



***ANNUAL REPORT***  
**FOR THE YEAR ENDED 30 JUNE 2018**

Magnetica Limited  
ACN 010 679 633  
Units 3 & 4, 55 Links Avenue North  
Eagle Farm QLD 4009, Australia  
Tel: +61 (7) 3188 5445

**Magnetica Limited & Controlled Entities**



## Contents

	<b>Page</b>
Corporate Information	3
Review of Operations and Future Developments	4
Directors' Report	6
Auditor's Independence Declaration	11
Independent Auditor's Report	12
Directors' Declaration	15
Consolidated Statement of Profit or Loss and Other Comprehensive Income	16
Consolidated Statement of Financial Position	17
Consolidated Statement of Changes in Equity	18
Consolidated Statement of Cash Flows	19
Notes to and Forming Part of the Financial Statements	20



## **CORPORATE INFORMATION**

### **DIRECTORS**

Howard Stack  
Philip Dubois  
Charles Ho  
Justin Schaffer  
Richard Aird  
Jonathan Schaffer (alternate for Justin Schaffer)

### **SECRETARY**

Stephen Denaro

### **AUDITORS**

Hall Chadwick QLD  
Level 4, 240 Queen St  
Brisbane, QLD 4000, Australia

### **LEGAL ADVISERS**

Thomson Geer  
Level 16  
Waterfront Place  
1 Eagle Street  
Brisbane QLD 4000, Australia

### **BANKERS**

National Australia Bank  
255 George Street  
Sydney NSW 2000, Australia

### **SHARE REGISTRY**

Boardroom Pty Ltd  
Level 12  
225 George St  
Sydney NSW 2000, Australia

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

Units 3 & 4  
55 Links Avenue North  
Eagle Farm QLD 4009, Australia  
Telephone: +61 (7) 3188 5445

## **FY18 REVIEW OF OPERATIONS AND FUTURE DEVELOPMENTS**

### Overview

Financial Year 2018 has seen a number of achievements realised, including:

- successful integration and testing of our new beta 3T (Tesla) Extremity MRI system, with our System Integration partner's technology;
- establishing that our proprietary intellectual property (IP) is ready for commercialisation in the Extremity MRI system;
- development of our manufacturing capability;
- successful upgrade of our Quality Management System (QMS) to be compliant with ISO 13485:2016 (a QMS specific to Medical Device Organisations);
- completing a capital raising of AU\$1.36M, with support from both new and existing investors, in support of our ongoing product commercialisation activities; and
- securing new Federal grant funding support to enable us to i) accelerate our advanced manufacturing scale-up activities and ii) ensure the regulatory and clinical aspects of our QMS upgrade were optimally addressed.

Nevertheless, ongoing delays in completing agreement for the commercialisation of the Extremity MRI system with our System Integration partner, in readiness for entry in a range of geographic markets, has frustrated our activities to build sales revenue, and to progress the development of our new product, a dedicated 3T Head and Neck MRI system (Head Scanner), which is ready to be prototyped. We will update shareholders upon progress at the Annual General Meeting.

### Further Details

The integration of our next generation superconducting magnet, gradient coils and Radio Frequency (RF) coils with our collaborating system integration partner's technology was successfully completed. The anticipated performance of the integrated beta extremity MRI system has been proven.

A range of activities remain to be completed to ensure an optimal system is available for clinical testing, to commence later this FY. As such, commercial negotiations between the two organisations are ongoing, with clinical test results and 'hands-on' product feedback from the market being matters to be demonstrated before final commercialisation decisions will be made.

Nevertheless, we expect the clinical testing to validate our approach to improve the patient experience; bring high-performance medical imaging to the point-of-care, by fielding dedicated, compact MRI systems that provide enhanced patient experience whilst also delivering the commercial outcomes required by the organisations using the systems.

Upgrading our existing Quality Management System (QMS) to obtain compliance certification with ISO 13485:2016 has been a critical strategic activity. The team is delighted to have obtained certification, nevertheless, the regulatory compliance journey continues as we now work to integrate the region-specific requirements that we must satisfy to ensure we can supply medical devices into each region, as well as maintaining the high standards required to retain certification to ISO 13485:2016. It is a demanding process for medical products.

The performance and reliability being demonstrated by our coil sets during testing is a testament to the focus and dedication of our product development and production teams. Additionally, in preparing to increase production capacity whilst keeping costs under control, Magnetica is working with the Advanced Manufacturing Growth Centre (AMGC) to enhance key elements of our advanced manufacturing activities for both gradient and RF coils. The matched AU\$0.25M grant funding from the AMGC to complete the project is welcomed.

Development of our second product (following on from the Extremity MRI System), a dedicated Head Scanner, continues as funding availability permits. Given the increasing focus on the diagnosis and treatment of Neurological conditions within the healthcare industry, the opportunities in this market should be larger in scale than the Extremity market. As such, we are preparing to accelerate our Head Scanner development and commercialisation activities to ensure we have a disruptive market offering available as soon as possible.



Whilst there has been minimal change in personnel within the team overall, we have strengthened our Regulatory, Quality and Program Management capabilities. Furthermore, Richard Aird has transitioned into a Non-Executive Director role, ensuring Magnetica has ongoing access to Richard's value-adding skill-set and experience.

The AU\$1.36M capital raising completed in December 2017 was achieved through both ongoing support from our existing shareholders and new investors. The funding has enabled us to continue to develop the Extremity MRI system, as well as support ongoing operations. To finalise the commercialisation of the Extremity MRI system, and accelerate the Head Scanner development, we plan to undertake additional capital raising during FY19.

The Directors wish to acknowledge the ongoing support of existing shareholders, and welcome new shareholders, as we work to commercialise our disruptive MRI technologies and enable high-performance medical imaging to be delivered at the patient point-of-care.

A handwritten signature in purple ink, appearing to read "H. Stack".

Howard Stack  
Chair

Brisbane, 26<sup>th</sup> September 2018

## **DIRECTORS' REPORT**

Your directors present their report for the year ended 30 June 2018.

### **DIRECTORS**

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

Howard Stack  
Philip Dubois  
Charles Ho  
Justin Schaffer  
Richard Aird  
Jonathan Schaffer (alternate to Justin Schaffer)

#### **Howard Stack**

**BA LLB**

**(Non-Executive Chair, Chair of Audit & Risk Management Committee)**

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

He previously has served amongst others 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 Redflow Limited (2012- June 2018; Chairman 2012 - 2015).

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, Member of Audit & Risk Management Committee)**

Dr Dubois is the Chairman and CEO of Queensland X-Ray and is a Director of ASX Listed Sonic Healthcare Ltd. He is the Chairman of the Sonic Imaging Executive, and is the CEO of Sonic Healthcare's Imaging Division. 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.

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

**MD PhD (Radiologist)**

**(Non-Executive Director)**

Dr. Ho is experienced and active in musculoskeletal and orthopedic sports medicine imaging and research, particularly in musculoskeletal Magnetic Resonance Imaging. He has been a member of the Radiological Society of North America, the American Roentgen Ray Society, the Society of Skeletal Radiology, the American Academy of Orthopaedic Surgeons, the American Orthopaedic Society for Sports Medicine, and the ACL Study Group, among other professional organizations. He has published numerous papers and book chapters in the radiologic and orthopedic literature, and presented numerous papers internationally in radiologic and orthopedic conference proceedings.

Dr. Ho is Professor of Radiology, University of Colorado School of Medicine, in Denver, Colorado. He is Director of Imaging Research and a member of the Research Advisory Committee of the Steadman Philippon Research Institute in Vail, Colorado. He has served as Radiologic Consultant for the San Francisco 49ers, San Francisco Giants, Cleveland Indians, U.S. Ski Team, U.S. Decathlon Team, Denver Broncos, and Colorado Rockies.

Dr. Ho received his BS and MS in Electrical Engineering from MIT, PhD in Electrical Engineering from Stanford University, and MD from Stanford University School of Medicine.

## ***DIRECTORS' REPORT (CONTINUED)***

### **Justin Schaffer BA(Econ) MBA (Tulane, USA) (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 AECL 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 the U.S.A.

At the request of AECL Chairman, Harry Oppenheimer, who was also Chairman of 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. The workforce was reduced from 5,000 to 3,500. Investments were made in new Japanese-sourced technology to develop export markets for specialised technologically difficult niche products (e.g. tyre cord, conveyor belt, parachute cord and PET polymer for bottles).

Later in his career Mr Schaffer ran and re-structured the Frame Group, reducing the 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 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.

### **Richard Aird Non Executive Director (Resigned as Executive Managing Director effective 29 October 2017)**

Richard Aird became Magnetica CEO in July 2013, and was appointed as a Director on 15 May. He held the position of Managing Director until 29 October 2017. He continues with Magnetica as a non-executive director.

Mr Aird is a professional operations manager with over twenty years' experience in commercial development and operations. He is currently the Chief Operating Officer and a director of Redflow Limited. Prior to joining Magnetica, he spent five years as executive operations manager at Redflow, working with the product development, prototype deployment and commercialisation of technology within the electrochemical and plastics industry. This included demonstration projects, establishment of pilot manufacturing, quality systems, and scoping of outsourced manufacturing opportunities both offshore and in Australia.

### **Jonathan Schaffer – Alternate Director to Justin Schaffer**

Jonathan Schaffer joined the Magnetica board as an alternate to Justin Schaffer in 2017.

Having qualified as a Chemical Engineer, Jonathan worked for 4 years in South Africa's nuclear industry in the Uranium Enrichment Corporation facility near Pretoria. Thereafter he joined a boutique agency business importing chemicals and plastics before emigrating with his wife, Diane to the UK in 1985.

After working with an international trading company specialising in barter and counter trade operations, he started his own trading business in 1988. The company later specialised in the toy industry, created its own brand and changed its name to Plum Products Ltd.

He migrated with his family to Australia in 2009 and established Plum Products Australia Pty Ltd as a sister company to the UK company, and later Plum Products Hong Kong Ltd



## **DIRECTORS' REPORT (CONTINUED)**

Today he is Chairman of the same business, which he owns 50/50 with Diane, a solicitor qualified in South Africa and the UK.

The group has sales under its Plum brand of activity toys in excess of \$USD 20 million in more than 40 countries. It employs about 50 full time staff in four countries. [www.plumplay.com](http://www.plumplay.com)

### **COMPANY SECRETARY**

#### **Stephen Denaro CA**

BA, Grad Dip (Corporate Governance), CA, MAICD

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>	<b>"Series A" Performance Rights</b>
Howard Stack	10,136,540	-	-
Philip Dubois	906,250	-	-
Charles Ho	333,305	-	-
Justin Schaffer	13,579,835	-	-
Richard Aird	312,500	-	500,000
Jonathan Schaffer	-	-	-

### **SHARE OPTIONS**

#### **Unissued shares**

As at the date of this report (and at the end of the reporting period) there were 3,000,000 unissued ordinary shares under options as detailed in Note 14 to the financial statements. During the year ended 30 June 2018, and up to the date of this report, no shares were issued as a result of the exercise of an option over unissued shares.

#### **Performance Rights Plan**

During the period the company instituted a Performance Rights Plan to incentive staff, directors and contractors working with Magnetica Limited and issued the following performance rights (as detailed in Note 14 to the financial statements):

- "Series A" (issued for past performance – vested upon issue in December 2017) – 1,800,000; and
- "Series B" (subject to company wide/individual performance hurdles) – 7,175,000. As the company wide performance hurdle was not met as at 30 June 2018, these rights have subsequently lapsed, however it is the Board's intention to issue "Series C" performance rights in the near future.

### **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 (CONTINUED)*****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 and NMR Holdings No. 2 Pty Limited.

**Nature of operations and principal activities**

The principal activities of the Company during the financial year were in design, development and commercialisation of superconducting magnets, gradient coils and RF (Radio Frequency) Coils aimed at niche and emerging global human magnetic resonance imaging (MRI) markets.

**Employees**

As at 30 June 2018, the Company employed 9 full-time and 1 part-time employees (excluding the Non Executive Directors and the Company Secretary). The Company also engages external consultants, particularly for research and development work, as required. The most notable of these are from The University of Queensland's Biomedical Engineering Group.

**REVIEW OF FINANCIAL CONDITION****Capital structure**

During the period to 30 June 2018, 9,347,586 shares were issued (2017: nil).

**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.

**OPERATING RESULTS**

For the year ended 30 June 2018, the profit from ordinary activities for the consolidated entity after providing for income tax was \$72,632 (2017: profit \$973,773).

**DIVIDENDS PAID OR RECOMMENDED**

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

**SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS**

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

**FUTURE DEVELOPMENTS**

Likely developments in the operations of the Group and the expected results of those operations in subsequent financial years have been discussed under Review of Operations.

As at the date of this report, Magnetica is in discussions with another party in relation to a potential minority investment. 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 Group.

**SUBSEQUENT EVENTS AFTER THE REPORTING PERIOD**

There were no significant developments after the end of the reporting period.

**ENVIRONMENTAL REGULATIONS**

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

## ***DIRECTORS' REPORT (CONTINUED)***

### **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:

	<b>Board meetings</b>		<b>Audit &amp; risk management committee</b>		<b>Remuneration and Nomination committee</b>	
	<b>Number of meetings held while in office</b>	<b>Meetings attended</b>	<b>Number of meetings held while in office</b>	<b>Meetings attended</b>	<b>Number of meetings held while in office</b>	<b>Meetings attended</b>
Howard Stack	4	3	2	2	-	-
Justin Schaffer	4	4	n/a	n/a	n/a	n/a
Philip Dubois	4	4	2	2	-	-
Charles Ho	4	4	n/a	n/a	n/a	n/a
Richard Aird	4	3	2	1	n/a	n/a
Jonathan Schaffer	4	2	-	-	n/a	n/a

### **AUDITOR'S INDEPENDENCE DECLARATION**

The Auditor's Independence Declaration forms part of the Directors' Report and can be found on page 11 of the Annual Report.

Signed at Brisbane this 26<sup>th</sup> day of September 2018 in accordance with a resolution of the directors.



Howard Stack  
Chair

**Auditor's Independence Declaration under Section 307C of the Corporations Act 2001 to the directors of Magnetica Limited**

I declare that, to the best of my knowledge and belief during the year ended 30 June 2018 there have been no contraventions of:

- (i) the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.



Geoffrey Stephens  
Director

HALL CHADWICK QLD  
Chartered Accountants

Dated this 26<sup>th</sup> day of September 2018

## Independent Auditor's Report

To the members of Magnetica Limited

### Report on the Financial Report

#### Opinion

We have audited the financial report of Magnetica Limited, which comprises the statement of financial position as at 30 June 2018, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion:

- a) the accompanying financial report of the Company is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the Company's financial position as at 30 June 2018 and of its financial performance for the year ended; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

#### Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110: *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

### **Information Other than the Financial Report and Auditor's Report Thereon**

The directors are responsible for the other information. The other information comprises the information included in the Company's annual report for the year ended 30 June 2018, but does not include the financial report and our auditor's report thereon. Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon. In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### **Responsibilities of the Directors for the Financial Report**

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

In preparing the financial report, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

### **Auditor's Responsibilities for the Audit of the Financial Report**

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than one for resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
  - Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
-

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Company audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Geoffrey Stephens  
Director

HALL CHADWICK QLD  
Chartered Accountants

Dated this 26<sup>th</sup> day of September 2018





## Directors' Declaration

---

The directors of the company declare that:

1. the financial statements and notes, as set out on pages 16 to 36 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 consolidated entity's financial position as at 30 June 2018 and of its performance for the year ended on that date.
2. in the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
3. in the directors' opinion, the financial statements and notes to the financial statements are prepared in compliance with International Financial Reporting Standards as made by the International Accounting Standards Board.

Signed at Brisbane this 26<sup>th</sup> day of September 2018 in accordance with a resolution of the directors.

A handwritten signature in blue ink, appearing to read "H. Stack".

Howard Stack  
Chair





## Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2018

	Notes	2018 \$	2017 \$
Revenue	2	1,238,693	1,901,619
Expenses	3	1,166,061	927,846
Profit/(loss) before income tax		72,632	973,773
Income tax expense	4	-	-
<b>Profit/(loss) attributable to members of Magnetica Limited</b>		<b>72,632</b>	<b>973,773</b>
Other comprehensive income		-	-
<b>Total comprehensive income/(loss) for the year attributable to the members of Magnetica Limited</b>		<b>72,632</b>	<b>973,773</b>
<i>The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.</i>			

## Consolidated Statement of Financial Position

As at 30 June 2018

	Notes	2018 \$	2017 \$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		920,845	763,275
Trade and other receivables	5	64,077	109,745
Inventories		71,438	47,632
Other assets	6	33,193	27,294
<b>TOTAL CURRENT ASSETS</b>		<b>1,089,553</b>	<b>947,946</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	8	167,956	186,130
Intangible assets	9	3,645,536	2,464,909
<b>TOTAL NON-CURRENT ASSETS</b>		<b>3,813,492</b>	<b>2,651,039</b>
<b>TOTAL ASSETS</b>		<b>4,903,045</b>	<b>3,598,985</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	10	425,981	758,048
Employee Benefits	11	53,130	79,525
<b>TOTAL CURRENT LIABILITIES</b>		<b>479,111</b>	<b>837,573</b>
<b>NON-CURRENT LIABILITIES</b>			
Employee Benefits	11	933	4,936
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>933</b>	<b>4,936</b>
<b>TOTAL LIABILITIES</b>		<b>480,044</b>	<b>842,509</b>
<b>NET LIABILITIES</b>		<b>4,423,001</b>	<b>2,756,476</b>
<b>EQUITY</b>			
Issued capital	12	58,151,914	56,829,922
Reserves	13,14	551,000	281,000
Accumulated losses		(54,279,913)	(54,354,446)
<b>TOTAL EQUITY</b>		<b>4,423,001</b>	<b>2,756,476</b>
<i>The above consolidated statement of financial position should be read in conjunction with the accompanying notes.</i>			

## Consolidated Statements of Changes in Equity

For the year ended 30 June 2018

Consolidated	Share capital	Reserves	Reserves	Accumulated Profit/(losses)	Total equity
	Ordinary	Share option	Performance Rights		
	\$	\$	\$	\$	\$
Balance at 1 July 2017	56,829,922	281,000	-	(54,354,446)	2,756,476
Shares issued during the period	1,402,138	-	-	-	1,402,138
Share issue costs	(80,146)	-	-	-	(80,146)
Prior Year adjustment				1,901	1,901
Reserve against Performance Rights issued during the financial year	-	-	270,000	-	270,000
Total comprehensive income/(loss) for the year	-	-	-	72,632	72,632
Balance at 30 June 2018	58,151,914	281,000	270,000	(54,279,913)	4,423,001

Consolidated	Share capital	Reserves	Reserves	Accumulated losses	Total equity
	Ordinary	Share option reserve	Performance Rights		
	\$	\$		\$	\$
Balance at 1 July 2016	56,829,922	281,000	-	(55,328,219)	1,782,703
Shares issued during the period	-	-	-	-	-
Share issue costs	-	-	-	-	-
Total comprehensive income/(loss) for the year	-	-	-	973,773	973,773
Balance at 30 June 2017	56,829,922	281,000	-	(54,354,446)	2,756,476

## Consolidated Statement of Cash Flows

For the year ended 30 June 2018

	Inflows (Outflows)	
	2018 \$	2017 \$
<b>Cash flows from operating activities</b>		
Receipts from customers and grants	1,371,247	1,977,688
Payments to suppliers and employees	(1,409,907)	(483,737)
GST Recovered/(paid)	111,203	-
Interest Received	11,188	9,567
<b>Net cash used in operating activities (Note 21)</b>	<b>83,731</b>	<b>1,503,518</b>
<b>Cash flows from investing activities</b>		
Payments for property, plant and equipment	(8,388)	(19,190)
Payment for development costs	(1,198,627)	(1,451,932)
<b>Net cash used in investing activities</b>	<b>(1,207,015)</b>	<b>(1,471,122)</b>
<b>Cash flows from financing activities</b>		
Proceeds from capital raising	1,361,000	-
Share issue costs	(80,146)	-
<b>Net cash provided by financing activities</b>	<b>1,280,854</b>	<b>-</b>
Net increase (decrease) in cash and cash equivalents held	157,570	32,396
Cash and cash equivalents at the beginning of the financial year	763,275	730,879
<b>Cash and cash equivalents at the end of the financial year (Note 20)</b>	<b>920,845</b>	<b>763,275</b>
<i>The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.</i>		

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards (including Australian Accounting Interpretations), other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in the financial statements containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards.

The financial statements cover the consolidated entity comprising of Magnetica Limited and its controlled entities. Magnetica Limited is an unlisted public company, incorporated and domiciled in Australia.

The financial statements of Magnetica Limited and its controlled entities were authorised for issue on the date of signing of the Directors' Declaration.

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

The financial statements have been prepared on an accruals basis and are 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 financial statements incorporate the assets and liabilities of all entities controlled by Magnetica Limited ("parent entity") as at 30 June 2018 and the results of all controlled entities for the year then ended. Magnetica Limited and its controlled entities together are referred to in the financial statements as the consolidated entity. The effects of all transactions between entities in the consolidated entity are eliminated in full.

Where controlled entities have entered or left the group during the year, the financial performance of those entities is included only for the period of the year that they were controlled. A list of controlled entities is contained in note 7 to the financial statements.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

Investments in associates are accounted for in the consolidated financial statements using the equity method. Under this method, the consolidated entity's share of the post-acquisition profits or losses of associates are recognised in the consolidated statement of profit or loss and other comprehensive income, and its share of post acquisition movements in reserves are recognised in consolidated reserves. The cumulative post-acquisition movements are adjusted against the cost of the investment. Associates are those entities over which the consolidated entity exercises significant influence, but not control.

#### (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 Taxation 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 statement of financial position.

Cash flows are included in the statement of cash flows 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.

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (c) Basis of preparation

The financial statements have been prepared on a going concern basis which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

### (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*

Revenue includes the initial amount agreed in the transaction/contract to the extent that is probable that it will result in revenue and can be measured reliably. As soon as the outcome of a contract for the order of particular goods or services can be measured reliably, contract revenue is recognised in the profit or loss in proportion to the stage of completion of the contract.

#### *Interest*

Control of the right to receive the interest payment.

#### *Royalties*

Royalty income is recognised on an accrual basis in accordance with the substance of the relevant agreement.

#### *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.

#### *Research and development tax offset*

Refundable research and development tax offsets are recognised as grant income in the year the Australian Taxation Office approves the claim. Non-refundable research and development tax offsets are treated as tax credits in accordance with *AASB 112 Income Taxes* but only to the extent that they exceed the company's income tax rate.

### (e) Property, plant and equipment

Plant and equipment are measured on the cost basis less accumulated 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 on a straight line basis 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%
---------------------	--------

### (f) Impairment

At the end of each reporting period, 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 statement of profit or loss and other comprehensive income.

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. Assets that do not have independent cash flows are grouped together to form a cash generating unit.

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

### (g) Inventories

All inventories including work in progress are valued at the lower of cost and net realisable value. Cost includes direct materials, direct labour and relevant freight costs.

### (h) 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 as at the end of the reporting period.

Deferred tax is accounted for using the 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, or where it is associated with investments in subsidiaries, associates or interests in joint ventures and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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 statement of profit or loss and other comprehensive income except where it relates to items that may be charged directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred tax assets are recognised to the extent that it is probable that future taxable 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 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 Taxation 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.

### (i) Financial instruments

#### *Recognition*

Financial instruments are initially measured at cost on trade date, which includes transaction costs where the financial instrument is not carried at fair value through the profit and loss, 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 statement of profit or loss and other comprehensive income 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.



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

### Financial instruments (continued)

#### *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, unless an impairment has been determined by the Board.

#### *Financial liabilities*

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

### Financial 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 statement of profit or loss and other comprehensive income, 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 statement of profit or loss and other comprehensive income.

### (j) Employee benefits

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

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled within 12 months of the reporting date are recognised in current liabilities in respect of employees services up to the reporting date and are measured at the amount expected to be paid when the liabilities are settled.

#### *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 end of the reporting period. 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 end of the reporting period, to corporate bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

#### *Equity-settled compensation*

The consolidated entity previously operated 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 statement of profit or loss and other comprehensive income. The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares and options granted which is determined using the Black Scholes Model.

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

### (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 financial statements 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 statement of profit or loss and other comprehensive income using the straight line method of calculation over the period of time during which the benefits are expected to arise.

Carrying values are assessed at the end of each reporting period for impairment and any write down included in the statement of profit or loss and other comprehensive notes in the period determined.

#### *Research and development*

Expenditure during the research phase of the project is recognised as an expense when incurred. Development costs are capitalised only when technical feasibility studies identify that the project will deliver future economic benefits and these benefits can be measured reliably.

#### *Patents and trademark expenditure*

All patent and trademark expenditure is expensed as incurred. Patent and trademark expenditure is capitalised only when technical feasibility studies identify that the intellectual property to which they relate will deliver future economic benefits and those benefits can be measured reliably. Capitalised expenditures are then amortised over the period of their expected benefits.

### (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 statement of cash flows, 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 in the statement of financial position.

### (o) Leases

Leases where substantially all of the risks and rewards of ownership transfer to the consolidated entity are classified as finance leases. Finance leases are capitalised by recognising an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments including any residual values. Lease payments are allocated between the reduction of the lease liabilities and the lease interest expense for the period.

Leases where substantially all of the risks and rewards are not transferred to the consolidated entity are classified as operating leases. Payments made under operating leases are charged to the consolidated statement of profit or loss and other comprehensive income on a straight line basis over the period of the lease.

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

### (p) Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and assumes that the transaction will take place either in the principle market or in the absence of a principle market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interest. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, and used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed each reporting date and transfers between levels are determined based on a reassessment of the lowest level input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

### (q) Comparatives

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

### (r) Going Concern

The financial statements have been prepared on a going concern basis which assumes the continuity of normal business activities and the realisation of assets and discharge of liabilities in the ordinary course of business.

Magnetica Ltd is an emerging technology company and is in the continuing process of fund raising to develop the technology to a stage where the company becomes profitable and self-sufficient. The Company has made a net profit over the last 12 months of \$72,632 and a profit of \$973,773 in the corresponding prior period.

The ability of the Company to continue to adopt the going concern basis is dependent on a number of matters. These include the successful raising in the future of necessary funding, the ability to continue to secure government grants and/or the successful development and subsequent commercialisation of the Company's magnetic resonance imaging (MRI) technologies, and the continuing financial support of directors.

If the going concern assumption were not appropriate for these financial statements, then adjustments would be necessary in the carrying values of assets and liabilities, the reported revenues and expenses and the statement of financial position classifications used. These financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate because management believes that the actions already taken or planned, as described below, will mitigate the adverse conditions and events which raise doubts about the validity of the going concern assumption used in preparing these financial statements.

The directors believe that the adoption of the going concern basis is appropriate for the following reasons:

- (1.) The directors have continued to contribute further share capital on a periodic basis.
- (2.) The company has historically had the ability to secure Government grant funding and to secure share capital as needed.
- (3.) The company is entitled to a substantial annual research and development tax rebate.
- (4.) Periodic coil sales are expected to occur throughout the financial year and an arrangement is pending for funding and a partnering arrangement with a multinational company.
- (5.) The company has no debt apart from trade creditors and in fact had a surplus of net current assets at period end and as the date of this report.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(s) Critical Accounting Estimates and Judgements**

The directors evaluate estimates and judgements incorporated into the financial statements 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.

**Key Estimates**

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

There are no other 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.

	2018 \$	2017 \$
<b>2. REVENUE</b>		
Sales	107,876	26,715
Development Contribution	-	500,000
Interest received	11,188	9,567
Grant income	479,665	830,410
Research and development tax offset	641,255	526,074
Other income	(1,291)	8,853
	<b>1,238,693</b>	<b>1,901,619</b>
<b>3. EXPENSES</b>		
Consultancy	428,812	475,688
Travel	51,734	26,681
Employee benefits expense	1,082,772	993,975
Operating lease rentals	61,273	62,329
Depreciation	26,562	33,452
Amortisation	18,000	18,000
Cost of Goods sold	76,096	11,270
Share based payments	270,000	-
Other	346,598	268,605
	<b>2,361,847</b>	<b>1,890,000</b>
Less Development costs capitalised applicable to costs above	(1,195,786)	(962,154)
	<b>1,166,061</b>	<b>927,846</b>
<b>4. INCOME TAX</b>		
<b>a) Numerical reconciliation of income tax expense to prima facie tax payable</b>		
Profit/(loss) before income tax expense	72,632	973,773
Tax at the Australian tax rate of 27.5% (2017: 28.5%)	19,974	277,525
Research and development not assessable	(176,345)	(149,931)
Depreciation and amortisation	(5,249)	(14,625)
Prepayments	12	1,134
Research and development expenses capitalised	(328,841)	(413,892)
Black hole expenditure	(603)	(876)
Research and development expenses non-deductible	398,648	508,640
Share based payments	74,249	-
Movements in provisions and accruals	(14,972)	12,313
Deferred tax assets (recognised)/not recognised	33,127	(7,729)
Losses Utilised	-	(212,559)
Income tax expense	-	-
<b>b) Tax losses</b>		
Unused tax losses for which no deferred tax asset has been recognised	30,631,845	30,511,384
Potential tax benefit @ 27.5% (2017: 28.5%)	8,423,758	8,695,744

4b) **Tax losses (continued)**

Realisation of the potential tax benefit is dependent upon:

- a) 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;
- b) the ability of the consolidated entity to continue to comply with the conditions for deductibility imposed by law; and
- c) an expectation that legislation will not change in a manner which would adversely affect the consolidated entity's ability to realise the benefit.

	2018 \$	2017 \$
5. <b>TRADE AND OTHER RECEIVABLES</b>		
Trade receivables	50,149	109,745
GST receivable	13,928	-
	<b>64,077</b>	<b>109,745</b>
6. <b>OTHER CURRENT ASSETS</b>		
Refundable deposits	13,750	<b>13,750</b>
Deposits paid – goods ordered	5,942	-
Prepayments	13,501	<b>13,544</b>
	<b>33,193</b>	<b>27,294</b>

## 7. CONTROLLED ENTITIES

The consolidated financial statements include the assets, liabilities and results of the following subsidiaries:

	Country of Incorporation	Class of Share	2018 % holding	2017 % holding
<b>NMR Holdings No. 1 Pty Ltd</b>	Australia	Ordinary	100%	100%
<b>NMR Holdings No. 2 Pty Ltd</b>	Australia	Ordinary	100%	100%

The controlled entities did not trade during the year.

	2018	2017
	\$	\$
8. <b>PROPERTY, PLANT AND EQUIPMENT</b>		
Plant and equipment		
Cost	395,288	391,645
Less: Accumulated depreciation	(227,332)	(205,515)
<b>Total plant and equipment</b>	<b>167,956</b>	<b>186,130</b>

Reconciliations of the movements in carrying amounts for each class of property, plant and equipment are set out below:

### Plant and equipment

Carrying amount at beginning of year	186,130	200,392
Additions	8,388	19,190
Depreciation	(26,562)	(33,452)
<b>Carrying amount at end of year</b>	<b>167,956</b>	<b>186,130</b>

	2018 \$	2017 \$
<b>9. INTANGIBLE ASSETS</b>		
<b>Computer software</b>		
At cost	35,110	35,110
Less: Accumulated amortisation	(35,110)	(30,366)
<b>Total computer software</b>	<b>-</b>	<b>4,744</b>
<b>Patents</b>		
At cost	53,868	53,868
Less: Accumulated impairment losses	-	-
<b>Total patents</b>	<b>53,868</b>	<b>53,868</b>
<b>Development costs</b>		
At cost	3,834,626	2,631,255
Less: Accumulated amortisation	(242,958)	(224,958)
<b>Total development costs</b>	<b>3,591,668</b>	<b>2,406,297</b>
<b>Total intangible assets</b>	<b>3,645,536</b>	<b>2,464,909</b>
<b>Reconciliations</b>		
Carrying amount at beginning of year	2,464,909	1,030,976
Additions	1,198,627	1,451,933
Amortisation	(18,000)	(18,000)
<b>Carrying amount at end of year</b>	<b>3,645,536</b>	<b>2,464,909</b>
<b>10. TRADE AND OTHER PAYABLES</b>		
Trade payables	88,173	68,115
Unearned revenue	269,120	206,283
PAYG withholding payable	42,056	46,050
Accrued expenses	26,632	409,002
GST payable	-	1,312
Superannuation payable	-	24,046
Other current payables	-	3,240
	<b>425,981</b>	<b>758,048</b>



		2018 \$	2017 \$
11.	<b>EMPLOYEE BENEFITS</b>		
	<b>Current</b>		
	Provision for Long Service Leave	4,693	28,484
	Provision for Annual leave	48,437	51,041
		53,130	79,525
	<b>Non Current</b>		
	Provision for Long Service Leave	934	4,936
		934	4,936

  

		No. of Shares	2018 \$	No. of Shares	2017 \$
12.	<b>ISSUED CAPITAL</b>				
(a)	<i>Ordinary shares</i>				
	Balance 1 July	110,219,598	56,829,922	110,219,598	56,829,922
	Shares issued during the year at \$0.15 per share	9,347,586	1,402,138		-
	Share issue costs		(80,146)		-
	<b>Balance 30 June</b>	<b>119,567,184</b>	<b>58,151,914</b>	<b>110,219,598</b>	<b>56,829,922</b>
		<b>No. of Options</b>	<b>2018 \$</b>	<b>No. of Options</b>	<b>2017 \$</b>
(b)	<b>Options</b>				
	Balance 1 July	3,000,000	281,000	3,000,000	281,000
	Options lapsed	-	-	-	-
	<b>Balance 30 June</b>	<b>3,000,000</b>	<b>281,000</b>	<b>3,000,000</b>	<b>281,000</b>

Details of the share options are included in Note 14 Share-Based Payments.

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of shares held. Fully paid ordinary shares have no par value and entitle each shareholder to one vote upon a poll for each share held or on a show of hands one vote per shareholder.

## Capital Risk Management

Management controls the capital of the company in order to maintain a good debt to equity ratio, provide the shareholders with adequate returns and to ensure that the company can fund its operations and continue as a going concern.

The company's debt and capital includes ordinary share capital and financial liabilities, supported by financial assets.

There are no externally imposed capital requirements.

Management effectively manages the company's capital by assessing the company's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels and share issues.

There have been no changes in the strategy adopted by management to control the capital of the company since the prior year.

## 13. RESERVES

### Share Option Reserve

The reserves record items recognised as expenses on valuation of employee and director share options and Performance Rights.

## 14(a) SHARE-BASED PAYMENTS - OPTIONS

No options were granted or exercised during the current financial year (2017: Nil).

In 2005 options were granted as equity compensation benefits to certain directors in office at that time. The options were issued at no cost. Each of the granted options entitled the holder to subscribe for one fully paid ordinary share in the entity at various exercise prices and various option periods. Set out below are summaries of options previously granted to directors.

Grant date	First exercise date	Last exercise date	Exercise price per share	Balance at 30 June 2017	Balance at 30 June 2016
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>3,000,000</b>	<b>3,000,000</b>
Options outstanding at year-end				3,000,000	3,000,000
Options exercisable at year-end				-	-
Weighted average exercise price of outstanding options				\$0.54	\$0.54
Weighted average fair value of outstanding options				\$0.09	\$0.09

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 see last exercise date above.

## 14(b) SHARE – BASED PAYMENTS – PERFORMANCE RIGHTS

During the year the company implemented the Magnetica Performance Rights Plan to incentive staff, directors and contractors working with the company. The Performance Rights were issued at no cost to recipients. The exercise price of each right is Nil. Each of the Performance Rights entitles the holder to exercise that right to receive one fully paid ordinary share in the entity under various terms and conditions. The Performance Rights consist of:

- “Series A” rights, which were issued for past performance and vested immediately on issue in December 2017
- “Series B” rights, which are subject to various company-wide/individual performance hurdles and will only vest when those hurdles are met, to the satisfaction of the Board of Directors. As at the date of this report the company wide hurdle was not met and those rights have lapsed accordingly. The board intends to issue a “Series C” in the near future.
- Shares issued or transferred under the Plan on exercise of a Performance Right (Plan Shares) may not be disposed of, transferred, or otherwise dealt with without Board approval while they are Restricted Shares, except by way of transmission to legal personal representative.
- Plan Shares will be Restricted Shares for the period commencing on their date of issue or transfer and ending on the occurrence of a Liquidity Event.

Liquidity Event means the first to occur of:

- the date on which any Shares are either or both allotted or transferred under a prospectus lodged with the Australian Securities and Investments Commission (or other relevant regulatory body) in connection with an IPO;
- the date on which a takeover bid for all of the Shares not owned by the bidder becomes unconditional; or
- the date on which, following a Trade Sale all or part of the net proceeds of sale are paid to shareholders.
- Generally speaking a performance right will lapse when any of the following events occur:
  - the Expiry Date has been reached
  - the applicable performance conditions are not achieved within the performance period specified.
  - the recipient of the right ceases to be employed or engaged by the company or
  - the recipient is dismissed or removed from office for a reason which entitles the company to dismiss the recipient without notice or has committed any act of fraud, defalcation or gross misconduct, or any act which brings the Company into disrepute

In order to apply the principles in AASB2 – Share Based Payments – the directors of the company considers the fair value of the rights issued as at 20/12/17 to be \$0.15 per right. This is on the basis that the company is unlisted and has no liquidity for shares at the current time. This value is supported by the fact that an equity raising during the same month of December 2017 occurred at \$0.15 per share. In accordance with AASB 2, a charge of 1,800,000 at \$0.15 (\$270,000) has been expensed during the period, with a corresponding increase in equity.

Set out below are details of Performance Rights issued:

Series	Grant Date	Vesting Date	First possible exercise Date	Expiry Date (unless right otherwise lapses as above)	Balance at 30 June 2018	Balance at 30 June 2017
A	20-12-17	Immediately	20-12-17	20-12-24	1,800,000	-
B	20-12-17	When performance hurdles are met to the satisfaction of the Board of Directors	On vesting date	20-12-24	7,175,000 (since lapsed)	-

## 14(c) SHARE BASED PAYMENTS – EXPENSES

During the year the company issued 280,921 shares to Howard Stack (Chair) in lieu of payment for \$42,138 of travel expenses. These shares were issued at the same price at which shares were issued in the company's last capital raising, namely \$0.15 per share. As detailed in Note 14(b) above, the issue of Series A Performance rights gave rise to an expense of \$270,000 during the year.

## 15 CONTINGENT LIABILITIES

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

	2018 \$	2017 \$
<b>16. COMMITMENTS</b>		
Operating lease commitments		
Future operating lease rentals not provided for in the financial statements or payable:		
Not longer than one year	25,531	25,530
	<b>25,531</b>	<b>25,530</b>
<b>17. AUDITOR'S REMUNERATION</b>		
Remuneration of the auditors of the parent entity for:		
- auditing or reviewing the financial report	24,024	18,717
- taxation and other services	3,500	7,000

## 18. RELATED PARTIES

### Directors and specified executives:

Disclosure relating to directors and key management personnel remuneration are included in note 23.

### Aggregate amounts payable to directors at end of the reporting period:

*There were no aggregate amounts payable to the directors during the financial year.*

### Wholly Owned Group:

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.

## 19. EVENTS OCCURRING SUBSEQUENT TO THE END OF THE REPORTING PERIOD

The company received \$566,217.88 in August 2018 from the Australian Taxation Office (ATO) for the 2017/18 Research and Development tax rebate. As at the date of this report, the company is in discussions with a party in relation to a potential investment of a minority interest. With the exception of these matters, there were no other events occurring subsequent to the end of the reporting period.

	2018	2017
	\$	\$
<b>20 RECONCILIATION OF CASH</b>		
For the purpose of the statement 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 statement of financial position as follows:		
Cash and cash equivalents	<b>920,845</b>	<b>763,275</b>
<b>21 RECONCILIATION OF NET CASH USED IN OPERATING ACTIVITIES TO LOSS AFTER INCOME TAX</b>		
Profit(loss) after income tax	72,632	973,773
Depreciation	26,562	33,452
Amortisation	18,000	18,000
Movement in other reserves	270,000	-
Change in assets and liabilities		
(Increase) decrease in assets		
Trade debtors	45,668	(89,626)
Inventory	(23,806)	(12,745)
Other current assets	(5,899)	5,774
Increase (decrease) in liabilities		
Trade creditors	63,097	(65,853)
Unearned revenue	62,837	153,374
Employee entitlements	(30,398)	19,159
PAYG withholding	(3,994)	-
Accrued superannuation	(24,046)	
Other creditors and accruals	(386,922)	468,210
Net cash used in operating activities	<b>83,731</b>	<b>1,503,518</b>

## 22. FINANCIAL INSTRUMENTS

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 the end of the reporting period.

## 23. MANAGEMENT PERSONNEL DISCLOSURES

### (a) Key Management Personnel

#### (i) Other Key Management Personnel

Howard Stack - Non-Executive Chair  
Philip Dubois - Non-Executive Director  
Charles Ho - Non-Executive Director  
Justin Schaffer - Non-Executive Director  
Richard Aird – Non-Executive Director (Executive Director until 29 October 2017)  
Jonathan Schaffer – Alternate to Justin Schaffer

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

Duncan Stovell – Chief Executive Officer  
Dr Riyu Wei – Lead Engineer  
Dr Sara Eastwood – Program and Facilities Manager

#### (iii) Key Management Personnel Compensation

	2018 \$	2017 \$
Short term employee benefit	386,443	287,707
Post-employment employee benefit	21,965	32,108
Other long term employee benefits	482	28,484
Share Based Payments	147,138	-
<b>Total</b>	<b>556,028</b>	<b>348,299</b>

#### (iv) Directors Fees

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

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

There were no options over ordinary shares in the company held during the financial year by any director or other key management personnel (2017: Nil).

### (c) Share Based Payments

Details of share based payment are detailed in note 14.

## 23 MANAGEMENT PERSONNEL DISCLOSURES (continued)

### (c) 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 2018	Balance 1 July 2017	Granted as Remuneration	Options Exercised	Net Change	Other	Balance 30 June 2018
<b>Directors</b>						
Howard Stack	8,522,286	-	-	-	1,614,254	10,136,540
Philip Dubois	906,250	-	-	-	-	906,250
Charles Ho	333,305	-	-	-	-	333,305
Justin Schaffer	12,579,835	-	-	-	1,000,000	13,579,835
Richard Aird	312,500	-	-	-	-	312,500
Jonathan Schaffer	-	-	-	-	-	-
<b>Other Key Management Personnel</b>						
Duncan Stovell	-	-	-	-	-	-
Dr Riyu Wei	-	-	-	-	-	-
Dr Sara Eastwood	-	-	-	-	-	-
<b>Total</b>	<b>22,654,176</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,614,254</b>	<b>25,268,430</b>

30 June 2017	Balance 1 July 2016	Granted as Remuneration	Options Exercised	Net Change	Other	Balance 30 June 2017
<b>Directors</b>						
Howard Stack	8,522,286	-	-	-	-	8,522,286
Philip Dubois	906,250	-	-	-	-	906,250
Charles Ho	333,305	-	-	-	-	333,305
Justin Schaffer	12,579,835	-	-	-	-	12,579,835
Richard Aird	312,500	-	-	-	-	312,500
Jonathan Schaffer	-	-	-	-	-	-
<b>Other Key Management Personnel</b>						
Duncan Stovell	-	-	-	-	-	-
Dr Riyu Wei	-	-	-	-	-	-
Dr Sara Eastwood	-	-	-	-	-	-
<b>Total</b>	<b>22,654,176</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>22,654,176</b>

	2018 \$	2017 \$
<b>24. PARENT ENTITY INFORMATION</b>		
Net loss attributable to members of Magnetica Limited	72,632	973,773
Other comprehensive income	-	-
<b>Total comprehensive income for the year</b>	<b>72,632</b>	<b>973,773</b>
Current assets	1,089,553	947,946
<b>Total assets</b>	<b>4,903,045</b>	<b>3,598,985</b>
Current liabilities	479,111	837,573
<b>Total liabilities</b>	<b>480,044</b>	<b>842,509</b>
Issued capital	58,151,914	56,829,922
Reserves	551,000	281,000
Accumulated losses	(54,279,913)	(54,354,446)
<b>Total Equity</b>	<b>4,423,001</b>	<b>2,756,476</b>

**25. NEW ACCOUNTING STANDARDS FOR APPLICATION IN FUTURE PERIODS**

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2018 reporting periods and have not been early adopted by the Company. The following new standards to be applied in future periods are not expected to have a significant impact on the Company:

- (i) AASB 9 Financial instruments (application date 1 January 2018). This standard makes significant changes to the way financial assets are classified for the purpose of determining their measurement basis and also to the amounts relating to fair value changes, which are to be taken directly to equity. This standard also makes significant changes to hedge accounting requirements and disclosures. The group will adopt this standard from 1 July 2018 but will have minimal impact on the group.
- (ii) AASB 15 Revenue from Contracts with Customers (application date 1 January 2018). Establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The group will adopt this standard in July 2018. The group does not anticipate that there will be significant implications of this change in respect of current contracts. The group will consider the application of AASB15 with respect to new contracts as they are entered into.
- (iii) AASB 16 Leases (application date 1 January 2019). This standard sets out the principles for the recognition, measurement, presentation and disclosure of leases, by lessees and lessors. The group will adopt this standard in July 2019. The adoption of this standard has been assessed by the group and will impact its assets, liabilities and expenses by the extent of which has not yet been assessed by the group.