



magnetic resources^{NL}



2009 ANNUAL REPORT



CONTENTS

Review of Operations	4
Directors' Report	9
Auditor's Independence Declaration	16
Corporate Governance Statement	17
Income Statement	21
Balance Sheet	22
Statement of Changes in Equity	23
Cash Flow Statement	24
Notes to and forming part of the Financial Statements	25
Directors' Declaration	44
Independent Auditor's Report	45
Tenement Schedule	47
Other Information	48
Corporate Directory	51

REVIEW OF OPERATIONS

Magnetic Resources NL was incorporated in 2007 to explore for world-class mineral resources on a large and diverse package of tenements prospective for gold, nickel and uranium in the southern Yilgarn region of Western Australia. Under the terms of a joint venture with Image Resources NL, Magnetic has the right to earn up to a 100% interest in this tenement package, with Image retaining a 1% gross royalty interest in those tenements remaining in the joint venture.

During the year Magnetic earned an 80% interest in those tenements remaining in the joint venture and negotiated an extension of the period in which it may earn a 100% interest from April 2012 to April 2014. In addition, Magnetic may earn the additional 20% interest in any joint venture tenement by expending, or procuring the expenditure of, not less than \$60,000 on that tenement.

Magnetic has undertaken a programme of first-pass exploration on this large and mostly unexplored tenement package with the aim of identifying the most prospective areas for further exploration. The joint venture package currently comprises exploration licences covering some 703sq km on which targets for gold, iron, nickel or uranium have been identified. In addition Magnetic has acquired several areas in its own right, prospective for iron and uranium. The locations of Magnetic's current projects are summarised in Figure 1.

Magnetic has 100% ownership of tenements covering 1689sq km prospective for uranium, gold and iron ore.





Figure 1: Location Map

REVIEW OF OPERATIONS (CONT.)

URANIUM

Seabrook (Magnetic 80%, earning up to 100%)

Soil and auger sampling of radiometric anomalies has identified a 2km-long uranium anomaly with values up to 293ppm (0.03%) U3O8 in shallow salt-lake sediments. During the year Magnetic acquired additional tenements in the area in its own right. The Seabrook tenement package covers a series of airborne radiometric anomalies associated with the Lake Seabrook and Lake Eva drainage systems as shown in Figure 2.

Soil sampling and a ground radiometric survey were carried out over a 1.4km-long airborne radiometric anomaly associated with an arm of Lake Seabrook, a dry salt lake. On completion of the radiometric survey, areas of strong uranium response were auger sampled to obtain shallow subsurface samples. The soil sampling traversed the lake edges and across the dry lake bed with the maximum result being 32.8ppm U, defining an anomalous zone up to 350m wide and 2km long using a 20 ppm U threshold.

Elements showing elevated responses coincident with the uranium anomaly include Cu, Co, Pb and Ce, suggesting that uranium and base metals may have been precipitated from oxidised groundwater by a reducing environment within the lake system drainage channels. This setting may be similar to the high grade Mulga Rock uranium deposits in the Officer Basin northeast of Kalgoorlie.

Reconnaissance sampling of radiometric anomalies within the expanded project area indicates that the lake complex and its associated drainage system contain extensive areas of anomalous uranium, with surface sample values ranging from 30ppm to 50ppm U (compared to a background of 3ppm U). To date, a total of six target areas have been identified as shown in Figure 2.

Subject to the necessary permitting, Magnetic is planning an aircore drilling programme to test the nature, thickness and extent of the uranium targets in this previously untested area, with the aim of identifying shallow, high-grade uranium deposits. In addition, Magnetic has applied for several new uranium prospects summarised as follows:

Lake Harvey (Magnetic 100%)

Situated about 35km east of Kalannie in the northern wheatbelt; this area shows strong uranium radiometric anomalies around the periphery of salt lakes, in a setting similar to the occurrences at Seabrook. A programme of surface sampling and ground radiometric surveys is being planned to investigate these airborne radiometric anomalies.

Maroubra (Magnetic 100%)

Reconnaissance sampling of airborne radiometric anomalies on the eastern margin of Lake Moore, 50km south of Payne's Find, has returned anomalous values of 870ppb U in groundwater within the Lake Moore drainage system. Follow-up exploration is being planned with the aim of identifying the source of the uranium in the groundwater and areas of uranium concentrations within the drainage system.

Munbina (Magnetic 100%)

The tenements cover the junction of two interpreted paleochannels, each with anomalous airborne radiometric responses and extensive areas of mapped calcrete. Calcrete can form a receptive host to substantial near-surface uranium deposits such as Yeelirrie in WA. A programme of mapping, sampling and scout drilling is being planned.

Jumping Jack (Magnetic 100%)

Airborne radiometric data show a substantial area of uranium anomalism situated just north of an area of mapped calcrete and adjacent to an interpreted paleochannel which may form a favourable setting for uranium deposition. A programme of mapping, sampling and scout drilling is being planned.

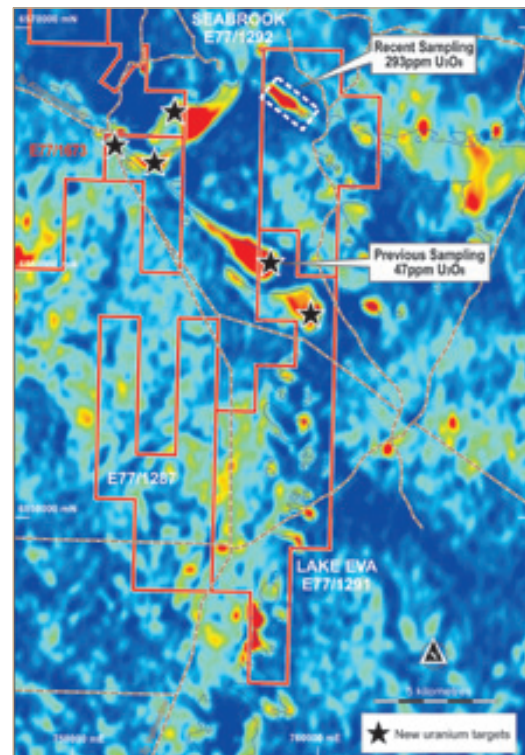


Figure 2: Seabrook Radiometric Image

IRON ORE

Jubuk (Magnetic 100%)

Magnetic has identified a 35km-long aeromagnetic trend near Corrigin, WA, considered prospective for iron ore. Two railway lines occur within 25km of this iron ore target. Sampling of a coarse grained recrystallised banded iron formation (BIF) over an 800m strike length returned iron values up to 53.2%Fe ranging from 34.3%Fe to 53.2%Fe, averaging 39.6%Fe from nine samples. Follow up ground magnetic surveys have defined the main magnetic anomaly in more detail as shown in Figure 3. Surface samples of the BIF have been submitted for Davis Tube testwork to assess the likely magnetite liberation characteristics and recoveries. Preliminary results from one sample have been encouraging but results of the remaining samples have yet to be received.

During the year Magnetic made an application for a drilling subsidy to drill this previously unexplored BIF target under the WA government co-funded Exploration Incentive Scheme (EIS). Magnetic was one of 29 successful applicants (for 35 projects) out of more than 160 applications for funding in this first stage of the EIS. Magnetic qualifies for a grant of up to \$45,000 towards exploratory RC and diamond drilling to test the Jubuk BIF at depth. The Company plans to start drilling towards the end of the calendar year.

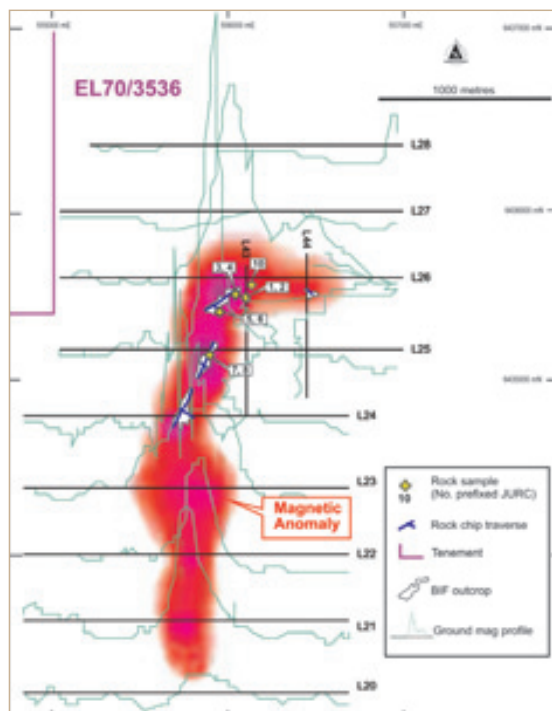


Figure 3: Jubuk Iron Ore Target

Dampling Spring (Magnetic 100%)

Anomalous iron values up to 22%Fe have been obtained in laterite samples on a 10km-long aeromagnetic target, interpreted to be banded iron formation or magnetite-rich gneiss. A ground magnetic survey and lag (residual ferruginous surface material) sampling programme were completed during the year. The merged ground and regional magnetic contours are shown in Figure 4 overlain on the coloured image of the lag analysis results in %Fe. The 96 composite (+2mm) lag samples were collected at 20m intervals and composited over 200m, with 10 samples forming the composite. Iron contents range from 5.9%Fe to 19.9%Fe, averaging 11.3%Fe. The lag sampling is not representative of the bedrock grade but in conjunction with the magnetic data indicates a priority target area some 5km in length.

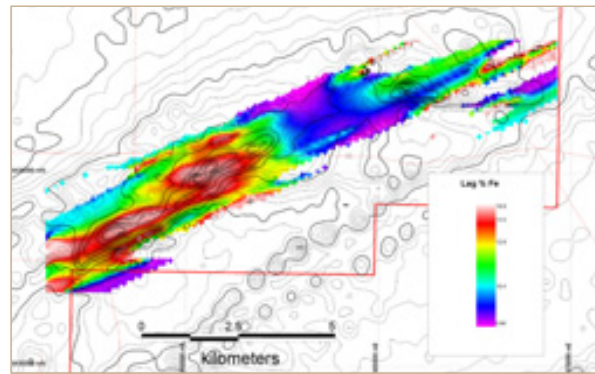


Figure 4: Dampling Spring, Magnetic Contours and Lag Geochemistry

Harris (Magnetic 100%)

An exploration licence has been granted over a strong 3km-long aeromagnetic anomaly prospective for weathered iron formation. A ground magnetic survey has been completed, outlining a strong magnetic anomaly entirely covered by soil. Magnetic is planning to test drill this target for iron ore, subject to completion of landowner access agreements.

Dragon Rocks (Magnetic 100%)

Two areas of strong magnetic anomalism occur on the Dragon Rocks tenement north of Newdegate. A ground magnetic survey over the main anomaly area, interpreted to be related to a structurally complex banded iron formation, has been completed and interpretation of results is in progress.

REVIEW OF OPERATIONS (CONT.)

GOLD

Tampia North (Magnetic 80%, diluting)

During the year Magnetic completed first-pass exploration over a 60km strike length of the Tampia Shear Zone near Merredin. RAB drilling of two geochemical targets returned anomalous gold values (best intercept 4m at 0.31g/t Au from surface) within a zone of interest some 1.5km in length. The target zones identified to date on the Tampia Shear Zone are shown in Figure 5.

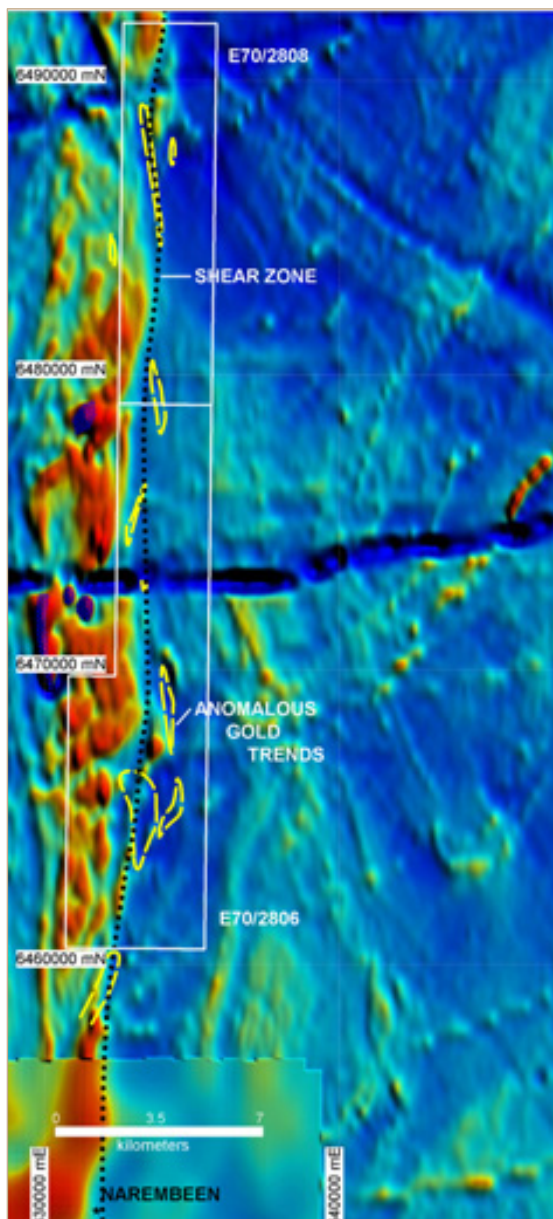


Figure 5:
Tampia North Aeromagnetic Image and Gold Prospects

Lake Grace (Magnetic 100%)

Magnetic holds exploration licences over a cumulative 60km strike length of an interpreted shear zone near Lake Grace, an area of previous gold mining activity. Geochemical sampling has identified several gold-anomalous areas and historical drilling on the northern part of the shear zone is reported to have a best intercept of 1m at 34g/t Au from a depth of 94m, with limited follow up-see Figure 6.

Magnetic has reached an agreement with Pacific Ore Ltd for a joint venture on the Tampia North and Lake Grace gold prospects. Under the term of the agreement Pacific Ore may earn a 51% interest in the 320sq km of tenements by expenditure of \$550,000 within three years. Pacific Ore must spend \$150,000 on the tenements before having the right of withdrawal. Magnetic has agreed to act as operator for the joint venture.

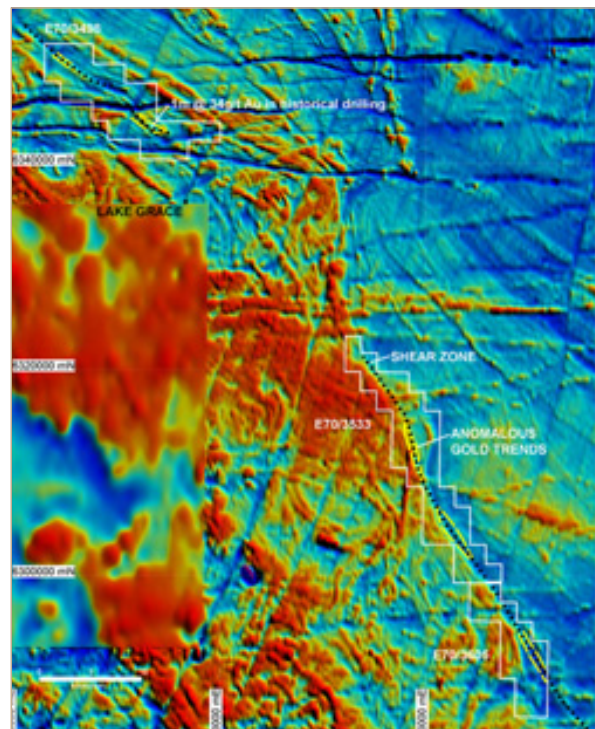


Figure 6: Lake Grace Aeromagnetic Image and Gold Prospects

The information in this report that relates to exploration results is based on information compiled or reviewed 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.

DIRECTORS' REPORT

Your directors present their report on the Company for the year ended 30 June 2009.

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 \$1,518,485 (2008: \$1,700,539).

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 and diluted loss per share for the financial year was 3.80 cents (2008: 4.33 cents).

FINANCIAL POSITION

The Company's cash position as at 30 June 2009 was \$822,377, a reduction from the 2008 cash balance which was \$2,005,291. The cash position is adequate to fund the entity's immediate operating and exploration activities. The directors agree that in the future they will have to raise additional funds by the issue of additional shares or the sale of assets.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

Significant changes in the state of affairs of the Company during the financial period were the placement of 5,894,511 shares at an issue price of \$0.055.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL PERIOD

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 Western 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.

DIRECTORS' REPORT (CONT.)

INFORMATION ON DIRECTORS AND COMPANY SECRETARY

Peter S Thomas

Chairman

Mr Thomas, a commercial solicitor and specialist within the resource sector, is and has been a director of various listed companies. He is non-executive chairman of ASX listed Image Resources NL (since 19 April 2002), Magnetic Resources NL (since that company was incorporated on 23 August 2006), 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). He was non-executive chairman of Sandfire Resources NL from June 2003 to December 2006 and non-executive director of GoldLink IncomePlus Limited from 4 April 2008 to 18 June 2008.

Mr Thomas has a relevant interest in 28,555 fully paid ordinary shares and 42,833 contributing 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 ASX listed 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 the company was incorporated on 13 February 2004). He is also non-executive chairman of unlisted Imperium Resources NL (appointed 23 June 2008).

Mr Sakalidis has a relevant interest in 2,158,615 ordinary fully paid shares and 3,026,113 contributing 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 managing director of ASX listed Meteoric Resources NL (since the company was incorporated on 13 February 2004), executive director, Image Resources NL (since 19 April 2002) and Emu Nickel NL (since that company was incorporated on 29 August 2007). He was a non-executive director of Mariana Resources Limited from 20 February 2006 to 28 November 2008.

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

Rudolf Tieleman – Appointed 22 June 2009

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.

Robert Lewis – Resigned 22 June 2009

Company Secretary

Mr Lewis is a Fellow Chartered Accountant and has extensive business consulting, IT and project management experience.

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 2009, there were ten meetings of directors, all of which were attended by all the directors.

REMUNERATION REPORT

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 Appointed 22.6.2009	Company Secretary
Robert Lewis Resigned 22.6.2009	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.

DIRECTORS' REPORT (CONT.)

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.

Key Management Personnel Remuneration

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

YEAR ENDED 30 JUNE 2008				
Key Management Person	Cash Directors Fees and Contractual Payments	Post Employment Superannuation	Non-cash Benefits Equity Partly-Paid Contributing Shares (1)	Total
Peter Thomas				
Non-Executive Chairman	\$40,000	\$3,600	-	\$43,600
George Sakalidis				
Executive Managing Director	\$133,638	\$12,027	-	\$145,665
Roger Thomson				
Executive Director	\$125,856	\$11,327	-	\$137,183
Robert Lewis				
Company Secretary	\$2,334	-	-	\$2,334
Total	\$301,828	\$26,954	-	\$328,782

Note (1)

Equity remuneration represents partly-paid contributing shares granted during the year as approved at the general meeting held 5 October 2006 of shareholders of the then parent company, Image Resources NL. These equities were valued by an independent risk and assurance consultant for the purposes of obtaining approval prior to the implementation of an Initial Public Offering.

DIRECTORS' REPORT (CONT.)

Consultant Agreements

Two separate (but similar) agreements have been executed between the Company and nominated associated entities of Messrs Sakalidis and Thomson.

These are effective as from 1 July 2008 and major provisions of the agreements are set out as follows:

	Term of agreements	Base rate	Review periods	Increase
Leeman Pty Ltd (G Sakalidis)	Annually from 1 July 2008	\$135.00 per hour	Annually on 1 July	Discretionary by Board
Regor Consulting Pty Ltd (RM Thomson)	Annually from 1 July 2008	\$135.00 per hour	Annually on 1 July	

Guaranteed Rate Increases

There are no guaranteed rate increases fixed in the key management personnel's contracts.

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
Peter Thomas	28,555	42,833
George Sakalidis	2,158,615	3,026,113
Roger Thomson	238,445	2,177,669

SHARE OPTIONS GRANTED TO DIRECTORS AND OFFICERS

During or since the end of the financial year, no options have been granted by the Company.

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 2009.

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.

OPTIONS

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

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

Managing Director

Perth

25th September 2009

AUDITOR'S INDEPENDENCE DECLARATION



Magnetic Resources NL

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Magnetic Resources NL.

As lead audit partner for the audit of the financial statements of Magnetic Resources NL. for the year ended 30 June 2009, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 relation to the audit; nor
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

SOMES and COOKE

K. C. Somes

25 September 2009

1304 Hay Street
West Perth WA 6005

CORPORATE GOVERNANCE STATEMENT

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 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 2009, the Company complied with each of The Recommendations are set out below; any 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.

CORPORATE GOVERNANCE STATEMENT (CONT.)

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.

CORPORATE GOVERNANCE STATEMENT (CONT.)

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 Balance Sheet items:

Balance sheet 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 balance sheet 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.

INCOME STATEMENT

for the year ended 30 June 2009

	Notes	2009 (\$)	2008 (\$)
Revenue from ordinary activities	2	72,311	195,368
Revenue/(loss) from non-ordinary activities		-	-
Depreciation and amortisation expense	10	(34,345)	(31,840)
Exploration costs written-off	11	(1,116,873)	(1,300,961)
Other expenses from ordinary activities	2	(439,577)	(563,106)
(Loss) from ordinary activities before related income tax expense		(1,518,484)	(1,700,539)
Income tax expense	3	-	-
(Loss) from ordinary activities after related income tax expense		(1,518,484)	(1,700,539)
Net (loss) attributable to members of Magnetic Resources NL		(1,518,484)	(1,700,539)
Basic (loss) per share - cents per share	6	(3.80)	(4.33)
Diluted (loss) per share - cents per share	6	(3.80)	(4.33)

The accompanying notes form part of these financial statements.

BALANCE SHEET

as at 30 June 2009

	Notes	2009 (\$)	2008 (\$)
Current Assets			
Cash assets	7	822,377	2,005,291
Receivables	8	124,746	89,169
Other assets	9	-	21,871
		<u>947,123</u>	<u>2,116,331</u>
Non-Current Assets			
Plant, equipment and motor vehicles	10	103,305	136,713
Mineral interests	11	-	-
Other financial assets	12	205,694	294,039
		<u>308,999</u>	<u>430,752</u>
TOTAL ASSETS		<u>1,256,122</u>	<u>2,547,083</u>
Current Liabilities			
Payables	13	98,398	178,458
NET ASSETS		<u>1,157,724</u>	<u>2,368,625</u>
Equity			
Contributed equity	14	4,888,592	4,581,009
Reserves		9,000	9,000
Accumulated (losses)		(3,739,868)	(2,221,384)
TOTAL EQUITY		<u>1,157,724</u>	<u>2,368,625</u>

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2009

	Share Capital (\$)	Available for Sale Financial Assets Reserve (\$)	Employee Benefit Reserve (\$)	Accumulated Losses (\$)	Total (\$)
Balance at 1.7.2007	4,581,009	2,570	9,000	(520,845)	4,071,734
Changes in fair value of available for sale financial assets		(2,570)			(2,570)
Loss for year				(1,700,539)	(1,700,539)
Balance at 30.6.2008	4,581,009	-	9,000	(2,221,384)	2,368,625
Balance at 1.7.2008	4,581,009	-	9,000	(2,221,384)	2,368,625
Shares issued during the year	324,198				324,198
Share issue costs	(16,615)				(16,615)
Loss for year				(1,518,484)	(1,518,484)
Balance at 30.6.2009	4,888,592	-	9,000	(3,739,868)	1,157,724

The accompanying notes form part of these financial statements.

CASH FLOW STATEMENT

for the year ended 30 June 2009

	Notes	2009 (\$)	2008 (\$)
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash payments to suppliers and contractors		(444,998)	(255,518)
Interest received		72,311	195,368
Net cash (used in) operating activities	15	<u>(372,687)</u>	<u>(60,150)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of plant and equipment		(936)	(104,505)
Payments for exploration and evaluation		(1,067,661)	(1,300,963)
Purchase of new tenements		(49,212)	-
Purchase of investments		-	(403,908)
Net cash (used in) / provided by investing activities		<u>(1,117,809)</u>	<u>(1,809,376)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from new issues of shares		324,198	-
Share issue expenses		(16,616)	-
Net cash provided by financing activities		<u>307,582</u>	<u>-</u>
Net (decrease) / increase in cash held		(1,182,914)	(1,869,526)
Cash at the beginning of the financial year		2,005,291	3,874,817
Cash at the end of the financial year	7	<u>822,377</u>	<u>2,005,291</u>

The accompanying notes form part of these financial statements.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2009

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.

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 arriving at this position, the directors have considered the following pertinent matters:

- (a) cash on hand at the date of this report is approximately \$672,209;
- (b) current cash resources are considered adequate to fund the entity's immediate operating and exploration activities.
- (c) The directors agree that in the future they will have to raise additional funds by the issue of additional shares or the sale of assets.

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.

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 profit and loss as incurred. The effect of this write-off is to increase the loss incurred from ordinary activities as disclosed in the Income Statement and to decrease the carrying values in the Balance Sheet.

(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 balance sheet 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 Balance Sheet.

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONT.)

for the year ended 30 June 2009

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 profit or loss 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 profit or loss 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 income statement.

(i) Earnings per Share

- (i) Basic Earnings per Share – Basic earnings per share is determined by dividing the loss from ordinary activities 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 and equipment is carried at cost or fair value as indicated less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment are measured on the cost basis.

The carrying amount of plant and equipment is 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 and equipment is 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 and equipment depreciable assets range between 20% and 100%.

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement. 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 profit or loss", in which case transaction costs are expensed to profit or loss 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 profit or loss.

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 profit or loss

Financial assets are classified at "fair value through profit or loss" 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 profit or loss.

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONT.)

for the year ended 30 June 2009

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 a financial asset reserve; subsequent decreases are offset first against the balance for the asset carried in that financial asset reserve and any balance of write-downs being included as an expense in the income statement.

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 income statement.

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 profit or loss.

(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.

No expense is recognised in respect of share options granted prior to 1 January 2005. The shares will be recognised if and when the options are exercised and the proceeds are received and allocated to share capital.

In respect of share options granted after 1 January 2005, the value (determined in accordance with the fair value basis of accounting) is recognised as an employee benefit expense with a corresponding increase in equity. The value of the options is calculated by an independent risk and assurance consultant at the date of grant using calculation principles taking into account the terms and conditions upon which the options were granted. The model has been adjusted for the effects of non-transferability, exercise restrictions and behavioural considerations. In particular, options granted to employees have been valued using either a Hull-White trinomial lattice model (based on the same underlying option pricing theory as the Black-Scholes model but extended to take into account the impact of events which occur during the term of the option) or the Binomial Options Pricing Model. 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 2009 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.

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONT.)

for the year ended 30 June 2009

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 AASB has issued new, revised and amended standards and interpretations that have mandatory application dates for future reporting periods. The Company has decided against early adoption of these standards. A discussion of those future requirements and their impact on the Company follows:

- AASB 3: Business Combinations, AASB 127: Consolidated and Separate Financial Statements, AASB 2008-3: Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127 [AASBs 1,2,4,5,7,101,107, 112, 114, 116, 121, 128, 131, 132, 133, 134, 136, 137, 138 & 139 and Interpretations 9 & 107] (applicable for annual reporting periods commencing from 1 July 2009) and AASB 2008-7: Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate [AASB 1, AASB 118, AASB 121, AASB 127 & AASB 136] (applicable for annual reporting periods commencing from 1 January 2009). These standards are applicable prospectively and so will only affect relevant transactions and consolidations occurring from the date of application. In this regard, its impact on the Company will be unable to be determined. The following changes to accounting requirements are included:
 - acquisition costs incurred in a business combination will no longer be recognised in goodwill but will be expensed unless the cost relates to issuing debt or equity securities;
 - contingent consideration will be measured at fair value at the acquisition date and may only be provisionally accounted for during a period of 12 months after acquisition;
 - a gain or loss of control will require the previous ownership interests to be remeasured to their fair value;

- there shall be no gain or loss from transactions affecting a parent's ownership interest of a subsidiary with all transactions required to be accounted for through equity (this will not represent a change to the Company's policy);
- dividends declared out of pre-acquisition profits will not be deducted from the cost of an investment but will be recognised as income;
- impairment of investments in subsidiaries, joint ventures and associates shall be considered when a dividend is paid by the respective investee; and
- where there is, in substance, no change to Company interests, parent entities inserted above existing groups shall measure the cost of its investments at the carrying amount of its share of the equity items shown in the balance sheet of the original parent at the date of reorganisation.

The Company will need to determine whether to maintain its present accounting policy of calculating goodwill acquired based on the parent entity's share of net assets acquired or change its policy so goodwill recognised also reflects that of the non-controlling interest.

- AASB 8: Operating Segments and AASB 2007-3: Amendments to Australian Accounting Standards arising from AASB 8 [AASB 5, AASB 6, AASB 102, AASB 107, AASB 119, AASB 127, AASB 134, AASB 136, AASB 1023 & AASB 1038] (applicable for annual reporting periods commencing from 1 January 2009). AASB 8 replaces AASB 114 and requires identification of operating segments on the basis of internal reports that are regularly reviewed by the Company's Board for the purposes of decision making. While the impact of this standard cannot be assessed at this stage, there is the potential for more segments to be identified. Given the lower economic levels at which segments may be defined, and the fact that cash generating units cannot be bigger than operating segments, impairment calculations may be affected. Management does not presently believe impairment will result.
- AASB 101: Presentation of Financial Statements, AASB 2007-8: Amendments to Australian Accounting Standards arising from AASB 101, and AASB 2007-10: Further Amendments to Australian Accounting Standards arising from AASB 101 (all applicable to annual reporting periods commencing from 1 January 2009). The revised AASB 101 and amendments supersede the previous AASB 101 and redefines the composition of financial statements including the inclusion of a statement of comprehensive income. There will be no measurement or recognition impact on the Company.

If an entity has made a prior period adjustment or reclassification, a third balance sheet as at the beginning of the comparative period will be required.

- AASB 123: Borrowing Costs and AASB 2007-6: Amendments to Australian Accounting Standards arising from AASB 123 [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 & 12] (applicable for annual reporting periods commencing from 1 January 2009). The revised AASB 123 has removed the option to expense all borrowing costs and will therefore require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. Management has determined that there will be no effect on the Company as a policy of capitalising qualifying borrowing costs has been maintained by the Company.
- AASB 2008-1: Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations [AASB 2] (applicable for annual reporting periods commencing from 1 January 2009). This amendment to AASB 2 clarifies that vesting conditions consist of service and performance conditions only. Other elements of a share-based payment transaction should therefore be considered for the purposes of determining fair value. Cancellations are also required to be treated in the same manner whether cancelled by the entity or by another party.
- AASB 2008-2: Amendments to Australian Accounting Standards – Puttable Financial Instruments and Obligations Arising on Liquidation [AASB 7, AASB 101, AASB 132 & AASB 139 & Interpretation 2] (applicable for annual reporting periods commencing from 1 January 2009). These amendments introduce an exception to the definition of a financial liability to classify as equity instruments certain puttable financial instruments and certain other financial instruments that impose an obligation to deliver a pro-rata share of net assets only upon liquidation.
- AASB 2008-5: Amendments to Australian Accounting Standards arising from the Annual Improvements Project (July 2008) (AASB 2008-5) and AASB 2008-6: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (July 2008) (AASB 2008-6) detail numerous non-urgent but necessary changes to accounting standards arising from the IASB's annual improvements project. No changes are expected to materially affect the Company.
- AASB 2008-8: Amendments to Australian Accounting Standards – Eligible Hedged Items [AASB 139] (applicable for annual reporting periods commencing from 1 July 2009). This amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation as a hedged item should be applied in particular situations and is not expected to materially affect the Company.
- AASB 2008-13: Amendments to Australian Accounting Standards arising from AASB Interpretation 17 – Distributions of Non-cash Assets to Owners [AASB 5 & AASB 110] (applicable for annual reporting periods commencing from 1 July 2009). This amendment requires that non-current assets held for distribution to owners to be measured at the lower of carrying value and fair value less costs to distribute.
- AASB Interpretation 15: Agreements for the Construction of Real Estate (applicable for annual reporting periods commencing from 1 January 2009). Under the interpretation, agreements for the construction of real estate shall be accounted for in accordance with AASB 111 where the agreement meets the definition of 'construction contract' per AASB 111 and when the significant risks and rewards of ownership of the work in progress transfer to the buyer continuously as construction progresses. Where the recognition requirements in relation to construction are satisfied but the agreement does not meet the definition of 'construction contract', revenue is to be accounted for in accordance with AASB 118. Management does not believe that this will represent a change of policy to the Company.
- AASB Interpretation 16: Hedges of a Net Investment in a Foreign Operation (applicable for annual reporting periods commencing from 1 October 2008). Interpretation 16 applies to entities that hedge foreign currency risk arising from net investments in foreign operations and that want to adopt hedge accounting. The interpretation provides clarifying guidance on several issues in accounting for the hedge of a net investment in a foreign operation and is not expected to impact the Company.
- AASB Interpretation 17: Distributions of Non-cash Assets to Owners (applicable for annual reporting periods commencing from 1 July 2009). This guidance applies prospectively only and clarifies that non-cash dividends payable should be measured at the fair value of the net assets to be distributed where the difference between the fair value and carrying value of the assets is recognised in profit or loss.

The Company does not anticipate early adoption of any of the above reporting requirements and does not expect these requirements to have any material effect on the Company's financial statements.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONT.)

for the year ended 30 June 2009

NOTE 2 OPERATING LOSS

	2009	2008
	(\$)	(\$)
Operating loss before income tax includes:		
Revenue from ordinary activities		
Interest received – other persons	72,311	195,368
Total Revenue	<u>72,311</u>	<u>195,368</u>
Expenses		
Occupancy costs	-	-
Filing and ASX Fees	(16,603)	(16,815)
Corporate and management	(174,906)	(204,265)
Available-for-sale financial asset loss written off	(88,345)	(229,189)
Other expenses from ordinary activities	(159,723)	(112,837)
	<u>(439,577)</u>	<u>(563,106)</u>

NOTE 3 INCOME TAX

	2009 (\$)	2008 (\$)
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:		
Loss from ordinary activities before income tax	1,518,484	1,700,539
Prima facie tax benefit attributable to loss from ordinary activities before income tax at 30%	455,545	510,161
Tax effect of Non-allowable items		
- Other	(26,503)	(69,385)
Deferred tax benefit on tax losses not brought to account	(429,042)	(440,776)
Income tax attributable to operating loss	-	-

Unbooked deferred tax asset

The Company has accumulated tax losses of \$3,371,238 (2008: \$1,893,466).

The potential deferred tax asset of these losses \$1,011,371 (2008: \$568,040) 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONT.)

for the year ended 30 June 2009

NOTE 4 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 21.

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 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

30 June 2008:

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	1,407,013	(155,509)	1,251,504
Contributing shares	3,026,113	-	3,026,113
Roger M Thomson			
Ordinary shares	198,445	-	198,445
Contributing shares	2,177,669	-	2,177,669

NOTE 5 AUDITORS REMUNERATION

	2009	2008
	(\$)	(\$)
Amounts received or due and receivable by the auditors of the Company for:		
Auditing and reviewing the financial report	16,250	13,999
	<u>16,250</u>	<u>13,999</u>

NOTE 6 EARNINGS PER SHARE

	2009	2008
	(\$)	(\$)
The following reflects the income and share data used in the calculation of basic and diluted earnings per share		
Net (loss)	(1,518,484)	(1,700,539)
Adjustments:		
Nil	-	-
Earnings used in calculating basic and diluted earnings per share	(1,518,484)	(1,700,539)
Weighted average number of ordinary shares used in calculating basic earnings per share	39,942,716	39,296,742
Effect of dilutive securities:		
Contributing shares and options	-	-
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share	<u>39,942,716</u>	<u>39,296,742</u>

The Company had 18,945,572 partly-paid contributing shares on issue at balance date. These shares are considered to be potential ordinary shares. However, they are not considered to be dilutive in this period and accordingly have not 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.

NOTE 7 CASH ASSETS

	2009	2008
	(\$)	(\$)
Cash at bank	117,858	67,048
Deposits at call	704,519	1,938,243
	<u>822,377</u>	<u>2,005,291</u>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONT.)

for the year ended 30 June 2009

NOTE 8 CURRENT RECEIVABLES

	2009 (\$)	2008 (\$)
Other receivables	124,746	89,169

NOTE 9 OTHER CURRENT ASSETS

	2009 (\$)	2008 (\$)
Prepayments	-	21,871

NOTE 10 PLANT, EQUIPMENT, MOTOR VEHICLES

	2009 (\$)	2008 (\$)
Plant and equipment	111,285	110,349
Less: Accumulated depreciation	(42,390)	(20,017)
	68,895	90,332
Motor vehicles	59,862	59,862
Less: Accumulated depreciation	(25,453)	(13,481)
	34,409	46,381
	103,304	136,713

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	136,713	64,048
Additions	936	104,505
Disposals	-	-
Depreciation expense	(34,345)	(31,840)
Total plant, equipment, motor vehicles at end of period	103,304	136,713

NOTE 11 MINERAL INTERESTS

	2009 (\$)	2008 (\$)
Exploration Expenditure		
Areas of interest in exploration and evaluation phases		
Opening balance	-	-
Net Expenditure incurred during the period	1,116,873	1,300,961
Tenements disposed of during the period	-	-
Expenditure written off	(1,116,873)	(1,300,961)
Closing balance	<u>-</u>	<u>-</u>

NOTE 12 OTHER FINANCIAL ASSETS

	2009 (\$)	2008 (\$)
Non-Current		
Available-for-sale financial assets	205,694	294,039
	<u>205,694</u>	<u>294,039</u>
Listed investments at fair value		
Shares in listed corporations	<u>205,694</u>	<u>294,039</u>

NOTE 13 CURRENT PAYABLES

	2009 (\$)	2008 (\$)
Trade creditors and accruals	<u>98,398</u>	<u>178,458</u>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONT.)

for the year ended 30 June 2009

NOTE 14 ISSUED CAPITAL

	2009		2008	
	No.	\$	No.	\$
Contributed Equity – Ordinary Shares				
At the beginning of reporting period	39,296,742	4,581,009	39,296,742	4,581,009
Shares issued during the year at \$0.055 each	5,894,511	324,198	-	-
Share issuance costs	-	(16,615)	-	-
Closing balance:	45,191,253	4,888,592	39,296,742	4,581,009
Contributed Equity – Contributing Shares				
At the beginning of reporting period	18,945,572	-	18,945,572	-
Closing balance:	18,945,572		18,945,572	
Total Contributed Equity		4,888,592		4,581,009
Options				
At the beginning of the reporting period	5,500,000		5,500,000	
Expired 26.3.2009	(5,500,000)		-	
Closing balance	-		5,500,000	

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 15 CASH FLOW INFORMATION

	2009 (\$)	2008 (\$)
Reconciliation of operating loss after income tax with funds used in operating activities		
Operating (loss) after income tax	(1,518,484)	(1,700,539)
Depreciation and amortisation	34,345	31,840
Exploration expenditure written off	1,116,873	1,300,961
Loss on available-for-sale financial assets	88,345	229,189
Changes in operating assets and liabilities:		
(Increase)/Decrease in receivables	(35,577)	(17,101)
(Increase)/Decrease in prepayments	21,871	19,864
Increase/(Decrease) in payables	(80,060)	75,635
Cash flow from operations	(372,687)	(60,150)

NOTE 16 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 \$627,167. Of this amount, \$133,000 is expected to be met by JV participants as a result of 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 17 SEGMENTS

The Company operates predominantly in one business, being the exploration for minerals. Geographically, the Company's activities are conducted within Western Australia.

NOTE 18 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 NL	Earned 80% and has elected to earn 100% on selected tenements	-
		-

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONT.)

for the year ended 30 June 2009

NOTE 19 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 20 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 21 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 \$356 (Net of GST) for those services.

Total amounts owing to directors and/or director-related parties at 30 June 2009 amounted to \$31,007.

Magnetic entered into a Serviced Offices Agreement with Image whereby Image agreed to provide serviced offices and one-third of the time of one secretary engaged for not less than 30 hours per week for a one year period at \$4,000 per month plus GST commencing 5 April 2007. This agreement has continued to be honoured on a monthly basis.

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 22 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 23 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 2009 and 30 June 2008 was as follows:

	2009 (\$)	2008 (\$)
Cash and cash equivalents	822,377	2,005,291
Trade and other receivables	124,746	89,169
Trade and other payables	(98,398)	(178,458)
Working capital position	848,725	1,916,002

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONT.)

for the year ended 30 June 2009

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 balance sheet 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.

	2009 (\$)	2008 (\$)
Receivables		
Trade debtors and sundry receivables	6,817	7,208
GST and tax refundable	117,929	81,961
	124,746	89,169

(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.

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		-	98,398	98,398
				2009 (\$)

Trade and other payables are expected to be paid as follows:

Less than 6 months	98,398
	98,398

2008	Weighted Average Effective Interest Rate %	Floating Interest Rate (\$)	Non Interest Bearing (\$)	Total (\$)
Financial Assets				
Cash and cash equivalents		2,005,290	1	2,005,291
Other receivables		-	89,169	89,169
Available-for-sale financial assets		-	299,019	299,019
Total Financial Assets	7.79%	2,005,290	388,189	2,393,479
Financial Liabilities				
Payables		-	178,458	178,458

(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:

	2009 (\$)
Change in loss – increase/(decrease):	
- Increase in interest rate by 2%	(16,447)
- Decrease in interest rate by 2%	16,447
Change in equity – increase/(decrease):	
- Increase in interest rate by 2%	16,447
- Decrease in interest rate by 2%	(16,447)

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 2009 and performance for the year ended on that date of the Company.
2. the Chief Financial Officer has declared 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.

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



George Sakalidis

MANAGING DIRECTOR

PERTH

Dated this 25th day of September 2009

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



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 balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

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 statement 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 and the disclosures contained in the directors' report.

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

Independence

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MAGNETIC RESOURCES NL (CONT.)

for the year ended 30 June 2009

Auditors Opinion

In our opinion 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 2009 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.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 14 to 17 of the Directors' Report for the year ended 30 June 2009. The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

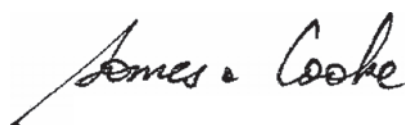
Auditors Opinion

In our opinion, the Remuneration Report of Magnetic Resources NL for the year ended 30 June 2009, complies with section 300A Corporations Act 2001.



Kevin Somes

Date: 25 September 2009



Somes and Cooke

1304 Hay Street
West Perth WA 6005

TENEMENT SCHEDULE

TENEMENT	NATURE OF INTEREST	PROJECT	EQUITY (%)
E59/1614	Application	Mouroubra	100%
E59/1615	Application	Munbinia	100%
E59/1616	Application	Jumping Jack	100%
E59/1623	Application	Munbina East	100%
E63/0992	Granted	26 Mile Rock	Earning 100%
E70/2620	Granted	Mt Stuart	Earning 100%
E70/2703	Granted	Hyden South 1	Earning 100%
E70/2790	Granted	Koonadgin	Earning 100%
E70/2792	Granted	Nungarin	Earning 100%
E70/2806	Granted	Tampia North 1	Earning 100% Farmed out
E70/2808	Granted	Tampia North 3	Earning 100% Farmed out
E70/2828	Granted	Rock Dam Hill	Earning 100%
E70/3495	Granted	Dragon Rocks	100%
E70/3496	Granted	Mt Vernon	100%
E70/3498	Granted	Lake Grace	100% Farmed out
E70/3499	Granted	Dampling Spring	100%
E70/3510	Granted	Harris	100%
E70/3533	Application	Holland Rocks	100% Farmed out
E70/3605	Granted	Greenshield	100% Farmed out
E74/0344	Granted	Dourdi 3	Earning 100%
E77/1285	Granted	Joe's Joint	Earning 100%
E77/1286	Granted	No.7 Tank	Earning 100%
E77/1287	Granted	Dulagin Rock	Earning 100%
E77/1291	Granted	Lake Eva	Earning 100%
E77/1292	Granted	Lake Seabrook	Earning 100%
E77/1442	Granted	Diggers East	100%

OTHER INFORMATION

The following information was applicable as at 16 September 2009.

Share and Option holdings

Category (Size of Holding)	Fully Paid Ordinary Shares	Partly-Paid Contributing Shares
1 to 1,000	825	1,128
1,001 to 5,000	276	590
5,001 to 10,000	143	119
10,001 to 100,000	292	103
100,001 and over	69	20
Total	1,605	1,960

The number of fully paid ordinary shareholdings held in less than marketable parcels is 1,051.

There are no listed partly-paid contributing shares.

Substantial shareholders:

The names of the substantial shareholders listed in the Company's register as at 16 September 2009:

Shareholder Name	Number	%
Image Resources NL	7,947,422	17.59
Geoff Barnes <Nimrodel Fund A/c>	2,258,147	5.00

Twenty largest shareholders – Quoted fully paid ordinary shares:

	Shareholder Name	Number of Shares	% of Issued Share Capital
1.	Image Resources NL	7,947,422	17.59
2.	Geoff Barnes <Nimrodel Fund A/c>	2,258,147	5.00
3.	Sayers Investment Account Pty Ltd	1,750,000	3.87
4.	B & M Jackson Pty Ltd <Jackson Super Fund A/c>	1,500,000	3.32
5.	George Sakalidis	1,161,172	2.57
6.	Brispot Nominees Pty Ltd <House Head Nominees>	1,000,000	2.21
7.	Trebla Group Pty Ltd	950,000	2.10
8.	Leeman Pty Ltd	790,555	1.75
9.	Frederick D L Ribton	765,555	1.69
10.	Betty A Stevens	721,464	1.60
11.	FDL and J Ribton <Ribton Super Fund A/c>	700,000	1.55
12.	AS and Libbis Pty Ltd <Libbis Family A/c>	600,000	1.33
13.	Fortis Clearing Nominees Pty Ltd <Settlement A/c>	574,958	1.27
14.	Silver Knight Holdings Pty Ltd	550,000	1.22
15.	Mac Equity Partners Pty Ltd	545,455	1.21
16.	Earle G McIntosh	541,111	1.20
17.	PW and MJ Taylor <Good Oil Super Fund A/c>	504,666	1.12
18.	Urio Investments Pty Ltd <Urio Family A/c>	500,000	1.11
19.	Little Breakaway Pty Ltd	485,000	1.07
20.	Gilpin Park Pty Ltd	437,036	0.97
	Total	24,282,541	53.75%

OTHER INFORMATION

Twenty largest shareholders – All partly-paid contributing shares are unquoted:

	Shareholder Name	Number of Shares	% of Issued Share Capital
1.	Ian R Baron	2,051,999	10.83
2.	George and J Sakalidis <Sakalidis Super Fund A/c>	2,040,333	10.77
3.	Roger M Thomson <Thomson Super Fund A/c>	2,000,000	10.56
4.	Cairnglen Investments Pty Ltd	1,245,505	6.57
5.	Frederick LD Ribton	1,186,418	6.26
6.	George Sakalidis	958,114	5.06
7.	Brispot Nominees Pty Ltd <House Head Nominees>	725,930	3.83
8.	TPT Nominees Pty Ltd	500,000	2.64
9.	Barrington and JP Dance <Dance Super Fund A/c>	450,000	2.38
10.	Barrington Dance	412,438	2.18
11.	Gilpin Park Pty Ltd	247,222	1.30
12.	LC and V Baskerville <Baskerville Super A/c>	225,000	1.19
13.	Auto Management Pty Ltd	218,654	1.15
14.	Peter W and J E Taylor <Good Oil Super Fund A/c>	194,500	1.03
15.	VC and JE Wheatley <Pulo Road Super Fund A/c>	173,214	0.91
16.	LC and V Baskerville	153,333	0.81
17.	Roger M Thomson	152,669	0.81
18.	Jove Management Pty Ltd	128,771	0.68
19.	Fobira Pty Ltd	116,666	0.62
20.	Russell Nominees Pty Ltd <Tieleman Family A/c>	100,000	0.53
	Total	13,280,766	70.11%

There are a total of 45,191,253 fully paid ordinary shares and 18,945,572 partly-paid contributing shares on issue. Only the fully paid ordinary 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.

CORPORATE DIRECTORY

DIRECTORS

PETER THOMAS	Non-Executive Chairman
GEORGE SAKALIDIS	Managing Director
ROGER THOMSON	Executive Director

COMPANY SECRETARY

Rudolf Tieleman

REGISTERED OFFICE

Level 2, 16 Ord Street
West Perth WA 6005
Telephone (08) 9226 1777
Facsimile (08) 9485 2840

WEBSITE

www.magres.com.au

FOR SHAREHOLDER INFORMATION CONTACT

SHARE REGISTRY

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

ABN. 34 121 370 232

FOR INFORMATION ON THE COMPANY CONTACT

PRINCIPAL & REGISTERED OFFICE

Level 2, 16 Ord Street
West Perth WA 6005
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)

ISSUED CAPITAL

45,191,253 fully paid ordinary shares.

18,945,572 unquoted partly paid shares (\$0.20 unpaid).



magnetic resources^{NL}

www.magres.com.au

ABN 34 121 370 232