

*ANNUAL REPORT*  
**FOR THE YEAR ENDED 30 JUNE 2009**

Magnetica Limited  
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**Magnetica Limited & Controlled Entities**

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## **CORPORATE INFORMATION**

### **DIRECTORS**

Howard Stack  
Philip Dubois  
Charles Ho  
Andrew Davis  
Justin Schaffer

### **SECRETARY**

Steve Denaro

### **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**

Link Market Services Limited  
Level 22  
300 Queen Street  
Brisbane QLD 4000

### **REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS**

Level 1, 80 Jephson Street  
Toowong  
QLD 4066  
Telephone: (07) 3327 9875  
Facsimile: (07) 3217 8737



## **REVIEW OF OPERATIONS AND FUTURE DEVELOPMENTS**

The financial year 2008/09 took a very different path to that initially planned by Magnetica. However, by the end of June 2009, the Company had revised its business plan, established commercial production of our first magnet product through our partner Jastec, and was actively seeking new product opportunities with Jastec and other companies.

Much of the year's early commercial work focussed on the complex contractual negotiations required to implement the JV in China. These negotiations became protracted and difficult, and for a number of reasons, including the Global Financial Crisis generally coupled with economic conditions in China, it became clear that a resolution providing a satisfactory outcome for Magnetica's shareholders would not be possible.

Magnetica's Board therefore decided to terminate the Company's involvement in the JV, and after lengthy negotiations, sold its interest in the JV. While the funds received for the sale represented a significant proportion of the cash invested by the company in the JV, it did not compensate us for the support services performed in China. Nevertheless, the agreement enabled Magnetica to move forward, revise its business plan and focus on new product opportunities as well as our first product, the ONI extremity magnet, which was successfully piloted in 2008 and moved into commercial production in early 2009.

A key driver for the JV in China had been to establish a low cost high quality manufacturing capability that could produce the ONI magnet once orders exceeded our partner Jastec's available factory capacity of 50 units per annum. In the first few months of 2009, we held discussions with Jastec and identified a suitable low cost manufacturing partner with some existing superconducting NMR magnet manufacturing experience. This Taiwanese company is an experienced and skilled high quality manufacturer, and with some training will have the capacity to progressively supply components through to full magnets over time, on a contractual basis.

The ONI system incorporating the magnet designed and developed by Jastec and Magnetica was released officially at the Radiological Society of North America (RSNA) conference in Chicago in December 2008. The magnet produces extremely high quality images of human extremities, with no similar products anywhere in the world. Production of this magnet is now profitable and the Company expects to receive its first revenues in April 2010 through a profit share agreement with Jastec.

The strong working relationships with Jastec and particularly The University of Queensland (UQ) continued to deliver benefits, including new product opportunities in both magnets and magnet systems (RF coils and gradients) which the Company is currently actively pursuing. Work continued on the construction and testing of a prototype for a second whole body magnet product in Japan, and Jastec and Magnetica also identified a further product for development that if preliminary feasibility studies are positive, will incorporate the company's proprietary asymmetric technology. The Company is also exploring new opportunities with a Taiwanese manufacturing partner for design and development of magnet systems to a major systems integrator, as well as further magnet design and development opportunities.

Magnetica's Queensland government Smart State R&D grant was completed in early 2009, but the company will continue to leverage investments made through seeking grant funding to support new product development; including for R&D required to demonstrate the feasibility of utilising asymmetric technology in our third product with Jastec.

The company also continued to actively protect its IP through patent applications and continuing progress towards award of existing patent applications for asymmetric and extremity magnet designs in Australia and overseas. These patents and patent applications, combined with our growing background knowledge about magnet manufacture are valuable assets.

On 30 April 2009, the Managing Director and CEO, Dr David Evans resigned from Magnetica Limited. David had been with Magnetica since the relaunch of the Company in 2004, and had played a tireless leadership role in driving the Company forward and establishing the Company and growing partnerships and product opportunities. The Company would like to take this opportunity to publicly thank David for all his efforts and wish him well in the future.

Full details of the Board are provided later in this report.

In summary, over the past 12 months Magnetica has seen its first product go into commercial production and release on the global market, has restructured to a leaner corporate structure, and is continuing to seek to build value for investors through new product opportunities.

Howard Stack  
Chairman



## **DIRECTORS' REPORT**

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

### **DIRECTORS**

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

Howard Stack	
David Evans	Resigned 30 April 2009
Philip Dubois	
Charles Ho	
Andrew Davis	
Justin Schaffer	Appointed 12 July 2008

#### **Howard Stack**

**BA LLB**

**(Non-Executive Chairman from May 2009; non-Executive Director July 2008 – April 2009)**

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

He previously served as a Director of Eastern Corporation Limited (2006 to July 2007; Chairman March-July 2007), Australian National Industries (1987-1997) and Data #3 Limited (Chairman from 1997 until September 2000); as Chairman of Southern Cross Pumps and Irrigation (1996-1997);,Voxson Limited as Chairman (1999-2003); Waratah Coal Inc (2009); and Developed Mining Services Limited (2009-).

Mr Stack had a long and highly successful career as a partner in the Brisbane based commercial law firm Feez Ruthning from 1969, and was its 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).

#### **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 represented his profession on numerous government and craft group committees. He is currently a Vice-President of the Australian Diagnostic Imaging Association (ADIA), a Councillor and the National Radiology Craft Group Representative of the Australian Medical Association (AMA).

#### **Dr Charles P Ho**

**MD PhD (Radiologist)**

**(Non-Executive Director)**

Dr Ho is Co-Medical Director of National Orthopaedic Imaging Associates (NOIA) 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.



## **DIRECTORS' REPORT**

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

Mr Davis is presently General 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 has over 20 years experience in technology venture management and financing, from start-ups to new venture development with Telstra and line management to management consultancy. Mr Davis manages UniQuest's existing MRI technology licenses to GE Medical Systems and Siemens.

He is a director of a number of venture companies, with operations spanning biomedical engineering, manufacturing, and immunotherapy development. He also chairs UniQuest's Patent Committee which has approximately 150 patent families under management.

### **Justin Schaffer BEng(Hons) MBA (Non-Executive Director)**

Justin Schaffer joined the Magnetica Board as a Non-Executive Director in July 2008.

Mr Schaffer has a great depth of business experience internationally, as a Chairman, Executive Director and CEO of numerous large organisations. He is also very familiar with technology start-ups and has founded and run a number of successful high-tech companies.

Early in his career, as a shareholder and CEO he built Duropenta Plastics to become the largest plastics manufacturer in South Africa, with 500 employees and 12,000 tons per annum production. He sold this business to AECI Ltd, a listed public company associated with ICI plc. He remained as CEO under contract and set up a Joint Venture with French and Israeli partners to establish a Drip Irrigation business in Spain and U.S.A.

At the request of AECI Chairman, Harry Oppenheimer, who was also Chairman DeBeers & Anglo American Corp., Mr Schaffer became CEO of South African Nylon Spinners Ltd. Within three years this company had been turned around to be the largest producer of nylon and polyester yarns, fibres and PET polymer in the southern hemisphere and one of the most profitable synthetic fibre businesses in the world. Workforce was reduced from 5,000 to 3,500. Investments were made in new Japan-sourced technology to develop export markets for specialised technologically difficult niche products (e.g. tyre cord, conveyor belt, parachute cord, PET polymer for bottles).

Later in his career Mr Schaffer ran and re-structured the Frame Group, reducing workforce from 25,000 to 18,000 in two years and restoring profitability.

In 1993 Justin and four partners started a new venture, Tracker Network Ltd, a stolen vehicle recovery business using technology from LoJack Corp., USA, a NASDAQ-listed company. Justin and the four partners served as founding, operating Directors. This Company now employs 800 people with sales revenues exceeding A\$500million p.a. After establishment, the founding partners sold 50% of Tracker to a subsidiary of the Rembrandt Group in South Africa, installed professional management and continued to serve as non-executive directors.

Mr Schaffer lives on the Gold Coast and uses his wealth of knowledge and experience to invest and act as Non-Executive Director in a number of high-tech start up companies in South East Queensland.

## **DIRECTORS' REPORT**

### **COMPANY SECRETARY**

The Company Secretary, Peter Willson, resigned on 25 June 2009 and was replaced in November 2009 by Mr Stephen Denaro.

#### **Stephen Denaro CA**

BA, Grad Dip (Corporate Governance), MICAA, MAICD  
(Company Secretary)

Stephen has extensive experience in mergers and acquisitions, business valuations, accountancy services, and income tax compliance gained from positions as Company Secretary and Chief Financial Officer of various public companies, and with major chartered accountancy firms in Australia and the United Kingdom. He provides Company Secretarial services for a number of start up technology companies.

Stephen has a Bachelor of Business in Accountancy, Graduate Diploma in Applied Corporate Governance, and is a member of the Institute of Chartered Accountants in Australia, and the Australian Institute of Company Directors.

### **INTERESTS IN THE SHARES AND OPTIONS OF THE COMPANY**

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

<b>Director</b>	<b>Ordinary Shares</b>	<b>Unlisted options *</b>
Howard Stack	1,000,000	500,000
David Evans (resigned 30 April 2009)	150,000	3,000,000
Philip Dubois	453,125	300,000
Charles Ho	333,305	300,000
Andrew Davis	-	-
Justin Schaffer	5,000,000	-

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

### **SHARE OPTIONS**

#### **Unissued shares**

As at the date of this report (and at the balance date) there were 4,100,000 unissued ordinary shares under options as detailed in the Remuneration Report

#### **Shares issued as a result of the exercise of options**

During the year ended 30 June 2009, 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.

## ***DIRECTORS' REPORT***

### **CORPORATE INFORMATION**

#### **Corporate structure**

Magnetica Limited is a company limited by shares which is incorporated and domiciled in Australia. Magnetica Limited has prepared a consolidated financial report which consolidates its wholly owned subsidiaries NMR Holdings No. 1 Pty Limited, NMR Holdings No. 2 Pty Limited and Magnetica Asia Limited until the latter's sale on 18<sup>th</sup> May 2009.

#### **Nature of operations and principal activities**

The principal activities of the Company during the financial year were to consolidate existing and build new strategic partnerships in order to commercialise the company's initial products aimed at niche and emerging global human magnetic resonance imaging (MRI) markets.

Production of the Company's first product, the ONI extremity magnet, commenced in December 2008 at the Jastec factory in Japan. Production of the magnet has now moved into profit and Magnetica expects to receive its first revenues for this product through a profit share agreement with Jastec in April 2010.

Work also progressed on testing the prototype whole body magnet, Magnetica's second product with Jastec, in Japan.

The Company streamlined its operations following the resignation of Dr David Evans and the exit from the Chinese JV, but continued to actively seek new product opportunities for design and development of turnkey MRI magnets and magnet systems with major clients.

Magnetica further built on its strategic partnerships with Jastec and particularly UQ, but also sought to work with new manufacturing partners in Taiwan.

Magnetica continued to develop and protect new intellectual property through patents with two patents entering national phase and two patents awarded over the year.

#### **Employees**

As at 30 June 2009, the Company employed 2 full-time employees (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 to 30 June 2009 the Company issued 6,445,312 shares at 32 cents per share.

#### **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 2009, the loss from ordinary activities for the consolidated entity after providing for income tax was \$1,653,718 (2008: \$2,502,824).

### **DIVIDENDS PAID OR RECOMMENDED**

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



## **DIRECTORS' REPORT**

### **SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS**

Comments regarding any significant changes in the state of affairs of the Company have been discussed 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 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 were no significant events after balance date.

### **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.

### **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		Remuneration and Nomination committee	
	Number of meetings held while in office	Meetings attended	Number of meetings held while in office	Meetings attended	Number of meetings held while in office	Meetings attended
Howard Stack	11	9	2	2	-	-
Justin Schaffer	7	7	n/a	n/a	n/a	n/a
David Evans	11	11	n/a	n/a	-	-
Philip Dubois	11	8	2	2	-	-
Charles Ho	11	8	n/a	n/a	n/a	n/a
Andrew Davis	11	11	2	2	-	-

## **DIRECTORS' REPORT**

### **REMUNERATION REPORT**

The remuneration report is set out under the following main headings: -

- A. Remuneration Policy
- B. Principles of compensation
- C. Employment contracts
- D. Details of Remuneration
- E. Other information

#### **A. Remuneration Policy (Unaudited)**

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 agreed to establish a Remuneration and Nomination Committee in June 2006. The Remuneration and Nomination Committee is responsible for determining and reviewing compensation arrangements for the Directors and the Executive team, including the in-house technical team.

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.

With the exception of Justin Schaffer, the majority of the current Board and senior executive team were appointed in December 2004. As such the Company has a broad remuneration policy that is evolving as the Company progresses its planned restructure and the re-listing of the Company's shares on a public stock exchange. 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:

- performance based salary increases and/or bonuses; and
- 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.

#### **B. Principles of Compensation (Audited)**

##### **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 calibre, whilst incurring a cost which is acceptable to shareholders.

The Constitution of the Company 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 plus statutory superannuation. 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, three of the Company's Non-Executive Directors have been granted (unlisted) options in the Company. Details of these options are set out in Section D of the Remuneration Report.

## **DIRECTORS' REPORT**

The remuneration of Non-Executive Directors for the year ended 30 June 2009 is detailed below in Section D.

### **Executive Director and Senior Management remuneration**

The Company aims to reward 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 Senior Management is fixed by the Remuneration and Nomination Committee. As noted above, the remuneration comprises a fixed remuneration component which may include offering specific short and long-term incentives, in the form of:

- performance based salary increases and/or bonuses; and/or
- the issue of options

The remuneration of the Senior Management for the year ended 30 June 2009 is detailed in Section D below.

### **C. Employment Contracts (Audited)**

#### *Managing Director*

The Executive Services Agreement with the Managing Director was recinded by agreement in April 2009.

No new Managing Director has been appointed, and the Company's operations are presently managed by Ms Nicky Milsom, General Manager, reporting to the Chairman and Board.

#### *Senior Management*

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

<b>Event</b>	<b>Company policy</b>
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 (e.g. 'golden handshakes')	None

## DIRECTORS' REPORT

### D. Details of Remuneration (Audited)

#### Details of Key Management Personnel

##### (a) Details of Directors

Howard Stack - Non-Executive Chairman  
 David Evans - Managing Director and Chief Executive Officer (resigned 30 April 2009)  
 Philip Dubois - Non-Executive Director  
 Charles Ho - Non-Executive Director  
 Andrew Davis - Non-Executive Director  
 Justin Schaffer - Non-Executive Director (appointed 12 July 2008)

##### (b) Details of Other Key Management Personnel

Peter Willson                                      Company secretary and Chief Financial Officer (resigned 25 June 2009)  
 Huawei Zhao                                      Manager, Research, New Products & Innovation (resigned 12 January 2009)  
 Nicky Milsom                                      Deputy CEO and Manager, Commercialisation

Other key management personnel also include the most highly paid executive officers of the parent and consolidated entity for the year ended 30 June 2009 and 30 June 2008.

#### Remuneration of Key Management Personnel

30 June 2009	Short term employee benefits			Post-employment	Share-based payments	Total \$
	Salary & Fees \$	Cash Bonus \$	Non-cash Benefits \$	Superannuation \$	Options \$	
<b>Directors</b>						
Howard Stack	-	-	-	-	-	-
David Evans	153,846	-	-	13,846	-	167,692
Philip Dubois	-	-	-	-	-	-
Charles Ho	-	-	-	-	-	-
Justin Schaffer	-	-	-	-	-	-
Andrew Davis	-	-	-	-	-	-
<b>Total</b>	153,846	-	-	13,846	-	167,692

30 June 2008	Short term employee benefits			Post-employment	Share-based payments	Total \$
	Salary & Fees \$	Cash Bonus \$	Non-cash Benefits \$	Superannuation \$	Options \$	
<b>Directors</b>						
Howard Stack	-	-	-	-	-	-
David Evans	200,000	-	-	18,000	-	218,000
Philip Dubois	-	-	-	-	-	-
Charles Ho	-	-	-	-	-	-
Andrew Davis	-	-	-	-	-	-
<b>Total</b>	200,000	-	-	18,000	-	218,000

During the 2006 financial year the directors resolved to stop accruing directors fees in respect of Howard Stack, Philip Dubois and Charles Ho and Justin Schaffer. In the future the directors may take into consideration past services performed by directors when recommending future remuneration policies.

## DIRECTORS' REPORT

30 June 2009	Short term employee benefits			Post-employment	Share-based payments	Total \$
Other key management personnel	Salary & Fees \$	Cash Bonus \$	Non-cash Benefits \$	Superannuation \$	Options \$	
Nicky Milsom	136,909	-	-	12,322	-	149,231
Peter Wilson	57,000	-	-	-	-	57,000
Huawei Zhao	125,670	-	-	11,310	-	136,980
<b>Total</b>	<b>319,579</b>	<b>-</b>	<b>-</b>	<b>23,632</b>	<b>-</b>	<b>343,211</b>

30 June 2008	Short term employee benefits			Post-employment	Share-based payments	Total \$
Other key management personnel	Salary & Fees \$	Cash Bonus \$	Non-cash Benefits \$	Superannuation \$	Options \$	
Nicky Milsom	121,295	-	-	10,917	-	132,212
Peter Wilson	65,250	-	-	-	-	65,250
Huawei Zhao	168,555	20,000	-	15,170	-	203,725
<b>Total</b>	<b>355,100</b>	<b>20,000</b>	<b>-</b>	<b>26,087</b>	<b>-</b>	<b>401,187</b>

### Options issued as part of remuneration

No options were granted to key management personnel during the year (2008: Nil).

### Shares issued on exercise of remuneration options

No remuneration options were exercised during the year (2008: Nil).

### E. Other information (Audited)

There were no loans provided to key management personnel during the current and prior financial years.

### NON-AUDIT SERVICES

The board of directors, in accordance with advice from the audit committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the audit committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code Of Ethics for Professional Accountants set by the Accounting Professional and Ethics Board.

The following fees for non-audit services were paid or were payable to the external auditors during the year ended 30 June 2009:

- taxation services \$5,500

### AUDITOR'S INDEPENDENCE DECLARATION

The Auditor's Independence Declaration forms part of the Director's Report and can be found on page 14 of the Annual Report.

Signed in Brisbane this                      day of November 2009 in accordance with a resolution of the directors.

Howard Stack  
Chairman





**Principals**  
Andrew J Cranstoun  
John Feddema  
Masood Ayooob  
Junaide A Latif  
Paul A Copeland  
Julie Smith

**Consultants**  
David J Cranstoun  
Yusuf Hussein

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Our Ref

Your Ref

Date

## Cranstoun & Hussein

Chartered Accountants & Business Advisers



A member of KS International  
An Association of Independent  
Accountants throughout the World

The Directors  
Magnetica Limited  
Level 1 80 Jephson St  
TOOWONG QLD 4066

### Auditor's Independence Declaration

As lead auditor for the audit of Magnetica Limited for the year ended 30 June 2009, I declare that, to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) no contraventions 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.

CRANSTOUN & HUSSEIN  
Chartered Accountants

J A Latif  
A Member of the Firm

Brisbane,

2009

Liability limited by a scheme approved under Professional Standards Legislation





**Principals**  
Andrew J Cranstoun  
John Feddema  
Masood Ayooob  
Junaide A Latif  
Paul A Copeland  
Julie Smith

**Consultants**  
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Yusuf Hussein

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## Cranstoun & Hussein

Chartered Accountants & Business Advisers

Our Ref

Your Ref

Date



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Accountants throughout the World

### Independent Auditor's Report

To the members of Magnetica Limited

#### Report on the Financial Report

We have audited the accompanying financial report of Magnetica Limited (the company) and Magnetica Limited and Controlled Entities (the consolidated entity), which comprises the balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the director's declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

#### *Directors' Responsibility for the Financial Report*

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

#### *Auditor's Responsibility*

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

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

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

#### *Independence*

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

Liability limited by a scheme approved under Professional Standards Legislation



#### *Auditor's Opinion*

In our opinion:

- a. the financial report of Magnetica Limited and Magnetica Limited and Controlled Entities is in accordance with 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 2009 and of their performance for the year ended on that date; and
  - ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
- b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

#### **Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 10 to 13 of the directors' report for the year ended 30 June 2009. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

#### Auditor's Opinion

In our opinion the Remuneration Report of Magnetica Limited for the year ended 30 June 2009, complies with section 300A of the *Corporations Act 2001*.

CRANSTOUN & HUSSEIN  
Chartered Accountants

J A Latif  
A Member of the Firm

Brisbane,

2009

## Directors' Declaration

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The directors of the company declare that:

1. the financial statements and notes, as set out on pages 18 to 37, are in accordance with the Corporations Act 2001 and:
  - a. comply with Accounting Standards and the Corporations Regulations 2001; and
  - b. give a true and fair view of the financial position as at 30 June 2009 and of the performance for the year ended on that date of the company and consolidated entity;
2. in the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
3. the audited remuneration disclosures that are contained on pages 10 to 13 of the directors report comply with Section 300A of the Corporations Act 2001.

Signed at Brisbane this                      day of November 2009 in accordance with a resolution of the directors.

Howard Stack  
Chairman

## Income Statements

For the year ended 30 June 2009

	Notes	Consolidated		Parent Entity	
		2009 \$	2008 \$	2009 \$	2008 \$
Revenue	2	1,407,025	313,581	1,407,007	313,581
Finance costs		-	-	-	-
Expenses	3	(3,060,743)	(2,816,405)	(3,060,725)	(2,816,405)
Loss before income tax		(1,653,718)	(2,502,824)	(1,653,718)	(2,502,824)
Income tax expense	4	-	-	-	-
<b>Loss attributable to members of Magnetica Limited</b>		<b>(1,653,718)</b>	<b>(2,502,824)</b>	<b>(1,653,718)</b>	<b>(2,502,824)</b>
<i>The above income statements should be read in conjunction with the accompanying notes.</i>					

## Balance Sheets

As at 30 June 2009

	Notes	Consolidated		Parent Entity	
		2009 \$	2008 \$	2009 \$	2008 \$
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	20	589,495	614,742	589,494	614,741
Trade and other receivables	5	-	7,562	-	7,562
Other current assets	6	24,203	28,942	24,203	28,942
<b>TOTAL CURRENT ASSETS</b>		<b>613,698</b>	<b>651,246</b>	<b>613,697</b>	<b>651,245</b>
<b>NON-CURRENT ASSETS</b>					
Other financial assets	7	-	-	-	1
Property, plant and equipment	8	19,861	32,241	19,861	32,241
Intangible assets	9	224,950	-	224,950	-
<b>TOTAL NON-CURRENT ASSETS</b>		<b>244,811</b>	<b>32,241</b>	<b>244,811</b>	<b>32,242</b>
<b>TOTAL ASSETS</b>		<b>858,509</b>	<b>683,487</b>	<b>858,508</b>	<b>683,487</b>
<b>CURRENT LIABILITIES</b>					
Trade and other payables	10	562,670	882,530	562,669	882,530
<b>TOTAL CURRENT LIABILITIES</b>		<b>562,670</b>	<b>882,530</b>	<b>562,669</b>	<b>882,530</b>
<b>NON-CURRENT LIABILITIES</b>					
Loans from related parties	17	100,000	-	100,000	-
Long term provisions	11	15,513	29,413	15,513	29,413
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>115,513</b>	<b>29,413</b>	<b>115,513</b>	<b>29,413</b>
<b>TOTAL LIABILITIES</b>		<b>678,183</b>	<b>911,943</b>	<b>678,182</b>	<b>911,943</b>
<b>NET ASSETS</b>		<b>180,326</b>	<b>(228,456)</b>	<b>180,326</b>	<b>(228,456)</b>
<b>EQUITY</b>					
Issued capital	12	52,435,396	50,372,896	52,435,396	50,372,896
Reserves	13	473,867	473,867	473,867	473,867
Accumulated losses		(52,728,937)	(51,075,219)	(52,728,937)	(51,075,219)
<b>TOTAL EQUITY</b>		<b>180,326</b>	<b>(228,456)</b>	<b>180,326</b>	<b>(228,456)</b>
<i>The above balance sheets should be read in conjunction with the accompanying notes.</i>					

# Statements of Changes in Equity

For the year ended 30 June 2009

Consolidated	Share Capital		Reserves	Accumulated Losses	Total
	Ordinary \$	Share option reserve \$		\$	\$
<b>Balance at 30 June 2007</b>	48,351,456		473,867	(48,572,395)	252,928
Shares issued during the year	2,120,000		-	-	2,120,000
Share issue costs	(98,560)		-	-	(98,560)
Net loss attributable to members of the company	-		-	(2,502,824)	(2,502,824)
<b>Balance at 30 June 2008</b>	50,372,896		473,867	(51,075,219)	(228,456)
Shares issued during the year	2,062,500		-	-	2,062,500
Net loss attributable to members of the company	-		-	(1,653,718)	(1,653,718)
<b>Balance at 30 June 2009</b>	52,435,396		473,867	(52,728,937)	180,326

Parent Entity	Share Capital		Reserves	Accumulated Losses	Total
	Ordinary \$	Share option reserve \$		\$	\$
<b>Balance at 30 June 2007</b>	48,351,456		473,867	(48,572,395)	252,928
Shares issued during the year	2,120,000		-	-	2,120,000
Share issue costs	(98,560)		-	-	(98,560)
Net loss attributable to members of the company	-		-	(2,502,824)	(2,502,824)
<b>Balance at 30 June 2008</b>	50,372,896		473,867	(51,075,219)	(228,456)
Shares issued during the year	2,062,500		-	-	2,062,500
Net loss attributable to members of the company	-		-	(1,653,718)	(1,653,718)
<b>Balance at 30 June 2009</b>	52,435,396		473,867	(52,728,937)	180,326

*The above statements of changes in equity should be read in conjunction with the accompanying notes.*

## Cash Flow Statements

For the year ended 30 June 2009

	Inflows (Outflows) Consolidated		Inflows (Outflows) Parent Entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
<b>Cash flows from operating activities</b>				
Receipts from customers	566,181	698,696	566,181	698,696
Payments to suppliers and employees	(2,106,248)	(2,737,652)	(2,106,230)	(2,737,652)
Interest received	15,764	38,533	15,746	38,533
<b>Net cash used in operating activities (Note 21)</b>	<b>(1,524,303)</b>	<b>(2,000,423)</b>	<b>(1,524,303)</b>	<b>(2,000,423)</b>
<b>Cash flows from investing activities</b>				
Payment for intangible assets	(224,950)	-	(224,950)	-
Payment for property, plant and equipment	-	(38,882)	-	(38,882)
Investment in NMST	(1,344,394)	-	-	-
Investment in controlled entity	-	-	(1,344,394)	(1)
Proceeds on disposal of investment in NMST	905,900	-	-	-
Proceeds on disposal of controlled entity	-	-	905,900	-
<b>Net cash used in investing activities</b>	<b>(663,444)</b>	<b>(38,882)</b>	<b>(663,444)</b>	<b>(38,883)</b>
<b>Cash flows from financing activities</b>				
Proceeds from issue of shares	2,062,500	2,120,000	2,062,500	2,120,000
Proceeds from related party loans	100,000	-	100,000	-
Share issue costs	-	(98,560)	-	(98,560)
<b>Net cash provided by financing activities</b>	<b>2,162,500</b>	<b>2,021,440</b>	<b>2,162,500</b>	<b>2,021,440</b>
Net decrease in cash held	(25,247)	(17,865)	(25,247)	(17,866)
Cash at the beginning of the financial year	614,742	632,607	614,741	632,607
<b>Cash at the end of the financial year (Note 20)</b>	<b>589,495</b>	<b>614,742</b>	<b>589,494</b>	<b>614,741</b>
<i>The above cash flow statements should be read in conjunction with the accompanying notes.</i>				

# Notes to and Forming Part of the Financial Statements

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## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The financial report covers the consolidated entity of Magnetica Limited and controlled entities, and Magnetica Limited as an individual parent entity. Magnetica Limited is a public company, incorporated and domiciled in Australia.

The financial report of Magnetica Limited and controlled entities, and Magnetica Limited as an individual parent entity comply with all International Financial Reporting Standards (IFRS) in their entirety.

The following is a summary of the material accounting policies adopted by the consolidated entity in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

### **Reporting Basis and Conventions**

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

### **Accounting Policies**

#### **(a) Principles of consolidation**

The consolidated accounts incorporate the assets and liabilities of all entities controlled by Magnetica Limited ("parent entity") as at 30 June 2009 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. The effects of all transactions between entities in the consolidated entity are eliminated in full.

#### **(b) Goods and services tax**

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

Cash flows are included in the cash flow statement on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

#### **(c) Going Concern**

The company has continued to incur operating losses of \$1,653,718 (2008 \$2,502,824) and had net cash outflows from operating activities of \$1,524,303 (\$2008 \$2,000,423). This gives rise to uncertainty as to whether the company can continue as a going concern and, therefore, whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

Notwithstanding the above the financial statements have been prepared on a going concern basis which contemplates continuity of normal business activities and the realisation of assets and settlements of liabilities in the ordinary course of business due to the following:

- Existing cash reserves;
- The directors expect to raise additional share capital;
- The directors will continue to manage operational cash flow requirements to meet existing business and associated obligations;
- The directors expect commercialisation of the company's intellectual property to produce sufficient cash inflows; and
- The continued financial support from shareholders to help meet ongoing financial obligations.

The directors consider this will provide sufficient working capital for at least the next twelve months from the date of this report.

# Notes to and Forming Part of the Financial Statements

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (d) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

#### *Sale of Goods*

Control of the goods has passed to the buyer.

#### *Interest*

Control of the right to receive the interest payment.

#### *Sale of non-current assets*

The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal. Any gain is recognised as other income and any loss as an expense.

### (e) Property, plant and equipment

Plant and equipment are measured on the cost basis less depreciation and impairment losses.

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

#### *Depreciation*

Depreciation is calculated so as to write off the net cost of each item of property, plant and equipment over its useful life. Additions are depreciated from the date they are installed ready for use.

The principal rates of depreciation in use are:-

Plant and equipment	33.33%
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### (f) Impairment

At each reporting date, the consolidated entity reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Impairment testing is performed annually for goodwill, intangible assets with indefinite lives and intangible assets not yet available for use.

Where it is not possible to estimate the recoverable amount of an individual asset, the consolidated entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

### (g) Income tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or non-allowable items. It is calculated using tax rates that have been enacted or are substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is charged in the income statement except where it relates to items that may be charged directly to equity, in which case the deferred tax is adjusted directly against equity.

# Notes to and Forming Part of the Financial Statements

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- (g) Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be claimed. The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income tax legislation and the anticipation that the consolidated entity and its constituent member entities as applicable, will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Magnetica Limited and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. Each entity in the group recognises its own current and deferred tax liabilities, except for any deferred tax liabilities resulting from unused tax losses and tax credits, which are immediately assumed by the parent entity. The current tax liability of each group entity is then subsequently assumed by the parent entity. The group notified the Australian Tax Office that it had formed an income tax consolidated group to apply from 23 December 2004. The tax consolidated group has entered into a tax sharing agreement whereby each company in the group contributes to the income tax payable in proportion to their contribution to the net profit before tax of the tax consolidated group.

### (h) Financial instruments

#### *Recognition*

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below:

#### *Financial assets at fair value through profit and loss*

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term, or if so designated by management and within the requirement of AASB139: Financial Instruments: Recognition and Measurement. Derivatives are also categorised as held for trading unless they are designated as hedges. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the income statement in the period in which they arise.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

#### *Held-to-maturity investments*

These investments have fixed maturities, and it is the consolidated entity's intention to hold these investments to maturity. Any held-to-maturity investments held by the consolidated entity are stated at amortised cost using the effective interest rate method.

#### *Available-for-sale financial assets*

Available-for-sale financial assets include any financial assets not included in the above categories. Available-for-sale financial assets are reflected at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to equity.

#### *Financial liabilities*

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

#### *Derivative instruments*

Derivative instruments are measured at fair value. Gains and losses arising from changes in fair value are taken to the income statement unless they are designated as hedges.

#### *Fair value*

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

#### *Impairment*

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

# Notes to and Forming Part of the Financial Statements

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (i) Foreign currency

#### *Functional and presentation currency*

The functional currency of each of the members of the consolidated entity is measured using the currency of the primary economic environment in which that member entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

#### *Transactions and balances*

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair value was determined.

Exchange differences arising on the translation of monetary items are recognised in the income statement, except where deferred in equity as a qualifying cash flow or net investment hedge. Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the income statement.

### (j) Employee benefits

#### *Wages, salaries and annual leave*

Liabilities for wages, salaries and annual leave are recognised, and are measured as the amount unpaid at the reporting date at current pay rates in respect of employees' services up to that date. Where annual leave is not expected to be taken within twelve (12) months, the expected future payments are discounted using interest rates attaching, as at the reporting date, to national government guaranteed securities with terms to maturity that match, as closely as possible, the estimated future cash outflows.

#### *Long Service Leave*

A liability for long service leave is recognised, and is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using interest rates attaching, as at the reporting date, to national government guaranteed securities with terms to maturity that match, as closely as possible, the estimated future cash outflows.

#### *Equity-settled compensation*

The consolidated entity operates a share option arrangement with its directors. The bonus element over the exercise price of the director services rendered in exchange for the grant of shares and options is recognised as an expense in the income statement. The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares and options granted.

### (k) Provisions

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

### (l) Intangible assets

#### *Intellectual property*

Intellectual property is recorded in the accounts at acquisition cost less accumulated impairment losses. Intellectual property costs, having a benefit or relationship to more than one accounting period, are deferred and amortised to the income statement using the straight line method of calculation over the period of time during which the benefits are expected to arise, but not exceeding twenty years.

Carrying values are assessed at each balance date for impairment and any write down included in the income statement in the period determined.

# Notes to and Forming Part of the Financial Statements

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## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### *Research and development*

Expenditure during the research phase of the project is recognised as an expense when incurred. Development costs are capitalised only when technically feasible studies identify that the project will deliver future economic benefits and these benefits can be measured reliably. Development costs have a finite life and are amortised on a systematic basis matched to the future economic benefits over the useful life of the project.

### *Patents and trademark expenditure*

All patent and trademark expenditure is expensed as incurred. Patent and trademark expenditure is capitalised only when technically feasible studies identify that the intellectual property to which they relate will deliver future economic benefits and those benefits can be measured reliably.

### (m) **Government grants**

Government grants are recognised at fair value where there is reasonable assurance that the grant will be received and all grant conditions will be met.

Grants relating to expense items are recognised as income over the periods necessary to match the grant to the costs they are compensating.

Grants relating to assets are credited to deferred income at fair value and are credited to income over the expected useful life of the asset on a straight-line basis.

### (n) **Cash and cash equivalents**

For the purpose of the cash flow statements, cash includes cash on hand and in banks, and other short-term highly liquid investments with original maturities of three months or less, net of outstanding bank overdrafts.

Bank overdrafts are carried at the principal amount within short-term borrowings in current liabilities on the balance sheet.

### (o) **Comparatives**

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

## **Critical Accounting Estimates and Judgements**

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

There are no estimates or judgements which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

## Notes to and Forming Part of the Financial Statements

	Consolidated		Parent Entity	
	2009 \$	2008 \$	2009 \$	2008 \$
<b>2. REVENUE</b>				
NMST cost recoveries	894,795	-	894,795	-
Interest received	15,764	38,533	15,746	38,533
Grants received	161,868	275,048	161,868	275,048
Foreign exchange gains	331,222	-	331,222	-
Other income	3,376	-	3,376	-
	<b>1,407,025</b>	<b>313,581</b>	<b>1,407,007</b>	<b>313,581</b>
<b>3. EXPENSES</b>				
Consultancy – Uniquest Pty Ltd	75,100	145,000	75,100	145,000
– Other	154,395	241,616	154,395	241,616
Travel	338,130	539,308	338,130	539,308
Employee benefits expense	741,449	764,296	741,449	764,296
Research expenses	-	250,273	-	250,273
Capital raising and restructure costs	-	339,174	-	339,174
Operating lease rentals	77,894	67,211	77,894	67,211
Depreciation	12,380	18,349	12,380	18,349
Amortisation	-	812	-	812
Provision for impaired debts	582,608	-	582,608	-
Loss on disposal of investment in NMST	438,494	-	-	-
Loss on disposal of Magnetica Asia Limited	-	-	438,494	-
Other	640,293	450,366	640,275	450,366
	<b>3,060,743</b>	<b>2,816,405</b>	<b>3,060,725</b>	<b>2,816,405</b>
<b>4. INCOME TAX</b>				
<b>a) Numerical reconciliation of income tax expense to prima facie tax payable</b>				
Loss before income tax expense	(1,653,718)	(2,502,824)	(1,653,718)	(2,502,824)
Tax at the Australian rate tax of 30% (2008 – 30%)	(496,115)	(750,847)	(496,115)	(750,847)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
- Legal Costs	36,160	-	36,160	-
	(459,955)	(750,847)	(459,955)	(750,847)
Deferred tax assets not recognised	459,955	750,847	459,955	750,847
Income tax expense	-	-	-	-
<b>b) Tax losses</b>				
Unused tax losses for which no deferred tax asset has been recognised	28,414,331	27,954,376	28,414,331	27,954,376
Potential tax benefit @ 30%	8,524,299	8,386,313	8,524,299	8,386,313

Realisation of the potential tax benefit shall depend upon:

- the ability of the consolidated entity to derive future assessable income of a nature and of sufficient amount to enable the benefit to be realised;
- the ability of the consolidated entity to continue to comply with the conditions for deductibility imposed by law; and
- an expectation that legislation will not change in a manner which would adversely affect the consolidated entity's ability to realise the benefit.

## Notes to and Forming Part of the Financial Statements

	Consolidated		Parent Entity	
	2009 \$	2008 \$	2009 \$	2008 \$
<b>5. CURRENT ASSETS – TRADE AND OTHER RECEIVABLES</b>				
Trade debtors	-	7,562	-	7,562
<b>6. OTHER CURRENT ASSETS</b>				
Refundable deposits	1,515	9,031	1,515	9,031
Prepayments	22,688	19,911	22,688	19,911
	<b>24,203</b>	<b>28,942</b>	<b>24,203</b>	<b>28,942</b>
<b>7. OTHER FINANCIAL ASSETS</b>				
Other financial assets comprise of available-for-sale financial assets. Available-for-sale financial assets comprise investments in the ordinary issued capital of various entities. There are no fixed returns or fixed maturing dates attached to these investments. The fair value of unlisted available-for-sale financial assets cannot be reliably measured as variability in the range of fair value estimates is significant. As a result all unlisted investments are reflected at cost less accumulated impairment losses.				
(a) Available-for-sale financial assets included in the financial statements comprise:				
<b>Shares in controlled entities (note 7 (b))</b>	-	-	-	1

(b) Investment in the controlled entities are unlisted and comprise:-

	Country of Incorporation	Class of Share	2009 % holding	2008 % holding	Equity Holding	
					2009 \$	2008 \$
<b>NMR Holdings No. 1 Pty Ltd</b>	Australia	Ordinary	100%	100%		
At cost					20,250,154	20,250,154
Less impairment provision					(20,250,154)	(20,250,154)
					-	-
<b>NMR Holdings No. 2 Pty Ltd</b>	Australia	Ordinary	100%	100%		
At cost					10,000,000	10,000,000
Less impairment provision					(10,000,000)	(10,000,000)
					-	-
<b>Magnetica Asia Limited *</b>	Hong Kong	Ordinary	-	100%		
At Cost					-	1
<b>Total carrying value</b>					<b>-</b>	<b>1</b>

\* Refer Note 25



## Notes to and Forming Part of the Financial Statements

	Consolidated		Parent Entity	
	2009 \$	2008 \$	2009 \$	2008 \$
<b>8. PROPERTY, PLANT AND EQUIPMENT</b>				
<b>Plant and equipment</b>				
Cost	72,765	72,765	72,765	72,765
Less: Accumulated depreciation	(52,904)	(40,524)	(52,904)	(40,524)
<b>Total plant and equipment</b>	<b>19,861</b>	<b>32,241</b>	<b>19,861</b>	<b>32,241</b>
<b>Reconciliations</b>				
Reconciliations of the movements in carrying amounts for each class of property, plant and equipment are set out below:				
<b>Plant and equipment</b>				
Carrying amount at beginning of year	32,241	11,708	32,241	11,708
Additions	-	38,882	-	38,882
Depreciation	(12,380)	(18,349)	(12,380)	(18,349)
<b>Carrying amount at end of year</b>	<b>19,861</b>	<b>32,241</b>	<b>19,861</b>	<b>32,241</b>
<b>9. INTANGIBLE ASSETS</b>				
<b>Computer software</b>				
At cost	34,258	34,258	34,258	34,258
Less: Accumulated amortisation	(34,258)	(34,258)	(34,258)	(34,258)
<b>Total computer software</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Patents</b>				
At cost	10,000,000	10,000,000	10,000,000	10,000,000
Less: Accumulated impairment losses	(10,000,000)	(10,000,000)	(10,000,000)	(10,000,000)
<b>Total patents</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Development costs</b>				
- Pilot magnets at cost	224,950	-	224,950	-
<b>Total development costs</b>	<b>224,950</b>	<b>-</b>	<b>224,950</b>	<b>-</b>
<b>Total intangible assets</b>	<b>224,950</b>	<b>-</b>	<b>224,950</b>	<b>-</b>
<b>Reconciliations</b>				
<b>Computer software</b>				
Carrying amount at beginning of year	-	812	-	812
Additions	224,950	-	224,950	-
Amortisation	-	(812)	-	(812)
<b>Carrying amount at end of year</b>	<b>224,950</b>	<b>-</b>	<b>224,950</b>	<b>-</b>

## Notes to and Forming Part of the Financial Statements

	Consolidated		Parent Entity	
	2009 \$	2008 \$	2009 \$	2008 \$
<b>10. TRADE AND OTHER PAYABLES</b>				
<i>Unsecured</i>				
Trade creditors – Uniquest Pty Limited	398,706	411,956	398,706	411,956
– Other	100,324	396,152	100,323	396,152
Employee entitlements	63,640	74,422	63,640	74,422
	<b>562,670</b>	<b>882,530</b>	<b>562,670</b>	<b>882,530</b>
<b>11. LONG TERM PROVISIONS</b>				
Employee entitlements	<b>15,513</b>	29,413	<b>15,513</b>	29,413

	Parent Entity	
	No. of Shares	2009 \$
<b>12. ISSUED CAPITAL</b>		
<b>(a) Ordinary shares</b>		
Balance 1 July 2008	<b>63,268,325</b>	<b>50,372,896</b>
Shares issued during the year: -		
18 July 2008 at 32 cents per share	468,750	150,000
25 July 2008 at 32 cents per share	937,500	300,000
31 July 2008 at 32 cents per share	625,000	200,000
4 August 2008 at 32 cents per share	312,500	100,000
5 August 2008 at 32 cents per share	312,500	100,000
8 August 2008 at 32 cents per share	312,500	100,000
15 August 2008 at 32 cents per share	781,250	250,000
29 September 2008 at 32 cents per share	1,796,875	575,000
14 November 2008 at 32 cents per share	898,437	287,500
Balance 30 June 2009	<b>69,713,637</b>	<b>52,435,396</b>
	No. of Options	2009 \$
<b>(b) Options</b>		
Balance 1 July 2008	4,100,000	<b>473,867</b>
Options lapsed	-	-
Balance 30 June 2009	<b>4,100,000</b>	<b>473,867</b>
Details of the share options are included in Note 14 Share-Based Payments.		

### 13. RESERVES

Nature and purpose of reserve

#### Share Option Reserve

The reserve records items recognised as expenses on valuation of employee and director share options.

## Notes to and Forming Part of the Financial Statements

### 14. SHARE-BASED PAYMENTS

The following share-based arrangements existed at 30 June 2009.

In 2005 options were granted as equity compensation benefits to certain directors. The options were issued at no cost. 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.

No options were granted during the current financial year (2008: Nil).

Set out below are summaries of options granted to directors, the details of which are disclosed in note 23.

#### Parent and Consolidated entity

Grant Date	First Exercise Date	Last Exercise Date	Exercise Price per share	Balance at 30 June 2009	Balance at 30 June 2008
20-May-05	20-May-05	20-May-10	\$0.50	366,666	366,666
20-May-05	20-May-05	20-May-10	\$0.60	366,667	366,667
20-May-05	20-May-05	20-May-10	\$0.80	366,667	366,667
20-May-05	Relisting date	Relisting date+3yr	\$0.50	1,000,000	1,000,000
20-May-05	Relisting date+1yr	Relisting date+4yr	\$0.54	1,000,000	1,000,000
20-May-05	Relisting date+2yr	Relisting date+5yr	\$0.60	1,000,000	1,000,000
				<b>4,100,000</b>	<b>4,100,000</b>
Options outstanding at year-end				4,100,000	4,100,000
Options exercisable at year-end				1,100,000	1,100,000
Weighted average exercise price of outstanding options				\$0.57	\$0.57
Weighted average exercise price of exercisable options				\$0.63	\$0.63
Weighted average fair value of outstanding options				\$0.12	\$0.12
Weighted average fair value of exercisable options				\$0.18	\$0.18

The options granted have been valued using the Black-Scholes option pricing model applying the following assumptions: -

- Risk free interest rate 5.37%
- Expected share price volatility 78.00%
- Underlying share price \$0.40
- Expiry date 20 May 2010

### 15. CONTINGENT LIABILITIES

The directors are not aware of any material contingent liability that the company may be exposed to.

## Notes to and Forming Part of the Financial Statements

	Consolidated		Parent Entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
<b>16. AUDITOR'S REMUNERATION</b>				
Remuneration of the auditor of the parent entity for:				
- auditing or reviewing the financial report	31,500	31,500	31,500	31,500
- taxation services	5,500	4,575	5,500	4,575
<b>17. RELATED PARTIES</b>				
<b>Directors and specified executives:</b>				
Disclosure relating to directors and key management personnel remuneration are included in note 23.				
<b>Aggregate amounts payable to directors at balance date:</b>				
Long term loans: -				
- Justin Schaffer	12,500	-	12,500	-
- Howard Stack	12,500	-	12,500	-
The above loans are interest free, unsecured and repayable by 7 May 2012				
<b>Other director related entities</b>				
Aggregate amounts payable to Uniquest Pty Limited at balance date:				
Trade and other payables	398,706	411,956	398,706	411,956
Long term loan	75,000	-	75,000	-
The loan is interest free, unsecured and repayable by 7 May 2012				
Aggregate amounts included in the determination of loss before income tax that resulted from transactions with Uniquest Pty Limited: -				
Consultancy fees	75,100	145,000	75,100	145,000
Aggregate amounts included in Intangible Assets (Note 9) that resulted from transactions with Uniquest Pty Limited:-				
Development costs – pilot magnets	112,650	-	112,650	-
<b>Wholly Owned Group:</b>				
The wholly owned group consists of Magnetica Limited and its wholly owned controlled entities. Information relating to the controlled entities is set out in note 7 (b).				
<b>18. SEGMENT REPORTING</b>				
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.				
<b>19. EVENTS OCCURRING SUBSEQUENT TO BALANCE DATE</b>				
There were no significant events occurring subsequent to balance date.				

## Notes to and Forming Part of the Financial Statements

	Consolidated		Parent Entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
<b>20. RECONCILIATION OF CASH</b>				
For the purpose of the statements of cash flows, cash includes cash on hand and at banks and investments in the money market, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the balance sheet as follows:				
Cash and cash equivalents	<b>589,495</b>	<b>614,742</b>	<b>589,494</b>	<b>614,741</b>
<b>21. RECONCILIATION OF NET CASH USED IN OPERATING ACTIVITIES TO LOSS AFTER INCOME TAX</b>				
Loss after income tax	(1,653,718)	(2,502,824)	(1,653,718)	(2,502,824)
Depreciation	12,380	18,349	12,380	18,349
Loss on disposal of investment in NMST	438,494	-	-	-
Loss on disposal of Magnetica Asia	-	-	438,494	-
Amortisation	-	812	-	812
Change in assets and liabilities				
(Increase) decrease in assets				
Trade debtors	7,562	285,174	7,562	285,174
Other current assets	4,739	(4,926)	4,739	(4,926)
Increase (decrease) in liabilities				
Trade creditors	(309,078)	220,910	(309,078)	220,910
Other creditors	-	(50,000)	-	(50,000)
Employee entitlements	(24,682)	32,082	(24,682)	32,082
Net cash used in operating activities	<b>(1,524,303)</b>	<b>(2,000,423)</b>	<b>(1,524,303)</b>	<b>(2,000,423)</b>

## Notes to and Forming Part of the Financial Statements

### 22. FINANCIAL INSTRUMENTS

#### (a) Financial Risk Management

The consolidated entity's financial instruments consist mainly of deposits with banks, local money market instruments, accounts receivable and payables.

The main risks the consolidated entity is exposed to through its financial instruments are interest rate risk, liquidity risk and credit risk.

##### *Interest rate risk*

Interest rate risk is managed with a mixture of fixed and floating debt. Management continuously monitors the debt profile of the consolidated entity in the context of the most recent economic conditions.

##### *Liquidity risk*

The directors regularly monitor the consolidated entity's cash position and on an ongoing basis consider a number of strategic and operational plans and initiatives to ensure that adequate funding continues to be available to meet the consolidated entity's business objectives.

##### *Credit risk*

The consolidated entity did not have material credit risk exposure to any single debtor or group of debtors at balance date.

#### b) Financial Instruments

##### i. The net fair values of: -

- unlisted investments have not been established, as detailed in note 7.
- other assets and liabilities approximate their carrying values.

##### ii. Interest rate risk

The consolidated entity's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and liabilities is as follows:

	Weighted Average Interest Rate	Floating Interest Rate \$	Fixed Interest maturing in less than 1 year \$	Fixed Interest maturing in 1 - 5 years \$	Non-interest Bearing \$	Total \$
<b>2009</b>						
Financial assets						
Cash	3.75%	589,195	-	-	300	589,495
Receivables		-	-	-	-	-
Total financial assets		<b>589,195</b>	-	-	<b>300</b>	<b>589,495</b>
Financial liabilities						
Trade & sundry creditors		-	-	-	499,030	499,030
Total financial liabilities		-	-	-	<b>499,030</b>	<b>499,030</b>
<b>2008</b>						
Financial assets						
Cash	6.15%	612,747	-	-	1,995	614,742
Receivables		-	-	-	7,562	7,562
Total financial assets		<b>612,747</b>	-	-	<b>9,557</b>	<b>622,304</b>
Financial liabilities						
Trade & sundry creditors		-	-	-	808,108	808,108
Total financial liabilities		-	-	-	<b>808,108</b>	<b>808,108</b>

#### Interest Rate Sensitivity Analysis

At 30 June 2009 if interest rates had moved, as illustrated in the table below, with all other variables remaining constant, pretax profit and equity would have been affected as follows:

	Pretax Profit increase (decrease)		Equity increase (decrease)	
	2009	2008	2009	2008
	\$	\$	\$	\$
+ 1%	5,892	6,128	5,892	6,128
- 1%	(5,892)	(6,128)	(5,892)	(6,128)

## Notes to and Forming Part of the Financial Statements

### 23. KEY MANAGEMENT PERSONNEL DISCLOSURES

#### (a) Option Holdings of Directors and Other Key Management Personnel

The number of options over ordinary shares in the company held during the financial year by each director of Magnetica Limited are set out below. No options were held by other key management personnel. Details including terms and conditions regarding options can be found in Note 14.

30 June 2009	Balance at 1 July 2008	Granted as Remunera- tion	Options Exercised	Options Lapsed	Balance at 30 June 2009	Vested at 30 June 2009		
						Total	Not Exercisable	Exercisable
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	-	-	-	-	-	-	-	-
<b>Total</b>	<b>4,100,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,100,000</b>	<b>1,100,000</b>	<b>-</b>	<b>1,100,000</b>

30 June 2008	Balance at 1 July 2007	Granted as Remunera- tion	Options Exercised	Options Lapsed	Balance at 30 June 2008	Vested at 30 June 2008		
						Total	Not Exercisable	Exercisable
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	-	-	-	-	-	-	-	-
<b>Total</b>	<b>4,100,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,100,000</b>	<b>1,100,000</b>	<b>-</b>	<b>1,100,000</b>

## Notes to and Forming Part of the Financial Statements

### 23. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

#### (b) Shareholdings of Directors and Other Key Management Personnel

The number of shares in the company held during the financial year by each director of Magnetica Limited and other key management personnel are set out below.

30 June 2009	Balance 1 July 2008	Granted as Remunera- tion	Options Exercised	Net Change Other	Balance 30 June 2009
<b>Directors</b>					
Howard Stack	687,500	-	-	312,500	1,000,000
David Evans	150,000	-	-	-	150,000
Philip Dubois	453,125	-	-	-	453,125
Charles Ho	333,305	-	-	-	333,305
Andrew Davis	-	-	-	-	-
Justin Schaffer	3,125,000	-	-	1,875,000	5,000,000
<b>Other Key Management Personnel</b>					
Nicky Milsom	-	-	-	-	-
Huawei Zhao	-	-	-	-	-
Peter Willson	-	-	-	-	-
<b>Total</b>	<b>4,748,930</b>	<b>-</b>	<b>-</b>	<b>2,187,500</b>	<b>6,936,430</b>
<b>30 June 2008</b>					
30 June 2008	Balance 1 July 2007	Granted as Remunera- tion	Options Exercised	Net Change Other	Balance 30 June 2008
<b>Directors</b>					
Howard Stack	687,500	-	-	-	687,500
David Evans	150,000	-	-	-	150,000
Philip Dubois	453,125	-	-	-	453,125
Charles Ho	333,305	-	-	-	333,305
Andrew Davis	-	-	-	-	-
<b>Other Key Management Personnel</b>					
Nicky Milsom	-	-	-	-	-
Huawei Zhao	-	-	-	-	-
Peter Willson	-	-	-	-	-
<b>Total</b>	<b>1,623,930</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,623,930</b>

### 24. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2009, but have not been applied in preparing this financial report:

- AASB 8 Operating Segments;
- AASB 101 Presentation of Financial Statements;
- AASB 123 Borrowing Costs;
- AASB 2007-3 Amendments to Australian Accounting Standards;
- AASB 2007-6 Amendments to Australian Accounting Standards;
- AASB 2007-8 Amendments to Australian Accounting Standards; and
- AASB 2008-5 Amendments to Australian Accounting Standards.

## Notes to and Forming Part of the Financial Statements

### 25. DISPOSAL OF CONTROLLED ENTITY

On 18 May 2009 the company disposed of its controlled entity Magnetica Asia Limited. Aggregate details of this transaction are:

	Consolidated		Parent Entity	
	2009 \$	2008 \$	2009 \$	2008 \$
Proceeds on disposal	905,900	-	905,900	-
Assets and liabilities held at disposal date				
Investment in controlled entity	-	-	1,344,394	-
Investment in Nanjing Magnetica Superconductor Technology Company Ltd	1,344,394	-	-	-
	1,344,394	-	1,344,394	-
Net loss on disposal	(438,494)	-	(438,494)	-