



FINANCIAL STATEMENTS
FOR MAGNETICA LIMITED AND ITS CONTROLLED ENTITIES
FOR THE HALF YEAR ENDED 31 DECEMBER 2018

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Magnetica Limited & Controlled Entities



CONTENTS

	Page No.
Directors' Report	3
Auditor's Independence Declaration	5
Independent Auditor's Review Report	6
Directors' Declaration	8
Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income	9
Condensed Consolidated Statement of Financial Position	10
Condensed Consolidated Statement of Changes in Equity	11
Condensed Consolidated Statement of Cash Flows	12
Notes to the Financial Statements	13



DIRECTORS' REPORT

Your directors present their report for the half-year ended 31 December 2018.

DIRECTORS

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

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

REVIEW OF OPERATIONS

During the six-month period to 31 December 2018, we have improved our market offerings, matured our underpinning product realisation processes, developed our Intellectual Property (IP) portfolio and secured funds to support our operations in the coming few months.

Commercial negotiations with our System Integration Partner have seen support and commitment forthcoming for ongoing development activities relating to the dedicated Musculoskeletal (MSK) compact MRI system. Furthermore, progression of early phase activities regarding a dedicated Neuro (Head Scanner) compact MRI system have commenced. Work is ongoing to finalise the injection of further funds which should ensure continuity of cash flows through to quarter one of calendar year 2020. Initially project investment, the funds may be converted into equity in Magnetica later in 2019.

As a result of our ongoing research and development activities, we have strengthened our IP portfolio through the preparation of new provisional patent applications. Whilst our IP portfolio is a blend of trade secrets and patents, reinforcing our existing patent portfolio ensures we maintain competitive advantage for our market offerings in key geographic regions.

In September, our Notified Body issued a certificate to Magnetica confirming our Quality Management System (QMS) is compliant with ISO 13485:2016 (a QMS specific to Medical Device Organisations). We continue to develop our processes and enhance our systems, working to ensure the products we design and build meet the rigorous requirements for medical devices and related accessories. Building upon our previous ISO 9001:2008 certification, the full process mapping of our product realisation activities to satisfy the additional requirements of ISO 13485:2016 has ensured our valuable IP and corporate knowledge is captured in an increasingly effective manner.

Building upon the back of our QMS activities, we are working with a customer to build, test and deliver our first Class 1 medical device accessory into Europe. A Radio Frequency (RF) coil for use as an MRI accessory with a whole-body MRI system, the coil will enable users to undertake Transcranial Magnetic Stimulation (TMS) functional MRI (fMRI) studies with equipment optimised to meet their application needs. Completing the delivery will further validate and demonstrate our growing capabilities both in terms of successful product realisation and achieving regulatory compliance.

To raise market awareness regarding Magnetica's market offerings and medical device product realisation competences, we will be exhibiting at a conference for the first time in May 2019. The annual ISMRM (International Society of Magnetic Resonance in Medicine) conference is being held in Montreal, Canada. As well as developing new opportunities to work with customers to design and supply superconducting magnets, gradient coils and RF coils, exhibiting at the conference will strengthen the Magnetica brand.



The Directors thank our customers, partners, suppliers, shareholders and other stakeholders for the ongoing support being provided to the Magnetica team.

RESULTS OF OPERATIONS

Results for the half-year are summarised as follows:

	31 December 2018 \$	31 December 2017 \$
Profit/(Loss) before income tax	246,415	263,051
Income tax expense	-	-
	<hr/>	<hr/>
Net profit/(loss) for the period	246,415	263,051
	<hr/>	<hr/>

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Other than highlighted above, there were no significant changes in the state of affairs during the half-year.

AUDITOR'S INDEPENDENCE DECLARATION

The Auditor's Independence Declaration has been received and can be found on page 5 of this financial report.

A handwritten signature in blue ink, appearing to be "W. S. J.", written in a cursive style.

Director

Brisbane, 26th day of February, 2019

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 half year ended 31 December 2018, there have been:

- i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and
- ii) no contraventions of any applicable code of professional conduct in relation to the review.



Geoffrey Stephens
Director

HALL CHADWICK QLD

Signed at Brisbane, 26th February 2019

Independent Auditor's Review Report

To the members of Magnetica Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Magnetica Limited, which comprises the condensed consolidated statement of financial position as at 31 December 2018, the condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the Directors' declaration.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the entity's financial position as at 31 December 2018 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting and the Corporations Regulations 2001*. As the auditor of Magnetica Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the Directors of Magnetica Limited, would be in the same terms if given to the Directors as at the time of this auditor's review report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Magnetica Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting and Corporations Regulations 2001*.



Geoffrey Stephens
Director

HALL CHADWICK QLD

Signed at Brisbane, 26th February 2019



DIRECTORS' DECLARATION

The Directors of the company declare that:

1. the financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:
 - (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the half-year ended on that date; and
 - (b) complying with the Accounting Standard AASB 134: Interim Financial Reporting and the *Corporations Regulations 2001*.
2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in Brisbane this 26th day of February 2019 in accordance with a resolution of the directors.

Director



**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 31 DECEMBER 2018**

	Note	31 December 2018 \$	31 December 2017 \$
Revenue	2	844,484	976,765
Expenses		(598,329)	(713,714)
Profit/(Loss) before income tax expense		246,415	263,051
Income tax expense		-	-
Net profit/(loss) attributable to members of Magnetica Limited		246,415	263,051
Other comprehensive income		-	-
Total comprehensive income for the period attributable to members of Magnetica Limited		246,415	263,051

The above condensed consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.



CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

	Note	31 December 2018 \$	30 June 2018 \$
CURRENT ASSETS			
Cash and cash equivalents		1,124,715	920,845
Trade and other receivables		50,149	64,077
Inventories		97,420	71,438
Other current assets		17,724	33,193
TOTAL CURRENT ASSETS		1,290,008	1,089,533
NON-CURRENT ASSETS			
Property, plant and equipment		166,490	167,956
Intangible assets		4,245,882	3,645,536
TOTAL NON-CURRENT ASSETS		4,412,372	3,813,492
TOTAL ASSETS		5,702,380	4,903,045
CURRENT LIABILITIES			
Trade and other payables		166,502	425,981
Employee Benefits		106,461	53,130
TOTAL CURRENT LIABILITIES		273,223	497,111
NON-CURRENT LIABILITIES			
Employee Benefits		-	933
TOTAL NON-CURRENT LIABILITIES		-	933
TOTAL LIABILITIES		273,223	480,044
NET ASSETS		5,429,157	4,423,001
EQUITY			
Issued capital	3	58,151,914	58,151,914
Reserves	4	1,311,000	551,000
Accumulated losses		(54,033,497)	(54,279,913)
TOTAL EQUITY		5,429,157	4,423,001

The above condensed consolidated statement of financial position should be read in conjunction with the accompanying notes.



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2018

	Issued Capital	Option Reserve	Perfor- mance Rights Reserve	Share based Payment Reserve	Accumulated Losses	Total
	\$	\$	\$	\$		\$
Balance at 1 July 2018	58,151,914	281,000	270,000	-	(54,279,912)	4,423,002
Development Contributions (see note 4)				760,000		760,000
Total comprehensive income for the period	-	-	-	-	246,415	246,415
Balance at 31 December 2018	58,151,914	281,000	270,000	760,000	54,033,497	5,429,157
Balance at 1 July 2017	56,829,922	281,000	-	-	(54,354,444)	2,756,478
Shares issued during the period	1,360,000	-	-	-	-	1,360,000
Share issue costs	(58,424)	-	-	-	-	(58,424)
Performance Rights issued during the period (see note 4)	-	-	270,000	-	-	270,000
Prior Year Adjustment	-	-	-	-	1,900	1,900
Total comprehensive income for the period	-	-	-	-	263,051	263,051
Balance at 31 December 2017	58,131,498	281,000	270,000	-	(54,089,493)	4,593,005

The above condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes.



CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

	31 December 2018 \$	31 December 2017 \$
Cash flows from operating activities		
Receipts from customers and grants	1,599,937	1,072,483
Payments to suppliers and employees	(851,189)	(602,603)
Interest received	4,347	4,821
GST recovered/(paid)	44,652	53,482
Net cash provided by/(used in) operating activities	797,747	528,183
Cash flows from investing activities		
Payments for property, plant and equipment	(11,539)	(728)
Payments for intangible assets	(582,338)	(655,267)
Net cash provided by/(used in) investing activities	(593,877)	(655,995)
Cash flows from financing activities		
Proceeds from capital raising	-	1,301,576
Net cash provided by/(used in) financing activities	-	1,301,576
Net increase (decrease) in cash and cash equivalents held	203,870	1,173,764
Cash and cash equivalents at the beginning of the financial period	920,845	763,275
Cash and cash equivalents at the end of the financial period	1,124,715	1,937,039

The above condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

1. BASIS OF PREPARATION

These general purpose financial statements for the interim half-year reporting period ended 31 December 2018 have been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standard AASB 134: Interim Financial Reporting.

These interim financial statements are intended to provide users with an update on the latest annual financial statements of the group. As such, they do not contain information that represents relatively insignificant changes occurring during the half-year. It is therefore recommended that these financial statements be read in conjunction with the annual financial statements of the group for the year ended 30 June 2018, together with any disclosures made during the half-year.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

a. 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 sustainably profitable and self-sufficient. While the company has large accumulated losses, for the last six months the company has made a net profit of \$246,415 (profit of \$263,051 in the corresponding prior period). The company also has positive operating cash flows of \$797,747 for the last six months.

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 of necessary future 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.

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

- a) The company has historically had the ability to secure Government grant funding and to secure share capital as needed;
- b) The company is entitled to a substantial annual research and development tax rebate;
- c) Periodic coil sales are expected to occur throughout the financial year;
- d) A funding and partnering arrangement with a Systems Integration Partner has been agreed in principle, and the first \$0.76M of an anticipated total \$3.8M funding has been received during the period. Work continues on documentation and signing by both parties into all aspects of this in principle agreement (see further note 4); and
- e) 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

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 above, will mitigate the adverse conditions and events which raise doubts about the validity of the going concern assumption used in preparing these financial statements.

b. New and Amended Standards Adopted

The Company has applied, for the first time, AASB 15 Revenue from Contracts with Customers and AASB 9 Financial Instruments. Neither standard has had a material impact on the transactions and balances recognised in the financial statements and do not have any impact on the disclosures included in these interim financial statements.

AASB 15 Revenue from Contracts with Customers

AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced AASB 118 Revenue and related interpretations. It requires identification of discrete performance obligations within a transaction and an associated transaction price allocation to these obligations.

Revenue is recognised upon satisfaction of these performance obligations, which occur when control of the goods or services are transferred to the customer.

Based on the Group's assessment of revenue streams, there is no impact on the Group's condensed consolidated interim financial statements upon adoption and no transition adjustment has been made to opening retained earnings. The application of the requirements of AASB 15 are broadly consistent with the Company's current accounting policies.

AASB 9 Financial Instruments

AASB 9 sets out requirements for recognising and measuring financial assets and financial liabilities. This standard replaces AASB 139 Financial Instruments: Recognition and Measurement.

There was no material impact on the Company's condensed consolidated interim financial statements for the half-year ended 31 December 2018.

c. Revenue and Other Income

Revenue arises mainly from the sale of goods and services, Research and Development (R&D) tax rebates, interest and various grants.

To determine whether to recognise revenue, the company follows a five-step process:

1. Identifying the contract with a customer;
2. Identifying the performance obligations;
3. Determining the transaction price;
4. Allocating the transaction price to the performance obligations; and
5. Recognising revenue when/as performance obligations are satisfied.

Revenue generated by the Company is categorised into the following reportable segments:

- Manufacturing segment – sale of Gradient and Radio Frequency (RF) Coils;
- Interest;
- R&D Tax Offsets; and
- Grants.

Gradient and RF Coils

The Company manufactures and sells Gradient and RF Coils.

Revenue from these sales is based on the price stipulated in the contract. Revenue is only recognised to the extent that there is a high probability that the company will collect the consideration to which it will be entitled to, in exchange for goods and services that will be transferred to the customer.

Revenue is recognised either at a point in time or over time, when (or as) the company satisfies performance obligations.

As many of the contracts involve purpose-built goods and services unique to that customer, (which have no alternate use for the company), and the company usually has an enforceable right to payment for the performance completed, most contract revenue is recognised over time. The company recognises revenue over time by measuring the progress towards complete satisfaction of that performance obligation. It measures progress by using reliable methods such as milestones reached, surveys of performance completed to date, and appraisals of results achieved, with reference to value to the customer of goods or service promised under the contract.

In the event that the above-mentioned conditions are not fulfilled, the company recognises revenue at a point in time. In determining the appropriate point in time at which revenue is recognised, the company considers factors such as when the customer obtains control of the promised goods/services, and when the company has satisfied its performance obligations. Determined on a case by case basis, the factors to be considered include whether the company has a present right to payment for the goods; whether the company has transferred physical possession of the asset, and whether the customer has accepted the asset – all having reference to the contracted terms and conditions.

The group recognises contract liabilities for consideration received in respect of unsatisfied performance obligations, and reports these amounts as liabilities in its Statement of Financial Position. Similarly, if the company satisfies a performance obligation before it receives the consideration, the Group recognises a receivable in its Statement of Financial Position.

Interest

Interest is recognised when the company has the right to receive the interest payment.

Research and Development Tax Offset

Refundable research and development tax offsets are recognized when the Australian Taxation Office approves that year's claim. Non-refundable R&D 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.

Grants

Grants are recognised as revenue when grant submission has been approved and relevant payment has been received.



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

2. REVENUE

	31 December 2018	31 December 2017
	\$	\$
Sale of goods	212,199	29,530
Royalties	-	8,101
Other Income	(780)	(691)
Research and development tax rebate	566,218	641,255
AusIndustry Accelerating Commercialisation grant	50,000	231,250
Advanced Manufacturing Growth Centre grant	12,500	-
QLD Industry Ignite Ideas Fund grant	-	62,500
Interest	4,347	4,820
	844,484	976,765

3. ISSUED CAPITAL

	No of shares	\$
Ordinary Shares		
Balance 1 July 2018	119,567,184	58,151,914
Balance 31 December 2018	119,567,184	58,151,914

4. RESERVES

SHARE BASED PAYMENT RESERVE

During the period, the company received development contributions of \$0.76M under a signed agreement, which forms part of an overarching funding and partnering “in principle” agreement with a Systems Integration Partner. As part of proposed arrangements, it is anticipated that Magnetica will enter into a formal agreement with that partner to provide the partner with an option to later convert the amount received in the period, plus future development contributions, (anticipated \$3.8M in total) into equity. This option would allow the partner up to an anticipated 19.9% of the equity of Magnetica.



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

4. RESERVES (CONTINUED)

SHARE BASED PAYMENTS – PERFORMANCE RIGHTS

Magnetica has a Performance Rights Plan to incentivise staff, directors and contractors working with the company. The Performance Rights are 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;
- “Series B” rights, which were subject to various company-wide/individual performance hurdles to be achieved by 30 June 2018. (As these hurdles were not achieved to the satisfaction of the Board of Directors, these rights lapsed); and
- “Series C” rights, which were issued in November 2018, which are subject to various company-wide/individual hurdles to be achieved at nominated dates in the 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; (Series A and C);
 - the date on which a takeover bid for all of the Shares not owned by the bidder becomes unconditional; (Series A and C);
 - the date on which, following a Trade Sale all or part of the net proceeds of sale are paid to shareholders; (Series A and C);
 - a scheme of arrangement is made or undertaken in respect of the company (Series C only); or
 - any event similar to those described above involving a change in ownership or control of the Company or all or substantial part of the assets of the Company (Series C only).
- 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.



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

4. RESERVES (CONTINUED)

Set out below are details of performance rights as at balance date:

Series	Grant Date	Vesting Date	First possible exercise Date	Expiry Date (unless right otherwise lapses as above)	Balance at 31 December 2018	Balance at 31 December 2017
A	20-12-2017	Immediately	20-12-2017	20-12-2024	1,800,000	1,800,000
B	20-12-2017	Lapsed Aug 2018	Lapsed	Lapsed	0	7,175,000
C	20-11-2018	When performance hurdles are met to the satisfaction of the Board of Directors	On vesting date	20-11-2025	7,500,000	-

5. CONTINGENT LIABILITIES

There has been no material change in contingent liabilities since the last annual reporting date.

6. EVENTS AFTER THE REPORTING PERIOD

There are no matters or circumstances, which have arisen since the end of the half-year, that have significantly affected, or may significantly affect, the operations, the results of those operations or the state of affairs of the consolidated entity in future years.