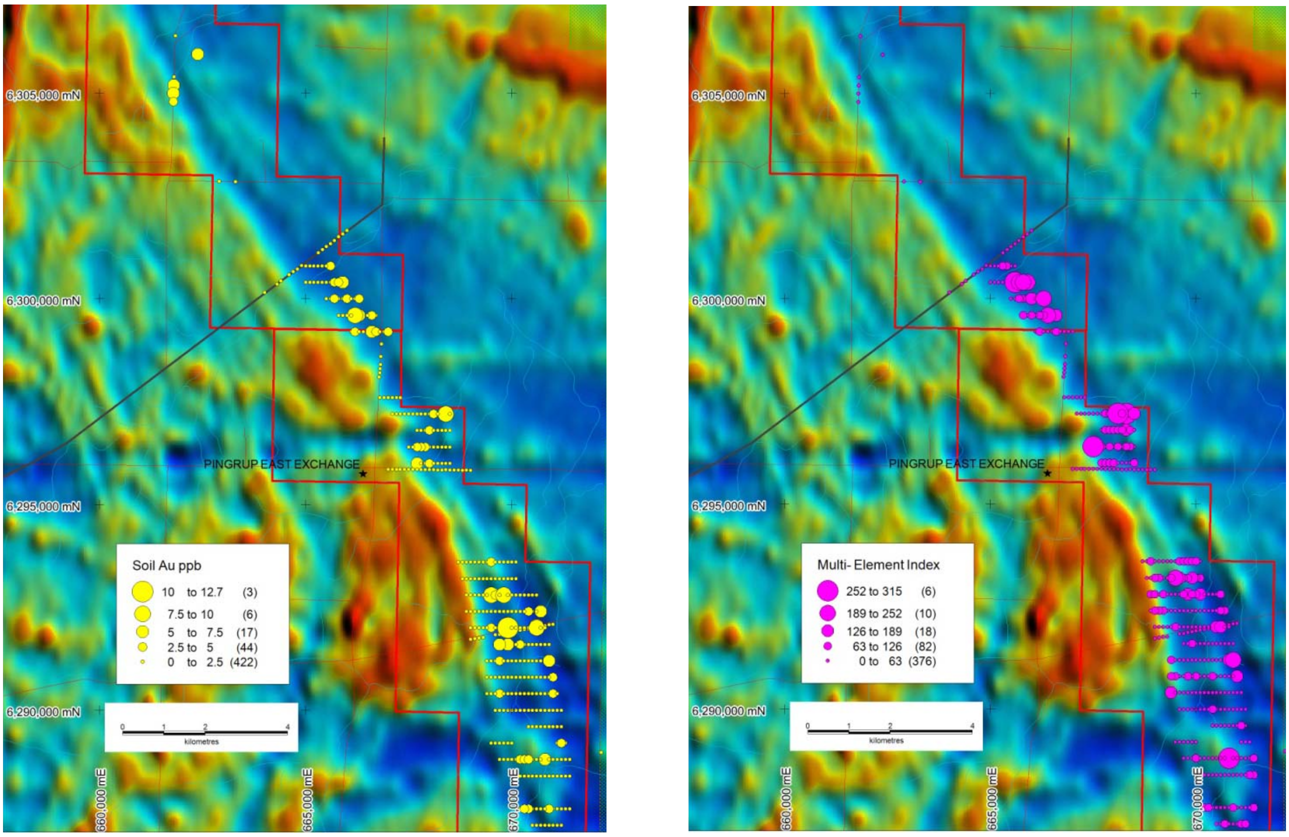


Figure 8
Gold and Multi-element Signatures from Holland Rocks

The information in this report that relates to exploration results is based on information compiled by Roger Thomson BSc, ARSM, MAusIMM, who is a Member of the Australian Institute of Geoscientists. Roger Thomson is a director of Magnetic Resources NL. Roger Thomson 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 of Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Roger Thomson consents to the inclusion of this information in the form and context in which it appears in this report.

Your directors present their report on the Company for the year ended 30 June 2010.

DIRECTORS

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

Peter Thomas
George Sakalidis
Roger Thomson

PRINCIPAL ACTIVITIES

The principal activities of the Company during the year were the exploration of mineral tenements in Western Australia.

RESULTS FROM OPERATIONS

During the year the Company recorded an operating loss of $2,782,662 (2009: $1,518,484).

The foregoing figure includes $91,800 (2009: $Nil) in respect of "share based payments". This is not a cash outlay. It is brought to book by virtue of a requirement at law. Net of this figure, the operating loss was $2,690,862 (2009: $1,518,484).

DIVIDENDS

No amounts have been paid or declared by way of dividend by the Company since the end of the previous financial year and the Directors do not recommend the payment of any dividend.

REVIEW OF OPERATIONS

A review of operations is covered elsewhere in this Annual Report.

EARNINGS PER SHARE

Basic Loss per share for the financial period was 5.38 cents (2009: 3.80 cents). Diluted Loss per share in respect of the year ended 30 June 2010 is 5.15 cents (2009: Not applicable).

FINANCIAL POSITION

The Company's cash position as at 30 June 2010 was $4,669,988, an increase from the 2009 cash balance which was $822,377. The cash position is adequate to fund committed exploration expenditure.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

Significant changes in the state of affairs of the Company during the financial period were the placement of 19,526,383 shares at issue prices ranging from $0.165 to $0.45.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL PERIOD

Subsequent to the end of the financial year, a further 2,800,000 fully paid shares were issued at $0.45 each.

Other than this issue of shares, no material matters have occurred subsequent to the end of the financial year which require reporting on other than the matters as reported to ASX.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

Likely developments in the operations of the Company and the expected results of those operations in future financial years have not been included in this report as the directors believe, on reasonable grounds, that the inclusion of such information would be likely to result in unreasonable prejudice to the Company.

ENVIRONMENTAL ISSUES

The Company carries out operations in Australia which are subject to environmental regulations under both Commonwealth and State legislation in relation to those exploration activities.

The Company has no formal procedures in place to ensure regulations are adhered to. During or since the financial year there have been no known significant breaches of these regulations.

INFORMATION ON DIRECTORS AND COMPANY SECRETARY

Peter S Thomas
Chairman
Mr Thomas, a commercial solicitor specialising in the resource sector, is and has been a director of various listed companies. He is non-executive chairman of this company, Magnetic Resources NL (since the company was incorporated on 23 August 2006), Image Resources NL (since 19 April 2002), Meteoric Resources NL (since that company was incorporated on 13 February 2004) and Emu Nickel NL (since that company was incorporated on 29 August 2007), all four of whom are ASX listed. He was non-executive director of GoldLink IncomePlus Limited for a period from 4 April 2008 to 18 June 2008.

Mr Thomas has a relevant interest in 28,555 fully paid ordinary shares, 42,833 contributing shares and 500,000 options to acquire fully paid ordinary shares.

George Sakalidis

Managing Director

Mr Sakalidis is an exploration geophysicist with over twenty-five years industry experience, during which time his career has included extensive gold, diamond, base metals and mineral sands exploration. Mr Sakalidis has been involved in a number of significant mineral discoveries, including the Three Rivers and Rose gold deposits in Western Australia and the tenement applications over the Silver Swan nickel deposit. He was also instrumental in the design of the magnetic surveys and exploration drilling program that led to the discovery of the large mineral sands resources at Magnetic Minerals Limited's Dongara Project. He is managing director of this company, Magnetic Resources NL (since the company was incorporated 23 August 2006), Image Resources NL (director since 13 May 1994, managing director since 13 June 2007), Emu Nickel NL (since that company was incorporated on 29 August 2007) and executive director of Meteoric Resources NL (since that company was incorporated on 13 February 2004), all four of whom are ASX listed. He is also non-executive chairman of unlisted Imperium Resources NL (appointed 23 June 2008).

Mr Sakalidis has a relevant interest in 4,270,531 ordinary fully paid shares, 3,076,113 contributing shares and 800,000 options to acquire fully paid ordinary shares.

Roger M Thomson
Technical Director

Mr Thomson is a geologist with more than 35 years experience in mineral exploration, mining geology and management in Australia, Africa, South America and Southeast Asia. He has held the positions of General Manager Exploration with Delta Gold Ltd and Sons of Gwalia Ltd and has been responsible for, or closely associated with, making economic discoveries of gold and tantalum in Australia. Mr Thomson successfully managed the exploration programme that led to the discovery of the multi-million ounce Sunrise gold deposit near Laverton in Western Australia. He is an Associate of the Royal School of Mines, a Member of the Australasian Institute of Mining and Metallurgy and a Member the Australian Institute of Geoscientists. Mr Thomson is an executive director of this company, Magnetic Resources NL (since the company was incorporated on 23 August 2006), managing director of Meteoric Resources NL (since that company was incorporated on 13 February 2004), executive director of Image Resources NL (since 19 April 2002) and executive director of Emu Nickel NL (since that company was incorporated on 29 August 2007), all four of whom are ASX listed. He was a non-executive director of Mariana Resources Limited for the period from 20 February 2006 to 28 November 2008.

Mr Thomson has a relevant interest in 238,445 ordinary fully paid shares, 2,177,669 contributing shares and 550,000 options to acquire fully paid ordinary shares.

Rudolf Tieleman

Company Secretary

Mr Tieleman is an accountant with over 20 years experience in public practice. He has extensive knowledge in matters relating to the operation and administration of listed mining companies in Australia.

AUDIT COMMITTEE

At the date of this report the Company does not have a separately constituted Audit Committee as all matters normally considered by an audit committee will be dealt with by the full board.

MEETINGS OF DIRECTORS

During the financial year ended 30 June 2010, there were nine meetings of directors, all of which were attended by all the directors.

REMUNERATION REPORT (Audited)

Names and positions held of key management personnel in office at any time during the financial year are:

Key Management Person	**Position**
Peter S Thomas	Non-Executive Chairman
George Sakalidis	Managing Director
Roger M Thomson	Executive Director
Rudolf Tieleman	Company Secretary

The Company's policy for determining the nature and amount of emoluments of key management personnel is set out below:

Key Management Personnel Remuneration and Incentive Policies

The Remuneration Committee ("**committee**") makes decisions with respect to appropriate and competitive remuneration and incentive policies (including basis for paying and the quantum of any bonuses), for key management personnel and others as considered appropriate to be singled out for special attention, which:

- motivates them to contribute to the growth and success of the Company within an appropriate control framework; and
- aligns the interests of key leadership with the interests of the Company's shareholders;
- are paid within the any limits imposed by the Constitution and make recommendations to the Board with respect to the need for increases to any such amount at the Company's annual general meeting;
- in the case of directors, only permits participation in equity-based remuneration schemes after appropriate disclosure to, due consideration by and with the approval of the Company's shareholders.

The committee is to ensure that recommendations are made to the Board with respect to the above.

Non-Executive Directors

- The committee is to ensure that non-executive directors are not provided with retirement benefits other than statutory superannuation entitlements.
- To the extent that the Company adopts a remuneration structure for its non-executive directors other than in the form of cash and superannuation, the committee shall document its reasons for the purpose of disclosure to stakeholders.

Incentive Plans and Benefits Programs

The committee is to:

- review and make recommendations concerning long-term incentive compensation plans, including the use of equity-based plans. Except as otherwise delegated by the Board, the committee will act on behalf of the Board to administer equity-based and employee benefit plans, and as such will discharge any responsibilities under those plans, including making and authorising grants, in accordance with the terms of those plans;
- ensure that, where practicable, incentive plans are designed around appropriate and realistic performance targets that measure relative performance and provide remuneration when they are achieved; and

- continually review and, if necessary, improve any existing benefit programs established for employees.

Retirement and Superannuation Payments

Prescribed benefits were provided by the Company to all directors by way of superannuation contributions to complying superannuation funds during the year. These benefits were paid in accordance with the statutory superannuation contribution guarantee requirements.

Constitutional Provisions as to Directors Fees

The Constitution contains the following provisions in respect of directors' fee.

87. REMUNERATION OF MANAGING DIRECTORS AND EXECUTIVE DIRECTORS

87.1. Subject to the provisions of any contract between the Company and a Managing Director or an Executive Director the remuneration of a Managing Director or an Executive Director is fixed from time to time by the Directors and may be by way of fixed salary or participation in profits of the Company or of any other company in which the Company is interested or by any or all of those modes but may not be by way of commission on or percentage of operating revenue of the Company.

87.2. Unless otherwise determined by the Company in general meeting this remuneration may be in addition to any remuneration which he or she receives as a Director.

88. PAYMENT OF FEES

88.1. The Directors may be paid out of the funds of the Company as remuneration for their ordinary services as Directors such sum as has been or may from time to time be determined by the Company in general meeting. Pending determination in general meeting the amount shall be $250,000 per annum.

88.2. The remuneration must be by a fixed sum and not by a commission on or percentage of operating revenue of the Company or (except in the case of a Managing Director or Executive Director) its profits.

88.3. The sum so fixed must be divided among the Directors in such proportion and manner as they agree from time to time or, in default of agreement, equally.

88.4. The remuneration of each Director for his or her ordinary services is deemed to accrue from day to day and is apportionable accordingly.

90. PAYMENT FOR EXTRA SERVICES

90.1. Any Director who being willing is called upon to perform extra services or to make any special exertions or to undertake any executive or other work for the Company beyond his or her ordinary duties or to go or reside abroad or otherwise away from home for any of the purposes of the Company may, subject to the Law, be remunerated either by a fixed sum or a salary as determined by the Directors and this remuneration shall be in addition to his or her share in the remuneration provided by rule 88 unless otherwise agreed.

magnetic resources NL

Key Management Personnel Remuneration

Year ended 30 June 2010					
Key Management Person	Cash Directors Fees and Contractual Payments	Post Employment Superannuation	Total Cash and Cash Equivalent Benefits	Non-cash Benefits Equity Options (1)	Total
Peter Thomas Non-Executive Chairman	40,000	3,600	43,600	20,000	63,600
George Sakalidis Executive Managing Director	120,845	3,600	124,445	32,000	156,445
Roger Thomson Executive Director	86,305	3,600	89,905	22,000	111,905
Rudolf Tieleman Company Secretary	50,719	-	50,719	10,000	60,719
Total	297,869	10,800	308,669	84,000	392,669

Note (1) Equity remuneration represents share options granted during the year as approved at the general meeting of shareholders held 30 November 2009. These options have been valued in accordance with International Financial Reporting Standards which specifies that an option-pricing model be applied to employees' or directors' stock options to estimate their fair value as at their grant date. The independent valuer used a range of open form models (Basic and Binomial).

Year ended 30 June 2009					
Key Management Person	Cash Directors Fees and Contractual Payments	Post Employment Superannuation	Total Cash and Cash Equivalent Benefits	Non-cash Benefits Equity Options	Total
Peter Thomas Non-Executive Chairman	40,000	3,600	43,600	-	43,600
George Sakalidis Executive Managing Director	97,375	3,600	100,975	-	100,975
Roger Thomson Executive Director	88,465	3,600	92,065	-	92,065
Rudolf Tieleman Company Secretary (Period from appointment being 22.6.2009)	33,41	-	3,341	-	3,341
Robert Lewis Company Secretary (Period to resignation being 22.6.2009)	3,686	-	3,686	-	3,686
Total	232,867	10,800	243,667	-	243,667

Consultant Agreements

Two separate (but similar) agreements have been executed between the Company and nominated associated entities of Messrs Sakalidis and Thomson.
The major provisions of the agreements are set out as follows:

Contracted entity	Term of agreement	Rate	Review period	Increase
Leeman Pty Ltd (G Sakalidis)	Annually from 1 January 2010	$155.00 per hour	Annually on 1 July	Discretionary by Board
Regor Consulting Pty Ltd (RM Thomson)	Annually from 1 March 2008	$135.00 per hour	Annually on 1 July	

Guaranteed Rate Increases
There are no guaranteed rate increases fixed in the contracts of any of the key management personnel.

DIRECTORS' INTERESTS
The relevant interest of each director in the shares and options over such instruments issued by the Company as notified by the directors to the Australian Securities Exchange in accordance with Section 205G(1) of the Corporations Act 2001, **at the date of this report** is as follows:

	Fully Paid Ordinary Shares	Partly-paid Contributing Shares	Options to Acquire Fully Paid Ordinary Shares
Peter Thomas	28,555	42,833	500,000
George Sakalidis	4,270,531	3,076,113	800,000
Roger Thomson	238,445	2,177,669	550,000

SHARE OPTIONS GRANTED TO DIRECTORS AND OFFICERS
During the financial year, shareholders at the Annual General Meeting held on 30.11.2009 approved the grant of options to the Directors for no consideration. These options over unissued ordinary shares were granted at 1.5 times the market price current on the date of issue and are exercisable at $0.2709 each on or before 23.12.2014.

No options have been issued since the end of the financial year.

END OF AUDITED SECTION

EMPLOYEES
Aside from directors (all of whom were, for tax purposes treated as employees this year), the Company had no non-casual employees at 30 June 2010.

CORPORATE STRUCTURE
Magnetic is a no liability company incorporated and domiciled in Australia.

ACCESS TO INDEPENDENT ADVICE

Each director has the right, so long as he is acting reasonably in the interests of the Company and in the discharge of his duties as a director, to seek independent professional advice and recover the reasonable costs thereof from the Company.

The advice shall only be sought after consultation about the matter with the chairman (where it is reasonable that the chairman be consulted) or, if it is the chairman that wishes to seek the advice or it is unreasonable that he be consulted, another director (if that be reasonable).

The advice is to be made immediately available to all board members other than to a director against whom privilege is claimed.

INDEMNIFICATION & INSURANCE OF DIRECTORS AND OFFICERS

The Company has entered into agreements indemnifying, to the extent permitted by law, all the directors and officers of the Company against all losses or liabilities incurred by each director and officer in their capacity as directors and officers of the Company. During the year an amount of $6,328 (2009: $4,909) was incurred in insurance premiums for this purpose.

OPTIONS

As at the date of this report there are 2,295,000 unquoted options over unissued fully paid ordinary shares exercisable at $0.2709 per option on or before 23 December 2014.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to 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 part of those proceedings.

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 in this annual report.

Signed in accordance with a resolution of the directors

George Sakalidis

GEORGE SAKALIDIS
Managing Director
Perth
28th September 2010

AUDITOR'S INDEPENDENCE DECLARATION

SomesandCooke

Auditors Independence Declaration

As lead auditor for the audit of Magnetic Resources NL for the year ended 30 June 2010, declare under Section 307C of the *Corporations Act 2001*, that to the best of my knowledge and belief, there have been:

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

Somes and Cooke

Kevin Somes

1304 Hay Street
West Perth WA 6005
Date: 29 September 2010

Preamble

This statement is provided in compliance with the recommendations (**Recommendations**) in the ASX Corporate Governance Council's second edition (August 2007 as revised in June 2008) of the Corporate Governance Principles and Recommendations.

Reference is to be made to this Statement or the Directors' Report for the information required by the Recommendations to appear in an Annual Report.

Except to the extent indicated in the "if not, why not" exception report appearing below, the Company has resolved that for so long as it is admitted to the official lists of the ASX, it shall abide by the ASX Recommendations.

Due to the exigencies and vagaries of commercial life and changing circumstances, there will, no doubt, be occasions when, especially because of the size of the Company and the composition of its Board, that it can be expected to depart from the policies and charters which it has adopted. These policies have been adopted on the basis that, in the circumstances of the Company, they reflect what is considered to reflect a reasonable aspiration. It is not expected that they will be slavishly adhered to. Their object is to focus attention upon the issues they address and provoke thought about and awareness of those issues and the pitfalls that one could otherwise fall into inadvertently. The important thing is to develop a culture conducive only to good and appropriate conduct and practices.

Honesty and integrity must be the overriding and guiding principle in all things- substance must prevail over form and lip service. The Company intends that adherence to these policies be a condition of each contract of employment or service.

The Board encourages all key management personnel, other employees, contractors and other stakeholders to monitor compliance with this Corporate Governance manual and periodically, by liaising with the Board, management and staff; especially in relation to observable departures from the intent of hereof and with and any ideas or suggestions for improvement. Suggestions for improvements or amendments can be made at any time by providing a written note to the chairman.

If not why not exception report

Except to the extent stated below, during the financial year ended 30 June 2010, the Company complied with each of The Recommendations (set out below). Exceptions are stated in italics following an **"If not, why not":** heading.

1. LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Companies should establish and disclose the respective roles and responsibilities of board and management.

1.1. Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.

1.2. Companies should disclose the process for evaluating the performance of senior executives.

1.3. Companies should provide the information indicated in the Guide to reporting on Principle 1.

2. STRUCTURE THE BOARD TO ADD VALUE

Companies should have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties.

2.1. A majority of the board should be independent directors.

"If not, why not":

The Company has a three person board. Two of the directors (namely, Messrs G Sakalidis and RM Thomson) serve as executives and are not considered to be independent directors. As to the other director (namely, PS Thomas), see the "If not, why not" response to Recommendation 2.2.

The Company has a small close knit team which has a positive interactive working history.

Given all the circumstances attendant upon the Company including its objectives, the nature and extent of its actual and proposed operations, its capital base and other resources, the costs associated with a board comprised of more than the minimum number and the need for a board comprised of persons with a blend of traits, skills, experience, expertise, entrepreneurialism, innovation, tenacity, vision and dedication in order to enliven the prospects of creating value for shareholders, this recommendation is thought by the board to be inappropriate.

2.2. The chair should be an independent director.

"If not, why not":

The chair, namely Mr PS Thomas, holds securities in the Company (directors are encouraged to own the same), provides legal services to it and contributes to the development of its corporate strategy and promotion.

The chair considers himself to be an independent director as he is neither part of nor expected to be a part of the day to day management team. The chair regards himself as being free of any relationship that could materially interfere with his independent exercise of judgement and ability to act in an entirely disinterested manner in all things.

The remaining directors consider Mr Thomas to be an independent director for the same reasons. Go to the Company's website to view a copy of its formal policies for further details regarding independence.

2.3. The roles of the chair and chief executive officer (or equivalent) should not be exercised by the same individual.

2.4. The board should establish a Nomination Committee.

"If not, why not":

The Company has a small board which does not perceive that any gains are to be derived through the operation of a formal committee structure. The board will deal with nomination issues on an ad hoc unstructured basis.

2.5. Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.

"If not, why not":

No formal performance evaluation has been conducted because of the size of the Company and the fact that the directors (of which there are only three) work as a close knit team and each is cognisant of what the others are doing and constantly encouraging the others to secure better outcome for shareholders.

2.6. Companies should provide the information indicated in the Guide to Reporting on Principle 2.

3. PROMOTE ETHICAL AND RESPONSIBLE DECISION- MAKING

Companies should actively promote ethical and responsible decision-making.

3.1. Companies should establish a Code of Conduct and disclose the code or a summary of the code as to the:

3.1.1. practices necessary to maintain confidence in the Company's integrity;

3.1.2. practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders;

3.1.3. responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

3.2. Companies should establish a policy concerning trading in Company securities by directors, senior executives and employees and disclose the policy or a summary of that policy.

3.3. Companies should provide the information indicated in the Guide to reporting on Principle 3.

4. SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

Companies should have a structure to independently verify and safeguard the integrity of their financial reporting.

4.1. The board should establish an audit committee.

4.2. The audit committee should be structured so that it:

4.2.1. consists only of non-executive directors;

4.2.2. consists of a majority of independent directors;

4.2.3. is chaired by an independent chair, who is not chair of the board;

4.2.4. has at least three members.

4.3. The audit committee should have a formal charter.

4.4. Companies should provide the information indicated in Guide to reporting on Principle 4.

“If not, why not”:

The Company has a policy regarding the formation, composition, role, powers and responsibilities of an audit committee although it has not yet established such a committee.

The Company is small, has a small board with a tight management structure, relies on equity capital for funding and in all the circumstances of the Company the board does not perceive that any gains are to be derived through the operation of a formal committee structure.

5. MAKE TIMELY AND BALANCED DISCLOSURE

Companies should promote timely and balanced disclosure of all material matters concerning the Company.

5.1. Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.

5.2. Companies should provide the information indicated in the *Guide to reporting on Principle 5.*

6. RESPECT THE RIGHTS OF SHAREHOLDERS

Companies should respect the rights of shareholders and facilitate the effective exercise of those rights.

6.1. Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.

6.2. Companies should provide the information indicated in the Guide to reporting on Principle 6.

7. RECOGNISE AND MANAGE RISK

Companies should establish a sound system of risk oversight and management and internal control.

7.1. Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.

7.2. The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.

7.3. The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

7.4. Companies should provide the information indicated in the Guide to reporting on Principle 7.

"If not, why not":

Management has not reported to the board as to the effectiveness of the Company's management of its material business risks as the board has not required this of it.

Whilst the board recognises the benefit of the discipline of documenting such matters, the board has deployed its scarce resources to other endeavours in priority to the preparation of a written report on the matter of risk given the Company has strict procedures in place and the board has two executive directors so they are well versed in the day to day affairs of the Company and know what measures are in place.

8. REMUNERATE FAIRLY AND RESPONSIBLY

Companies should ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear.

8.1. The board should establish a Remuneration Committee.

8.2. Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.

8.3. Companies should provide the information indicated in the Guide to reporting on Principle 8.

"If not, why not":

The Company has a policy regarding the formation, composition, role, and responsibilities of a remuneration committee although it has not yet established such a committee as, since listing on ASX, no matter has arisen for a remuneration committee to consider.

ADDITIONAL INFORMATION

The following information is required by the Recommendations to appear in this Statement.

The board has agreed on the following guidelines for assessing the materiality of matters:

1. MATERIALITY – QUANTITATIVE

1.1. Statement of Financial Position items:

Statement of Financial Position items are material if they have a value of more than 5% of pro-forma net assets.

1.2. Profit And Loss items:

Profit and loss items are material if they will have an impact on the current year operating result of 10% or more.

2. MATERIALITY – QUALITATIVE

Items are also material if:

2.1. they are of a character that enlivens the obligation to disclose under either ASX Listing Rule 3.1 or the continuous disclosure obligations arising in terms of the Corporations Act;

2.2. they impact on the reputation of the Company;

2.3. they involve a breach of legislation;

2.4. they are outside the ordinary course of business;

2.5. they could affect the Company's rights to its assets;

2.6. if accumulated they would trigger the quantitative tests;

2.7. they involve a contingent liability that would have a probable effect of 5% or more on Statement of Financial Position or profit and loss items; or

2.8. they will have an effect on operations which is likely to result in an increase or decrease in net income or dividend distribution of more than 10%.

3. MATERIAL CONTRACTS

Contracts will be considered material if:

3.1. they are outside the ordinary course of business;

3.2. they contain exceptionally onerous provisions in the opinion of the Board;

3.3. they impact on income or distribution in excess of the quantitative tests;

3.4. there is a likelihood that either party will default, and the default may trigger any of the quantitative tests;

3.5. they are essential to the activities of the Company and cannot be replaced, or cannot be replaced without an increase in cost of such a quantum, triggering any of the quantitative tests;

3.6. they contain or trigger change of control provisions;

3.7. they are between or for the benefit of related parties; or

3.8. they otherwise trigger the quantitative tests.

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 30 June 2010

	Notes	2010 ($)	2009 ($)
Revenue:			
Sale and provision of services		-	-
Other income	3	121,985	72,311
Expenses:			
Depreciation expense	11	(37,882)	(34,345)
Exploration and tenement expenses written off	12	(2,236,047)	(1,116,873)
Impairment of available for sale financial assets		(64,429)	(88,345)
Share based payments	22	(91,800)	-
Other expenses	3	(474,489)	(351,232)
(Loss) before income tax expense		(2,782,662)	(1,518,484)
Income tax expense	4	-	-
(Loss) from continuing operations		(2,782,662)	(1,518,484)
Other comprehensive income:			
Other comprehensive income		-	-
Income tax relating to other comprehensive income		-	-
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year		(2,782,662)	(1,518,484)
Total (Loss) and Comprehensive income for year attributable to Members of the Company		(2,782,662)	(1,518,484)
Basic (loss) per share (cents per share)	7	(5.38)	(3.80)
Diluted (loss) per share (cents per share)	7	(5.15)	(3.80)

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION
As at 30 June 2010

	Notes	2010 ($)	2009 ($)
Current Assets			
Cash assets	8	4,669,988	822,377
Receivables	9	127,593	124,746
Prepayments	10	10,024	-
Total Current Assets		4,807,605	947,123
Non-Current Assets			
Plant, equipment and motor vehicles	11	155,809	103,305
Mineral interests	12	-	-
Other financial assets	13	141,265	205,694
Total Non-Current Assets		297,074	308,999
TOTAL ASSETS		5,104,679	1,256,122
Current Liabilities			
Payables	14	404,518	98,310
Provisions	15	366	88
Total Current Liabilities		404,884	98,398
TOTAL LIABILITIES		404,884	98,398
NET ASSETS		4,699,795	1,157,724
Equity			
Contributed equity	16	11,121,526	4,888,592
Reserves		100,800	9,000
Accumulated (losses)		(6,522,531)	(3,739,868)
TOTAL EQUITY		4,699,795	1,157,724

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2010

	Share Capital ($)	Employee Benefit Reserve ($)	Accumulated Losses ($)	Total ($)
Balance at 1.7.2008	4,581,009	9,000	(2,221,384)	2,368,625
Operating (loss) for the year			(1,518,484)	(1,518,484)
Shares issued during the year	324,198			324,198
Share issue costs	(16,615)			(16,615)
Balance at 30.6.2009	**4,888,592**	**9,000**	**(3,739,868)**	**1,157,724**
Balance at 1.7.2009	4,888,592	9,000	(3,739,868)	1,157,724
Operating (loss) for the year			(2,782,662)	(2,782,662)
Shares issued during the year	6,342,109			6,342,109
Share issue costs	(109,175)			(109,175)
Share based payments		91,800		91,800
Balance at 30.6.2010	**11,121,526**	**100,800**	**(6,522,531)**	**4,699,795**

The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS
For the year ended 30 June 2010

	Notes	2010 ($)	2009 ($)
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash payments to suppliers and contractors		(437,984)	(444,998))
Interest received		121,985	72,311
Net cash (used in) operating activities	17	(315,999)	(372,687)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of plant and equipment		(117,659)	(936)
Payments for exploration and evaluation		(1,689,962)	(1,067,661)
Purchase of new tenements		(288,976)	(49,212)
Proceeds from sale of motor vehicle		27,273	-
Net cash (used in) / provided by investing activities		(2,069,324)	(1,117,809)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from new issues of shares		6,342,109	324,198
Share issue expenses		(109,175)	(16,616)
Net cash provided by financing activities		6,232,934	307,582
Net increase/(decrease) in cash held		3,847,611	(1,182,914)
Cash at the beginning of the financial year		822,377	2,005,291
Cash at the end of the financial year	8	4,669,988	822,377

The accompanying notes form part of these financial statements.

This financial report includes the financial statements and notes of the Company.

NOTE 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, including Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The following is a summary of the material accounting policies adopted by the Company in the preparation of the financial report.

Basis of Preparation

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of this financial report are presented below and have been consistently applied unless otherwise stated. The financial statements of the company also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Reporting Basis and Conventions

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

Going Concern

The directors have prepared the financial statements of the Company on a going concern basis.

In the directors' opinion, the Company is able to continue as a going concern and therefore realise its assets and extinguish its liabilities in the normal course of business at the amounts stated in the financial report.

Financial Statement presentation

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

Accounting Policies

(a) Revenue

Interest revenue is recognised on a proportional basis taking into account interest rates applicable to the financial asset. All revenue is stated net of the amount of goods and services tax (GST).

(b) Employee Benefits

Provision is made for the Company's liability for employee benefits arising from services rendered by non-casual employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled. There is no current liability for long service leave entitlements.

(c) Exploration and Evaluation Expenditure

All exploration and evaluation expenditure is expensed to Statement of Comprehensive Income as incurred. The effect of this write-off is to increase the loss incurred from continuing operations as disclosed in the Statement of Comprehensive Income and to decrease the carrying values in the Statement of Financial Position. That the carrying value of an asset, as a result of the operation of this policy, is zero does not necessarily reflect the board's view as to the market value of that asset.

(d) Acquisition of Assets

The cost method is used for all acquisitions of assets regardless of whether shares or other assets are acquired. Cost is determined as the fair value of assets given up at the date of acquisition plus costs incidental to the acquisition.

Costs relating to the acquisition of new areas of interest are classified as either exploration and evaluation expenditure or mine properties based on the stage of development reached at the date of acquisition.

(e) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST except where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable. Receivables and payables in the Statement of Financial Position are shown inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(f) Income Tax

The income tax expense for the year comprises current income tax expense and deferred tax expense.

Current income tax expense charged to the Statement of Comprehensive Income is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities and assets are therefore measured at the amounts expected to be paid to or recovered from the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses, if any in fact are brought to account.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the Statement of Comprehensive Income when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

(g) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

(h) Impairment of Assets

At each reporting date, the Company reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the Statement of Comprehensive Income. This policy has no application where paragraph (c) (Exploration and Evaluation Expenditure) applies.

(i) Earnings per Share

(i) *Basic Earnings per Share* – Basic earnings per share is determined by dividing the loss from continuing operations after related income tax expense by the weighted average number of ordinary shares outstanding during the financial period.

(ii) *Diluted Earnings per Share* – Diluted EPS is calculated as net loss attributable to members, adjusted for:

- costs of servicing equity (other than dividends);
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares.

(j) Non-current Assets

Each class of plant, equipment and motor vehicles is carried at cost or fair value as indicated less, where applicable, any accumulated depreciation and impairment losses.

Plant, equipment and motor vehicles are measured on the cost basis.

The carrying amounts of plant, equipment and motor vehicles are reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Depreciation

The depreciable amount of all plant, equipment and motor vehicles are depreciated on a straight-line basis over the asset's useful life to the Company commencing from the time the asset is held ready for use.

The depreciation rates used for the class of plant, equipment and motor vehicle depreciable assets range between 20% and 100%.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each Statement of Financial Position 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.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the Statement of Comprehensive Income. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

(k) Financial Instruments

Recognition and Initial Measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the

Company commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified "at fair value through Statement of Comprehensive Income", in which case transaction costs are expensed to Statement of Comprehensive Income immediately.

Classification and Subsequent Measurement

Finance instruments are subsequently measured at either of fair value, amortised cost using the effective interest rate method, or cost. *Fair value* represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Amortised cost is calculated as:

the amount at which the financial asset or financial liability is measured at initial recognition;

less principal repayments;

plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the *effective interest method*; and

less any reduction for impairment.

The *effective interest method* is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in Statement of Comprehensive Income.

The Company does not designate any interests in joint venture entities as being subject to the requirements of accounting standards specifically applicable to financial instruments.

Financial assets at fair value through Statement of Comprehensive Income

Financial assets are classified at "fair value through Statement of Comprehensive Income" when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in Statement of Comprehensive Income.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Company's intention to hold these investments to maturity. They are subsequently measured at amortised cost.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either not suitable to be classified into other categories of financial assets due to their nature, or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments. Such assets are subsequently measured at fair value with increases in carrying value being initially credited to an asset revaluation reserve; subsequent decreases are offset first against the balance for the asset carried in that asset revaluation reserve and any balance of write-downs being included as an expense in the Statement of Comprehensive Income.

Financial liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

Fair Value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Impairment

At each reporting date, the Company assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the Statement of Comprehensive Income.

Financial Guarantees

Where material, financial guarantees issued, which require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due, are recognised as a financial liability at fair value on initial recognition.

The guarantee is subsequently measured at the higher of the best estimate of the obligation and the amount initially recognised less, when appropriate, cumulative amortisation in accordance with AASB 118: Revenue. Where the entity gives guarantees in exchange for a fee, revenue is recognised under AASB 118.

The fair value of financial guarantee contracts has been assessed using a probability weighted discounted cash flow approach. The probability has been based on:

- the likelihood of the guaranteed party defaulting in a year period;
- the proportion of the exposure that is not expected to be recovered due to the guaranteed party defaulting; and
- the maximum loss exposed if the guaranteed party were to default.

De-recognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in Statement of Comprehensive Income.

(l) Provisions

Provisions are recognised when the Company has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

(m) Leases

Lease payments for operating leases (where substantially all the risks and benefits remain with the lessor) are charged as an expense in the periods in which they are incurred.

Lease incentives under operating leases, if any, are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

(n) Interest in Joint Ventures

Interest in joint venture operations are brought to account by including in the respective classifications, the share of individual assets employed, liabilities and expenses incurred and revenue from the sale of joint venture output. Interest in joint venture operations are brought to account by including assets and liabilities in their respective classifications using the cost method.

(o) Contributed Equity

Ordinary share capital is recognised at the fair value of the consideration received by the Company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

(p) Share-based Payments and Value Attribution to Equity Remuneration/Benefits

Share-based compensation benefits provided to directors are approved in general meeting by members. Share-based benefits provided to non-directors are approved by the Board of Directors and form part of that employee's remuneration package.

In respect of share options granted, the fair value is recognised as an employee benefit expense with a corresponding increase in equity. The theoretical fair value of the options is calculated at the date of grant by an independent risk and assurance consultant taking into account the terms and conditions upon which the options were granted, using a range of open form (basic and binomial) option models. The model has been adjusted for the effects of non-transferability, exercise restrictions and behavioural considerations. Upon the exercise of options, the balance of the share-based payments reserve relating to those options is transferred to share capital.

Where this Annual Report ascribes a value to non-cash (equity) remuneration, that attribution complies with the mandatory requirement of the Corporations Act that such attribution must be made on a basis that accords with the International Financial Reporting Standards. That requirement does not allow the board to ascribe a value arrived at on another basis where the board is of the view that the fair market value of the relevant equity is not thereby reflected. Accordingly, all figures, reports, declarations, valuations, notes and other statements appearing in this Annual Report which pertain to or are directly or indirectly impacted by any such value attribution must be construed in the context that such value attribution does not necessarily reflect the board's view of the fair market value of the relevant equity remuneration.

The board's declaration that the financial report and notes appearing in the Annual Report are in accordance with the Corporations Act 2001 and:

(a) comply with Accounting Standards and the Corporations Act 2001; and

(b) give a true and fair view of the financial position as at 30 June 2010 and performance for the year ended on that date of the Company

is made on the basis that if one complies with all relevant standards and the law, then it follows that the declaration is correct even though the board does not consider the value ascribed to equity remuneration reflects fair market value.

(q) Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial period.

(r) Segment Reporting

Operating segments are now reported in a manner that is consistent with the internal reporting to the chief operating decision maker ("CODM"), which has been identified by the company as the Managing Director and other members of the Board of directors.

Change in Accounting policy

The group adopted AASB 8 *Operating Segments* from 1 July 2009. AASB 8 replaces AASB 114 *Segment Reporting* . the new standard requires a "management approach" under which segment information is presented on the same basis as that used for internal reporting purposes.

Critical Accounting Estimates and Judgements

The directors evaluate estimates and judgements incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data obtained both externally and from within the Company.

Key Estimates - Taxation

Balances disclosed in the financial statements and the notes thereto related to taxation are based on best estimates by directors. These estimates take into account both the financial performance and position of the Company as they pertain to current income tax legislation and the directors understanding thereof. No adjustment has been made for pending or future taxation legislation. The current tax position represents the directors' best estimate pending an assessment being received from the Australian Taxation Office.

Key Judgment – Environmental Issues

Balances disclosed in the financial statements and notes thereto are not adjusted for any pending or enacted environmental legislation and the directors understanding thereof. At the current stage of the Company's development and its current environmental impact, the directors believe such treatment is reasonable and appropriate.

Key Estimates - Impairment

The Company assesses impairment at each reporting date by evaluating conditions specific to the Company that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

New Accounting Standards for Application in Future Periods

The following standards, amendments to standards and interpretations have been identified as those which may impact the Company in the period of initial application. They are available for early adoption at 30 June 2010, but have not been applied in preparing this financial report:

- AASB 2009-5 "Further amendments to Australian Accounting Standards arising from the Annual Improvement Process" affect various AASB's resulting in minor changes for presentation, disclosure, recognition and measurement purposes. The Amendments, which become mandatory in respect of the Company's 30 June 2011 financial statements, are not expected to have a significant impact on the financial statements.

Other Australian Accounting Standards issued but not yet effective are not expected to result in significant accounting policy or disclosure changes.

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.

Financial information

Reportable items required to be disclosed in this note are consistent with the information disclosed in the Statement of Comprehensive Income and Statement of Financial Position and are not duplicated here.

magnetic resources

NOTE 3 REVENUE AND EXPENDITURE

	2010 ($)	2009 ($)
Operating (loss) before income tax expense includes:		
REVENUE		
Other Income		
Interest received	121,985	72,311
	121,985	72,311
EXPENDITURE		
Other Expenses		
Occupancy costs	-	-
Filing and ASX Fees	(46,152)	(16,603)
Corporate and management	(189,194)	(174,906)
Other expenses from continuing operations	(239,143)	(159,723)
	(474,489)	(351,232)

NOTE 4 INCOME TAX

	2010 ($)	2009 ($)
The components of tax expense comprise:		
Current tax	-	-
Deferred tax	-	-
	-	-

The amount of income tax provided for in the financial accounts differs from the amount prima facie payable on the operating loss. The difference is reconciled as follows:

	2010 ($)	2009 ($)
Loss from continuing operations before income tax	2,782,662	1,518,484
Prima facie tax benefit attributable to loss from continuing operations before income tax at 30%	834,799	455,545
Tax effect of Non-allowable items		
• Share based payments	(27,540)	-
• Other	(75)	(26,503)
Deferred tax benefit on tax losses not brought to account	(807,184)	(429,042)
Income tax attributable to operating loss	-	-

Unrecognised temporary differences

	2010 ($)	2009 ($)
Net deferred tax assets (calculated at 30%) have not been recognised in respect of the following items:		
Prepayments	(3,006)	-
Provisions	50,566	12,235
Available for sale financial assets loss	19,329	-
Unrecognised deferred tax assets relating to the above temporary differences	66,889	12,235

Unbooked deferred tax asset

The Company has accumulated tax losses of $5,879,672 (2009: $3,371,238).

The potential deferred tax asset of these losses $1,763,902 (2009: $1,011,371) will only be realised if:

(i) the Company derives future assessable income of a nature and of an amount sufficient to enable the benefit from the losses and deductions to be released;

(ii) the Company continues to comply with the conditions for deductibility imposed by the law; and

(iii) no changes in tax legislation adversely affect the Company in realising the benefit from the deductions for the losses.

NOTE 5 KEY MANAGEMENT PERSONNEL COMPENSATION

Key management personnel remuneration has been included in the Remuneration Report section of the Directors Report.

Information on related party and entity transactions is disclosed in Note 23.

Options held by Key Management Personnel

The number of options over fully paid ordinary shares in the Company held **during the financial year** by key management personnel and/or their statutorily related entities are set out below:

30 June 2010:

Name	Balance at the start of the year	Granted during the year	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested exercisable at the end of the year
Peter S Thomas	-	500,000	-	-	500,000	500,000
George Sakalidis	-	800,000	-	-	800,000	800,000
Roger M Thomson	-	550,000	-	-	550,000	550,000
Rudolf Tieleman	-	250,000	-	-	250,000	250,000

Shares held by Key Management Personnel

The number of shares in the company held **during the financial year** by key management personnel and/or their statutorily related entities are set out below:

30 June 2010:

Name	Balance at the start of the year	Share movements	Balance at the end of the year
Peter S Thomas			
Ordinary shares	28,555	-	28,555
Contributing shares	42,833	-	42,833
George Sakalidis			
Ordinary shares	2,158,615	2,111,916	4,270,531
Contributing shares	3,026,113	50,000	3,076,113
Roger M Thomson			
Ordinary shares	238,445	-	238,445
Contributing shares	2,177,669	-	2,177,669
Rudolf Tieleman			
Ordinary shares	100,000	-	100,000
Contributing shares	500,000	-	500,000

Shares held by Key Management Personnel (Continued)

30 June 2009:

Name	Balance at the start of the year	Share movements	Balance at the end of the year
Peter S Thomas			
Ordinary shares	28,555	-	28,555
Contributing shares	42,833	-	42,833
George Sakalidis			
Ordinary shares	1,251,504	907,111	2,158,615
Contributing shares	3,026,113	-	3,026,113
Roger M Thomson			
Ordinary shares	198,445	40,000	238,445
Contributing shares	2,177,669	-	2,177,669
Rudolf Tieleman			
Ordinary shares	100,000	-	100,000
Contributing shares	500,000	-	500,000

NOTE 6 AUDITORS REMUNERATION

	2010 ($)	2009 ($)
Amounts received or due and receivable by the auditors of the Company for:		
Auditing and reviewing the financial report	28,750	16,250
	28,750	16,250

NOTE 7 EARNINGS PER SHARE

	2010 ($)	2009 ($)
The following reflects the income and share data used in the calculation of basic and diluted earnings per share		
Total comprehensive (loss)	(2,782,662)	(1,518,484)
Adjustments:		
Nil	-	-
Earnings used in calculating basic and diluted earnings per share	(2,782,662)	(1,518,484)
Weighted average number of ordinary shares used in calculating basic earnings per share	51,694,383	39,942,716
Effect of dilutive securities:		
Share options	2,295,000	-
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share	53,989,383	39,942,716

The Company had 17,418,862 (2009 – 18,945,572) partly-paid contributing shares and 2,295,000 options (2009 – Nil) over fully paid ordinary shares on issue at balance date. Options are considered to be potential ordinary shares. Only those options which were considered "in-the-money" were considered to be dilutive. These options have been included in the determination of diluted earnings per share.

There have been no significant conversions to, calls of, or subscriptions for ordinary shares or issues of potential ordinary shares since the reporting date and before the completion of this financial report other than the issue of 2,800,000 fully paid ordinary shares.

NOTE 8 CASH ASSETS

	2010 ($)	2009 ($)
Cash at bank	96,799	117,858
Deposits at call	4,573,189	704,519
	4,669,988	822,377

NOTE 9 CURRENT RECEIVABLES

	2010 ($)	2009 ($)
Other receivables	127,593	124,746

NOTE 10 OTHER CURRENT ASSETS

	2010 ($)	2009 ($)
Prepayments	10,024	-

NOTE 11 PLANT, EQUIPMENT, MOTOR VEHICLES

	2010 ($)	2009 ($)
Plant and equipment	115,264	111,286
Less: Accumulated depreciation	(64,978)	(42,390)
	50,286	68,896
Motor vehicles	113,681	59,862
Less: Accumulated depreciation	(8,158)	(25,453)
	105,523	34,409
	155,809	103,305
Reconciliations of the carrying amounts of plant and equipment at the beginning and end of the current and previous financial periods.		
Plant, equipment, motor vehicles		
Carrying amount at beginning of period	103,305	136,713
Additions	117,659	937
Disposals	(27,273)	-
Depreciation expense	(37,882)	(34,345)
Total plant, equipment, motor vehicles at end of period	155,809	103,305

NOTE 12 MINERAL INTERESTS

	2010 ($)	2009 ($)
Exploration Expenditure		
Areas of interest in exploration and evaluation phases		
Opening balance	-	-
Net Expenditure incurred during the period	2,236,047	1,116,873
Tenements disposed of during the period	-	-
Expenditure written off	(2,236,047)	(1,116,873)
Closing balance	-	-

NOTE 13 OTHER FINANCIAL ASSETS

	2010 ($)	2009 ($)
Non-Current		
Available-for-sale financial assets	141,265	205,694
	141,265	205,694
Listed investments at fair value		
Shares in listed corporations	141,265	205,694

NOTE 14 CURRENT PAYABLES

	2010 ($)	2009 ($)
Trade creditors and accruals	404,518	98,310

NOTE 15 CURRENT PROVISIONS

	2010 ($)	2009 ($)
Employee leave accruals	366	88

NOTE 16 ISSUED CAPITAL

	2010		2009	
	No.	$	No.	$
Contributed Equity – Ordinary Shares				
At the beginning of reporting period	45,191,253	4,888,592	39,296,742	4,581,009
Shares issued during the year at $0.055 each			5,894,511	324,198
Shares issued during the year at $0.165 each	5,895,000	972,675		
Shares issued during the year at $0.40 each	3,700,000	1,480,000		
Shares issued during the year at $0.40 each	3,960,230	1,584,092		
Shares issued during the year at $0.45 each	4,444,443	1,999,999		
Shares issued due to a conversion from contributing shares	1,526,710	305,343		
Share issuance costs	-	(109,175)	-	(16,615)
Closing balance:	64,717,636	11,121,526	45,191,253	4,888,592
Contributed Equity – Contributing Shares – Partly-paid				
At the beginning of reporting period	18,945,572	-	18,945,572	-
Conversion to fully paid ordinary shares	(1,526,710)			
Closing balance:	17,418,862		18,945,572	
Total Contributed Equity		11,121,526		4,888,592
Options				
At the beginning of the reporting period	-		5,500,000	
Expired 26.3.2009			(5,500,000)	
Options exercisable at $0.2709 on or before 23.12.2014 to acquire fully paid ordinary shares	2,295,000			
Closing balance	2,295,000		-	

As at the date of this report there are no options over un-issued ordinary shares in the Company.

Terms and condition of contributed equity

Ordinary Fully Paid Shares

Ordinary shares have the right to receive dividends as declared and, in the event of winding up of the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of shares held, regardless of the amount paid up thereon.

On a show of hands, every holder of fully paid ordinary shares present at a meeting in person or by proxy, is entitled to one vote and upon a poll, each member present in person or by proxy or by attorney or duly authorised representative shall have one vote for each fully paid ordinary share.

Contributing Shares

Contributing shares require a further payment of $0.20 to become fully paid.

On a show of hands, every holder of contributing shares present at a meeting in person or by proxy, is entitled to one vote and upon a poll, each member present in person or by proxy or by attorney or duly authorised representative shall have a fraction of a vote for each partly-paid contributing share held. The fraction must be equivalent to the proportion which any amount paid (not credited) is of the total amounts paid (if any) and payable (excluding amounts credited). Any amounts paid in advance of a call are ignored when calculating these fractional voting rights.

NOTE 17 CASH FLOW INFORMATION

	2010 ($)	2009 ($)
Reconciliation of operating loss after income tax with funds used in operating activities		
Operating (loss) after income tax	(2,782,662)	(1,518,484)
Depreciation and amortisation	37,882	34,345
Exploration expenditure written off	2,236,048	1,116,873
Loss on available-for-sale financial assets	64,429	88,345
Share based payments	91,800	-
Changes in operating assets and liabilities:		
(Increase)/Decrease in receivables	(2,848)	(35,577)
(Increase)/Decrease in prepayments	(10,024)	21,871
Increase/(Decrease) in payables	49,098	(80,060)
Increase/(Decrease) in provisions	278	-
Cash flow from operations	(315,999)	(372,687)

NOTE 18 TENEMENT EXPENDITURES AND LEASING 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 $1,845,500. Of this amount, $144,500 is expected to be met by JV participants as a result of various joint ventures entered into. 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. 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 granted. The inability of the Company to meet rent and expenditure requirements may adversely affect the standing of its tenements.

NOTE 19 JOINT VENTURES

The Company is party to the following unincorporated joint venture by which it is “farming into” (earning) an interest in various exploration tenements:

Name of Project	% Interest	Carrying Amount
Image Resources JV	Earned 80% and has elected to earn 100% on selected tenements	-
Pacific Ore JV	100%, diluting	-
		-

NOTE 20 TENEMENT ACCESS

The interests of holders of freehold land encroached by the 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 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 still be of concern.

NOTE 21 EVENTS SUBSEQUENT TO REPORTING DATE

No material matters have occurred subsequent to the end of the financial year which require reporting on other than the matters referred to in the directors' report or as reported to ASX.

NOTE 22 SHARE BASED PAYMENTS

On 23 December 2009, 2,295,000 share options were granted to key management personnel, employees and contractors to take up ordinary shares at an exercise price of $0.2709 each. The options are exercisable on or before 23 December 2014, 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 $91,800 which relates to this equity-settled share-based payment transaction (2009: $Nil).

NOTE 23 RELATED ENTITY & RELATED ENTITY TRANSACTIONS

Transactions with directors, director-related parties and related entities other than those disclosed elsewhere are as follows:

Smyth & Thomas, a legal firm of which Peter S Thomas is the principal, provided legal services to the Company during the financial period on terms and conditions which were more favourable to the Company than he extends to clients generally. The firm was paid $435 (Net of GST) for those services.

Total amounts owing to directors and/or director-related parties at 30 June 2010 amounted to $38,572.

Magnetic Resources has entered into a Serviced Offices Agreement with Image Resources NL (**Image**) whereby Image has agreed to provide the Company with serviced offices at 16 Ord Street, West Perth for a fee of $6,041 per month commencing on 1 July 2009, terminable at will by either party on one month’s notice.

Magnetic has also entered into a Joint Venture Agreement with Image whereby Image has agreed to farm out various interests in its tenements. It was agreed that Magnetic pay Image the sum of $150,000 by way of partial reimbursement of expenses incurred by Image in respect of those tenements. This was paid after the company was listed on the ASX 5 April 2007 (**Listing Date**). There was a further commitment to expend an additional amount of no less than $800,000 within one year of the Listing Date. This expenditure commitment has been met and Magnetic now holds an 80% interest in the joint ventured tenements. Agreement has also been reached to earn the remaining 20% before 30 April 2014 in any individual tenement by expending or procuring the expenditure of not less than $60,000 on that tenement.

NOTE 24 CONTINGENT LIABILITIES

Native Title

The Company has been notified of a number of native title claims impacting its tenements.

The Company is not in a position to assess the likely effect of any native title claim impacting the Company.

The existence of native title and the policy of the West Australian state government in particular represent, as a general proposition, a serious threat to explorers and miners, not only in terms of delaying the grant of tenements and the progression of exploration development and mining operations, but also in terms of costs arising consequent upon dealing with aboriginal interest groups, claims for native title and the like.

NOTE 25 FINANCIAL INSTRUMENTS DISCLOSURE

(a) **Financial Risk Management Policies**

The Company's financial instruments consist of deposits with banks, receivables, available-for-sale financial assets and payables.

Risk management policies are approved and reviewed by the board. The use of hedging derivative instruments is not contemplated at this stage of the Company's development.

Specific Financial Risk Exposure and Management

The main risks the Company is exposed to through its financial instruments, are interest rate and liquidity risks.

Interest Rate Risk

Exposure to interest rate risk arises on financial assets and financial liabilities recognised at reporting date whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments.

Liquidity Risk

The Company manages liquidity risk by monitoring forecast cash flows, cash reserves, liquid investments, receivables and payables.

Capital Risk

The Company's objectives when managing capital are to safeguard their ability to continue as a going concern so that they may continue to provide returns for shareholders and benefits for other stakeholders.

Due to the nature of the Company's activities being mineral exploration, the Company does not have ready access to credit facilities, with the primary source of funding being equity raisings. Therefore, the focus of the Company's capital risk management is the current working capital position against the requirements of the Company to meet exploration programmes and corporate overheads. The Company's strategy is to ensure appropriate liquidity is maintained to meet anticipated operating requirements, with a view to initiating appropriate capital raising as required.

The working capital position of the Company at 30 June 2010 and 30 June 2009 was as follows:

	2010 ($)	2009 ($)
Cash and cash equivalents	4,669,988	822,377
Trade and other receivables	127,593	124,746
Trade and other payables	(404,884)	(98,310)
Working capital position	4,392,697	848,813

Credit Risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the Statement of Financial Position and notes to the financial statements.

There is no material amounts of collateral held as security at balance date.

The credit risk for counterparties included in trade and other receivables at balance date is detailed below.

	2010 ($)	2009 ($)
Receivables		
Trade debtors and sundry receivables	5,691	6,817
GST and tax refundable	121,902	117,929
	127,593	124,746

(b) **Financial Instruments**

The Company holds no derivative instruments, forward exchange contracts and interest rate swaps.

Financial Instrument composition and maturity analysis

The table below reflects the undiscounted contractual settlement terms for financial instruments.

2010	**Weighted Average Effective Interest Rate %**	**Floating Interest Rate ($)**	**Non Interest Bearing ($)**	**Total ($)**
Financial Assets				
Cash and cash equivalents		4,669,988	-	4,669,988
Other receivables		-	127,593	127,593
Available-for sale financials assets		-	141,265	141,265
Total Financial Assets	5.56%	4,669,988	268,858	4,938,846
Financial Liabilities				
Payables		-	404,518	404,518

	2010 ($)
Trade and other payables are expected to be paid as follows:	
Less than 6 months	404,518
	404,518

2009	**Weighted Average Effective Interest Rate %**	**Floating Interest Rate ($)**	**Non Interest Bearing ($)**	**Total ($)**
Financial Assets				
Cash and cash equivalents		822,377	-	822,377
Other receivables		-	124,746	124,746
Available-for sale financials assets		-	205,694	205,694
Total Financial Assets	3.82%	822,377	330,440	1,152,817
Financial Liabilities				
Payables		-	98,310	98,310

	2009 ($)
Trade and other payables are expected to be paid as follows:	
Less than 6 months	98,310
	98,310

(c) **Net Fair Values**

Fair value estimation

The fair values of financial assets and liabilities are those amounts at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arms' length transaction.

Fair values derived may be based on information that is estimated or subject to judgment, where changes in assumptions may have a material impact on the amounts estimated. Where possible, valuation information used to calculate fair value is extracted from the market, with more reliable information available from markets that are actively traded. In this regard, fair values for listed securities are obtained from quoted bid prices

(d) **Sensitivity Analysis – Interest rate risk**

The Company has performed a sensitivity analysis relating to its exposure to interest rate risk at balance date. The sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in this risk.

As at balance date, the effect on loss and equity as a result of changes in the interest rate, with all other variables remaining constant would be as follows:

	2010 ($)
Change in loss – increase/(decrease):	
- Increase in interest rate by 2%	(93,400)
- Decrease in interest rate by 2%	93,400
Change in equity – increase/(decrease):	
- Increase in interest rate by 2%	93,400
- Decrease in interest rate by 2%	(93,400)

DIRECTORS' DECLARATION

The directors of the Company declare that:

1. the accompanying financial report and notes are in accordance with the Corporations Act 2001 and:

   (a) comply with Accounting Standards and the Corporations Act 2001; and

   (b) give a true and fair view of the financial position as at 30 June 2010 and performance for the year ended on that date of the Company;

   (c) the audited remuneration disclosures set out in the Remuneration Report section of the Directors' Report for the year ended 30 June 2010 comply with section 300A of the Corporations Act 2001.

2. the Chief Financial Officer has declared pursuant to section 295A(2) of the Corporations Act 2001 that:

   (a) the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;

   (b) the financial statements and the notes for the financial year comply with Accounting Standards; and

   (c) the financial statements and notes for the financial year give a true and fair view;

3. 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.

4. the directors have 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.

George Sakalidis
MANAGING DIRECTOR

George Sakalidis

PERTH
Dated this 28th day of September 2010

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MAGNETIC RESOURCES NL

SomesandCooke

INDEPENDENT AUDITOR'S REPORT

To the members of Magnetic Resources NL

Report on the Financial Report

We have audited the accompanying financial report of Magnetic Resources NL which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of Magnetic Resources NL are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (Including the Australian Accounting Interpretations) and the *Corporations Act 2001.* This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements,* that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MAGNETIC RESOURCES NL

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditors Opinion

In our opinion:

a. the financial report of Magnetic Resources NL is in accordance with the *Corporations Act 2001*, including:

   a) giving a true and fair view of Magnetic Resources NL 's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
   b) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

b. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 13 to 16 of the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001.*Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Magnetic Resources NL for the year ended 30 June 2010, complies with section 300A of the *Corporations Act 2001.*

Somes and Cooke

Kevin Somes

Somes and Cooke
1304 Hay Street
West Perth WA 6005

29 September 2010

TENEMENT SCHEDULE

Tenement	Nature of Interest	Project	Equity (%)
E59/1614	Application	Mouroubra	100%
E59/1615	Application	Munbinia North	100%
E59/1616	Application	Jumping Jack	100%
E59/1623	Application	Munbinia East	100%
E59/1674	Application	Malara	100%
E59/1697	Application	Wanarra	100%
E70/2806	Granted	Tampia North 1 (Pacific Ore JV)	100% Diluting to 51%
E70/2808	Granted	Tampia North 3 (Pacific Ore JV)	100% Diluting to 51%
E70/2828	Granted	Rock Hill Dam (IMA JV)	Earning 100%
E70/3495	Granted	Dragon Rocks	100%
E70/3496	Granted	Mt Vernon	100%
E70/3498	Granted	Lake Grace (Pacific JV)	100% Diluting to 51%
E70/3499	Granted	Dampling Spring	100%
E70/3510	Granted	Harris	100%
E70/3533	Granted	Holland Rocks (Pacific JV)	100% Diluting to 51%
E70/3535	Application	Juropin Rocks	100%
E70/3536	Granted	Jubuk	100%
E70/3541	Application	North Tarin Rock	100%
E70/3591	Granted	Jitarning	100%
E70/3605	Granted	Greenshield Soak (Pacific JV)	100% Diluting to 51%
E70/3650	Granted	Lake Harvey	100%
E70/3716	Application	Lomos	100%
E70/3775	Granted	Cubbine Hills	100%
E70/3782	Granted	Bullaring	100%
E70/3783	Granted	Baandee	100%
E70/3784	Granted	Sewell Rock	100%
E70/3785	Granted	Warland Hill	100%
E70/3788	Application	Mukinbudin	100%
E70/3789	Granted	Chinocup	100%
E70/3790	Granted	Dudinin	100%
E70/3791	Granted	Bryant	100%
E70/3792	Granted	Merewana	100%
E70/3793	Granted	Martinjinni	100%
E70/3794	Granted	Buntine	100%
E70/3795	Granted	Woobin Well	100%
E70/3796	Application	Lake Goorli	100%
E70/3838	Application	Kulinbah	100%
E70/3839	Application	Dunedin	100%
E70/3888	Application	Tamar Hills	100%
E70/3910	Application	Nugadong	100%
E70/3911	Granted	Marchagee	100%
E70/3912	Application	Miling	100%
E70/3918	Application	Gunyidi	100%
E70/3919	Application	Chiarcono	100%
E70/3921	Application	Calingiri	100%
E70/3922	Application	Mawson	100%
E70/3925	Application	Bundaroo	100%

TENEMENT SCHEDULE

Tenement	Nature of Interest	Project	Equity (%)
E70/3972	Application	Nungarin (IMA JV)	Earning 100%
E74/0344	Granted	Dourdi 3 (IMA JV)	Earning 100%
E77/1286	Granted	No 7 Tank (IMA JV)	Earning 100%
E77/1287	Granted	Duladgin Rock (IMA JV)	Earning 100%
E77/1291	Granted	Lake Eva (IMA JV)	Earning 100%
E77/1292	Granted	Lake Seabrook (IMA JV)	Earning 100%
E77/1442	Granted	Diggers East	100%
E77/1611	Granted	Dulagin South	100%
E77/1673	Granted	Brontie	100%
E77/1676	Granted	Boundary Dam	100%

OTHER INFORMATION

The following information was applicable as at 16 September 2010.

Share and Option holdings

Category (Size of Holding)	Fully Paid Ordinary Shares	Partly-Paid Contributing Shares	Options 23.12.2014
1 to 1,000	730	1,091	
1,001 to 5,000	327	531	3
5,001 to 10,000	195	102	2
10,001 to 100,000	393	99	5
100,001 and over	95	19	4
Total	**1,740**	**1,842**	**14**

The number of shareholdings held in less than marketable parcels is 818 fully paid ordinary shares and 1,604 partly paid contributing shares.

There are no listed options.

Substantial shareholders:

The names of the substantial shareholders listed in the Company's register as at 16 September 2010:

Shareholder Name	Number of Shares	% of Issued Share Capital
Image Resources NL	7,248,011	10.73
UOB Kay Hian Private Ltd <Clients A/c>	4,315,900	6.39
George Sakalidis	4,270,531	6.33
Hian Siang Chan	3,800,000	5.63
Total	**19,634,442**	**29.08**

Twenty largest shareholders – Quoted fully paid ordinary shares:

	Shareholder Name	Number of Shares	% of Issued Share Capital
1.	Image Resources NL	7,248,011	10.73
2.	UOB Kay Hian Private Ltd <Clients A/c>	4,315,900	6.39
3.	Hian Siang Chan	3,800,000	5.63
4.	Leeman Pty Ltd	2,887,471	4.28
5.	NEFCO Nominees Pty Ltd	2,782,000	4.12
6.	Choon Kong Lim	2,361,111	3.50
7.	Citicorp Nominees Pty Ltd	2,175,181	3.22
8.	Ava Cartel SDN BHD	1,630,736	2.42
9.	HSBC Custody Nominees Australia Ltd	1,616,088	2.39
10.	Sian Hoon Margaret Teo	1,088,889	1.61
11.	George Sakalidis	1,176,172	1.74
12.	Sino Europe Investments Ltd	1,000,230	1.48
13.	Earle G McIntosh	823,000	1.22
14.	Jan G Hannk and LC Chen	800,000	1.18
15.	Denis Ribton	765,555	1.13
16.	Denis and J Ribton <Ribton Super A/c>	700,000	1.04
17.	Lee Beng Ho and Mun S Eow	666,666	0.99
18.	ABN Amro Clearing Sydney <Customers A/c)	574,959	0.85
19.	Drill Investments Pty Ltd	560,500	0.83
20.	Peter and M Taylor <Good Oil Super A/c>	504,666	0.75
	Total	**37,477,135**	**55.50**

Twenty largest shareholders – Quoted partly-paid contributing shares:

	Shareholder Name	Number of Shares	% of Issued Share Capital
1.	Ian Baron	2,051,999	11.78
2.	George and J Sakalidis<Sakalidis Super A/c>	2,040,333	11.71
3.	Roger Thomson <Thomson Super A/c>	2,000,000	11.48
4.	Denis Ribton	1,186,418	6.81
5.	George Sakalidis	958,114	5.50
6.	Brispot Nominees Pty Ltd <House Head A/c>	725,930	4.17
7.	TPT Nominee Pty Ltd <Tieleman Practice A/c>	500,000	2.87
8.	Barrington and J Dance <Dance Super A/c>	450,000	2.58
9.	Barrington Dance	412,438	2.37
10.	Vernon and J Wheatley <Pulo Rd Super A/c)	306,983	1.76
11.	Gilpin Park Pty Ltd	247,222	1.42
12.	Auto Management Pty Ltd	218,654	1.26
13.	Peter and M Taylor <Good Oil Super A/c>	194,500	1.12
14.	Devomp Pty Ltd <Alanta Super A/c>	190,866	1.10
15.	Eric and J Terace	174,999	1.00
16.	Roger M Thomson	152,669	0.88
17.	Lifesaver Investments Pty Ltd	115,969	0.67
18.	Russell Nominees Pty Ltd <Tieleman Family A/c>	100,000	0.57
19.	Bruce and M Harding	100,000	0.57
20.	Classic Choice Pty Ltd	92,500	0.53
	Total	**12,219,594**	**70.15**

Twenty largest option holders – All options are unquoted:

	Optionholder Name	Number of Options Expiring 23.12.2014	% Held
1.	George Sakalidis	800,000	34.85
2.	Roger M Thomson	550,000	23.97
3.	Peter S Thomas	500,000	21.79
4.	Rudolf Tieleman	250,000	10.89
5.	Employee Share Option Plan Participants	195,000	8.50
	Total	**2,295,000**	**100.00**

There are a total of 67,517,636 fully paid ordinary shares, 17,418,862 partly-paid contributing shares and 2,295,000 options on issue. Both the fully paid ordinary shares and partly-paid contributing shares are listed on Australian Securities Exchange Limited.

Buy-Back Plans
The Company does not have any current on-market buy-back plans.

Voting Rights
The voting rights attaching to ordinary shares are governed by the Constitution. On a show of hands every person present who is a Member or representative of a member shall have one vote and on a poll, every member present in person or by proxy or by attorney or duly authorised representative shall have one vote for each fully paid ordinary share held and a fraction of a vote for each partly-paid contributing share held. The fraction must be equivalent to the proportion which any amount paid (not credited) is of the total amounts paid (if any) and payable (excluding amounts credited). Any amounts paid in advance of a call are ignored when calculating these fractional voting rights. None of the options have any voting rights.