



Magnetica Limited & Controlled Entities

ANNUAL REPORT
FOR THE YEAR ENDED 30 JUNE 2005

Magnetica Limited
(Formerly Koala Corporation Australia Limited)
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CORPORATE INFORMATION

DIRECTORS

Howard Stack
David Evans
Philip Dubois
Andrew Davis
Peter Grogan
Charles Ho

SECRETARY

Duncan Cornish

AUDITORS

Cranstoun & Hussein
Level 2
102 Adelaide Street
Brisbane QLD 4000

LEGAL ADVISERS

Hemming & Hart
Level 2
307 Queen Street
Brisbane QLD 4000

BANKERS

National Australia Bank
255 George Street
Sydney NSW 2000

SHARE REGISTRY

ASX Perpetual Registrars Limited
Level 8
580 George Street
Sydney NSW 2000

STOCK EXCHANGE LISTING

Australian Stock Exchange

REGISTERED OFFICE AND PRINCIPAL PLACE OF ACTIVITY

Level 2
307 Queen Street
Brisbane QLD 4000
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CHAIRMAN'S LETTER

Dear Shareholders

I am delighted to be able to present the 2005 Annual Report for Magnetica Limited, my first as Chairman of the Company.

2004-2005 has been a year of two very different halves for our Company.

The first half of the year was devoted to re-structuring the Company, and raising seed funding. On 2 July 2004 Magnetica entered into a conditional agreement for the restructure of the Company and resolutions to effect the restructure were put to members and passed at the Annual General Meeting held on 23rd December 2004. \$4 million in seed funding was raised prior to the AGM.

The Company has taken significant strides towards rebuilding since its restructure and seed raising in December 2004.

In the second six months we have drawn on this seed funding to build the foundation of a platform from which the next round of our capital required to accelerate the program to commercialise our MRI technologies and products can be raised. This has focussed our attention on adding value to the Company's IPO assets, refining our product development priorities, developing our initial product portfolio and taking the first, key steps to establish a pathway to the global market.

Magnetica has appointed a new Managing Director and Board and I take this opportunity to welcome Dr David Evans as the Managing Director of the Company and the new Directors, Dr Philip Dubois, Dr Charles Ho and Andrew Davis. Peter Grogan continues as a non-Executive Director. I want especially to thank Peter Grogan and Andrew Davis, together with our financial advisers, Interfinancial Limited, for their contributions to the re-structuring.

Dr Evans has assembled a strong management team and since the appointment of the new Board and the management team, we have added significant value to the Company's intellectual property assets and have been working to ensure that our corporate governance policies and procedures are appropriate for a public company in preparation for Magnetica's re-listing on the stock exchange, including establishment of an Audit Committee, with representation from the new non-Executive Directors.

In addition, Magnetica has sought to adhere to current best practice recommendations relating to the ASX Corporate Governance Council, as well as compliance with Corporations Law and ASX listing rules. I would like to take this opportunity to thank my fellow Directors and the Company Secretary for their wholehearted cooperation in these matters.

While operational details of the Company's progress are highlighted by Dr Evans in his report on Review of Operations and Future Developments, I would like to highlight the Alliance that Magnetica signed with Japan Superconducting Technology Inc (Jastec) in June 2005. The Board sees this Alliance as a major step forward in translating the Company's designs into manufactured magnets and in building our pathways for our products to the global market.

The Board and I would like to thank our investors and shareholders for your patience and support during the past year. Many technical and corporate challenges have been overcome and while some still lie ahead of us in our efforts to bring our magnet technology to the marketplace, the progress we have made over the past twelve months makes us confident of meeting them.

Finally, I would like to take this opportunity to thank my fellow Board members, the members of the management team and our in-house and UQ R&D and design teams for their contributions since December 2004.

Howard Stack
Chairman

Brisbane

13 September 2005

REVIEW OF OPERATIONS AND FUTURE DEVELOPMENTS

The Company's core business is in the design and development of high performance magnetic resonance imaging (MRI) equipment for human medical imaging markets. Our key assets are sophisticated skills in the design and development of high performance, specialised superconducting magnets primarily for use in advanced magnetic resonance imaging (MRI) equipment and proprietary intellectual property (IP) in this field. These skills and IP are the outcomes from over 15 years R&D at The University of Queensland's (UQ's) Centre for Magnetic Resonance (CMR) and, more recently from CMR and UQ's BioMedical Engineering (BME) Research Group. The Company has a comprehensive set of Agreements with the University of Queensland and a strong, vibrant and on-going relationship with key research centres at UQ.

The Company was re-structured in December 2004. Parties to the re-structuring Agreement were Koala Corporation Australia Limited (re-named Magnetica Limited in May 2005), UniQuest Pty Limited (Magnetica's partner in the technology assets), InterFinancial Limited (Magnetica's adviser on the restructure and related capital raisings) and the liquidators of Bradley Keeling Management Pty Limited ("BKM") and BK Hospitality Pty Limited ("BKH"), (the former Koala Corporation Australia's two largest shareholders).

Resolutions to effect the re-structuring passed by members at the Annual General Meeting on 23rd December 2004 included:

- The Board of Directors consisting of Howard Stack, Andrew Davis, Dr Charles Ho, Dr Philip Dubois and Peter Grogan as Non-Executive Directors of the Company and Dr David Evans as Managing Director, was appointed;
- Mr Stack was elected as Chairman of the Company;
- The Company acquired 100% ownership of asymmetric magnet technology and was granted an option to acquire and commercialise compact magnet technology and a 'right of first look' at research proposals and uncommitted intellectual property developed by the University of Queensland's (UQ's) Centre for Magnetic Resonance (CMR) and Biomedical Engineering (BME) group in the field of MRI magnet technology for human medical imaging;
- The pre-existing option agreement with UniQuest and the loan agreement with National Australia Bank Limited were wound up and discharged;
- The existing share capital of the Company was consolidated on a 15.4:1 basis;
- 15,000,000 shares were issued to seed capital investors at 26.667 cents per share;
- 25,000,000 shares were issued at 40 cents per share to Flux Industries Pty Ltd/UniQuest Pty Ltd as settlement of the acquisition of NMR 2 as disclosed in the Notes to the Accounts; and
- 2,186,264 shares were bought back from shareholders at 26.667 cents per share under a share buy-back offer.

Since December 2004 the Company has implemented a comprehensive program to add value to its IP assets.

Magnetica's Umbrella R&D and Consulting agreements with UQ enable the Company to engage a skilled R&D and design team from UQ and manage the team as if it is "in-house". Since December 2004 this team has worked closely with the Company's management team towards proving the financial and technical feasibility of building high-performance MRI magnets using Magnetica's IP. In this process new asymmetric and compact technology has been developed and patented. The R&D team has developed a portfolio of initial designs using the Company's asymmetric technologies and the compact technologies it owns and over which it has the option to acquire.

In the period to April 2005 the Company worked closely with several European companies specialised in the manufacture of superconducting magnets to establish the technical feasibility of our magnet designs. However, in May 2005, the Company received an unsolicited approach from Japan Superconducting Technology Inc. (Jastec), inviting Magnetica to explore a cooperative relationship in design and manufacture of MRI magnets. This led in June 2005 to Magnetica signing an Alliance Agreement with Jastec. This Agreement commits the two companies to work closely together to develop a global MRI business.

Jastec is the leading Japanese manufacturer of superconducting NMR magnets and of superconducting wire used in NMR and MRI magnets, worldwide. It is a 100% subsidiary of Kobe Steel ("Kobelco"), one of the leading steel manufacturers in Japan.

Magnetica believes that the Alliance with Jastec will bring together the complementary talents of both companies and allow them to work together to successfully enter the global MRI human medical imaging equipment market. In the Alliance, Magnetica's role will be the design and optimisation of superconducting magnet systems, and design,



development and prototyping of non-superconducting components, including gradient and RF coils. Jastec's role is in prototyping, testing and manufacture of the superconducting magnet components. The Alliance aims to become the leading MRI manufacturer in Japan and a major player in the global MRI business.

By 30 June 2005, work was well advanced by Magnetica's management, R&D and design teams in the development of the Alliance's initial product portfolio. Discussions had commenced with leading systems integrators to provide the Alliance with attractive pathways to the global market for its products.

This work has established the foundation for future developments which are planned to include:

- Continuing discussions between Jastec and Magnetica, on the one hand and major MRI systems integrators, on the other, to further the business of the Alliance, focussed on developing and testing prototype magnets based on Magnetica's designs and IP and developing effective pathways to market for these products;
- Ongoing R&D, both 'in-house' and at the University of Queensland, to further develop and refine the an initial product portfolio for the Alliance to commercialise;
- Raising the next round of capital to enable the Company to complete prototypes and prove their performance as the basis for proceeding to either licence or on to manufacture MRI magnets for the global MRI market. It is the Company's intention that in due course the Company will re-commence trading on the Australian Stock Exchange Ltd.

DIRECTORS' REPORT

Your directors present their report for the year ended 30 June 2005.

DIRECTORS

The following persons were directors of Magnetica Limited during the financial year and up to the date of this report:

Howard Stack	(appointed 23 December 2004)
David Evans	(appointed 23 December 2004)
Philip Dubois	(appointed 23 December 2004)
Charles Ho	(appointed 23 December 2004)
Andrew Davis	(appointed 23 December 2004)
Peter Grogan	
Peter Marshall	(resigned 23 December 2004)
Richard Anthon	(resigned 23 December 2004)

Howard Stack BA LLB (Non-Executive Chairman)

Mr Stack is a leading professional corporate director with significant experience in high growth corporations.

Mr Stack had a long and highly successful career as a partner in the Brisbane based commercial law firm Feez Ruthning from 1969, and Managing Partner from 1992 until its merger with Allen Allen and Hemsley in 1996. He retired from Allens in 2001.

In the community he has been Chairman of Brisbane Grammar School Board of Trustees since 1991, and served as a Director of Queensland Events Corporation (1996-1998).

In addition to the listed companies noted below, Mr Stack has previously served as a Director of Australian National Industries (1987-1997) and as chairman of Southern Cross Pumps and Irrigation (1996-1997). He was also chairman of Voxon Limited (1999-2003).

During the past three years Mr Stack has also served as a Director of the following listed companies:

- Flight Centre Limited *
- Data #3 Limited *
- Voxon Limited

* denotes current directorship.

Dr David A. Evans BE (UNSW), MS, AM, PhD (Stanford), FIEAust. (Managing Director and Chief Executive Officer)

Dr David Evans is one of Australia's most experienced professionals in commercialising the outcomes of Australian research. Over the past 15 years he has played a leading role in more than 50 commercialisation deals that have produced licenses, joint ventures, technology sales and more than 20 spin-off companies.

He has a depth and breadth of knowledge of technologies from mining to medicine and hands-on experience in the management, governance and development of technology-based start-up companies. Dr Evans has a depth of international business experience in Asia, the United States and Europe.

From 1994 to 2000 he was Managing Director of UniQuest, now recognised as one of Australia's most successful University-based technology commercialisation companies.

In 2000, he co-founded and became the Foundation CEO of UniSeed, Australia's first true pre-seed fund, established as a \$20,000,000 joint venture between the University of Queensland and the University of Melbourne.



Magnetica Limited & Controlled Entities

David moved from UniSeed in 2003 to establish funding and other mechanisms to improve the performance of commercialisation in research catchments Australia-wide, through his consulting company, Atlatl Management Pty Ltd. This work included re-structuring the National Stem Cell Centre on behalf of the eight participating universities and then becoming Chairman of the Commercialisation Committee of the re-structured organisation (now named the Australian Stem Cell Centre).

Dr Evans has previous experience with UQ's superconducting magnet technologies during his time as Managing Director of UniQuest and led the negotiating team which concluded licensing arrangements with GE Medical Systems on previous MRI technology. These licences have since generated over \$11 million in royalties.

Dr Philip Dubois
MBBS FRCR FRACR FAICD (Radiologist)
(Non-Executive Director)

Dr Dubois is the Chairman and CEO of Queensland X-Ray and is a Director of Sonic Healthcare Ltd. He is the Chairman of the Sonic Imaging Executive and is a member of their Risk Management committee. He is a Neuro radiologist and nuclear imaging specialist having spent ten years in academic radiology in the United States. He is the author of over fifty scientific publications and has been an invited speaker at many national and international conferences in the field of diagnostic radiology.

Dr Dubois is currently an Associate Professor of Radiology at the University of Queensland Medical School. He has served on numerous government and craft group committees including the Diagnostic Economic Committee and the Council of the Royal Australian and New Zealand College of Radiologists (RANZCR) and the Diagnostic Imaging Management Committee. He is currently Treasurer of the Australian Diagnostic Imaging Association (ADIA), a Councilor and the Radiology Craft Group Representative of the Australian Medical Association (AMA), and a member of the Nuclear Imaging Consultative Committee.

During the past three years Dr Dubois has also served as a Director of the following listed company:

- Sonic Healthcare Ltd *

* denotes current directorship

Dr Charles P Ho
MD PhD (Radiologist)
(Non-Executive Director)

Dr Ho is Co-Medical Director of National Orthopaedic Imaging Associates with imaging centres located in California, Washington, and Colorado. He has served as Regional Medical Advisor to the USA/VISA Decathlon Team and currently serves on the Medical Advisory Board of the Steadman Hawkins Sports Medicine Foundation. He and the other NOIA doctors are radiologic consultants to a number of high-profile sports organizations, including the San Francisco 49ers, San Francisco Giants, US Ski Team, Cleveland Indians and the Denver Broncos.

Dr Ho has published over 150 Articles, many of them relating to the application of MRI and has previously worked with MRI systems developers assisting them in specification and proto-type testing.

He is a resident of the United States, a graduate of MIT with a BS and MS in Electrical Engineering from MIT. He has a Ph D in electrical engineering and an MD from Stanford University, and underwent his radiology training at University of California, San Diego.

Andrew Davis
BSc(Hons) MBA MAICD
(Non-Executive Director)

Mr Davis is presently Group Manager, Technology Commercialisation for UniQuest Pty Limited. As a part of this role, he is responsible for the commercialisation of technologies developed by the University of Queensland's Centre for Magnetic Resonance and Biomedical Engineering group.

Mr Davis manages UniQuest's existing MRI technology licenses to GE Medical Systems and Siemens. He is also a Director of Spin Systems Pty Ltd, which develops and manufactures subsystems for magnetic resonance micro-imaging and spectroscopy systems, as well as other bio-electronic systems for use in other imaging modalities.

Mr Davis has over 15 years experience in technology venture management and financing, from start-ups to new venture development with Telstra and line management to management consultancy. He is a Director of five venture companies, with operations spanning biomedical engineering and manufacturing, medical diagnostics and immunotherapy development. He also chairs UniQuest's Patent Committee which has approximately 150 patent families under management.

Mr Peter Grogan
BA LLB
(Non-Executive Director)

Mr Grogan was elected Chairman of Magnetica Corporation Limited in 1999. During his tenure as chairman he was responsible for the restructuring of the Company from a tourism and hotel group to its focus on medical imaging technology.

Mr Grogan has a deep-seated understanding of Magnetica Corporation and its current technologies. He has had an opportunity to talk extensively with international systems integrators within the magnetic resonance imaging field and has attended numerous conferences and meetings on behalf of the company. Mr Grogan brings with him a commitment to the success of the Company and an historical perspective of the Company and its operations which will prove valuable to the Company and the new board.

SECRETARY

The name of the secretaries of the Company in office during the year and until the date of this report is as follows.

Mr Simon Portway resigned as Company Secretary of the Company on 25 October 2004.

Duncan Cornish
BBus (Acctcy), ACA
(Company Secretary and Chief Financial Officer)

Mr Cornish was appointed on 25 October 2004. Mr Cornish has more than ten years experience in the accountancy profession both in England and Australia, mainly with the accountancy firms Ernst & Young and PriceWaterhouseCoopers. He has extensive experience in all aspects of company financial reporting, corporate regulatory and governance areas, business acquisition and disposal due diligence, capital raising, and company listings and company secretarial responsibilities.

Mr Cornish holds a Bachelor of Business (Accounting) and is a member of the Australian Institute of Chartered Accountants. He is also the Company Secretary of several other ASX listed companies.

Interests in the shares and options of the Company

As at balance date and the date of this report, the interests of the directors in the shares and options of Magnetica Ltd are shown in the table below:

	Ordinary Shares	Unlisted options *
Howard Stack	375,000	500,000
David Evans	150,000	3,000,000
Philip Dubois	375,000	300,000
Charles Ho	333,305	300,000
Andrew Davis	-	-
Peter Grogan	3,247	300,000

* Further details of the precise vesting periods, exercise prices and expiry dates are set out in Table 2 of the Remuneration Report



CORPORATE INFORMATION

Corporate structure

Magnetica Ltd is a company limited by shares that is incorporated and domiciled in Australia. Magnetica Ltd has prepared a consolidated financial report which consolidates its' 100% owned subsidiaries NMR Holdings No. 1 Pty Limited and NMR Holdings No. 2 Pty Limited.

Name change

On 24 May 2005 the Company changed its name from Koala Corporation Australia Limited to Magnetica Limited to better reflect the focus of the Company on the bio-medical sector and, in particular, the magnetic resonance imaging business of the Company.

Nature of operations and principal activities

The principal activities of the Company during the financial year was to hold patents relating to research results in medical resonance technologies with a view to commercialising these technologies. Magnetica aims to develop high performance superconducting magnets principally for use in human clinical magnetic resonance imaging (MRI). There were no significant changes in the nature of the Company's principal activities during the financial year.

Employees

As at 30 June 2005, the Company employed 4 full-time employees plus a further 1 part-time employee (excluding the Directors and the Secretary). The Company also engages external consultants, particularly for research and development work, as required.

REVIEW OF FINANCIAL CONDITION

Capital structure

During the period the following changes to the Company's capital structure took place:

- The existing share capital of the Company was consolidated on a 15.4:1 basis, reducing the number of shares from 165,013,804 to 10,715,214;
- 15,000,000 shares were issued to seed capital investors at 26.667 cents per share, raising \$4,000,000;
- 25,000,000 shares were issued at 40 cents per share to Flux Industries Pty Ltd/UniQuest Pty Ltd as settlement of the acquisition of NMR 2; and
- 2,186,264 shares were bought back from shareholders at 26.667 cents per share under a share buy-back offer.

In addition, a total of 4,400,000 unlisted options were issued to the certain directors. The details of the options issued are set out below.

Number of options	Exercise price	Expiry date
466,667	\$0.50	20 May 2010
466,667	\$0.60	20 May 2010
466,667	\$0.80	20 May 2010
1,000,000	\$0.50	Relisting date + 3 years
1,000,000	\$0.54	Relisting date + 3 years
1,000,000	\$0.60	Relisting date + 3 years
<u>4,400,000</u>		

The above transactions were approved by shareholders during the period.

At 30 June 2005, and at the date of this report, the Company had 48,528,950 ordinary shares and 4,400,000 unlisted options on issue.

Treasury policy

The Company does not have a formally established treasury function. The Board is responsible for managing the Company's currency risks and finance facilities. The Company does not currently undertake hedging of any kind.

Liquidity and funding

The Company has sufficient funds to finance its operations and to allow the Company to take advantage of favourable business opportunities, not specifically budgeted for, or to fund unforeseen expenditure.

OPERATING RESULTS

For the year ended 30 June 2005, the loss from ordinary activities for the consolidated entity after providing for income tax was \$1,843,595 (2004: \$15,708,111 loss).

DIVIDENDS PAID OR RECOMMENDED

There were no dividends paid or recommended during the financial year.

REVIEW OF OPERATIONS

Detailed comments on operations up to the date of this report are included separately in the Annual Report under Review of Operations and Future Developments.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Comments regarding any significant changes in the state of affairs of the Company have been discussed where appropriate in the Annual Report under Review of Operations and Future Developments.

There were no other significant changes in the state of affairs of the Company during the year.

FUTURE DEVELOPMENTS

Likely developments in the operations of the Company and the expected results of those operations in subsequent financial years have been discussed where appropriate in the Annual Report under Review of Operations and Future Developments.

There are no further developments of which the Directors are aware which could be expected to affect the results of the Company's operations in subsequent financial years other than information which the Directors believe comment on or disclosure of, would prejudice the interests of the Company.

SIGNIFICANT EVENTS AFTER BALANCE DATE

There have been no events since the end of the financial year that impact upon the financial report as at 30 June 2005.

ENVIRONMENTAL REGULATIONS

The consolidated entity is not subject to any significant environmental regulation under a law of the Commonwealth or Queensland State governments.

INDEMNIFICATION AND INSURANCE OF DIRECTORS, OFFICERS AND AUDITOR

Each of the Directors and the Secretary of the Company have entered into a Deed with the Company whereby the Company has provided certain contractual rights of access to books and records of the Company and certain indemnities to those Directors and Secretary.

The Company has not indemnified its auditor.

No insurance premiums have been paid, during or since the end of the financial year for any person who is or has been a director or officer of the Company.



REMUNERATION REPORT

Remuneration policy

The performance of the Company depends upon the quality of its Directors and Executives. To prosper, the Company must attract, motivate and retain highly skilled Directors and Executives.

The Board does not presently have a Remuneration and Nomination Committee. The Directors consider that the Company is not of a size, nor are its affairs of such complexity, as to justify the formation of a separate committee. All matters which might be dealt with by such a committee are reviewed by the Directors meeting as a Board. The Board, in carrying out the functions of the Remuneration and Nomination Committee, are responsible for determining and reviewing compensation arrangements for the Directors and the Executive team.

The Board, in carrying out the functions of the Remuneration and Nomination Committee, assess the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and Executive team. Such officers are given the opportunity to receive their base emolument in a variety of forms including cash and fringe benefits. It is intended that the manner of payments chosen will be optimal for the recipient without creating undue cost for the Company.

The majority of the current Board and senior executive team were appointed only recently in December 2004. As such the Board has a broad remuneration policy that is evolving as the Company progresses its planned restructure and the reinstatement of the Company's shares on the ASX. The Board's policy is to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific short and long-term incentives, in the form of:

1. performance based salary increases and/or bonuses; and
2. the issue of options to encourage the alignment of personal and shareholder interests.

In accordance with best practice corporate governance, the structure of Non-Executive Director and Executive Director and Senior Management remuneration is separate and distinct.

Non-Executive Director remuneration

The Board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain directors of the highest caliber, whilst incurring a cost which is acceptable to shareholders.

The Constitution of the Company and the ASX Listing Rules specify that the Non-Executive Directors are entitled to remuneration as determined by the Company in General Meeting to be apportioned among them in such manner as the Directors agree and, in default of agreement, equally. The aggregate remuneration currently determined by the Company is \$200,000 per annum. Additionally, Non-Executive Directors will be entitled to be reimbursed for properly incurred expenses.

If a Non-Executive Director performs extra services, which in the opinion of the Directors are outside the scope of the ordinary duties of the Director, the Company may remunerate that Director by payment of a fixed sum determined by the Directors in addition to or instead of the remuneration referred to above. However, no payment can be made if the effect would be to exceed the maximum aggregate amount payable to Non-Executive Directors. A Non-Executive Director is entitled to be paid travel and other expenses properly incurred by them in attending Director's or General Meetings of the Company or otherwise in connection with the business of the Company.

Fees for non-executive directors are not linked to the performance of the economic entity. However, to align director's interests with shareholders interests, the directors are encouraged to hold shares in the Company. In line with the Company's aim to retain directors of the highest caliber whilst incurring a cost which is acceptable to shareholders, four of the Company's Non-Executive Directors (including the Chairman) have been granted (unlisted) options in the Company. Details of these options are set out in Table 2 of this Remuneration Report.

The remuneration of Non-Executive Directors for the period ending 30 June 2005 is detailed in Table 1 of this Remuneration Report.

Executive Director and Senior Management remuneration

The Company aims to reward the Executive Director and Senior Management with a level and mix of remuneration commensurate with their position and responsibilities within the Company and so as to:

- reward Executives for company and individual performance against targets set by reference to appropriate benchmarks;
- align the interests of Executives with those of shareholders;
- link reward with the strategic goals and performance of the Company; and
- ensure total remuneration is competitive by market standards.

The remuneration of the Executive Director and Senior Management may from time to time be fixed by the Board. As noted above the remuneration will comprise a fixed remuneration component which may include offering specific short and long-term incentives, in the form of:

1. performance based salary increases and/or bonuses; and/or
2. the issue of options

The remuneration of the Executive Director and Senior Management for the period ending 30 June 2005 is detailed in Table 1 of this Remuneration Report.

Employment contracts

Managing Director

The Company has entered into an Executive Services Agreement relating to the appointment of the Managing Director and Chief Executive Officer, Dr Evans. This agreement commenced on 1 January 2005 for an initial three year term, at which time the Company may choose to commence negotiation to enter into a new contract with Dr Evans.

Under the terms of the Executive Services Agreement:

- Magnetica Ltd and Dr Evans are entitled to terminate the agreement upon giving six months written notice;
- Magnetica Ltd is entitled to terminate the agreement upon the happening of various events or other conduct or if Dr Evans ceases to be a Director of Magnetica Ltd;
- The Company may terminate the agreement immediately in the case of negligence, breach of confidentiality and/or dereliction. On termination for cause any unvested options will be forfeited.

Dr Evans is entitled to:

- A commencement salary of \$200,000 together with statutory superannuation entitlements.
- A grant of three million options. A summary of the options issued to Dr Evans is set out in Table 2 of this Remuneration Report.
- An increase in the annual salary to \$325,000 plus statutory superannuation entitlements upon the completion of a capital raising and listing of the shares of the Company on the Australian Stock Exchange Ltd.

The Executive Services Agreement provides for a review of the level of Dr Evans remuneration after 1 July 2004 in light of the progress in developing the Company's aims and objectives. That review is yet to be completed.

Senior Management

Employment contracts entered into with Senior Management contain the following key terms:

Event	Company policy
Performance based salary increases and/or bonuses	Board discretion
Long-term incentives, such as the issue of options	Board discretion
Resignation	1 to 3 months
Serious misconduct	Company may terminate at any time
Payouts upon resignation or termination (eg 'golden handshakes')	None



(a) Details of Specified Directors and Specified Executives

(i) Specified directors

Howard Stack	Non-Executive Chairman (appointed 23 December 2004)
David Evans	Managing Director and Chief Executive Officer (appointed 23 December 2004)
Philip Dubois	Non-Executive Director (appointed 23 December 2004)
Charles Ho	Non-Executive Director (appointed 23 December 2004)
Andrew Davis	Non-Executive Director (appointed 23 December 2004)
Peter Grogan	Non-Executive Director (appointed 26 November 1999)
Peter Marshall	Non-Executive Director (resigned 23 December 2004)
Richard Anthon	Non-Executive Director (resigned 23 December 2004)

(ii) Specified executives

Nicky Milsom	Deputy CEO and Manager, Commercialisation
Wolfgang Roffmann	Manager, Engineering and Project Services
Duncan Cornish	Company Secretary and Chief Financial Officer
Anne Hepburn	Executive Officer
Simon Portway	Financial Controller

(b) Remuneration of Specified Directors and Specified Executives

The Specified Executives are also the five most highly paid executive officers of the consolidated entity for the year ended 30 June 2005.

Table 1

	Salary & Fees	Primary Cash Bonus	Non-cash benefits	Post-Employment Superannuation	Retirement benefits	Equity Options	Other	Total
Specified Directors								
Howard Stack								
2005	15,740	-	-	-	-	87,667	-	103,407
2004	-	-	-	-	-	-	-	-
David Evans								
2005	98,214	-	-	7,939	-	281,000	-	387,153
2004	-	-	-	-	-	-	-	-
Philip Dubois								
2005	10,493	-	-	-	-	52,600	-	63,093
2004	-	-	-	-	-	-	-	-
Charles Ho								
2005	10,493	-	-	-	-	52,600	-	63,093
2004	-	-	-	-	-	-	-	-
Andrew Davis								
2005	-	-	-	-	-	-	-	-
2004	-	-	-	-	-	-	-	-
Peter Grogan								
2005	121,961	-	-	1,032	-	52,600	-	175,593
2004	25,000	-	-	2,250	-	-	-	27,250
Peter Marshall								
2005	11,468	-	-	1,032	-	-	-	12,500
2004	25,000	-	-	2,250	-	-	-	27,250
Richard Anthon								
2005	11,468	-	-	1,032	-	-	-	12,500
2004	25,000	-	-	2,250	-	-	-	27,250
Total Remuneration: Specified Directors								
2005	279,837	-	-	11,035	-	526,467	-	817,339
2004*	75,000	-	-	6,750	-	-	-	81,750

Table 1 continued:

Specified Executives								
Nicky Milsom								
2005	43,083	-	-	3,877	-	-	-	46,960
2004	-	-	-	-	-	-	-	-
Wolfgang Roffmann								
2005	40,578	-	-	3,652	-	-	-	44,230
2004	-	-	-	-	-	-	-	-
Duncan Cornish								
2005	31,100	-	-	-	-	-	-	31,100
2004	-	-	-	-	-	-	-	-
Anne Hepburn								
2005	15,525	-	-	1,397	-	-	-	16,922
2004	-	-	-	-	-	-	-	-
Simon Portway								
2005	12,832	-	-	-	-	-	-	12,832
2004	11,250	-	-	2,319	-	-	-	13,569
Total Remuneration: Specified Executives								
2005	143,118	-	-	8,926	-	-	-	152,044
2004*	11,250	-	-	2,319	-	-	-	13,569

* Group totals in respect of the financial year ended 30 June 2005 do not equal the sums of amounts disclosed for 2004 for individuals specified in 2005, as different individuals were specified in 2004.

(c) Options issued as part of remuneration for the year ended 30 June 2005

During the year options were granted as equity compensation benefits to certain specified directors as disclosed below (no options were granted to specified executives during the period). The options were issued free of charge. Each of the granted options entitles the holder to subscribe for one fully paid ordinary share in the entity at various exercise prices and various option periods, as set out in Table 2 of this Remuneration Report.

Table 2 – Options granted as remuneration

	Terms & Conditions for Each Grant						
	Vested number	Granted Number	Grant Date	Value per option at grant date (\$)#	Exercise Price per share (\$)	First Exercise Date	Last Exercise Date
Specified Directors							
Howard Stack	166,666	166,666	20-May-05	\$0.187	\$0.50	20-May-05	20-May-10
	166,667	166,667	20-May-05	\$0.178	\$0.60	20-May-05	20-May-10
	166,667	166,667	20-May-05	\$0.161	\$0.80	20-May-05	20-May-10
David Evans	-	1,000,000	20-May-05	\$0.112	\$0.50	Relisting date	Relisting date+3yr
	-	1,000,000	20-May-05	\$0.097	\$0.54	Relisting date+1yr	Relisting date+4yr
	-	1,000,000	20-May-05	\$0.072	\$0.60	Relisting date+2yr	Relisting date+5yr
Philip Dubois	100,000	100,000	20-May-05	\$0.187	\$0.50	20-May-05	20-May-10
	100,000	100,000	20-May-05	\$0.178	\$0.60	20-May-05	20-May-10
	100,000	100,000	20-May-05	\$0.161	\$0.80	20-May-05	20-May-10
Charles Ho	100,000	100,000	20-May-05	\$0.187	\$0.50	20-May-05	20-May-10
	100,000	100,000	20-May-05	\$0.178	\$0.60	20-May-05	20-May-10
	100,000	100,000	20-May-05	\$0.161	\$0.80	20-May-05	20-May-10
Peter Grogan	100,000	100,000	20-May-05	\$0.187	\$0.50	20-May-05	20-May-10
	100,000	100,000	20-May-05	\$0.178	\$0.60	20-May-05	20-May-10
	100,000	100,000	20-May-05	\$0.161	\$0.80	20-May-05	20-May-10
Total	1,400,000	4,400,000					

Calculation of value of options granted using the Black-Scholes option pricing model, which takes into account factors such as the option exercise price, the market price at the date of issue and volatility of the underlying share price and the time to maturity of the option.

No options were granted as equity compensation benefits during the year ended 30 June 2004.



Table 3 – Performance income (options) as a proportion of Total Remuneration

	Granted Number	Options Granted as Part of Remuneration \$	Total Remuneration Represented by Options %	Options Exercised \$	Options Lapsed (\$)	Total \$
Howard Stack	500,000	87,667	85	-	-	87,667
David Evans	3,000,000	281,000	73	-	-	281,000
Philip Dubois	300,000	52,600	83	-	-	52,600
Charles Ho	300,000	52,600	83	-	-	52,600
Peter Grogan	300,000	52,600	24	-	-	52,600
Total	4,400,000	526,467				526,467

(d) Shares issued on exercise of remuneration options

No remuneration options were exercised during the year (2004: Nil).

(e) Option holdings of specified directors and specified executives

	Balance at 1 July 2004	Granted as Remuneration	Options Exercised	Net Change Other	Balance at 30 June 2005	Vested at 30 June 2005		
						Total	Not Exercisable	Exercisable
Unlisted Options								
Specified Directors								
Howard Stack	-	500,000	-	-	500,000	500,000	-	500,000
David Evans	-	3,000,000	-	-	3,000,000	-	-	-
Philip Dubois	-	300,000	-	-	300,000	300,000	-	300,000
Charles Ho	-	300,000	-	-	300,000	300,000	-	300,000
Andrew Davis	-	-	-	-	-	-	-	-
Peter Grogan	-	300,000	-	-	300,000	300,000	-	300,000
Peter Marshall	-	-	-	-	-	-	-	-
Richard Anthon	-	-	-	-	-	-	-	-
Total	-	4,400,000	-	-	4,400,000	1,400,000	-	1,400,000

There were no options issued during the year ended 30 June 2004 or outstanding at 30 June 2004.

(f) Shareholdings of specified directors and specified executives

<i>Shares held in Magnetica Limited (number)</i>	Balance 1 July 2004	Granted as Remuneration	Options Exercised	Net Change Other	Balance 30 June 2005
Specified Directors					
Howard Stack	-	-	-	375,000	375,000
David Evans	-	-	-	150,000	150,000
Philip Dubois	-	-	-	375,000	375,000
Charles Ho	-	-	-	333,305	333,305
Andrew Davis	-	-	-	-	-
Peter Grogan	3,247	-	-	-	3,247
Peter Marshall	17,854	-	-	-	17,854
Richard Anthon	-	-	-	-	-
Specified Executives					
Nicky Milsom	-	-	-	-	-
Wolfgang Roffmann	-	-	-	-	-
Duncan Cornish	-	-	-	37,500	37,500
Anne Hepburn	-	-	-	-	-
Simon Portway	-	-	-	-	-
Total	21,101	-	-	1,270,805	1,291,906

(g) Loans to specified directors and specified executives

There were no loans to specified directors or specified executives during the period.

There were no other transactions or balances with specified directors or specified executives during the period.

DIRECTORS' MEETINGS

The number of meetings of directors held during the period and the number of meetings attended by each director are as follows:

	Board meetings		Audit & risk management committee	
	Number of meetings held while in office	Meetings attended	Number of meetings held while in office	Meetings attended
Howard Stack	9	9	1	-
David Evans	9	9	n/a	n/a
Philip Dubois	9	9	n/a	n/a
Charles Ho	9	7	n/a	n/a
Andrew Davis	9	9	1	1
Peter Grogan	9	9	1	1
Peter Marshall	2	2	n/a	n/a
Richard Anthon	2	2	n/a	n/a

* There was a total of 9 board meetings and 1 audit and risk management committee meeting held during the year.

NON-AUDIT SERVICES

The following non-audit services were provided by the entity's auditor Cranstoun & Hussein. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Cranstoun & Hussein received the following amounts for the provision of non-audit services:

Taxation consulting services \$6,975

AUDIT INDEPENDENCE DECLARATION

The Auditors Independence Declaration forms part of the Director's Report and can be found on page 18.

SHARE OPTIONS

Unissued shares

As at the date of this report (and at the balance date) there were 4,400,000 unissued ordinary shares under options as follows:

- 4,400,000 unlisted options to take up one ordinary share in Magnetica Ltd at various issue prices, vesting dates, exercise dates and expiration dates. These details are set out in the Remuneration Report.

Shares issued as a result of the exercise of options

During the year ended 30 June 2005, and as at the date of this report, no shares were issued as a result of the exercise of an option over unissued shares.



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. No proceedings have been brought or intervened in on behalf of the Company with the leave of the Court under section 237 of the Corporations Act 2001.

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of Magnetica Ltd support and have adhered to the principles of corporate governance. The Company's corporate governance statement is contained in a separate section of the Annual Report.

Signed in Brisbane this 13th day of September 2005 in accordance with a resolution of the directors.

PETER GROGAN
Director

AUDITOR INDEPENDENCE DECLARATION

As lead auditor for the audit of Magnetica Limited for the year ended 30 June 2005, I declare that, to the best of my knowledge and belief, there have been: -

- (a) no contravention of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (b) no contravention of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Magnetica Limited and the entities it controlled during the period.

Signed in Brisbane this 13th day of September 2005.

M AYOOB
A Member of the Firm

CORPORATE GOVERNANCE STATEMENT

The board of directors of Magnetica Limited is responsible for the corporate governance of the consolidated entity. The Board guides and monitors the business and affairs of Magnetica Limited on behalf of the shareholders by whom they are elected and to whom they are accountable.

Magnetica Limited's Corporate Governance Statement is now structured with reference to the Australian Stock Exchange Corporate Governance Council's (the "Council") "Principles of Good Corporate Governance and Best Practice Recommendations", which are as follows:

Principle 1	Lay solid foundations for management and oversight
Principle 2	Structure the board to add value
Principle 3	Promote ethical and responsible decision making
Principle 4	Safeguard integrity in financial reporting
Principle 5	Make timely and balanced disclosure
Principle 6	Respect the rights of shareholders
Principle 7	Recognise and manage risk
Principle 8	Encourage enhanced performance
Principle 9	Remunerate fairly and responsibly
Principle 10	Recognise the legitimate interests of stakeholders

Magnetica Limited's corporate governance practices were in place throughout the year ended 30 June 2005. Any departures to the Council's best practice recommendations are set out below.

Structure of the Board

The skills, experience and expertise relevant to the position of director held by each director in office at the date of the Annual Report is included in the Director's Report. Corporate Governance Council Recommendation 2.1 requires a majority of the board to be independent directors. The Corporate Governance Council defines independence as being free from any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with – the exercise of their unfettered and independent judgment.

In the context of director independence, "materiality" is considered from both the Company and the individual director perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal or less than 5% of the appropriate base amount. It is presumed to be material (unless there is qualitative evidence to the contrary) if it is equal to or greater than 10% of the appropriate base amount. Qualitative factors considered included whether a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it and other factors which point to the actual ability of the director in question to shape the direction of the Company's loyalty.

In accordance with the Council's definition of independence above, and the materiality thresholds set, the following directors are considered to be independent:

Name	Position
Howard Stack	Non-Executive Chairman
Philip Dubois	Non-Executive Director
Andrew Davis	Non-Executive Director
Charles Ho	Non-Executive Director

In accordance with the Council's definition of independence above, and the materiality thresholds set, the following directors are not considered to be independent:

Name	Position	Reason for non-compliance
David Evans	Managing Director	Dr Evans is employed by the Company in an executive capacity
Peter Grogan	Non-Executive Director	Mr Grogan was engaged by the Company in an executive capacity for part of the period (see below)



Magnetica Limited currently has six directors in total. As listed above, when applying the Council's definition of independence, the majority of the board are considered to be independent.

Recommendation 2.2 recommends that the chairperson of a listed entity should be an independent director. As noted above, Mr Stack is considered to be independent when applying the Council's definition of independence.

Five of the Company's six directors were appointed on 23 December 2004. For the period between 1 July 2004 and 23 December 2004, the Company had three directors of which only Mr Peter Grogan was considered, when applying the Council's definition of independence, not to be independent, as Mr Grogan was employed by the Company in an executive capacity up to 23 December 2004. Therefore, when applying the Council's definition of independence, the majority of the board were considered to be independent up to 23 December 2004. However up to 23 December 2004 the Company did not comply with Recommendation 2.2 that recommends that the chairperson (Mr Grogan) be independent.

There are procedures in place, agreed by the board, to enable directors, in furtherance of their duties, to seek independent professional advice at the company's expense.

The term in office held by each director in office at the date of this report is as follows:

Name	Term in office
Howard Stack	7 months
David Evans	7 months
Philip Dubois	7 months
Charles Ho	7 months
Andrew Davis	7 months
Peter Grogan	5 years 8 months

Nomination and Remuneration Committees

Recommendations 2.4 and 9.2 require listed entities to establish nomination and remuneration committees. During the year ended 30 June 2005, Magnetica Limited did not have separately established nomination or remuneration committees. The full Board shall for the time being carry out the functions of remuneration and nomination committees. The Board does not believe that any marked efficiencies or enhancements would be achieved by the creation of separate remuneration or nomination committees.

Audit and Risk Management Committee

The Board established an Audit and Risk Management Committee during the period, which operates under a charter approved by the Board. It is the Board's responsibility to ensure that an effective internal control framework exists within the Company. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information as well as non-financial considerations such as the benchmarking of operational key performance indicators. The Board has delegated the responsibility for the establishment and maintenance of a framework of internal control and ethical standards for the management of the Company to the Audit and Risk Management Committee.

The Committee also provides the Board with additional assurance regarding the reliability of financial information for inclusion in the financial reports. All members of the Audit and Risk Management Committee are Non-Executive Directors.

The members of the Audit and Risk Management Committee at the date of this report are:

- Howard Stack
- Andrew Davis
- Peter Grogan

Recommendation 4.3 requires that the composition of Audit Committee comprises a majority of independent Directors and that the committee have at least three members. The Company satisfied these requirements.

For additional details of directors' attendance at Audit and Risk Management Committee meetings and to review the qualifications of the members of the Audit and Risk Management Committee, please refer to the Directors' Report.

Performance

The performance of the board and key executives is reviewed regularly against both measurable and qualitative indicators. The performance criteria against which directors and executives are assessed is aligned with the financial and non-financial objectives of Magnetica Limited.

Remuneration

It is the Company's objective to provide maximum stakeholder benefit from the retention of a high quality Board and executive team by remunerating directors and key executives fairly and appropriately with reference to employment market conditions. To assist in achieving this objective, the Board links the nature and amount of executive directors and officers emoluments to the Company's financial and operations performance. The expected outcomes of the remuneration structure are:

- Retention and Motivation of key executives;
- Attraction of quality management to the Company; and
- Performance incentives which allow executives to share the rewards of the success of Magnetica Limited.

For details on the amount of remuneration and all monetary and non-monetary components for each of the five highest paid (non-director) executives during the year, and for all directors, please refer to the Remuneration Report within the Directors' Report. In relation to the payment of bonuses, options and other incentive payments, discretion is exercised by the Board, having regard to the overall performance of Magnetica Limited and the performance of the individual during the period.

There is no scheme to provide retirement benefits, other than statutory superannuation, to non-executive directors.

The Board is responsible for determining and reviewing compensation arrangements for the directors themselves and the executive team. As noted above, no separate remuneration committee has been created.



INDEPENDENT AUDIT REPORT To the members of Magnetica Limited

Scope

The financial report and directors' responsibility

The financial report comprises the directors' declaration, statement of financial performance, statement of financial position, statement of cash flows and accompanying notes to the financial statements for both Magnetica Limited (the company) and Magnetica Limited and Controlled Entities (the consolidated entity) for the year ended 30 June 2005. The consolidated entity comprises both the company and the entities it controlled during the year.

The company has disclosed information about the remuneration of directors and executives ("remuneration disclosures"), as required by Accounting Standard AASB 1046 *Director and Executive Disclosures by Disclosing Entities*, under the heading "remuneration report" in pages 12 to 17 of the directors' report, as permitted by the *Corporations Regulations 2001*.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. The directors are also responsible for the remuneration disclosures contained in the directors' report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement and the remuneration disclosures comply with Accounting Standard AASB 1046 and the *Corporations Regulations 2001*. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows and whether the remuneration disclosures comply with Accounting Standard AASB 1046 and the *Corporations Regulations 2001*.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosure in the financial report; and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

We read the other information in the annual report to determine whether it contained any material inconsistencies with the financial report.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

INDEPENDENT AUDIT REPORT To the members of Magnetica Limited**Audit opinion**

In our opinion:

- (1) the financial report of Magnetica Limited is in accordance with:
 - (a) the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2005 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the *Corporations Regulations 2001*.
 - (b) other mandatory financial reporting requirements in Australia.
- (2) the remuneration disclosures that are contained in pages 12 to 17 of the directors' report complying with Accounting Standard AASB 1046 and the *Corporations Regulations 2001*.

Inherent uncertainty regarding intangibles

The Company has recorded an investment in a controlled entity of \$10,000,000 as detailed in Notes 7 and 9. This represents the fair value attributed to intellectual property based on a directors' valuation. This valuation assumes future events, which may not occur as anticipated and accordingly we are unable to reliably determine whether the carrying value of intangibles as detailed in Note 9 and other financial assets detailed in Note 7 exceed their recoverable amounts.

Signed in Brisbane this 13th day of September 2005.

CRANSTOUN & HUSSEIN
Chartered Accountants

M AYOUB
A Member of the Firm



DIRECTORS' DECLARATION

The directors of the Company declare that:

- (1) The financial statements and notes set out on pages 25 to 45:
 - (a) comply with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - (b) give a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2005 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date.
- (2) The Chief Executive Officer and Chief Financial Officer have declared that:
 - (a) the financial records of the Company for the financial period have been properly maintained in accordance with Section 286 of the Corporations Act 2001;
 - (b) the financial statements and notes for the financial period comply with the Accounting Standards in Australia; and
 - (c) the financial statements and notes for the financial period give a true and fair view.
- (3) In the directors' opinion the financial statements and notes are in accordance with the Corporations Act 2001 and there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

As set out in Note 1 the financial statements have been prepared on a going concern basis.

This declaration is made in accordance with a resolution of the directors.

Signed in Brisbane this 13th day of September 2005.

PETER GROGAN
Director

**STATEMENTS OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2005**

	Note	<i>Consolidated</i>		<i>Parent Entity</i>	
		2005	2004	2005	2004
		\$	\$	\$	\$
Revenue from ordinary activities	2	100,097	414,045	100,097	89,045
Borrowing costs expense	3	(14,749)	(1,530,937)	(14,749)	(14,390)
Employee benefits expense		(127,955)	(25,749)	(127,955)	(25,749)
Depreciation and amortisation expenses	3	(5,774)	(2,344,771)	(5,774)	(1,914)
Other expenses from ordinary activities	3	(1,795,214)	(12,220,699)	(1,795,214)	(15,755,103)
Loss from ordinary activities before income tax expense	3	(1,843,595)	(15,708,111)	(1,843,595)	(15,708,111)
Income tax expense	4	-	-	-	-
Net loss attributable to members of Magnetica Limited	15	(1,843,595)	(15,708,111)	(1,843,595)	(15,708,111)

EARNINGS PER SHARE

		2005	2004
		¢	¢
Basic earnings per share	21	(6.33)	(146.5)
Diluted earnings per share	21	(6.33)	(146.5)

Earnings per share for 2004 has been restated for the impact of the share consolidation as detailed in Note 13.

The above statements of financial performance should be read in conjunction with the accompanying notes.



**STATEMENTS OF FINANCIAL POSITION
AS AT 30 JUNE 2005**

	Note	<i>Consolidated</i>		<i>Parent Entity</i>	
		2005	2004	2005	2004
		\$	\$	\$	\$
CURRENT ASSETS					
Cash assets		1,546,093	260,469	1,546,090	260,466
Receivables	5	11,873	358,240	11,876	358,240
Other	6	177,466	-	177,466	-
Intangibles	9	-	22,540,677	-	-
Total Current Assets		1,735,432	23,159,386	1,735,432	618,706
NON-CURRENT ASSETS					
Other financial assets	7	-	-	10,000,000	2
Property, plant and equipment	8	28,560	3,095	28,560	3,095
Intangibles	9	10,000,000	-	-	-
Total Non-Current Assets		10,028,560	3,095	10,028,560	3,097
Total Assets		11,763,992	23,162,481	11,763,992	621,803
CURRENT LIABILITIES					
Payables	10	121,074	106,874	121,074	106,873
Interest bearing liabilities	11	-	22,727,904	-	187,227
Provisions	12	12,697	-	12,697	-
Total Current Liabilities		133,771	22,834,778	133,771	294,100
NON-CURRENT LIABILITIES					
Provisions	12	3,041	-	3,041	-
Total Non-Current Liabilities		3,041	-	3,041	-
Total Liabilities		136,812	22,834,778	136,812	294,100
Net Assets		11,627,180	327,703	11,627,180	327,703
SHAREHOLDERS' EQUITY					
Contributed equity	13	45,980,663	32,837,591	45,980,663	32,837,591
Accumulated losses	14	(34,353,483)	(32,509,888)	(34,353,483)	(32,509,888)
Total Equity	15	11,627,180	327,703	11,627,180	327,703

The above statements of financial position should be read in conjunction with the accompanying notes.

**STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2005**

	Note	<i>Consolidated</i>		<i>Parent Entity</i>	
		2005	2004	2005	2004
		\$	\$	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		-	380,350	-	35,850
Payments to suppliers and employees		(1,888,401)	(523,342)	(1,888,401)	(478,842)
Interest received		100,097	58,628	100,097	58,628
Borrowing costs		(14,749)	(1,620,102)	(14,749)	(14,390)
Net cash outflow from operating activities	17	(1,803,053)	(1,704,466)	(1,803,053)	(398,754)
CASH FLOWS FROM INVESTING ACTIVITIES					
Payment for property, plant and equipment		(31,239)	(2,844)	(31,239)	(2,844)
Payment for prospectus costs		(176,466)	-	(176,466)	-
Proceeds from sale of discontinued operation		340,539	337,589	340,539	337,589
Net cash inflow from investing activities		132,834	334,745	132,834	334,745
CASH FLOWS FROM FINANCING ACTIVITIES					
Increase (decrease) in loans		(187,227)	1,260,962	(187,227)	(44,750)
Proceeds on issue of shares		4,000,000	-	4,000,000	-
Payments for shares bought back		(583,076)	-	(583,076)	-
Share issue and buy-back transaction costs		(273,854)	-	(273,854)	-
Net cash inflow (outflow) from financing activities		2,955,843	1,260,962	2,955,843	(44,750)
Net increase (decrease) in cash held		1,285,624	(108,759)	1,285,624	(108,759)
Cash at beginning of year		260,469	369,228	260,466	369,225
Cash at end of year		1,546,093	260,469	1,546,090	260,466
Made up as follows:					
Cash assets		1,546,093	260,469	1,546,090	260,466

Non-cash financing and investing activities are disclosed in Note 9.

The above statements of cash flows should be read in conjunction with the accompanying notes.



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This general purpose financial report has been prepared in accordance with Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views and the Corporations Act 2001.

Except for certain assets which, as noted, are at valuation, the financial statements are prepared in accordance with the historical cost convention. The accounting policies adopted are consistent with those of the previous year.

The financial statements have been prepared on a going concern basis which contemplates continuity of normal business activities and the realisation of assets and discharge of liabilities in the ordinary course of business. The ongoing ability of the economic entity to adopt the going concern assumption depends on a number of future issues including capital raising (such as the capital raising outlined in the Review of Operations on page 6 on this Annual Report), sales of product or services, and the support of creditors and shareholders.

No adjustments have been made to the carrying value of assets or recorded amount of liabilities should the company's plans not eventuate.

(a) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by Magnetica Limited as at 30 June 2005 and the results of all controlled entities for the year then ended. Magnetica Limited and its controlled entities together are referred to in this financial report as the consolidated entity. A list of controlled entities appears in Note 7. The effects of all transactions between entities within the consolidated entity are eliminated in full.

Where control of an entity is obtained during the financial year, its results are included in the consolidated statement of financial performance from the date on which control commences.

(b) Property, plant and equipment

Plant and equipment is measured at cost or directors valuation. Depreciation is calculated on a straight-line basis so as to write off the net cost of each non-current asset over its expected useful life. The expected useful lives are as follows:

Computer equipment	3 years
Office equipment	3 years

(c) Intangibles

The licensed patents are stated at cost and amortised on a straight-line basis over a period of seven years, being the initial period for which the license has been granted. Refer Note 9 for details.

(d) Income tax

Tax effect accounting procedures are followed whereby the income tax expense in the statement of financial performance is matched with the accounting profit after allowing for permanent differences. Income tax on net cumulative timing differences is set aside to the deferred income tax and future tax benefit accounts at the rates which are expected to apply when those timing differences reverse. The future tax benefit relating to tax losses is not carried forward as an asset unless the benefit can be regarded as being virtually certain of realisation.

Tax Consolidation System

A decision has not yet been made by the consolidated entity to implement the tax consolidation regime. As such, UIG 52 has been applied to the reporting period ended 30 June 2005 and the impact of both the mandatory and elective requirements of the consolidation regime have been considered in the preparation of the financial statements.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Cash

For the purpose of the statement of cash flows, cash includes all bank balances that are used in the cash management function on a day-to-day basis, net of outstanding bank overdrafts.

(f) Earnings per share

- Basic earnings per share – Basic earnings per share is determined by dividing the net profit (loss) after income tax attributable to members of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.
- Diluted earnings per share – Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(g) Acquisitions of assets

The purchase method of accounting is used for all acquisitions of assets regardless of whether shares or other assets are acquired. Cost is determined as the fair value of the assets given up at the date of acquisition plus costs incidental to the acquisition. Where shares are issued in an acquisition, the value of the shares is their market price as at the acquisition date, unless the notional price at which they could be placed in the market is a better indication of fair value.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of the acquisition. The discount rate used is the rate at which a similar borrowing could be obtained under comparable terms and conditions.

Where an entity or operation is acquired and the cost of acquisition exceeds the fair value of the identifiable net assets acquired, the difference, representing goodwill on acquisition is accounted for by increasing proportionately the fair values of the non-monetary assets acquired until the goodwill is eliminated.

(h) Receivables and revenue recognition

A sale is recorded when services have been provided to a customer. All trade debtors are recognised at the amounts receivable as they are due for settlement within 30 days. Collectability of trade debtors is reviewed on an ongoing basis. Debts, which are known to be uncollectable, are written off. A provision for doubtful debts is raised where some doubt as to collection exists.

(i) Borrowings

Loans are carried at their principal amounts, which represent the present value of future cash flows associated with servicing the debt. Interest is accrued over the period to which it relates.

(j) Trade and other creditors

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. The amounts are unsecured and usually payable within 30 days of recognition.



**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005**

	<i>Consolidated</i>		<i>Parent Entity</i>	
	2005	2004	2005	2004
	\$	\$	\$	\$
2. REVENUE				
Revenue from operating activities:				
Services	-	325,000	-	-
	-	325,000	-	-
Revenue from outside the operating activities:				
Gain on disposal of other financial assets	-	27,043	-	27,043
Interest	100,097	58,628	100,097	58,628
Dividends	-	3,374	-	3,374
	100,097	89,045	100,097	89,045
Revenue from ordinary activities	100,097	414,045	100,097	89,045

3. OPERATING LOSS

(a) Net gains and expenses

The operating loss before income tax includes the following specific net gains and expenses:

Net Gains:

Net gain on disposal of other financial assets	-	27,043	-	27,043
--	---	--------	---	--------

Expenses:

Borrowing costs – interest and finance charges paid	14,749	1,530,937	14,749	14,390
Write down of assets				
- Intangibles	-	10,083,994	-	-
- Other assets	-	1,852,512	-	-
- Other financial assets	-	-	-	15,596,053
Amortisation				
- Intangibles	-	2,342,857	-	-

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005**

3. OPERATING LOSS (Continued)	<i>Consolidated</i>		<i>Parent Entity</i>	
	2005	2004	2005	2004
	\$	\$	\$	\$
Depreciation - plant and equipment	5,774	1,914	5,774	1,914
Other expenses from ordinary activities				
Provision for doubtful debts – trade debtors	-	(61)	-	(61)
Provisions – employee leave entitlements	15,738	(45,759)	15,738	(45,759)
Company restructuring advice and costs	178,936	-	178,936	-
Travel expenses	302,562	-	302,562	-
Write down of assets: -				
Intangibles	-	10,083,994	-	-
Other assets	-	1,852,512	-	-
Other financial assets	-	-	-	15,596,053
Research Expenses – Uniquest	496,687	-	496,687	-
Consultancy fees – Uniquest	219,106	-	219,106	-
Management fees	-	123,737	-	-
Rentals	27,909	-	27,909	-
Directors fees	301,365	75,000	301,365	75,000
Other	252,911	131,276	252,911	129,870
	<hr/>	<hr/>	<hr/>	<hr/>
	1,795,214	12,220,699	1,795,214	15,755,103
	<hr/>	<hr/>	<hr/>	<hr/>

The company had 5 employees as at 30 June 2005
(2004 : Nil)

b) Individually significant items

Write-down of assets				
Other financial assets	-	-	-	15,596,053
Other assets	-	1,852,512	-	-
Intangibles	-	10,083,994	-	-



**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005**

	<i>Consolidated</i>		<i>Parent Entity</i>	
	2005	2004	2005	2004
	\$	\$	\$	\$
4. INCOME TAX				
(a) Income tax payable				
The income tax expense differs from the amount calculated on the loss. The differences are reconciled as follows:-				
Operating loss before income tax expense	(1,843,595)	(15,708,111)	(1,843,595)	(15,708,111)
Income tax calculated at 30% (2004 – 30%)	(553,079)	(4,712,433)	(553,079)	(4,712,433)
Tax effect of permanent differences				
Write down (revaluation) of assets	-	4,723,148	-	4,730,648
Other	29,398	(10,715)	29,398	(18,215)
Future tax benefits not brought to account	523,681	-	523,681	-
Income tax expense	-	-	-	-

(b) Potential future tax benefit

The directors estimate future income tax benefits attributable to tax losses to be \$502,710 (calculated at 30%).

The directors have not recognised any potential future income tax benefit as at 30 June 2005 as there is significant uncertainty regarding availability of losses.

Future tax benefits have not been brought to account and will only be obtained if:

- (i) the consolidated entity derives further assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the loss to be realised; or
- (ii) the consolidated entity continues to comply with the conditions of deductibility imposed by law; and
- (iii) no changes in the tax legislations adversely effect the consolidated entity in realising the benefit from the deductions for the losses

	<i>Consolidated</i>		<i>Parent Entity</i>	
	2005	2004	2005	2004
	\$	\$	\$	\$
5. RECEIVABLES				
Trade debtors	-	5,829	-	5,829
Less provision for doubtful debts	-	-	-	-
	-	5,829	-	5,829
Vendor finance provided on disposal of Kondari Resort	11,873	352,411	11,876	352,411
	11,873	358,240	11,876	358,240

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005**

	<i>Consolidated</i>		<i>Parent Entity</i>	
	2005	2004	2005	2004
	\$	\$	\$	\$
6. OTHER CURRENT ASSETS				
Refundable deposit	1,000	-	1,000	-
Deferred expenses	176,466	-	176,466	-
	<u>177,466</u>	<u>-</u>	<u>177,466</u>	<u>-</u>

7. OTHER FINANCIAL ASSETS

Investments are in wholly owned controlled entities as follows:

Name of entity	Country of incorporation	Class of shares	Equity Holding	
			2005	2004
			%	%
NMR Holdings No 1 Pty Ltd	Australia	Ordinary	100	100
NMR Holdings No 2 Pty Ltd	Australia	Ordinary	100	-
Koala Sports Marketing & Management Pty Ltd*	Australia	Ordinary	-	100
Koala Resorts Pty Ltd*	Australia	Ordinary	-	100

* These companies were deregistered during the year

	<i>Parent Entity</i>	
	2005	2004
	\$	\$
NMR Holdings No 1 Pty Ltd	20,260,154	20,260,154
Less provision for diminution in value	(20,260,154)	(20,260,154)
	<u>-</u>	<u>-</u>
Koala Sports Marketing & Management Pty Ltd	-	1
Koala Resorts Pty Ltd	-	1
NMR Holdings No. 2 Pty Ltd	10,000,000	-
	<u>10,000,000</u>	<u>2</u>

Refer to Note 9 for details of the acquisition of NMR Holdings No 2 Pty Ltd



**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005**

7. OTHER FINANCIAL ASSETS (Continued)

	<i>Parent Entity</i>	
	2005	2004
	\$	\$
Carrying amount at start of year	2	15,596,055
Additions	10,000,000	-
Increase in provision for diminution in value	-	(15,596,053)
Companies deregistered	(2)	-
	<hr/>	<hr/>
Carrying amount at end of year	10,000,000	2
	<hr/>	<hr/>

	<i>Consolidated</i>			
	2005	2004		
	\$	\$		
8. PROPERTY, PLANT AND EQUIPMENT				
Computer Equipment				
At cost	33,253	4,764	33,253	4,764
Less accumulated depreciation	7,156	2,112	7,156	2,112
	<hr/>	<hr/>	<hr/>	<hr/>
	26,097	2,652	26,097	2,652
	<hr/>	<hr/>	<hr/>	<hr/>
Office Equipment				
At cost	4,567	1,817	4,567	1,817
Less accumulated depreciation	2,104	1,374	2,104	1,374
	<hr/>	<hr/>	<hr/>	<hr/>
	2,463	443	2,463	443
	<hr/>	<hr/>	<hr/>	<hr/>
Total				
At cost	37,820	6,581	37,820	6,581
Less accumulated depreciation	9,260	3,486	9,260	3,486
	<hr/>	<hr/>	<hr/>	<hr/>
	28,560	3,095	28,560	3,095
	<hr/>	<hr/>	<hr/>	<hr/>

Reconciliations

Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the current and previous financial year are set out below:

	<i>Computer Equipment</i>	<i>Office Equipment</i>	<i>Total</i>
	\$	\$	\$
Consolidated and Parent 2005			
Carrying amount at start of year	2,652	443	3,095
Additions	28,489	2,751	31,239
Depreciation expense	(5,044)	(731)	(5,774)
	<hr/>	<hr/>	<hr/>
Carrying amount at end of year	26,097	2,463	28,560
	<hr/>	<hr/>	<hr/>

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005**

9. INTANGIBLES

	<i>Consolidated</i>		<i>Parent Entity</i>	
	2005	2004	2005	2004
	\$	\$	\$	\$
Patents at cost	10,000,000	38,155,371	-	-
Less accumulated amortisation	-	(5,530,700)	-	-
Less write-down of asset to recoverable amount	-	(10,083,994)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	10,000,000	22,540,677	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Disclosed as follows:				
Current assets	-	22,540,677	-	-
Non-current assets	10,000,000	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	10,000,000	22,540,677	-	-
	<hr/>	<hr/>	<hr/>	<hr/>

On 24 December 2004 the consolidated entity entered into various agreements to unwind the complex arrangements in place over the magnetic resonance intellectual property.

In accordance with the Deed of Put Option dated 15 September 1999, NMR Holdings No1 Pty Ltd (NMR1), a wholly owned subsidiary of Magnetica Limited (Magnetica), exercised a Put Option, at a cost of \$100, and required Flux Industries Pty Ltd (Flux) to subscribe for \$21,748,368 (the subscription amount) in shares in NMR Holdings No2 Pty Ltd (NMR2). The proceeds of the subscription amount were used to settle, in full, the debt owed to National Australia Bank Limited by NMR1 (refer Note 11).

The result of exercising the Put Option was that NMR1 lost control of NMR2 and hence the intellectual property.

On the same date the consolidated entity entered into the "Magnetica Share Issuance Agreement" in which Magnetica acquired all the share capital in NMR2 from Flux for a purchase consideration of \$10,000,000 that was settled by way of issue of 25,000,000 shares at 40 cents each on 5 January 2005. As a result NMR2 now owns 100% of the intellectual property relating to an asymmetric magnetic resonance imaging system and has an option to acquire the rights to the intellectual property relating to compact magnets for use in magnetic resonance systems from UniQuest Pty Ltd.

Fair value of identifiable assets and liabilities of the controlled entity acquired:

	\$
Intellectual property	10,000,000
	<hr/>
Consideration	10,000,000
	<hr/>



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

	<i>Consolidated</i>		<i>Parent Entity</i>	
	2005	2004	2005	2004
	\$	\$	\$	\$
10. PAYABLES				
Trade creditors and accruals	121,074	106,874	121,074	106,873
	<hr/>	<hr/>	<hr/>	<hr/>
11. INTEREST BEARING LIABILITIES				
Unsecured				
Loan – parent entity	-	187,227	-	187,227
Secured				
Bank loan	-	22,540,677	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	-	22,727,904	-	187,227
	<hr/>	<hr/>	<hr/>	<hr/>
Refer Note 9 for details regarding the extinguishment of the bank loan.				
Financing Arrangements				
Unrestricted access was available at balance date to the following lines of credit:				
Credit standby arrangements:				
Multi option facility	-	22,540,677	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
		-		
Used at balance date	-	22,540,677	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Unused at balance date	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005**

	<i>Consolidated</i>		<i>Parent Entity</i>	
	2005	2004	2005	2004
	\$	\$	\$	\$
12. PROVISIONS – EMPLOYEE ENTITLEMENTS				
Disclosed as follows:				
Current	12,697	-	12,697	-
Non-Current	3,041	-	3,041	-
13. CONTRIBUTED EQUITY				
(a) Ordinary shares				
	2005		2004	
	Number of shares	\$	Number of shares	\$
Balance 1 July	165,013,804	32,837,591	165,013,804	32,837,591
Shares Issued and adjustments during year:				
- 15.4:1 consolidation	(154,298,590)	-	-	-
- 15,000,000 shares issued to seed capital investors at 26.667 cents per share	15,000,000	4,000,000	-	-
- Costs associated with seed capital offer	-	(273,852)	-	-
- 25,000,000 shares issued at 40 cents per share as settlement of the acquisition of NMR2 as disclosed in Note 9	25,000,000	10,000,000	-	-
- 2,186,264 share bought back from shareholders at 26.667 cents per share under a share buy-back offer	(2,186,264)	(583,076)	-	-
Balance 30 June	<u>48,528,950</u>	<u>45,980,663</u>	<u>165,013,804</u>	<u>32,837,591</u>

The share transactions were in accordance with the member resolutions passed at the Annual General Meeting held on 23 December 2004.

Share Options:	2005		2004	
	Number of option	\$	Number of options	\$
Balance 1 July	-	-	-	-
Options Issued during year:				
- options issued as part of remuneration	4,400,000	-	-	-
Balance 30 June	<u>4,400,000</u>	<u>-</u>	<u>-</u>	<u>-</u>

Refer to the remuneration report included in the directors report for details of the options issued.



**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005**

	<i>Consolidated</i>		<i>Parent Entity</i>	
	2005	2004	2005	2004
	\$	\$	\$	\$
14. ACCUMULATED LOSSES				
Accumulated losses at the beginning of the financial year	(32,509,888)	(16,801,777)	(32,509,888)	(16,801,777)
Net loss attributable to members of Magnetica Limited	(1,843,595)	(15,708,111)	(1,843,595)	(15,708,111)
	-----	-----	-----	-----
Accumulated losses at the end of the financial year	(34,353,483)	(32,509,888)	(34,353,483)	(32,509,888)
	-----	-----	-----	-----

15. DIRECTORS AND EXECUTIVE REMUNERATION DISCLOSURE

Information about the remuneration of directors and executives which is currently required under Section 300A of the Corporations Act and under Accounting Standard AASB 1046 "Directors and Executives Disclosures by Disclosing Entities" is included in the Remuneration Report within the Director's Report. The Company has taken the relief provided by Corporations Amendments Regulations 2005 (No.4) released on 5 July 2005.

16. REMUNERATION OF AUDITORS

Remuneration of the auditor of the parent entity for: -

(a) Audit or review of the accounts of Magnetica Limited and the accounts of its controlled entities				
- Parent entity	20,000	17,000	20,000	17,000
- Controlled entities	6,250	3,000	-	-
(b) Other services				
- Parent entity	5,825	6,930	5,825	6,930
- Controlled entities	1,150	1,150	-	-
	-----	-----	-----	-----
	33,225	28,080	25,825	23,930
	-----	-----	-----	-----

The auditors received no other benefits.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005**

**17. RECONCILIATION OF CASH FLOW FROM
OPERATING ACTIVITIES TO OPERATING LOSS**

	<i>Consolidated</i>		<i>Parent Entity</i>	
	2005	2004	2005	2004
	\$	\$	\$	\$
Operating loss after income tax	(1,843,595)	(15,708,111)	(1,843,595)	(15,708,111)
Depreciation	5,774	1,914	5,774	1,914
Write down of assets to recoverable amount	-	11,936,506	-	15,619,647
Amortisation	-	2,342,857	-	-
Decrease in trade debtors	5,829	8,433	5,829	8,433
Decrease / (Increase) in other debtors	(1,000)	34,572	(1,000)	(3,000)
Decrease in provision for doubtful debts	-	(11,061)	-	(11,061)
Increase / (Decrease) in trade creditors and accruals	14,200	(263,817)	14,200	(260,817)
Increase / (Decrease) in provisions	15,739	(45,759)	15,739	(45,759)
	<hr/>	<hr/>	<hr/>	<hr/>
Cash outflow from operating activities	(1,803,053)	(1,704,466)	(1,803,053)	(398,754)
	<hr/>	<hr/>	<hr/>	<hr/>

18. CONTINGENT LIABILITIES

The directors are not aware of any significant contingent liabilities at the date of this report.

19. RELATED PARTIES

Related parties of Magnetica Limited fall into the following categories:

(i) Controlled Entities

Information relating to controlled entities is set out in Note 7.

(ii) Transactions with Directors and Director-Related Entities

Directors of the parent entity during the year were:

Howard Stack
David Evans
Philip Dubois
Charles Ho
Andrew Davis
Peter Grogan
Peter Marshall
Richard Anthon

Directors' remuneration is set out in the Remuneration Report within and Directors' Report.

Mr Richard Anthon was a director of the Company until his resignation on 23 December 2004. Mr Anthon is a partner in the firm Hemming & Hart Lawyers. Hemming & Hart were paid \$33,922 for the provision of legal services to the Company from 1 July 2004 to 23 December 2004. The services were based on normal commercial terms and conditions.

Mr Peter Grogan (a director), was a partner in the firm Riley Lawyers until 5 October 2004. Riley Lawyers were paid \$35,574 for the provision of legal services to the Company during the year. The services were based on normal commercial terms and conditions.



**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005**

19. RELATED PARTIES (Continued)

(iii) Controlling Entities

The ultimate parent entity is UniQuest Pty Ltd (2004: Bradley Keeling Management Pty Ltd (in liquidation) (“BKM”).

Aggregate amounts payable to the controlling entity at balance date: -

	<i>Consolidated</i>		<i>Parent Entity</i>	
	2005	2004	2005	2004
	\$	\$	\$	\$
Current payables	-	57,472	-	57,472
Non current payables	-	-	-	-
Current interest bearing liabilities	-	187,227	-	187,227
Non current interest bearing liabilities	-	-	-	-

Aggregate amounts included in the determination of loss from ordinary activities before income tax that resulted from transactions with the controlling entity: -

Borrowing costs (BKM)	14,749	14,390	14,749	14,390
Research expenses – UniQuest	496,687	-	496,687	-
Consultancy fees - UniQuest	219,106	-	219,106	-

20. SEGMENT INFORMATION

The consolidated entity operates in one geographical segment and one business segment being the commercialisation of new and innovative magnetic resonance technology in Queensland, Australia.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005**

21. EARNINGS PER SHARE

	<i>Consolidated</i>	
	2005	2004
Basic earnings per share	(6.33)c	(146.5)c
Diluted earnings per share	(6.33)c	(146.5)c
(a) Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS	29,128,379	10,715,214
Weighted average number of ordinary shares outstanding during the year used in calculation of diluted EPS	29,128,379	10,715,214
Earnings used in the calculation of basic and diluted EPS	(\$1,843,595)	(\$15,708,111)

Earnings per share for 2004 has been restated for the impact of the share consolidation as detailed in Note 13.

(b) Classification of securities

The options on issue were not considered to be potentially diluting shares as the exercise prices of the options are greater than the current (or most recent) market value.

22. EVENTS OCCURRING SUBSEQUENT TO BALANCE DATE

There have been no events since the end of the financial period that impact upon the financial report as at 30 June 2005.

23. FINANCIAL INSTRUMENTS

(a) Credit risk exposures

The credit risk on financial assets of the economic entity which have been recognised on the statement of financial position, other than investments in shares, is generally the carrying amount, net of any provisions for doubtful debts.

(b) Net fair value of financial assets and liabilities

The net fair value of cash and cash equivalents and non-interest bearing monetary financial assets and financial liabilities of the consolidated entity approximates their carrying value.

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

(c) Interest rate risk exposures

The economic entity's exposure to interest rates risk and the effective weighted average interest rate for each class of financial assets and financial liabilities is set out below. Exposures arise predominantly from assets and liabilities bearing variable interest rates as the economic entity intends to hold fixed rate assets and liabilities to maturity.



**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005**

23. FINANCIAL INSTRUMENTS (Continued)

Fixed Interest Maturing in:							
	Note	Weighted Average Interest Rate %	Floating Interest Rate \$	1 Year or Less \$	1-5 Years \$	Non-Interest Bearing \$	Total \$
2005 Consolidated							
Financial Assets:							
Cash		5.15 – 5.40	1,546,093	-	-	-	1,546,093
Receivables	5	10.00	-	11,873	-	-	11,873
			1,546,093	11,873	-	-	1,557,966
Financial Liabilities:							
Payables	10		-	-	-	121,074	121,074
Bank loan	11		-	-	-	-	-
			-	-	-	121,074	121,074
Fixed Interest Maturing in:							
	Note	Weighted Average Interest Rate %	Floating Interest Rate \$	1 Year or Less \$	1-5 Years \$	Non-Interest Bearing \$	Total \$
2004 Consolidated							
Financial Assets:							
Cash		4.75 – 5.15	260,386	-	-	83	260,469
Receivables	5	9.86	-	352,411	-	5,829	358,240
			260,386	352,411	-	5,912	618,709
Financial Liabilities:							
Payables	10		-	-	-	106,874	106,874
Bank loan	11	7.1	22,540,677	-	-	-	22,540,677
Shareholders loan	11	7.7	187,227	-	-	-	187,227
			22,727,904	-	-	106,874	22,834,778

***NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005***

24. IMPACTS OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

Magnetica Ltd is in the process of transitioning its accounting policies and financial reporting from current Australian Accounting Standards (AGAAP) to Australian equivalents of International Financial Reporting Standards (AIFRS) which will be applicable for the financial year ended 30 June 2006. The Company has allocated internal resources and engaged expert consultants to conduct impact assessments to identify key areas that would be affected by the transition to AIFRS. As a result Magnetica Ltd's Audit and Risk Management Committee addressed each of the areas in order of priority. Priority has been given to the preparation of an opening balance sheet in accordance with AIFRS as at 1 July 2004, Magnetica Ltd's transition date to AIFRS. This will form the basis of accounting for AIFRS in the future, and is required when Magnetica prepares its first fully AIFRS compliant financial report for the year ended 30 June 2006.

Set out below are the key areas where accounting policies are expected to change on adoption of AIFRS and our best estimate of the quantitative impact of the changes on total equity as at the date of transition and 30 June 2005 and on net profit for the year ended 30 June 2005.

The figures disclosed are management's best estimates of the quantitative impact of changes as at the date of preparing the 30 June 2005 financial report. The actual effects of transition to AIFRS may differ from the estimates disclosed due to (a) ongoing work being undertaken by the Audit and Risk Management Committee; (b) potential amendments to AIFRSs and Interpretations thereof being issued by the standard-setters and IFRIC; and (c) emerging accepted practice in the interpretation and application of AIFRS and UIG Interpretations.



**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005**

24. **IMPACTS OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS** *continued:*

(a) Reconciliation of equity as presented under AGAAP to that under AIFRS

There were no changes to balances as at the date of transition (1 July 2004).

Changes as at 30 June 2005 are set out below.

	Parent and Consolidated Entity		
	AGAAP 30 June 2005 \$	AIFRS Adjustments \$	AIFRS 30 June 2005 \$
CURRENT ASSETS			
Cash assets	1,546,093	-	1,546,092
Receivables	11,873	-	11,874
Other	177,466	-	177,466
Total Current Assets	1,735,432	-	1,735,432
NON-CURRENT ASSETS			
Property, plant and equipment	28,560	-	28,560
Intangibles	10,000,000	-	10,000,000
Total Non-Current Assets	10,028,560	-	10,028,560
Total Assets	11,763,992	-	11,763,992
CURRENT LIABILITIES			
Payables	121,074	-	121,074
Provisions	12,697	-	12,697
Total Current Liabilities	133,771	-	133,771
NON-CURRENT LIABILITIES			
Provisions	3,041	-	3,041
Total Non-Current Liabilities	3,041	-	3,041
Total Liabilities	136,812	-	136,812
Net Assets	11,627,180	-	11,627,180
SHAREHOLDERS' EQUITY			
Contributed equity	45,980,663	-	45,980,663
Share-based payment reserve	-	357,467	357,467
Accumulated losses	(34,353,483)	(357,467)	(34,710,950)
Total Equity	11,627,180	-	11,627,180

(b) **Reconciliation of net profit under AGAAP to that under AIFRS**

	Parent and Consolidated Entity 2005
	\$
Net (loss) as reported under AGAAP	(1,843,595)
Share-based payment expense	(357,467)
Net profit under AIFRS	<u>(2,201,062)</u>

Under AASB 2 *Share based Payments*, the Company would recognise the fair value of options granted to employees as remuneration as an expense on a pro-rata basis over the vesting period. Share-based payment costs are not recognised under AGAAP. This would result in a decrease in profit from AGAAP to AIFRS.

(c) **Restated AIFRS Statement of Cash Flows for the year ended 30 June 2005**

No material impacts are expected to the cashflows presented under AGAAP on adoption of AIFRS.

(d) **Further key differences**

Further key differences in accounting policy that have arisen or may arise from the adoption of AIFRS are listed below:

Impairment of Assets

The consolidated entity currently determines the recoverable amount of an asset on the basis of undiscounted net cash flows that will be received from the assets use and subsequent disposal. In terms of AASB 136: Impairment of Assets, the recoverable amount of an asset will be determined as the higher of fair value less costs to sell and value in use.

Income Tax

Currently, the consolidated entity adopts the liability method of tax effect accounting whereby the income tax expense is based on the accounting profit adjusted for any permanent differences. Timing differences are currently brought to account either as a provision for deferred income tax or a future income tax benefit where the benefit is virtually certain of being realised. Under AASB 112 the economic entity will be required to adopt a balance sheet approach under which temporary differences are identified for each asset and liability rather than the effects of the timing and permanent differences between taxable income and accounting profit.

Derivative Financial Instruments

The consolidated entity does not currently recognise derivative financial instruments in the financial statements. AASB 139: Financial Instruments: Recognition and Measurement will require a change to the method of accounting for derivative financial instruments and hedging activities so that they are recorded in the financial statements.

Intangible Assets

Under AASB 138: Intangible Assets, internally generated brands may not be capitalised in the statement of financial position, but should be expensed in the period in which they are incurred. In addition costs associated with research must be expensed in the period in which they are incurred.



SHAREHOLDER INFORMATION

Additional information required by the Australian Stock Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 12 September 2005.

(i) Substantial shareholders

No substantial shareholder notices have been received by the Company.

(ii) Voting Rights

Ordinary fully paid shares - On a show of hands, every member present in person or by proxy shall have one vote, and upon a poll, each share shall have one vote.

(iii) Largest shareholders

The 20 largest shareholders are listed below:

	Shares held	% issued
1 Uniquest Pty Limited	25,000,000	51.5%
2 BK Management Pty Ltd (In Liquidation)	4,870,130	10.0%
3 J R Serisier & S A Serisier <De Bouillon Family A/C>	3,982,830	8.2%
4 BK Hospitality Pty Ltd (In Liquidation)	1,616,859	3.3%
5 J P Morgan Nominees Australa Limited	750,000	1.5%
6 Mccauley (QLD) Investments Pty Ltd	600,000	1.2%
7 Booth Creek Management Corporation	501,872	1.0%
8 Beaufort Nominees Pty Ltd <Fund Future Generations A/C>	375,000	0.8%
9 John William De Bomford & Janet De Bomford <JW & De Bomford A/C>	375,000	0.8%
10 De Pasquale Bros Pty Ltd <De Pasquale Family A/C>	375,000	0.8%
11 Farnbrook Pty Ltd & Philip Dubois <Dubois Super Fund A/C>	375,000	0.8%
12 Glen & Richard Graham Equipment Pty Ltd <G&R Graham TSPT CTN SRV A/C>	375,000	0.8%
13 Jam Group Pty Ltd <The Morton Investment A/C>	375,000	0.8%
14 Ross Kenneth Marlow	375,000	0.8%
15 Dr Gary O'Rourke <Garry O'Rourke Super A/C>	375,000	0.8%
16 Old Fletcher & Partners Pty Limited <Fletcher Super Plan A/C>	375,000	0.8%
17 Polvrah Investments Pty Ltd <Stack Family S/fund A/C>	375,000	0.8%
18 Raffaele Pty Ltd <Ralph de Pasquale Family A/C>	375,000	0.8%
19 Vanroy Pty Ltd	375,000	0.8%
20 Vicpas Pty Ltd <Victor de Pasquale Family A/C>	375,000	0.8%
	42,196,691	87.0%
	48,528,950	100.0%

(iv) *Distribution of shareholders*

(a) Analysis of numbers of equity security holders by size of holding:

	Ordinary shares		Options at various exercise prices and expiry dates*	
	Number of holders	Number of shares	Number of holders	Number of options
1 – 1,000	374	48,920	-	-
1,001 – 5,000	35	82,188	-	-
5,001 – 10,000	19	126,722	-	-
10,001 – 100,000	29	1,568,837	-	-
100,001 and over	42	46,702,283	5	4,400,000
Total	499	48,528,950	5	4,400,000

*Note: Please refer to the Remuneration Report within the Director's Report for details of the exercise prices and expiry dates of the options

- (b) The Company's Ordinary Shares have been suspended from trading on the ASX for the entire year ended 30 June 2005 and until the date of this report. It is therefore not possible to calculate the number of holders of less than a marketable parcel of \$500 of ordinary shares.