



FINANCIAL STATEMENTS
FOR MAGNETICA LIMITED AND ITS CONTROLLED ENTITIES
FOR THE HALF YEAR ENDED 31 DECEMBER 2019

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Magnetica Limited & Controlled Entities



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DIRECTORS' REPORT

Your directors present their report for the half-year ended 31 December 2019.

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

The six-month period to 31 December 2019 has resulted in a range of successes, but new challenges for Magnetica.

The Extremity MRI system has completed a number of rounds of Voice-of-the-Customer (VoC) testing, where a range of in-house volunteer scanning was undertaken and produced strong support for the system from all the Radiologists, Radiographers, volunteers ("patients") involved, and validated the clinical workflow for the system. The performance of the system was proven, and several early adopters identified from the limited pool of organisations involved to date.

We received the remaining AU\$1.52M of the agreed AU\$3.8M funds from our Systems Integration partner during the first quarter of FY20 as expected. These funds are supporting our Extremity MRI and Neurological MRI system development activities.

Whilst we have completed the range of activities which we committed to undertake for the development of a Neuro MRI system, progress has been negatively impacted as we continue to await decisions from the Systems Integrator regarding the preferred system architecture.

Having had such a positive outcome from the range of VoC testing activities with the Extremity MRI system, it was with real surprise and deep disappointment that we were advised by our Systems Integration Partner that, following their final internal stage-gate review, they had decided not to complete the commercialisation of the Extremity product. Furthermore, as a result of their commercialisation decision, they decided that they would not take up their option to have the funds previously contributed converted into equity in Magnetica.

We are working to exploit the new opportunities in relation to the Extremity MRI system as efficiently and effectively as possible. We are busily engaging with a number of other credible parties in an effort to secure a new Systems Integration partner with whom to complete the commercialisation of the Extremity MRI system and launch this product. We remain confident that such a product will deliver a positive impact for patients and clinicians in the radiology community alike, bringing high-quality imaging closer to the patient point-of-care. We have been encouraged by the genuine interest and belief in the applicability of the product in the market.

We have commenced negotiation with our existing Systems Integrator either to amend or exit our commercial relationship upon mutually satisfactory terms.



DIRECTORS' REPORT (CONTINUED)

In terms of additional successes for the company, working with a European customer, we have delivered our first Class 1 medical device into a regulatory controlled region. This is a significant milestone for Magnetica, given previous products delivered to customers have been for research applications and not approved for clinical use. A CE marked Radio Frequency (RF) coil for use as an MRI accessory with a whole-body MRI system, the coil enables the user to undertake Transcranial Magnetic Stimulation (TMS) and/or functional MRI (fMRI) studies. The coil configuration has been optimised to satisfy the needs of the user's specific application.

Our IP portfolio was strengthened through the granting of a patent in China and Japan for our 'Magnet for Head and Extremity Imaging' patent application. With other jurisdictions still to complete their review, we are confident that we will obtain good coverage in key markets, thus maintaining our philosophy of ensuring the cost-effective maintenance of competitive advantage for our market offerings in key geographic regions.

In support of our ongoing commercialisation journey, we anticipate undertaking capital raising activities later in calendar year 2020. Whilst our strategy remains unchanged, the next few months will clarify the timing and quantum of the proposed raise to support our nearer-term activities and the use of those funds raised.

The Directors acknowledge the ongoing support of our customers, partners, suppliers, shareholders and other stakeholders and thank them for their continued confidence in the Magnetica team.

RESULTS OF OPERATIONS

Results for the half-year are summarised as follows:

	31 December 2019 \$	31 December 2018 \$
Profit/(Loss) before income tax	(466,906)	246,415
Income tax expense	-	-
Net profit/(loss) for the period	(466,906)	246,415

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.

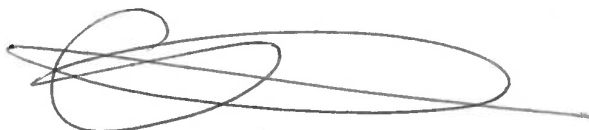
Director

Brisbane, 11 day of March, 2020

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 2019, 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.



HALL CHADWICK QLD

Clive Massingham
Partner
HALL CHADWICK QLD

Signed at Brisbane this 11th day of March 2020.

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 2019, 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 2019 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.

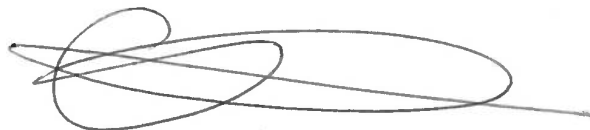
Independence

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 2019 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*.



HALL CHADWICK QLD

Clive Massingham
Partner
HALL CHADWICK QLD

Signed at Brisbane this 11th day of March 2020.



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 2019 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 11th day of March 2020 in accordance with a resolution of the directors.

A handwritten signature in dark ink, appearing to be "A. S. K." or similar, written in a cursive, fluid style.

Director

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019**

	Note	31 December 2019 \$	31 December 2018 \$
Revenue	2	646,334	844,484
Expenses		(1,113,240)	(598,329)
Profit/(Loss) before income tax expense		(466,906)	246,415
Income tax expense		-	-
Net profit/(loss) attributable to members of Magnetica Limited		(466,906)	246,415
Other comprehensive income		-	-
Total comprehensive income for the period attributable to members of Magnetica Limited		(466,906)	246,415

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 2019

		31 December 2019	30 June 2019
		\$	\$
	Note		
CURRENT ASSETS			
Cash and cash equivalents		2,444,266	1,436,040
Trade and other receivables		50,107	84,009
Inventories		79,298	72,308
Right of Use Asset		59,587	-
Other current assets		68,311	141,870
TOTAL CURRENT ASSETS		2,701,569	1,734,227
NON-CURRENT ASSETS			
Property, plant and equipment		202,158	156,691
Intangible assets		5,419,677	5,000,218
TOTAL NON-CURRENT ASSETS		5,621,835	5,156,909
TOTAL ASSETS		8,323,404	6,891,136
CURRENT LIABILITIES			
Trade and other payables		174,632	226,696
Employee Benefits		77,621	57,733
Lease liabilities	3	59,587	-
TOTAL CURRENT LIABILITIES		311,840	283,429
NON-CURRENT LIABILITIES			
Employee Benefits		455	1,192
TOTAL NON-CURRENT LIABILITIES		455	1,192
TOTAL LIABILITIES		312,295	285,261
NET ASSETS		8,011,109	6,605,515
EQUITY			
Issued capital	4	58,088,535	58,088,535
Reserves	5	903,500	2,831,000
Accumulated losses		(50,980,926)	(54,314,020)
TOTAL EQUITY		8,011,109	6,605,515

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 2019

	Issued Capital	Option Reserve	Perform- -ance rights Reserve	Share Based Payments Reserve	Accumul -ated Losses	Total
	\$	\$	\$	\$	\$	\$
Balance at 1 July 2019	58,088,535	281,000	270,000	2,280,000	(54,314,020)	6,605,515
Performance Rights Vesting December 2019	-	-	352,500	-	-	352,500
Development Contributions	-	-	-	1,520,000	-	1,520,000
Transfer of Development Contributions on lapse of option to convert to shares	-	-	-	(3,800,000)	3,800,000	-
Total comprehensive income for the period	-	-	-	-	(466,906)	(466,906)
Balance at 31 December 2019	58,088,535	281,000	622,500	-	(50,980,926)	8,011,109
Balance at 1 July 2018	58,151,914	281,000	270,000	-	(54,279,912)	4,423,002
Development Contributions	-	-	-	760,000	-	760,000
Total comp 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

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



CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

	31 December 2019 \$	31 December 2018 \$
Cash flows from operating activities		
Receipts from customers and grants	677,882	1,599,937
Payments to suppliers and employees	(715,499)	(851,189)
Interest received	3,993	4,347
GST recovered/(paid)	40,374	44,652
Net cash provided by/ (used in) operating activities	6,750	797,747
Cash flows from investing activities		
Payments for property, plant and equipment	(62,093)	(11,539)
Payments for intangible assets	(419,459)	(582,338)
Net cash provided by/ (used in) investing activities	(481,552)	(593,877)
Cash flows from financing activities		
Contributions – share based payments reserve	1,520,000	-
Payment of lease liabilities	(36,872)	-
Net cash provided by/ (used in) financing activities	1,483,028	-
Net increase (decrease) in cash and cash equivalents held	1,008,226	203,870
Cash and cash equivalents at the beginning of the financial period	1,436,040	920,845
Cash and cash equivalents at the end of the financial period	2,444,266	1,124,715

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 2019

1. BASIS OF PREPARATION

These general-purpose financial statements for the interim half-year reporting period ended 31 December 2019 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 2019, 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 loss of \$466,906 (profit of \$246,415 in the corresponding prior period). The company also has positive net overall cash flows of \$1,008,226 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) We remain engaged with the existing Systems Integrator and are negotiating a new agreement to supply Research and Development (R&D) services over a multi-year term;
- e) The company is in discussions with various other parties who have expressed interest in relation to the potential collaboration on commercialisation of its product set;
- f) 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 2019

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 by the Group

AASB 16 Leases

The group has adopted AASB 16 Leases from 1 July 2019. The standard replaces existing accounting requirements under AASB 17 Leases and eliminates the classification between operating and finance leases, introducing a single lessee accounting model.

Previously, leases were classified based on their nature as either finance leases or operating leases. Finance leases were recognised in the Consolidated Statement of Financial Position and operating leases were recognised on a straight-line basis over the term of the lease.

Under AASB 16, the Group's accounting for operating leases as a lessee will now result in the recognition of a right-of-use (ROU) asset and a corresponding lease liability, with the exception of short term leases under 12 months and where the underlying ROU asset is of a low value. The lease liability will represent the present value of future lease payments. There will be a separate recognition of the depreciation charge on the ROU asset and interest expense on the lease liability.

The group adopted AASB 16 using the modified retrospective method of adoption. The reclassifications and adjustments arising from the new leasing standard are therefore recognised in the opening statement of financial position on 1 July 2019. As the group adopted this approach, there was no restatement of previous financial statements required. When applying this modified approach, the Group has elected to apply practical expedients allowed under the standard, including the use of hindsight in determining the lease term where the contract contains options to extend the lease. The group has also elected not to reassess whether a contract is or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the group relied on its assessment made applying AASB 117.

On adoption of AASB 16, the Group recognised lease liabilities in relation to leases which had previously been classified as an operating lease under AASB 117 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate at date of transition.

For more information, please refer to Note 3.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

2. REVENUE

	31 December 2019	31 December 2018
	\$	\$
Sale of goods	4,341	212,199
Other Income	1,149	(780)
Research and development tax rebate	636,851	566,218
AusIndustry Accelerating Commercialisation grant	-	50,000
QLD Industry Ignite Ideas Fund grant	-	12,500
Interest	3,993	4,347
	<u>646,334</u>	<u>844,484</u>

3. LEASES

Impact of the adoption of AASB 16 Leases on the Statement of financial Position (increase/decrease) as at 1 July 2019.

	01 July 2019
	\$
Assets	
Right-of-use assets	<u>31,555</u>
Total Assets	<u>31,555</u>
Liabilities	
Lease Liabilities	<u>31,555</u>
Total Liabilities	<u>31,555</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

3. LEASES (CONTINUED)

	01 July 2019 \$
Equity	
Retained earnings	-
Total Equity	-

The group has recognised depreciation and interest costs where material in relation to right-of-use assets and lease liabilities. Set out below are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period.

	Right-of-use Assets Current Assets \$	Lease Liabilities Current Liabilities \$
As at 30 June 2019	-	-
Additions on transition	31,555	31,555
Additions during the half year	65,004	65,004
Depreciation expense	(36,972)	-
Interest expense	-	-
Payments	-	(36,972)
As at 31 December 2019	59,587	59,587

The right-to-use assets represents a 12-month lease of office and factory premises at Eagle Farm.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

3. LEASES (CONTINUED)

Set out below, are the amounts recognised in the Group's consolidated Statement of Profit and Loss in relation to leases:

	31 December 2019
	\$
Depreciation expense right to use assets	36,972
Interest Expense	-
Total amount recognised in Profit and Loss	36,972

4. ISSUED CAPITAL

	No of shares	\$
Ordinary Shares		
Balance 1 July 2019	119,567,184	58,088,535
Balance 31 December 2019	119,567,184	58,088,535

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

5. 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. As at 31 December 2019, following a board of director’s determination, 50% of these rights which were issued to recipients with individual hurdles were considered to be vested as at that date.

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;
 - the date on which, following a Trade Sale all or part of the net proceeds of sale are paid to shareholders;
 - a scheme of arrangement is made or undertaken in respect of the company; 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.
- 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 2019

5. SHARE-BASED PAYMENTS – PERFORMANCE RIGHTS (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 2019	Lapsed - Employment ceased	Balance at 31 December 2018
A	20-12-2017	Immediately	20-12-2017	20-12-2022	1,800,000		1,800,000
B	20-12-2017	Lapsed Aug 2018	Lapsed	Lapsed	0		0
C	20-11-2018	When performance hurdles are met to the satisfaction of the Board of Directors	On vesting date	20-11-2023	7,425,000	(75,000)	7,500,000
C-2	29-11-2019	When performance hurdles are met to the satisfaction of the Board of Directors	On vesting date	29/11/2024	275,000	-	-
Total C					7,700,000		7,500,000

6. CONTINGENT LIABILITIES

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

7. 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