Magnetica Limited
ABN 93 010 679 633

Notice of General Meeting

Date: Monday 16 January 2023

Time: 5pm (Brisbane time)

Place: Shareholders can attend:

- **Online** - web.lumiagm.com/345836302; or
- **In person** - Thomson Geer, Level 28, Waterfront Place, 1 Eagle Street, Brisbane QLD 4000

This is an important document that requires your attention

This Notice of Meeting, Explanatory Memorandum and Independent Expert's Report should be read in its entirety. If you are in doubt about how to deal with this document, please consult your legal, financial or other professional advisor.

The Independent Expert has concluded that the AVG Capital Raising as set out in the Explanatory Memorandum and Independent Expert's Report is not fair but reasonable to Non-Associated Shareholders.

Contents

Important Information 2
Managing Director's letter 3
Notice of General Meeting 5
Explanatory Memorandum 6
Schedule 1 28
Annexure A - Independent Expert's Report 30

Important Information

Notice to persons outside of Australia

This document has been prepared in accordance with the Corporations Act, disclosure requirements and accounting standards. These laws, disclosure requirements and accounting standards may be different to those in other countries.

Forward looking statements

Certain statements in this document relate to the future. These forward looking statements involve known and unknown risks, uncertainties, assumptions and other important factors that could cause the actual results, performance or achievements of Magnetica to be materially different from future results, performance or achievements expressed or implied by such statements. Actual events or results may differ materially from the events or results expressed or implied in any forward looking statement and deviations are both normal and to be expected.

These statements reflect views only as of the date of this document. While Magnetica believes that the expectations reflected in the forward looking statements are reasonable, neither Magnetica nor any other person gives any representation, assurance or guarantee that the occurrence of an event expressed or implied in any forward looking statements in this document will occur.

Disclaimer

No person is authorised to give any information or make any representation in connection with the AVG Capital Raising which is not contained in this document. Any information which is not contained in this document may not be relied on as having been authorised by Magnetica or the Board in connection with the AVG Capital Raising.

Responsibility for information

The information contained in this document (except the Independent Expert’s Report and the information regarding Avingtrans) has been prepared by Magnetica and is the responsibility of Magnetica. Information concerning Avingtrans has been provided by Avingtrans. The Company and none of its Associates or its advisers assumes any responsibility for the accuracy or completeness of that information.

The Independent Expert has prepared the Independent Expert’s Report and has consented to the inclusion of that report in this document. The Independent Expert takes responsibility for that report but is not responsible for any other information contained within this document.

Shareholders are urged to read the Independent Expert’s Report carefully to understand the scope of the report, the methodology of the assessment, the sources of information and the assumptions made. Shareholders are encouraged to read the Independent Expert's Report in full.

Definitions

Capitalised terms in this Explanatory Memorandum are defined in Schedule 1.

Enquiries

Enquiries in relation to the contents of this document can be directed to 1300 737 760 (within Australia) and +61 2 9290 9600 (outside Australia).

Managing Director's letter

30 November 2022

Dear Shareholder

In January 2021, Magnetica Limited (**Magnetica**) completed a merger with Space Cryomagnetics Limited (**SciMag**), whereby:

- Magnetica acquired all the share capital of SciMag from Avingtrans plc (**AVG**) and two minority shareholders;
- AVG acquired a majority interest in Magnetica; and
- AVG agreed to provide Magnetica with up to £3.2 million of funding by subscribing for Shares at A$0.15 per Share.

The merger enabled Magnetica:

- to become an MRI system Original Equipment Manufacturer (OEM). As an MRI system OEM, Magnetica can design, manufacture and sell products without reliance on third party manufacturers or being in the supply chain of large medical device system integrators; and
- continue to fund its operations including the commercialisation of its MSK (musculoskeletal) Extremity MRI system.

The total funding committed by AVG as part of the merger has been fully drawn down and consequently, Magnetica is undertaking a capital raising (**Capital Raising**) comprising:

- **(AVG Capital Raising)** subject to shareholder approval, the issue of Shares to Magnetica's majority shareholder AVG by way of:
    - (**AVG Placement**) a placement of up to approximately 135,000,000 Shares at A$0.05 per Share to raise up to A$6,750,000 of additional cash (with the final size of the AVG Placement to be reduced by the level of participation under the Placement and SPP). The funds committed under the AVG Placement will be provided on a staged basis as described in Section 1.3(b); and
    - (**AVG Debt Reduction**) capitalisation of AVG's shareholder loans, by issuing approximately 87,000,000 Shares at A$0.05 per Share, to retire up to A$4,350,000 of working capital loans provided to the Company;
- **(Placement)** a placement of up to 135,000,000 Shares at A$0.05 per Share to new and/or existing sophisticated, professional and other investors to whom no disclosure is required under the Corporations Act, subject to shareholder approval for the AVG Capital Raising (with the final size of the placement to be reduced by the level of participation under the SPP); and
- **(SPP)** a share purchase plan offer to allow eligible existing shareholders to purchase up to A$30,000 of fully paid ordinary shares in Magnetica at A$0.05 per share to raise up to A$6,750,000 before costs, which is also subject to shareholder approval of the AVG Capital Raising.

On completion, the Capital Raising is expected to raise A$6,750,000 of cash funding and retire A$4,350,000 of shareholder loans.

Shareholder approvals for AVG Capital Raising

Shareholder approvals are required for the following under the AVG Capital Raising:

- the increase of AVG's voting power in Magnetica from 61.3% at the date of this document to up to a maximum of 76.6% if AVG takes up all of its shares under the AVG Placement and is issued shares under the AVG Debt Reduction;

- the provision of financial benefits to AVG, a related party of Magnetica in the form of the issue of shares under the AVG Placement and the AVG Debt Reduction.

An explanation of the rationale for the AVG Capital Raising and a discussion of the advantages and disadvantages of the AVG Capital Raising are set out in this document.

Independent Expert's Report

The Board has also appointed BDO Corporate Finance Ltd to prepare an independent expert's report in relation to the AVG Capital Raising in accordance with the *Corporations Act 2001* (Cth).

The Independent Expert has opined that the AVG Capital Raising is not fair but reasonable to Shareholders who are not associated with AVG.

A copy of the Independent Expert's Report is set out in Annexure A to the Explanatory Memorandum accompanying this Notice of Meeting.

Shareholders are encouraged to read the Independent Expert's Report in full.

Governance

A Board committee comprising the Magnetica directors independent of AVG – Messrs Stovell and Gouveia and Professor Crozier - was established to consider the AVG Capital Raising.

That Transaction Committee unanimously recommends that **<u>Shareholders vote in favour</u>** of the Resolution.

I am pleased to invite you to the general meeting to consider the AVG Capital Raising.

Yours sincerely

Duncan Stovell
Managing Director

Notice of General Meeting

Notice is given that an extraordinary general meeting of shareholders in Magnetica Limited ACN 010 679 633 (**Magnetica**) will be held on 16 January 2023 commencing at 5pm (Brisbane time). Shareholders can attend either:

- **Online** - at web.lumiagm.com/345836302; or
- **In person** – at Thomson Geer, Level 28, Waterfront Place, 1 Eagle Street, Brisbane QLD 4000.

Resolution – approval of AVG Capital Raising, the increase of voting power of Avingtrans plc and the provision of financial benefits to Avingtrans plc

To consider and, if thought fit, pass the following Resolution as an **ordinary resolution**:

*'That for the purposes of section 208, item 7 of section 611 of the Corporations Act and for all other purposes, approval is given for the acquisition by Avingtrans plc (Company Number 01968354) (**AVG**) of a Relevant Interest in up to 222,000,000 fully paid ordinary shares in Magnetica Limited on the terms and conditions set out in the Explanatory Memorandum and for:*

- *the increase of AVG's voting power in the Company to up to 76.6%; and*
- *the Company giving financial benefits to AVG in the form of shares issued to AVG under the AVG Capital Raising.*

Voting exclusion

The Company will disregard any votes cast in favour of this resolution by or on behalf of Avingtrans plc, Mr Stephen McQuillan, Mr Stephen King or each of their associates.

However, a person described above may cast a vote on this Resolution if:

- *it is cast by a person as a proxy appointed by writing that specifies how the proxy is to vote on the Resolution; and*
- *it is not cast on behalf of Avingtrans plc or an associate of Avingtrans plc.*

Independent Expert's Report

Shareholders should carefully consider the Independent Expert's Report prepared in respect of the Resolution. The Independent Expert's Report comments on the fairness and reasonableness of the AVG Capital Raising as a whole to Non-Associated Shareholders. The Independent Expert's Report has opined that the AVG Capital Raising is not fair but reasonable to Non-Associated Shareholders. This report is set out in Annexure A to the Explanatory Memorandum accompanying this Notice of Meeting. Shareholders are encouraged to read the Independent Expert's Report in full.

Dated 30 November 2022

BY ORDER OF THE BOARD

Duncan Stovell.

Mr Duncan Stovell
Managing Director

Explanatory Memorandum

This Explanatory Memorandum has been prepared for the assistance of Shareholders in relation to business to be conducted at an extraordinary general meeting to be held on 16 January 2023 commencing at 5pm (Brisbane time). Shareholders can attend either:

- **Online** - at web.lumiagm.com/345836302; or
- **In person** – at Thomson Geer, Level 28, Waterfront Place, 1 Eagle Street, Brisbane QLD 4000.

This Explanatory Memorandum should be read with, and form part of, the accompanying Notice of Meeting.

The purpose of this Explanatory Memorandum is to provide Shareholders with all information known to Magnetica which is material to a decision on how to vote on the Resolution in the accompanying Notice of Meeting.

This Explanatory Memorandum does not take into account the individual investment objectives, financial situation and needs of individual Shareholders or any other person. Accordingly, it should not be relied on solely in determining how to vote on the Resolution and Shareholders should seek their own financial or legal advice.

Eligibility to vote

The Directors have determined that the shareholding of each member for the purposes of ascertaining their voting entitlements at the General Meeting will be as it appears in the share register at 7pm (Brisbane time) on 13 January 2023. Accordingly, those persons are entitled to vote at the General Meeting.

How to vote

If you are eligible, you may vote during the meeting (either by physically attending or online) or appoint of a proxy to vote on your behalf.

Online participation

More information regarding participating in the meeting online can be found in the Virtual Meeting Guide attached at the end of this Notice of Meeting.

Shareholders will be given a reasonable opportunity to ask questions (including verbally) during the General Meeting via the online Lumi platform. To ensure as many shareholders as possible have the opportunity to speak, shareholders are requested to observe the following requests:

- all shareholder questions should be clearly stated and should be relevant to the business of the meeting;
- if a shareholder has more than one question on an item of business, all questions should be asked at that one time; and
- shareholders should not ask any questions at the meeting relating to any matters that are personal to the shareholder or commercial in confidence.

Information on how to use the Lumi platform (including how to vote and ask questions online) is available in the Virtual Platform Guide which is attached at the end of the Notice of Meeting or by visiting https://magnetica.com/about/investor-downloads/.

Voting by proxy

To vote by proxy, please complete, sign and return the enclosed proxy form in accordance with the following instructions. If you require an additional proxy form, Magnetica will supply it on request.

A member who is entitled to vote at the General Meeting, may appoint one proxy if the member is only entitled to one vote or one or two proxies if the member is entitled to more than one vote. A proxy need not be a member of Magnetica. Where the member appoints two proxies, the appointment may specify the proportion or number of votes that each proxy may exercise. If the appointment does not specify a proportion or number, each proxy may exercise one-half of the votes, in which case any fraction of votes will be disregarded.

The proxy form must be signed by the member or the member’s attorney. Proxies given by a corporation must be executed in accordance with the Corporations Act and the constitution of that corporation.

To be effective, the proxy form and the power of attorney or other authority (if any) under which it is signed or a certified copy, must be received by Magnetica at least 48 hours before the time for holding of the General Meeting or any adjourned meeting (or such lesser period as the Directors may permit):

- By mail to Boardroom Pty Limited, GPO Box 3993, Sydney NSW 2001 Australia
- Online at https://www.votingonline.com.au/magneticaegm2023
- By facsimile to + 612 9290 9655
- In person to Boardroom Pty Limited, Level 8, 210 George Street, Sydney NSW 2001 Australia

Any proxy form received after this deadline including at the General Meeting will be treated as invalid.

A person appointed as proxy may vote or abstain from voting as he or she thinks fit except where the proxy holds a Directed Proxy Form or the proxy is required by law or Magnetica's constitution to vote in a certain manner or abstain from voting.

If you appoint the Chairman as your proxy and have not directed him how to vote, you are expressly authorising the Chairman to cast your undirected Proxy Form in favour of the Resolution.

1 Background

1.1 Overview of AVG Capital Raising

Magnetica Limited (**Magnetica**) is undertaking a capital raise (**Capital Raising**) comprising:

- **(AVG Capital Raising)** subject to shareholder approval, the issue of Shares to Magnetica's majority shareholder Avingtrans plc (**AVG**) by way of:
  - (**AVG Placement**) a placement of up to approximately 135,000,000 Shares at A$0.05 per Share to raise up to A$6,750,000 of additional cash (with the final size of the AVG Placement to be reduced by the level of participation under the Placement and SPP). The funds committed under the AVG Placement will be provided on a staged basis as described in Section 1.3(b); and
  - (**AVG Debt Reduction**) capitalisation of AVG's shareholder loans, by issuing approximately 87,000,000 Shares at $0.05 per Share, to retire up to A$4,350,000 of working capital loans provided to the Company;
- **(Placement)** a placement of up to 135,000,000 Shares at A$0.05 per Share to new and/or existing sophisticated, professional and other investors to whom no disclosure is required under the Corporations Act, subject to shareholder approval for the AVG Capital Raising (with the final size of the placement to be reduced by the level of participation by under the SPP); and
- **(SPP)** a share purchase plan offer to allow eligible existing shareholders to purchase up to A$30,000 of fully paid ordinary shares in Magnetica at A$0.05 per share to raise up to A$6,750,000 before costs, which is also subject to shareholder approval of the AVG Capital Raising.

(a) On completion, the Capital Raising is expected to raise A$6,750,000 of cash funding and retire A$4,350,000 of shareholder loans.

1.2 Issue Price

The terms and conditions of the AVG Capital Raising had been negotiated with AVG and the A$0.05 issue price was the price that the Company was able to secure commercially from AVG.

The Board established a Board Committee comprising directors independent of AVG (Mr Duncan Stovell, Prof Stuart Crozier and Mr Clint Gouveia) with responsibility for overseeing the review, assessment and negotiation of the Capital Raising (see Section 9.3(b)).

The Transaction Committee considers the issue price appropriate having regard to current sentiment in the global medical imaging sector, falling valuations in other early-stage companies and Magnetica's early stage of commercialisation and associated risk.

The Transaction Committee notes that it is also within the value range determined by the Independent Expert (A$0.037 to A$0.065 on a controlling interest basis prior to the Capital Raising) – see section 2.2.2 of the Independent Expert Report.

1.3 AVG Placement

If the AVG Capital Raising is approved, AVG will be required to subscribe for Shares on the following terms:

(a) Number of AVG Placement Shares

The maximum number of shares to be issued under the AVG Placement (**AVG Placement Shares**) is 135,000,000. The number of AVG Placement Shares will be reduced by the number of Shares issued under the Placement and SPP.

For example, if $500,000 is raised under the Placement and there is a 10% take up rate under the Share Purchase Plan offer (raising A$1,674,000 before costs), the number of AVG Placement Shares will equal 91,520,000 Shares for a total issue price of A$4,576,000. Please see Section 3.1 for further examples of the impact of Shares being issued under the Placement and SPP.

(b) **Funding Commitment**

Magnetica will have the right (but not the obligation) to call for equity funding and require AVG to subscribe for the AVG Placement Shares (as calculated in clause 1.3(a)) at an issue price of A$0.05 per Share if:

(i) **Discretionary drawdowns** – when requested by Board of Magnetica (with the consent of the MNA Directors), in which case AVG must subscribe for Placement Shares equal to the amount resolved by the Board of Magnetica. The Board of Magnetica is controlled by directors appointed by AVG; and

(ii) **Mandatory drawdown** – the cash held by Magnetica at the end of any month is less than A$400,000, in which case AVG must contribute A$250,000 by subscribing for 5,000,000 AVG Placement Shares.

1.4 Loan Capitalisation

If the AVG Capital Raising is approved, Magnetica will issue up to 87,000,000 Shares at A$0.05 per Share to retire shareholder loans provided by AVG.

Since 1 June 2022, AVG has been providing interest free unsecured loans to Magnetica to fund its continued operations (**Shareholder Loans**). These Shareholder Loans are repayable on demand by AVG. There are no other material terms.

As at the date of the General Meeting, it is anticipated that the total amount owing by Magnetica under the Shareholder Loans will be A$4,350,000 comprising:

(a) **Current loans** – A$3,850,000, being the amount AVG has provided in Shareholder Loans as at the date of this Notice of Meeting.

(b) **Anticipated loans** – $500,000, being the amount of additional loans that it is anticipated AVG will provide between the date of this Notice of Meeting and the date of the General Meeting.

If the total of the Shareholder Loans as at the date of the General Meeting (**Shareholder Loan Amount**) is less than A$4,350,000, Magnetica will only issue such number of Shares at A$0.05 per Share which is sufficient to retire the Shareholder Loan Amount.

If the Shareholder Loan Amount is more than A$4,350,000, Magnetica will issue only 87,000,000 Shares at A$0.05 per Share to retire A$4,350,000 of the Shareholder Loan Amount.

2 Profile of Avingtrans

2.1 Overview

Avingtrans is a precision engineering group, which is principally engaged in the provision of engineered components, systems and services to the energy, medical and traffic management industries around the world.

2.2 History

Avingtrans is a company incorporated in England and Wales in 1985 and listed on the London Stock Exchange's Alternative Investment Market (**AIM**) in 2004.

2.3 Business

Avingtrans operates through two main business divisions:

(a) **Energy Division** – designing, manufacturing, integrating and servicing an extensive product portfolio including specialist motors, pumps, turbines, compressors, pressure vessels and containers; and

(b) **Medical Division** – designing and manufacturing innovative equipment for the medical, science and research communities including cutting-edge products for medical diagnostic equipment; high performance pressure, vacuum vessels and composite materials for research organisations; superconducting magnets and helium-free cryogenic systems. The SciMag group operates within the medical division.

2.4 Strategy

Avingtrans aims to deliver shareholder value through its Pinpoint-Invest-Exit strategy by:

(a) identifying and executing prudent deals with precision and speed;

(b) building strong brands and value from constituent parts;

(c) crystallising these gains with periodic sales at advantageous valuations; and

(d) returning the proceeds to shareholders.

2.5 Directors and senior management

As at the date of this Notice of Meeting, the Avingtrans directors and senior management are:

(a) Roger Steven McDowell - Non-Executive Independent Chairman of the Board

(b) John Simon Clarke - Non-Executive Director

(c) Leslie James Thomas - Non-Executive Director

(d) Stephen McQuillan - Chief Executive Officer, Managing Director, Executive Director

(e) Stephen Michael King - Chief Financial Officer, Company Secretary, Executive Director

(f) Jo Reedman – Non-Executive Director

(g) Austen Adams – Managing Director, Process Solutions & Rotating Equipment

(h) Duncan Stovell – Chief Executive Officer of the Medical Division

(i) Mike Turmelle – President of Engineered Pumps and Motors

2.6 Ownership of Avingtrans

As at the date of this Notice of Meeting:

(a) Avingtrans has the following Substantial Shareholders:

Shareholder	Number of shares in Avingtrans	Percentage Shareholding
Harwood Capital	4,034,000	12.5%
Business Growth Fund	2,363,000	7.4%
Funds managed by Unicorn Asset Management Limited	1,946,000	6.1%
R S McDowell's Pension Fund	1,406,000	4.4%
Funds managed by JTC Employer Solutions Trustee Limited	1,169,000	3.6%
Funds managed by Close Brothers Management	1,087,000	3.4%
Funds managed by Threadneedle Investments	1,039,000	3.2%
Funds managed by LGT Bank	972,000	3.0%

(b) Avingtrans Directors held or controlled the following Avingtrans Shares representing approximately 13.3% of the total Avingtrans Shares.

Shareholder	Avingtrans shares	Percentage of total
R S McDowell's Pension Fund	1,406,000	4.4%
S McQuillan	416,749	1.3%
S King	361,435	1.1%
L Thomas	16,000	0.1%

2.7 Relevant interests in Magnetica Shares

In January 2021, Magnetica completed a merger with AVG's subsidiary, SciMag (**Merger**) whereby:

(a) Magnetica acquired all of the share capital of SciMag;

(b) AVG acquired an initial interest of 59% in Magnetica; and

(c) AVG and Magnetica entered into a Shareholder and Subscription Agreement dated 5 January 2021 whereby AVG committed to provide Magnetica with up to £3.2 million of funding by subscribing for Shares at A$0.15 per Share (**Investment Agreement**).

As at the date of this Notice of Meeting, Avingtrans holds 208,230,884 shares in Magnetica which representatives an interest of 61.3%.

Associates of Avingtrans (including Mr Stephen McQuillan and Mr Stephen King) do not hold a relevant interest in Magnetica.

2.8 AVG rights to control Magnetica

In additional to AVG's rights as a majority shareholder, AVG has the following rights as a result of entering into the Investment Agreement as part of the Merger:

(a) **Board control**

For so long as Avingtrans has an interest in at least 40% of the issued ordinary shares in Magnetica (**Controlling Interest**), the Magnetica Board will comprise a maximum of 6 directors comprising 3 directors appointed by Avingtrans, 2 directors representing Pre-Merger Shareholders (**MNA Directors**) and an independent Chair.

As at the date of this Notice of Meeting, an independent Chair has not been appointed. Instead, Stephen McQuillan is acting as Chair.

(b) **Information rights**

Avingtrans will have the right to the following information for so long as it holds 30% or more of the ordinary shares in Magnetica (**Cornerstone Interest**):

(i) monthly management accounts with comparisons to budgets and containing trading and profit and loss accounts, balance sheets, cash flow statements and a rolling 6 month projected cash flow statement;

(ii) annual detailed operating and capital budget and cash flow forecast for each financial year;

(iii) audited accounts of Magnetica and audited consolidated accounts of the Group;

(iv) full details of any offer or proposed offer from any person wishing to enter into any sale of all of the shares of the Company; and

(v) such other information concerning Magnetica and its business as Avingtrans may reasonably require from time to time.

(c) **AVG veto rights**

Avingtrans has the right to veto Consent Matters for so long that Avingtrans has a Cornerstone Interest. The Consent Matters are:

(i) the issue of equity securities in circumstances which, would require shareholder approval under Chapter 7 of the ASX Listing Rules if the Company was listed on ASX;

(ii) make a material acquisition or dispose of the whole or a substantial part of the undertaking of the Company or merge the Company or any substantial part of its business with any other person or propose to do so;

(iii) permit Magnetica to cease, or propose to cease, to carry on its business or permit the Company or its directors (or any one of them) to take any step to wind up the Company, save where it is insolvent;

(iv) engage a financial adviser under the provisions of the Investment Agreement or any underwriter or broker to provide any services for a sale or IPO;

(v) apply to a stock exchange for a listing or for quotation of any shares or other securities of a Group Company or appoint an underwriter in relation to, or investment bank to manage, an IPO, or both;

(vi) enter into any right of first refusal, negotiation or notification that applies in relation to a sale or IPO which gives a third party a preferential right to negotiate, make an offer or receive information in relation to such sale or IPO;

(vii) incur any capital expenditure (including obligations under hire-purchase and leasing arrangements) which exceeds the amount for capital expenditure in the relevant capital expenditure of the Budget by more than A$250,000;

(viii) dispose (otherwise than in accordance with any relevant capital disposals forecast in the budget) of any asset of a capital nature having a market value greater than A$250,000;

(ix) make any material change to the nature of the business or the jurisdiction where it is managed and controlled or change the name of the Company;

(x) appoint or remove any auditor of the Company;

(xi) mortgage or charge or permit the creation of or suffer to subsist any mortgage or fixed or floating charge, lien (other than certain existing encumbrances at Completion or a lien arising by operation of law) or other encumbrance over the whole or any part of its undertaking, property or assets;

(xii) appoint the chief executive officer except the first chief executive officer or remove the chief executive officer;

(xiii) conduct any litigation material to the Company, save for the collection of debts arising in the ordinary course of the business carried on by the Company or any application for an interim injunction or other application or action (including interim defence) which is urgently required in the best interests of the Company in circumstances in which it is not reasonably practicable to obtain prior consent as aforesaid;

(xiv) enter into or vary either any unusual or onerous contract or any other material or major or long term contract;

(xv) terminate, vary or renew SciMag's current lease (or the terms and conditions of holding over under the SciMag's current lease), enter into a new lease or other right to occupy the SciMag's premises in place of SciMag's current lease or enter into a lease or other right to occupy premises as SciMag's principal place of business.

(d) **Investment exit strategy**

If a sale or IPO is not achieved by 29 January 2026, Avingtrans may require the Company to appoint a financial adviser to report on exit opportunities and strategy and, if the adviser recommends a sale or IPO and that recommendation is accepted by the Magnetica Board and approved by the Investor, the Company must use its best endeavours to effect the sale or IPO.

2.9 Avingtrans information

Financial and other information regarding Avingtrans can be found at:

https://www.londonstockexchange.com/stock/AVG/avingtrans-plc/analysis

3 Impact of AVG Capital Raising on Magnetica

3.1 Financial statements as at 31 May 2022

The Company's financial statements as at 31 May 2022 are available at:

https://magnetica.com/wp-content/uploads/2022/09/Magnetica-31-May-2022-Financial-Report-Signed.pdf

These accounts do not take into account the expenses incurred by Magnetica or the shareholders loans made by AVG to Magnetica since the balance date.

3.2 Capital Structure and ownership

(a) Issued Shares

If the AVG Capital Raising is approved, Magnetica may issue AVG with up to 222,000,000 Shares comprising:

(i) up to 135,000,000 Shares under the AVG Placement (depending on Shares issued under the Placement and SPP); and

(ii) up to 87,000,000 Shares under the AVG Debt Reduction (depending on the amount of additional Shareholder Loans provided by AVG from the date of this Notice of Meeting until the date of the General Meeting).

The following table illustrates the potential effect on Magnetica's share capital on a proforma basis assuming:

(iii) **Maximum issue to AVG** – capitalisation of A$4,350,000 of Shareholder Loans and no Shares are issued under the Placement or SPP.

(iv) **Partial issue to AVG** – capitalisation of A$4,350,000 of Shareholder Loans, A$500,000 (before costs) is raised under the Placement and A$1,674,000 (before costs) is raised under the SPP (approximately 10% take up rate).[1]

(v) **Minimum issue to AVG** – capitalisation of A$3,850,000 of Shareholder Loans and A$6,750,000 (before costs) is raised under the Placement and SPP,

(**Assumptions**).

	Maximum issue to AVG	Partial issue to AVG	Minimum issue to AVG
Existing Shares			
Non-AVG Shares[2]	131,640,764	131,640,764	131,640,764
AVG Shares	208,230,884	208,230,884	208,230,884
Shares issued under Capital Raising			
Shareholder Loans - capitalisation	87,000,000	87,000,000	77,000,000
Shares issued under Placement and SPP	0	43,480,000	135,000,000
Shares issued under AVG Placement	135,000,000	91,520,000	0
Total	**561,871,648**	**561,871,648**	**551,871,648**

[1] Assuming that there are 558 eligible shareholders entitled to participate in the SPP.
[2] Includes 8,925,000 Restricted Ordinary Shares issued on the cancellation of the Company's performance rights plan.

(b) **Effect on shareholders**

The following table illustrates the effect on shareholders immediately after completion of the Capital Raising based on the Assumptions.

	Before Capital Raising	Maximum issue to AVG	Partial issue to AVG	Minimum issue to AVG
Non-AVG Shares	131,640,764 (38.7%)	131,640,764 (23.4%)	175,120,764 (31.2%)	266,640,764 (48.3%)
AVG Shares	208,230,884 (61.3%)	430,230,884 (76.6%)	386,750,884 (68.8%)	285,230,884 (51.7%)
Total	**339,871,648 (100%)**	**561,871,648 (100%)**	**561,871,648 (100%)**	**551,871,648 (100%)**

(c) **Options**[3]

Magnetica has 3,000,000 options on issue as follows:

Number	First exercise date	Last exercise date	Exercise price
1,000,000	Relisting date	Relisting date + 3 years	A$0.50
1,000,000	Relisting date + 1 year	Relisting date + 4 years	A$0.54
1,000,000	Relisting date + 2 years	Relisting date + 5 years	A$0.60

3.3 **Proforma statement of financial position of the Company**

Set out below is a pro forma consolidated statement of financial position of the Company and its subsidiaries as at 31 October 2022 which illustrates the effect of the AVG Capital Raising on a proforma basis if on 31 October 2022:

(a) there was $A4,350,000 outstanding in Shareholder Loans; and

(b) AVG was issued 222,000,000 Shares comprising:

(i) 135,000,000 Shares under the AVG Placement (assuming that no Shares are issued under the Placement or SPP) to raise $6.75 million (before costs); and

(ii) 87,000,000 Shares under the AVG Debt Reduction to reduce Shareholder Loans of A$4,350,000.

The pro forma statement of financial position is intended to be illustrative only and is not a forecast. It will not reflect the actual financial position as at the date of the Notice of Meeting or at the completion of the Capital Raising.

The pro forma statement of financial position is based on the unaudited management accounts of the Company as at 31 October 2022. It is presented in summary form only and accordingly does not fully comply with the presentation and disclosure requirements of Australian Accounting Standards.

[3] For further details, see note 15(a) to Magnetica's 2022 financial statements.

Proforma Consolidated Statement of Financial Position

	31 Oct-22 Actual	Proforma Adjustments	Proforma Accounts
	$	**$**	**$**
CURRENT ASSETS			
Cash and cash equivalents	517,795	6,750,000	7,267,795
Trade and other receivables	1,299,883		1,299,883
Inventories	1,130,382		1,130,382
Other assets	255,769		255,769
TOTAL CURRENT ASSETS	**3,203,828**	**6,750,000**	**9,953,828**
NON-CURRENT ASSETS			
Property, plant and equipment	643,315		643,315
Right-of-use assets	624,227		624,227
Intangible assets	18,336,838		18,336,838
Investments	118,630		118,630
TOTAL NON-CURRENT ASSETS	**19,723,010**		**19,723,010**
TOTAL ASSETS	**22,926,838**	**6,750,000**	**29,676,838**
CURRENT LIABILITIES			
Trade and other payables	5,175,899	4,350,000[4]	825,899
Lease liabilities	276,675		276,675
Employee Benefits	188,251		188,251
Interest bearing loans borrowings	723,971		723,971
TOTAL CURRENT LIABILITIES	**6,364,796**	**4,350,000**	**2,014,796**
NON-CURRENT LIABILITIES			
Employee Benefits	98,914		98,914
Lease Liability	381,203		381,203
TOTAL NON-CURRENT LIABILITIES	**480,117**		**480,117**
TOTAL LIABILITIES	**6,844,913**	**4,350,000**	**2,494,913**
NET ASSETS	**16,081,926**	11,100,000	**27,181,926**
EQUITY			
Issued capital	89,705,503	11,100,000	100,805,503
Reserves	-18,155,787		-18,155,787
Accumulated losses	-55,467,790		-55,467,790
TOTAL EQUITY	**16,081,926**	**11,100,000**	**27,181,926**

[4] See section 3.3(a) above. Shareholder Loans as at 31 October was A$3,600,000. The proforma adjustment assumes an additional A$750,000 of Shareholder Loans and a total reduction of A$4,350.000.

3.4 Directors' interest in Shares and securities

Currently the Magnetica Directors have the following interests in the share capital of Magnetica:

Director	Shares
Duncan Stovell	1,000,000
Stuart Crozier	1,500,000
Stephen McQuillan	Nil
Stephen King	Nil
Clint Gouveia	1,844,442

Magnetica Directors have no interests under the AVG Capital Raising or the Placement. Mr Duncan Stovell, Professor Stuart Crozier and Mr Clint Gouveia only have an interest in the SPP to the extent that they are shareholders and have the same rights and obligations as all other shareholders under the SPP. Mr Stephen McQuillan and Mr Stephen King do not have any interest in the SPP as they do not hold any Shares in Magnetica and accordingly, will not be eligible to participate.

3.5 Use of funds

Funds raised under the Capital Raising ($6.75 million before costs)[5] will be used to meet working capital requirements and also will be applied towards:

Purpose	Estimate	Percentage
Commercialising its MSK Extremity MRI system, including: • completing the development of a system capable of being produced on a commercial basis; • verification activities, including compliance testing; and • preparatory activities for in-clinic usability trials and applications for regulatory approvals.	A$4.2 million	62.2%
Relocating the Brisbane team to a new facility in Brisbane (approximately three times the size of the current facility).	A$0.5 million	7.4%
Engaging additional personnel and scaling up manufacturing to build out production capabilities for manufacture of the MRI system, with sub-systems being manufactured at each of its locations in Brisbane (AU), Abingdon (UK) and Houston (US).	A$0.8 million	11.9%
On going development of market entry plans (with timing and scope of activities always being subject to applicable regulatory approvals).	A$0.5 million	7.4%

[5] No new funds will be raised as part of the AVG Debt Reduction. Under the AVG Debt Reduction, Shares will be issued to AVG to retire the Shareholder Loans – see section 1.4.

Purpose	Estimate	Percentage
Collaboration with Adaptix plc on a range of matters including evaluating the opportunity to combine the images produced from Magnetica's Cryogen-free MRI system and Adaptix plc's DT (Digital Tomosynthesis) imaging system.	A$0.25 million	3.7%
General support for ongoing operations across its three sites.	A$0.5 million	7.4%

The precise activities undertaken may change without notice depending on market conditions and circumstances generally from time to time. There is no guarantee that funds will be applied to all or any of the matters set out above, and in particular to the collaboration with Adaptix plc which is subject to Adaptix plc's co-operation.

The priority for the company is the development of the MSK Extremity MRI system and as such most activities are geared to that focused activity. Should there need to be a deferral in activities then the collaboration with Adaptix will be deferred first especially given Magnetica needs the MSK Extremity system to be able to produce the images that enables the collaboration.

3.6 Intentions of Avingtrans in relation to Magnetica

Avingtrans has advised Magnetica of its intentions in relation to Magnetica as follows, if the Capital Raising is completed. The statements in this Section reflect the present intentions of Avingtrans at the date of this Notice of Meeting only:

(a) **Board**

No change will be made to the current Magnetica Board.

(b) **Magnetica business**

Avingtrans does not intend to change Magnetica's current business plan which is:

- commercialisation and supply of compact helium-free MRI systems for dedicated clinical and industrial applications across a number of markets; and
- ongoing design and manufacture of MRI/NMR/NQR sub-systems to research and Government customers, with a primary focus upon superconducting magnets, spectrometers, gradient coils and RF (Radio Frequency) coils.

(c) **Head office**

Magnetica's corporate headquarters will remain based in Brisbane, Queensland, Australia.

(d) **Further equity funding**

Avingtrans understands the need for further capital raises to be completed as the Company continues to commercialise and scale out for the anticipated growth phase as it commences supply of the MRI systems to the market (once applicable regulatory approvals have been obtained). Avingtrans has indicated a willingness to support those capital raises, but has no current intention to inject further capital into Magnetica (other as required under the AVG Placement) in the short-term, but reserves the right to do depending on Magnetica's funding requirements from time to time.

(e) **Financial or dividend policies**

Avingtrans has no current intention to change Magnetica's financial or dividend policies.

(f) **Reporting**

Magnetica will continue to lodge its annual and half yearly reports in accordance with the timetable required under Australian law for an unlisted public company.

(g) **Other intentions in relation to Magnetica**

Avingtrans has no current intention to:

(i) transfer any property between Magnetica and Avingtrans (or its respective associates);

(ii) redeploy Magnetica's fixed assets; and

(iii) discontinue the employment of Magnetica's present employees.

3.7 Financial effect of the Capital Raising

Information regarding the valuation of the Magnetica is set out in paragraph 8 of the Independent Expert's Report. Shareholders are encouraged to read the Independent Expert's Report in full.

4 Advantages of the Capital Raising

The advantages of the Capital Raising for Magnetica are as follows:

(a) (**Equity funding**) The AVG Capital Raising will provide funding to Magnetica to progress its business objectives. Magnetica currently requires funding to pursue its current and future business objectives. Magnetica has been receiving loan funds at the beginning of each month from Avingtrans to support its' forecast cash flow requirements during that month. The Company has no reliable sources of revenue as it is commercialising its world leading MRI technology and is at a pre-revenue stage. If the AVG Capital Raising is not approved, there is no guarantee that the Company will be able to secure funding for the Company's operations.

(b) (**Debt reduction**) The AVG Capital Raising will reduce debt owing to AVG. The Transaction Committee considers that it is in the best interests Magnetica to capitalise these loans and remove the debt from Magnetica's balance sheet. If the AVG Capital Raising is not approved and the Shareholder Loans are not capitalised, AVG may immediately demand payment of the Shareholder Loans. As at the date of this Notice of Meeting, Magnetica does not have sufficient cash reserves or sources of funding to repay the Shareholder Loans. Accordingly, if the debt became repayable, there is a real risk that the Company could not continue as a going concern and would be required to cease trading. The value that shareholders would receive if the Company was wound up may not exceed the value implied by the A$0.05 per Share issue price.

(c) (**No readily available alternatives**) The AVG Capital Raising will provide Magnetica with a source of funding in circumstances where Magnetica cannot readily access other funding. Magnetica has sought alternative funding by:

(i) **New investors** – approaching new investors but has not secured any interest to date;

(ii) **Debt funding** – attempting to access debt working capital funding from lending institutions, but has been unsuccessful due to the early stage of commercialisation of Magnetica's products; and

(iii) **Grant funding** – monitoring for opportunities to seek support from Government.

(d) (**AVG Strategic alignment**) The AVG Capital Raising further aligns AVG's interest with Magnetica's interest. The Transaction Committee believes that it is strategically beneficial for Magnetica to continue to encourage and secure the ongoing support of its largest shareholder and further align AVG's interests with Magnetica's interests. Magnetica has benefited from Avingtrans' support through:

(i) **Enhanced manufacturing capability** – the merger of AVG's subsidiaries enabling Magnetica to become an MRI system Original Equipment Manufacturer (OEM). As an MRI system OEM, Magnetica can design, manufacture and sell products without reliance on third party manufacturers or being in the supply chain of large medical device system integrators;

(ii) **Equity funding** – providing initial funding of approximately A$4.4 million cash (£3.2 million) which allowed Magnetica to continue its operations until the end of its 2022 financial year (31 May 2022);

(iii) **Loan funding** – providing additional funding of approximately A$3.85 million to date, through shareholder loans to allow Magnetica to continue its operations after the original equity funding had been expended; and

(iv) **Commercial Synergy** – facilitating the collaboration with Avingtrans new 'sister' company Adaptix plc (**Adaptix**). Adaptix is a UK-based company developing technology for low-cost, low-dose 3D portable imaging including Digital Tomosynthesis (**DT**). Magnetica is currently collaborating with Adaptix on a range of matters including evaluating the opportunity to combine the images produced from Magnetica’s MRI and Adaptix's DT. The fusing of the image data should provide enhanced low-cost diagnostic capability (initially for orthopaedic imaging).

(e) (**Share price**) the Transaction Committee believes that the proposed A$0.05 issue price is at a level that is more likely to attract new investment into Magnetica.

(f) (**No superior proposal**) Magnetica is not aware of any superior proposal to the Capital Raising.

5 Disadvantages of Capital Raising

The disadvantages of the Capital Raising are that if the maximum number of Shares are issued under the AVG Capital Raising:

(a) (**Dilution of Non-Associated Shareholders**) the equity interest of Non-Associated Shareholders will be diluted from 38.7% to 23.4% – see Section 3.2(b).

(b) (**Avingtrans voting power will increase**) AVG's voting power will increase from 61.3% up to a maximum of 76.6% – see Section 3.2(b). This will allow Avingtrans to pass special resolutions including to change Magnetica's constitution or company name.

(c) (**MNA Directors may lose veto rights**) The Investment Agreement provides a level of protection for non-AVG shareholder by providing the MNA Directors a right to veto Consent Matters veto for so long as the Pre-Merger Shareholders have (in aggregate) an interest in 30% or more of the Shares in Magnetica and if the Chair is not independent. If the maximum number of Shares are issued under the AVG Capital Raising, the Pre-Merger Shareholders will cease to hold a Cornerstone Interest and the MNA Directors may later lose their right of veto if an independent Chair is appointed.

The Transaction Committee considers that the benefits of the AVG Capital Raising outweigh the disadvantages.

6 Consequences if AVG Capital Raising is not approved

If the AVG Capital Raising is not approved by shareholders, there is no guarantee that the Company will be able to secure funding for the Company's operations from AVG or any other provider, AVG may immediately demand payment of the Shareholder Loans and there is a real risk that the Company could not continue as a going concern and would be required to cease trading. The value that shareholders would receive if the Company was wound up may not exceed the value implied by the A$0.05 per Share issue price.

7 Shareholder Approval for increase in voting power

7.1 Approval sought

The Resolution seeks Shareholder approval pursuant to item 7 of section 611 of the Corporations Act for the acquisition by AVG of up to 222,000,000 Shares in Magnetica under the AVG Placement and AVG Debt Reduction.

If Magnetica issues AVG the 222,000,000 Shares, AVG would increase its voting power from 61.3% to 76.6% - see Section 3.2(b) for details of calculation.

7.2 Section 606 prohibition

Without the Shareholder approval, the acquisition by Avingtrans of the Shares under the AVG Placement and AVG Debt Reduction would be prohibited by section 606(1) of the Corporations Act.

Under section 606 of the Corporations Act, subject to limited specified exemptions, a person must not acquire a 'Relevant Interest' in issued voting shares in a public company, if as a result of the acquisition, any person's voting power in the company would increase:

(a) from 20% or below to more than 20%; or

(b) from a starting point that is above 20% and below 90%.

In broad terms, a person has a 'Relevant Interest' in shares if that person holds shares or has the power to control the right to vote or dispose of shares. A person's voting power in a company is the number of voting shares in which the person (and its Associates) has a Relevant Interest compared with the total number of voting shares in a company.

A person is only an Associate for the purpose of Chapters 6 to 6C (takeover provisions) of the Corporations Act if they are an Associate under section 12 of the Corporations Act.

Under section 12(2) of the Corporations Act, a person (second person) will be an Associate of the other person (first person) if:

(a) the first person is a body corporate and the second person is:

  (i) a body corporate the first person controls;

  (ii) a body corporate that controls the first person; or

  (iii) a body corporate that is controlled by an entity that controls the first person;

(b) the second person has entered or proposed to enter in a relevant agreement with the first person for the purpose of controlling or influencing the composition of the company's board or the conduct of the company's affairs; and

(c) the second person is a person with whom the first person is acting or proposed to act, in concert in relation to the company's affairs.

7.3 Exception to the section 606 prohibition

Item 7 of section 611 of the Corporations Act provides an exception to the prohibition under section 606 of the Corporations Act. This exception provides that a person may acquire a Relevant Interest in a company's voting shares with shareholder approval.

In order for the exception in item 7 of section 611 of the Corporations Act to apply, the following must be satisfied:

(a) Approval must be given by a simple majority of Shareholders present at the General Meeting at which no votes are cast in favour of the Resolution by Avingtrans or its Associates; and

(b) Shareholders must be given all information known to the person making the acquisition or their Associates, or known to Magnetica, that was material to the decision on how to vote on the Resolution, including:

(i) the identity of the person proposed to make the acquisition and their Associates;

(ii) the maximum extent of the increase in that person's voting power in Magnetica that would result from the acquisition;

(iii) the voting power that person would have as a result of the acquisition;

(iv) the maximum extent of the increase in the voting power of each of that person's Associates that would result from the acquisition; and

(v) the voting power that each of that person's Associates would have as a result of the acquisition.

7.4 Information required under item 7 of section 611 of the Corporations Act

The following information is provided in compliance with item 7 of section 611 of the Corporations Act:

Item 7 of section 611	Disclosure
Identity of acquirer and their Associates	Avingtrans is the proposed acquirer of the Shares under the AVG Capital Raising. For more detail on Avingtrans and its subsidiaries see Section 2 above. None of Avingtrans' Associates will be issued any Shares comprising the Shares under the AVG Capital Raising.
Maximum extent of the increase in Avingtrans' voting power in Magnetica that would result from the acquisition of the Shares under the AVG Capital Raising	As at the date of this Notice of Meeting, Avingtrans' voting power in Magnetica is 61.3%. If Avingtrans acquired all of the Shares under the AVG Capital Raising, its voting power in Magnetica would increase to up to 76.6%% - see Section 3.2(b) for basis of calculation.
Avingtrans' voting power as a result of the acquisition of the Shares under the AVG Capital Raising	If the Resolution is passed Avingtrans will acquire voting power in Magnetica of up to 76.6% - see Section 3.2(b) for basis of calculation.

Item 7 of section 611	Disclosure
The maximum extent of the increase in the voting power of each of Avingtrans' Associates that would result from the acquisition of the Shares under the AVG Capital Raising	None of Avingtrans' Associates will be issued any Shares comprising the Shares under the AVG Capital Raising or acquire any voting power in Magnetica. Accordingly, No Avingtrans Associate will increase its voting power in Magnetica as a result of the acquisition of the Shares under the AVG Capital Raising.
The voting power that each of Avingtrans' Associates would have as a result of the acquisition of the Shares under the AVG Capital Raising	None of Avingtrans' Associates will be issued any Shares comprising the Shares under the AVG Capital Raising or acquire any voting power in Magnetica. Accordingly, the voting power of Avingtrans' Associates on the completion of the acquisition of the Shares under the AVG Capital Raising will be nil.

7.5 Information required under ASIC Regulatory Guide 74

Avingtrans has given the following information to Magnetica to assist it to meet its responsibilities under ASIC Regulatory Guide 74. The Company takes no responsibility for any omission from, or any error or false or misleading statement in this Section 7.5.

ASIC Regulatory Guide 74	Disclosure
An explanation of the reasons for the Capital Raising	See Section 4
When the Capital Raising is to be completed	On or about the date of the General Meeting
Material terms of the Capital Raising	See Sections 1.2 and 1.4.
Particulars of any other contract or proposed contract between Avingtrans, or any of their Associates, and Magnetica or any of its Associates which is conditional upon, or directly or indirectly dependent on, Shareholder approval	See Sections 1.2 and 1.4.
Intentions of Avingtrans regarding the future of Magnetica	See Section 3.3
Intention of Avingtrans to change significantly the financial or dividend policies of Magnetica	See Section 3.6(e)
The interests that any Director of Magnetica has in the acquisition of the Shares under the AVG Capital Raising or any agreement disclosed under RG 74.25(d)	None of the Directors have an interest in the proposed issue of Shares under the AVG Capital Raising except as a shareholder in Magnetica with rights (in common with all other shareholders) to participate in the SPP – see Section 3.3.

ASIC Regulatory Guide 74	Disclosure
The identity, associations (with Avingtrans) and qualifications of any person who is intended to or will become a Director if Shareholders agree to the AVG Capital Raising	There will be no change to the Board of Magnetica if the AVG Capital Raising is approved.
Reasons for the Capital Raising	See Section 4

8 Shareholder Approval for the provision of financial benefits to a related party

8.1 Approval

Shareholder approval is also sought under section 208 of the Corporations Act for the provision of financial benefits by the Company to AVG in the form of the issue and allotment to AVG of up to 222,000,000 shares in Magnetica under the AVG Placement and AVG Debt Reduction.

8.2 Section 208 prohibition

Section 208 of the Corporations Act prohibits a public company from providing a financial benefit to a related party of the public company unless:

(a) the public company obtains the approval of its members in the way set out in section 127 to 227 of the Corporations Act; and

(b) the benefit is provided within 15 months of the members' approval.

AVG is a related party of Magnetica because of its control over Magnetica (arising from its majority interest in Magnetica and the rights provided under the Investment Agreement).

Under section 229 of the Corporations Act, a financial benefit can include the issuing securities to a company.

Accordingly, Shareholder approval is being sought by Magnetica for the issue of the shares under the AVG Capital Raising which will result in AVQ acquiring Shares at A$0.05 Share.

8.3 Information required under section 219 of the Corporations Act

The following information is provided in compliance with section 219 of the Corporations Act:

section 219	Disclosure
Identity of the Related Parties	The financial benefit is being provided to AVG - see Section 2 for more details of AVG.
The nature of the financial benefits	The issue of up to 222,000,000 Shares at A$0.05 per Share.
Advantages and disadvantages	The benefits of providing the financial benefits and the disadvantages are set out in Sections 4 and 5 respectively.
Impact of provision of financial benefits	The impact of providing the financial benefits on Magnetica are set out in Section 3.
Directors' recommendation	The directors independent of AVG, Mr Duncan Stovell, Prof Stuart Crozier and Mr Clint Gouveia, each recommend that

section 219	Disclosure
	the shareholders vote in favour of the Resolution for the reasons set out in Section 4. Mr Stephen McQuillan and Mr Stephen King provide no recommendation on the basis that they are conflicted due to their relationship with AVG – see Section 9.2.
The interest that any Director has in the outcome of the Resolution	None of the Directors have an interest in the proposed issue of Shares under the AVG Capital Raising except as a shareholder in Magnetica with rights (in common with all other shareholders) to participate in the SPP – see Section 3.3.
Other information for members to determine if the Resolution is in the best interests of Magnetica	Please see Sections 8.4 and 5.

8.4 Information required under ASIC Regulatory Guide 76

Magnetica provides the following information under ASIC Regulatory Guide 76.

ASIC Regulatory Guide 76	Disclosure
Valuation of the financial benefit	The Independent Expert has valued the Shares – see Annexure A for further details.
Related party's existing interest	AVG currently has an interest of 61.3% in Magnetica - see Section 2.7.
Dilution effect of the transaction on existing members' interests	See Section 3.2(b).

9 Interests of the Directors

9.1 Voting power

The Directors do not have any material personal interest in the outcome of this Resolution, other than their interests arising solely in their capacity as Shareholders and as disclosed in this Section 9.

As at the date of this Notice of Meeting, the directors have the following voting power:

Director	Shares held	Voting power
Duncan Stovell	1,000,000	0.29%
Stuart Crozier	1,500,000	0.44%
Stephen McQuillan	Nil	Nil
Stephen King	Nil	Nil
Clint Gouveia	1,844,442	0.54%

9.2 AVG Directors

Under the Investment Agreement, AVG appointed Mr Stephen McQuillan, Mr Stephen King and Mr Clint Gouveia as directors of Magnetica.

The Board of Magnetica considers that Mr Stephen McQuillan and Mr Stephen King are conflicted in relation to the Resolution on the basis that they are directors of AVG (**Conflict**).

The Board does not consider Clint Gouveia to be conflicted and that he is capable of exercising his judgement in the best interests of all shareholders independently of AVG on the basis that:

(a) he does not owe any duty to AVG (eg as director or executive) and does not report to AVG;

(b) he does not have a financial interest in AVG (other than 23,643 shares in AVG which is not material to Mr Gouveia or AVG);

(c) he does not report to AVG (either in fact or in a de facto way);

(d) he has not been instructed by AVG in relation to how to perform his duties or exercise any power, right or discretion as a director;

(e) he was appointed Board to provide advice on technical and operational matters and not only to advance the interests of AVG;

(f) will not receive any benefit from AVG if the AVG Capital Raising proceeds (other than as an employee of Magnetica); and

(g) he otherwise does not have a conflicting material personal interest.

9.3 Conflict management

To manage the Conflict, Magnetica adopted the following corporate governance protocols:

(a) **Conflict Management policy** – the Board endorsed a governance protocol outlining its conflict risk management policy;

(b) **Transaction Committee** – the Board established an independent Board committee comprising non-conflicted directors being Mr Duncan Stovell, Prof. Stuart Crozier and Mr Clint Gouveia (**Transaction Committee**). The Transaction Committee is delegated responsibility for overseeing all aspects of the review, assessment, negotiation and implementation of the Capital Raising and had authority to do all such acts, matters and things as it thinks fit to carry out its terms of reference; and

(c) **Information Barrier** – the Board implemented an information barrier between the conflicted and non-conflicted directors so that the conflicted directors are not given and do not have access to information with is confidential to Magnetica's assessment of the Capital Raising.

10 Recommendation of the Transaction Committee

Based on the information available (including that contained in this Explanatory Memorandum) and in the absence of a superior proposal each of the Directors in the Transaction Committee consider that the Resolution is in the best interests of Magnetica and unanimously recommend that Shareholders vote in favour of the Resolution. Each of the Directors in the Transaction Committee who hold Shares intend to vote the Shares they control in favour of the Resolution, in the absence of a superior proposal.

11 Independent Expert's Report

In accordance with the requirements of ASIC Regulatory Guide 74, the Transaction Committee engaged the Independent Expert to prepare the Independent Expert's Report, the purpose of which was to analyse and state whether or not, in their opinion, the AVG Capital Raising as a whole is 'fair' and 'reasonable' to Non-Associated Shareholders.

The Independent Expert has provided an opinion that it believes the AVG Capital Raising is not fair but reasonable to Non-Associated Shareholders.

A complete copy of this report is provided in Annexure A. Shareholders are encouraged to read the Independent Expert's Report in full.

Neither Magnetica nor the Directors are aware of any additional information that is not set out in this Explanatory Memorandum that would be relevant to Shareholders in deciding how to vote on this Resolution.

Schedule 1
Definitions

Adaptix means Adaptix plc.

ASIC means Australian Securities and Investments Commission.

Associate has the meaning given to that term in sections 10 to 17 of the Corporations Act (as applicable) and **associated** has a corresponding meaning.

Assumptions has the meaning given in Section 3.1.

Avingtrans or **AVG** means Avingtrans plc (Company Number 01968354).

AVG Capital Raising means the AVG Placement and AVG Debt Reduction.

AVG Debt Reduction has the meaning given in Section 1.1.

AVG Placement has the meaning given in Section 1.1.

AVG Placement Shares means the Shares issued to AVG under the AVG Placement.

Board means the board of Directors of Magnetica from time to time.

Business Day means a day that banks in Brisbane, Queensland, Australia, are open for business.

Capital Raising has the meaning given in Section 1.1.

Controlling Interest has the meaning given in Section 2.8(a).

Consent Matters has the meaning given in Section 2.8(c).

Company means Magnetica Limited ACN 010 679 633.

Cornerstone Interest has the meaning given in Section 2.8(b).

Corporations Act means the *Corporations Act 2001* (Cth) as amended from time to time.

Directed Proxy Form means a proxy form which specifies how the proxy is to vote.

Directors means the directors of Magnetica from time to time.

Explanatory Memorandum means the Explanatory Memorandum accompanying the Notice of Meeting.

General Meeting means the extraordinary general meeting of Shareholders to be held on 16 January 2023.

Group means Magnetica, SciMag, Tecmag and SML.

Independent Expert means BDO Corporate Finance Ltd.

Independent Expert's Report means the report of the Independent Expert dated 14 November 2022 set out in Annexure A.

Investment Agreement has the meaning given in Section 2.7(c).

Magnetica means Magnetica Limited ACN 010 679 633.

Merger has the meaning given in Section 2.7.

MNA Directors means the persons appointed by Pre-Merger Shareholders as directors of Magnetica under the Investment Agreement. The MNA Directors as at the date of this Notice of Meeting are Duncan Stovell and Stuart Crozier.

MRI means magnetic resonance imaging.

Non-Associated Shareholder means a Shareholder who is not Avingtrans or associated with Avingtrans.

Notice of Meeting means the notice convening the General Meeting, which accompanies this Explanatory Memorandum.

NMR means nuclear magnetic resonance.

Placement has the meaning given in Section 1.1.

Pre-Merger Shareholders means the Shareholders immediately prior to completion of the Merger.

Proxy Form means the proxy form attached to the Notice of Meeting.

Relevant Interest has the meaning given to that term in sections 608 and 609 of the Corporations Act.

SciMag means Space Cryomagnetics Limited (Company Number 03950388).

Share means a fully paid ordinary share in the capital of Magnetica.

Shareholder means the registered holder of a Share.

Shareholder Loans has the meaning given in Section 1.4.

Shareholder Loan Amount has the meaning given in Section 1.4.

SML means Scientific Magnetics Limited (Company Number 05519442).

SPP has the meaning given in Section 1.1.

Tecmag means Tecmag Inc (Texas SOS File Number 0065455100).

Transaction Committee has the given in Section 9.3(b).

Annexure A- Independent Expert's Report

See attached

MAGNETICA LIMITED

Independent Expert's Report and Financial Services Guide

14 NOVEMBER 2022

FINANCIAL SERVICES GUIDE

Dated: 14 November 2022

The Financial Services Guide ('FSG') is provided to comply with the legal requirements imposed by the Corporations Act 2001 and includes important information regarding the general financial product advice contained in this report ('this Report'). The FSG also includes general information about BDO Corporate Finance Ltd ABN 54 010 185 725, Australian Financial Services Licence No. 245513 ('BDOCF' or 'we', 'us' or 'our'), including the financial services we are authorised to provide, our remuneration and our dispute resolution.

BDOCF holds an Australian Financial Services Licence to provide the following services:

a) Financial product advice in relation to deposit and payment products (limited to basic deposit products and deposit products other than basic deposit products), securities, and interests in managed investment schemes excluding investor directed portfolio services;

a) Arranging to deal in financial products in relation to securities; and

b) Applying for, acquiring, varying or disposing of a financial product in relation to interests in managed investment schemes excluding investor directed portfolio services, and securities.

General Financial Product Advice

This Report sets out what is described as general financial product advice. This Report does not consider personal objectives, individual financial position or needs and therefore does not represent personal financial product advice. Consequently, any person using this Report must consider their own objectives, financial situation, and needs. They may wish to obtain professional advice to assist in this assessment.

The Assignment

BDOCF has been engaged to provide general financial product advice in the form of a report in relation to a financial product. Specifically, BDOCF has been engaged to provide an independent expert's report to the shareholders of Magnetica Limited ('Magnetica' or 'the Company') that are not Avingtrans PLC ('Avingtrans') or associates of Avingtrans ('the Non-Associated Shareholders') in relation to the proposal for Avingtrans to increase its relevant interest in Magnetica from 61.3% up to 76.6% through conversion of the outstanding balance of their loans to Magnetica into ordinary shares as repayment for the loans and participation in a capital raise ('the Proposed Transaction').

Further details of the Proposed Transaction are set out in Section 4. The scope of this Report is set out in detail in Section 3.3. This Report provides an opinion on whether or not the Proposed Transaction is 'fair and reasonable' to the Non-Associated Shareholders and has been prepared to provide information to the Non-Associated Shareholders to assist them to make an informed decision on whether to vote in favour of or against the Proposed Transaction. Other important information relating to this Report is set out in more detail in Section 3.

This Report cannot be relied upon for any purpose other than the purpose mentioned above and cannot be relied upon by any person or entity other than those mentioned above, unless we have provided our express consent in writing to do so. A shareholder's decision to vote in favour of or against the Proposed Transaction is likely to be influenced by their particular circumstances, for example, their taxation considerations and risk profile. Each shareholder should obtain their own professional advice in relation to their own circumstances.

Fees, Commissions and Other Benefits we may Receive

We charge a fee for providing reports. The fees are negotiated with the party who engages us to provide a report. We estimate the fee for the preparation of this Report will be approximately $60,000 plus GST. Fees are usually charged as a fixed amount or on an hourly basis depending on the terms of the agreement with the engaging party. Our fees for this Report are not contingent on the outcome of the Proposed Transaction.

Except for the fees referred to above, neither BDOCF, nor any of its directors, employees, or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of this Report.

Directors of BDOCF may receive a share in the profits of BDO Group Holdings Limited, a parent entity of BDOCF. All directors and employees of BDO Group Holdings Limited and its subsidiaries (including BDOCF) are entitled to receive a salary. Where a director of BDOCF is a shareholder of BDO Group Holdings Limited, the person is entitled to share in the profits of BDO Group Holdings Limited.

Associations and relationships

From time to time, BDOCF or its related entities may provide professional services to issuers of financial products in the ordinary course of its business. These services may include audit, tax and business advisory services. In the last two years, BDOCF has completed an independent expert's report for Magnetica (dated 5 January 2021) and BDO LLP has provided tax compliance services to Avingtrans.

The signatories to this Report do not hold any shares in Magnetica and no such shares have ever been held by the signatories.

To prepare our reports, including this Report, we may use researched information provided by research facilities to which we subscribe, or which are publicly available. Reference has been made to the sources of information in this Report, where applicable. Research fees are not included in the fee details provided in this Report.

Complaints Resolution

Internal Complaints Resolution Process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial services. Complaints can be in writing, addressed to the Complaints Officer, BDO Corporate Finance Ltd, GPO Box 457, Brisbane QLD 4001 or by telephone or email, using the details at the end of this FSG.

When we receive a complaint we will record the complaint, acknowledge receipt of the complaint in writing within 24 hours (or one business day) or, if that timeline cannot be met, then as soon as practicable and investigate the issues raised. As soon as practical, and not more than 30 days after receiving the complaint, we will advise the complainant in writing of our determination.

Referral to External Dispute Resolution Scheme

If a complaint is made and the complainant is dissatisfied with the outcome of the above process, or our determination, the complainant has the right to refer the matter to the Australian Financial Complaints Authority Limited ('AFCA'). AFCA is an independent company that has been established to impartially resolve disputes between consumers and participating financial services providers.

BDO Corporate Finance is a member of AFCA (Member Number 10236).

Further details about AFCA are available at the AFCA website www.afca.org.au or by contacting them directly via the details set out below.

Australian Financial Complaints Authority Limited
GPO Box 3
Melbourne VIC 3001
Toll free: 1800 931 678
Email: info@afca.org

Compensation Arrangements

BDOCF and its related entities hold Professional Indemnity insurance for the purpose of compensating retail clients for loss or damage suffered because of breaches of relevant obligations by BDOCF or its representatives under Chapter 7 of the Corporations Act 2001. These arrangements and the level of cover held by BDOCF satisfy the requirements of section 912B of the Corporations Act 2001.

Contact Details

BDO Corporate Finance Ltd

Location Address:	Postal Address:
Level 10 12 Creek Street BRISBANE QLD 4000	GPO Box 457 BRISBANE QLD 4001
Phone: (07) 3237 5999	Email: cf.brisbane@bdo.com.au
Fax: (07) 3221 9227	

CONTENTS

Financial Services Guide i

Glossary iv

PART I: ASSESSMENT OF THE PROPOSED TRANSACTION 1

1.0 Introduction 1

2.0 Assessment of the Proposed Transaction 2

2.1 Basis of Evaluation 2
2.2 Assessment of Fairness 2
2.3 Assessment of Reasonableness 4
2.4 Opinion 7

3.0 Important Information 8

3.1 Read this Report, and Other Documentation, in Full 8
3.2 Shareholders' Individual Circumstances 8
3.3 Scope 8
3.4 Purpose of this Report 9
3.5 Current Market Conditions 9
3.6 Reliance on Information 9
3.7 Glossary 10
3.8 Sources of Information 10
3.9 APES 225 Valuation Services 10
3.10 Forecast Information 11
3.11 Qualifications 11

PART II: INFORMATION SUPPORTING OUR OPINION ON THE PROPOSED TRANSACTION 12

4.0 Overview of the Proposed Transaction 12

4.1 Summary of the Proposed Transaction 12
4.2 Description of Avingtrans PLC and the Shareholder Loan Provided to Magnetica 13
4.3 Strategic Rationale for the Proposed Transaction 14
4.4 Avingtrans' Intentions in Relation to Magnetica 14

5.0 Background of Magnetica 15

5.1 Overview of Magnetica 15
5.2 Corporate Structure of Magnetica and Shareholder Protections 17
5.3 Equity Structure of Magnetica 18
5.4 Historical Financial Information of Magnetica 19

6.0 Industry Overview 22

6.1 Diagnostic Imaging Overview 22
6.2 MRI Industry 23

7.0 Common Valuation Methodologies 27

7.1 Discounted Cash Flows ('DCF') 27
7.2 Capitalisation of Maintainable Earnings ('CME') 27
7.3 Asset Based Valuation ('ABV') 27
7.4 Market Based Valuation ('MBV') 28
7.5 Industry Based Metrics (Comparable Analysis) 28

8.0 Valuation of Magnetica Prior to the Proposed Transaction 29

8.1 Our Valuation Approach for Magnetica 29
8.2 DCF Valuation of Magnetica 29
8.3 ABV of Magnetica 36
8.4 Value of Magnetica's Shares Prior to the Proposed Transaction on a Controlling Interest Basis 37

9.0 Valuation of Magnetica following the Proposed Transaction 38

9.1 Valuation Methodology 38
9.2 Minority Discount to Apply to the Valuation 38
9.3 Our Valuation of Magnetica following the Proposed Transaction 39
9.4 Value of Magnetica following the Proposed Transaction on a Minority Interest Basis 39

GLOSSARY

Reference	Definition
A$ or $	Australian dollars
ABV	Asset-based valuation
Adaptix	Adaptix PLC
APES 225	Accounting Professional and Ethical Standards Board professional standard APES 225 *Valuation Services*
ASIC	Australian Securities and Investment Commission
ASX	Australian Securities Exchange
Avingtrans	Avingtrans PLC
Base Case, the	DCF valuation methodology having regard to the Transaction Committee's best estimate of the future performance of Magnetica
BDO Persons	The partners, directors, agents, or associates of BDO
BDOCF	BDO Corporate Finance Ltd
Board, the	The board of directors of Magnetica
CAGR	Compound annual growth rate
CAPM	Capital asset pricing model
CME	Capitalisation of maintainable earnings
COGS	Cost of goods sold
Company, the	Magnetica Limited
Corporations Act, the	The Corporations Act 2001
CT	Computed Tomography
DCF	Discounted cash flow
Delay Case, the	The valuation case that assumes a one year delay in the sale of MRI Systems
DT	Digital Tomosynthesis
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
EV	Enterprise value
Existing Shareholders, the	The Shareholders immediately prior to completion under the Subscription and Shareholders' Agreement
FCFF	Free cash flow to the firm
FDA	United States Food and Drug Administration
Financial Model, the	The model provided by the Transaction Committee which sets out forecast financial information and the expected annual performance of Magnetica post the Proposed Transaction from FY23 to FY29
FSG	Financial Services Guide
FY	The financial year or 12-month period ended on 30 June 2020 or 31 May 2022, or the 11-month period ended on 31 May 2021
G&A	General and administrative

Reference	Definition
GE	General Electric
IP	Intellectual property
Magnetica	Magnetica Limited
MBV	Market-based valuation
Meeting, the	The extraordinary general meeting of shareholders in Magnetica to be held on or around 16 January 2023
MRI	Magnetic resonance imaging
MSK	Musculoskeletal
NMR	Nuclear magnetic resonance
NQR	Nuclear quadrupole resonance
Non-Associated Shareholders, the	Shareholders of Magnetica that are not Avingtrans or associates of Avingtrans
Notice of Meeting, the	The Notice of General Meeting and Explanatory memorandum dated 30 November 2022 prepared by Magnetica
NPAT	Net profit after tax
OEM	Original equipment manufacturer
Proposed Transaction, the	Avingtrans increasing its relevant interest in Magnetica from 61.3% up to 76.6% through the conversion of a shareholder loan to equity and participation in a broader capital raise being undertaken by the Company
Regulations, the	The Corporation Regulations 2001
Report, this	This independent expert's report prepared by BDOCF and dated 14 November 2022
RF	Radio frequency
RG 111	Regulatory Guide 111: *Content of Expert Reports*, issued by ASIC
RGs	Regulatory guides published by ASIC
SciMag	Space Cryomagnetics Limited trading as Scientific Magnetics
Shareholders, the	The holders of fully paid ordinary shares in the Company
SPP	The Share Purchase Plan proposed by Magnetica
Subscription and Shareholders' Agreement	The agreement dated 5 January 2021 between Avingtrans and Magnetica in relation to Magnetica's scrip based acquisition of SciMag
Tesla (T)	Derived unit of magnetic field strength in the international system of units
Tecmag	Tecmag, Inc
Transaction Committee	The independent Board committee comprising non-conflicted directors being Mr Duncan Stovell, Professor Stuart Crozier, and Mr Clint Gouveia
WACC	Weighted average cost of capital
We, us, our	BDO Corporate Finance Ltd
13W	13-week

Tel: +61 7 3237 5999
Fax: +61 7 3221 9227
www.bdo.com.au

Level 10, 12 Creek Street
Brisbane, QLD 4000
GPO Box 457, Brisbane QLD 4001
Australia

PART I: ASSESSMENT OF THE PROPOSED TRANSACTION

The Non-Associated Shareholders
C/- The Transaction Committee
Magnetica Limited
Unit 4, 55 Links Avenue North
Eagle Farm, Brisbane, 4009

14 November 2022

Dear Shareholders,

1.0 Introduction

BDO Corporate Finance Ltd ('BDOCF', 'we', 'us' or 'our') has been engaged to provide an independent expert's report ('this Report') to the shareholders of Magnetica Limited ('Magnetica' or 'the Company') that are not Avingtrans PLC ('Avingtrans') or associates of Avingtrans ('the Non-Associated Shareholders') in relation to Avingtrans increasing its relevant interest in Magnetica from 61.3% up to 76.6% ('the Proposed Transaction') through the conversion of a shareholder loan to equity and participation in a broader capital raise transaction being undertaken by the Company. In short, the transaction involves:

a) An issue price per share of $0.05;

b) The issue of approximately 87 million shares to Avingtrans for conversion of $4.35 million of shareholder loans (being the forecast balance on the date the capital raising is completed) at the $0.05 issue price;

c) The issue of 135 million shares at the $0.05 issue price to raise $6.75 million through:

   i. A Share Purchase Plan ('SPP') offer to allow eligible existing shareholders (i.e. those based in Australia, New Zealand and the UK) to purchase up to $30,000 of fully paid ordinary shares in Magnetica at the $0.05 issue price. If the SPP is oversubscribed, the Company will give applicants under the SPP priority over applicants (including Avingtrans) under the placement; and

   ii. A placement at the $0.05 issue price to new and/or existing sophisticated, professional and other investors to whom no disclosure is required under the Corporations Act;

d) In circumstances that 135 million shares are not issued under point c) above, a placement to Avingtrans equal to the shortfall such that a total of 135 million shares are issued in aggregate to all investors at the $0.05 issue price.

In this Report, we refer to Avingtrans increasing its relevant interest in Magnetica from 61.3% up to a maximum of 76.6% through the issue of shares under points b) and d) above as 'the Proposed Transaction'. The maximum relevant interest will only be reached if no shares under point c) above (i.e. there is no participation in the SPP by eligible Magnetica shareholders and no capital raised from non-Avingtrans investors through the placement).

The transaction referred to above is subject to approval of the Proposed Transaction by the Non-Associated Shareholders.

A more detailed description of the Proposed Transaction is set out in Section 4.

This Report is prepared pursuant to item 7 of section 611 of the Corporations Act and is to be included in the Notice of General Meeting and Explanatory Memorandum dated 30 November 2022 ('Notice of Meeting') prepared by Magnetica to assist the Non-Associated Shareholders to form a view on whether to vote in favour of or against the Proposed Transaction.

In this Report, BDOCF has expressed an opinion as to whether or not the Proposed Transaction is 'fair and reasonable' to the Non-Associated Shareholders. This Report has been prepared solely for use by the Non-Associated Shareholders to provide them with information relating to the Proposed Transaction. The scope and purpose of this Report are detailed in Sections 3.3 and 3.4 respectively.

This Report, including Part I and Part II, should be read in full along with all other documentation provided to the Non-Associated Shareholders including the Notice of Meeting prepared by Magnetica in relation to the Extraordinary General Meeting to be held on or around 16 January 2023 ('the Meeting').

2.0 Assessment of the Proposed Transaction

This section is set out as follows:

- Section 2.1 sets out the methodology for our assessment of the Proposed Transaction;
- Section 2.2 sets out our assessment of the fairness of the Proposed Transaction;
- Section 2.3 sets out our assessment of the reasonableness of the Proposed Transaction; and
- Section 2.4 provides our assessment of whether the Proposed Transaction is fair and reasonable to the Non-Associated Shareholders.

2.1 Basis of Evaluation

ASIC have issued Regulatory Guide 111: *Content of Expert Reports* ('RG 111'), which provides guidance in relation to independent expert's reports. RG 111 relates to the provision of independent expert's reports in a range of circumstances, including those where the expert is required to provide an opinion in relation to a takeover transaction. RG 111 states that the independent expert's report should explain the particulars of how the transaction was examined and evaluated as well as the results of the examination and evaluation.

The Proposed Transaction involves Avingtrans' relevant interest in Magnetica increasing from 61.3% up to a maximum of 76.6%. RG 111 specifically differentiates between control and non-control transactions in providing guidance on the type of analysis to complete. RG 111 suggests that where the transaction is a control transaction the expert should focus on the substance of the control transaction rather than the legal mechanism to affect it. In our opinion the Proposed Transaction is a control transaction as defined by RG 111 and we have assessed the Proposed Transaction by considering whether, in our opinion, it is fair and reasonable to the Non-Associated Shareholders.

Under RG 111, a transaction will be considered 'fair' if the value of the consideration to be received by the shareholders is equal to or greater than the value of the shares that are the subject of the transaction. To assess whether a transaction is 'reasonable', an expert should examine other significant factors to which shareholders may give consideration prior to accepting or approving the transaction. This includes comparing the likely advantages and disadvantages if the transaction is approved with the position of the shareholders if the transaction is not approved.

RG 111 states that a transaction is reasonable if it is fair. It might also be reasonable if, despite being 'not fair', the expert believes that there are sufficient reasons for security holders to accept an offer in the absence of a higher bid. Our assessment concludes by providing our opinion as to whether or not the Proposed Transaction is 'fair and reasonable'. While all relevant issues need to be considered before drawing an overall conclusion, we will assess the fairness and reasonableness issues separately for clarity.

We have assessed the fairness and reasonableness of the Proposed Transaction in Sections 2.2 and 2.3 below and provide an opinion on whether the Proposed Transaction is 'fair and reasonable' to the Non-Associated Shareholders in Section 2.4 below.

2.2 Assessment of Fairness

2.2.1 Basis of Assessment

RG 111 states that a transaction is fair if the value of the offer price or consideration is greater than the value of the securities subject to the offer. This comparison should be made assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length. When considering the value of the securities subject to an offer in a control transaction the expert should consider this value inclusive of a control premium and assume a 100% ownership interest.

In our view, it is appropriate to assess the fairness of the Proposed Transaction to the Non-Associated Shareholders as follows:

a) Determine the value of a Magnetica share on a controlling interest basis prior to the Proposed Transaction;

b) Determine the value of a Magnetica share on a minority interest basis after the Proposed Transaction; and

c) Compare the value determined in a) above with the value of b) to determine if the Proposed Transaction is fair.

In accordance with the requirements of RG 111, the Proposed Transaction can be considered 'fair' to the Non-Associated Shareholders if the value determined in b) above is equal to or greater than the value determined in a) above.

2.2.2 Value of a Magnetica Share Prior to the Proposed Transaction on a Controlling Interest Basis

In our view, for the purposes of the analysis set out in this Report, it is appropriate to adopt a value in the range of $0.037 to $0.065 per Magnetica share on a controlling interest basis. In forming this view, we considered a Discounted Cash Flow ('DCF') methodology as our primary valuation methodology and also considered an Asset-Based Valuation ('ABV') methodology.

The Non-Associated Shareholders should note that our valuation range of Magnetica is on the basis of a knowledgeable and willing, but not anxious, seller that is able to consider alternative options to the Proposed Transaction. In accordance with paragraph 111.15 of RG 111, we have not adjusted our valuation range for any financial distress that may be experienced by Magnetica in circumstances that the Proposed Transaction is not approved by the Non-Associated Shareholders and an alternative source of funding is not available. We would ordinarily expect a company in financial distress to trade at lower values as there is a risk the company will be unable to complete an arm's length transaction within the available timeframe. We have considered the availability of alternative options available to Magnetica to address any potential financial distress when considering the reasonableness of the Proposed Transaction in Section 2.3 of this Report

Our valuation of Magnetica is set out in Section 8.

2.2.3 Value of a Magnetica Share After the Proposed Transaction on a Minority Interest Basis

Our valuation of Magnetica following the Proposed Transaction, on a minority interest basis, is in the range of \$0.033 to \$0.046 per share.

The primary factors driving the change in the valuation range, pre and post the Proposed Transaction, are:

- **Additional cash**: As part of the Proposed Transaction, Magnetica will receive cash of approximately \$6.75 million;
- **Conversion of shareholder loan to equity:** As part of the Proposed Transaction, Magnetica will convert \$4.35 million of shareholder loans (being the forecast balance on the date the capital raising is completed) into equity;
- **Additional equity instruments**: Following the Proposed Transaction, Magnetica will have an additional 222 million ordinary shares on issue; and
- **Minority interest**: We have calculated the value of Magnetica on a minority interest basis following the Proposed Transaction.

Our valuation of Magnetica following the Proposed Transaction is set out in Section 8 of this Report.

2.2.4 Assessment of the Fairness of the Proposed Transaction

To assess the fairness of the Proposed Transaction, it is appropriate to compare the value of a Magnetica share prior to the Proposed Transaction on a controlling interest basis with the value of a share in Magnetica on a minority interest basis assuming the Proposed Transaction is implemented. Pursuant to RG 111, the Proposed Transaction is fair if the value of the Magnetica share following completion of the Proposed Transaction is greater than the value of a Magnetica share prior to completion of the Proposed Transaction.

Table 2.1 below summarises our assessment of the fairness of the Proposed Transaction.

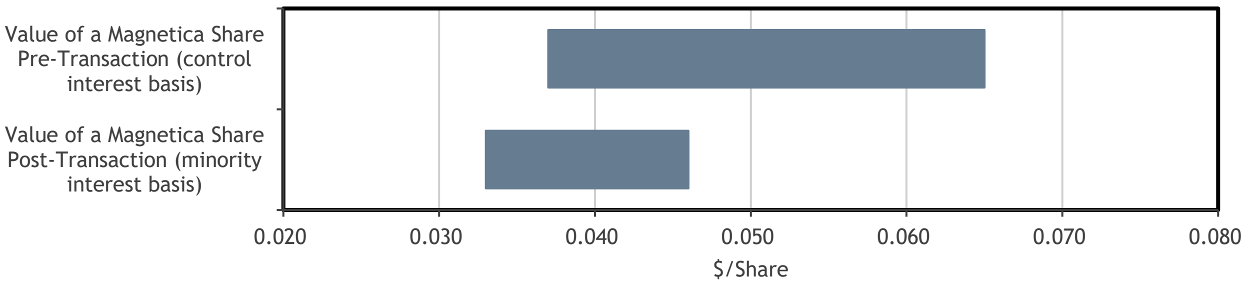
Table 2.1: Assessment of the Fairness of the Proposed Transaction

	Low	High
Value of a Magnetica share prior to the Proposed Transaction (controlling interest)	\$0.037	\$0.065
Value of a Magnetica share post the Proposed Transaction (minority interest)	\$0.033	\$0.046

Source: BDOCF Analysis

Figure 2.1 summarises our assessment of the fairness of the Proposed Transaction, setting out a graphical comparison of our valuation of a Magnetica share prior to the Proposed Transaction on a controlling interest basis and our valuation of a share in Magnetica on a minority basis following completion of the Proposed Transaction.

Figure 2.1: Fairness of the Proposed Transaction



Source: BDOCF analysis

With reference to Table 2.1 and Figure 2.1, we note:

- At the low and high ends of the valuation range, the value of Magnetica post the Proposed Transaction on a minority basis is below the value of Magnetica pre the Proposed Transaction on a controlling interest basis; and

- There is a downward shift in the value range of Magnetica post the Proposed Transaction on a minority interest basis relative to the value of Magnetica pre the Proposed Transaction on a controlling interest basis.

After considering the information summarised above and set out in detail in the balance of this Report, it is our view that, in the absence of any other information, the Proposed Transaction is **Not Fair** to the Non-Associated Shareholders as at the date of this Report.

2.3 Assessment of Reasonableness

2.3.1 Basis of Assessment

Under RG 111, a transaction is considered reasonable if it is fair. It may also be reasonable, despite not being fair, if after considering other significant factors the interests of the shareholders are reasonably balanced.

In addition to our fairness assessment set out in Section 2.2 above, to assess whether the Proposed Transaction is 'reasonable' we consider it appropriate to examine other significant factors to which the Non-Associated Shareholders may give consideration prior to forming a view on whether to vote in favour of or against the Proposed Transaction. This includes comparing the likely advantages and disadvantages of approving the Proposed Transaction with the position of a Non-Associated Shareholder if the Proposed Transaction is not approved, as well as a consideration of other significant factors.

Our assessment of the reasonableness of the Proposed Transaction is set out as follows:

- Section 2.3.2 sets out the advantages of the Proposed Transaction to the Non-Associated Shareholders;
- Section 2.3.3 sets out the disadvantages of the Proposed Transaction to the Non-Associated Shareholders;
- Section 2.3.4 sets out discussion of other considerations relevant to the Proposed Transaction;
- Section 2.3.5 sets out the position of the Non-Associated Shareholders if the Proposed Transaction is not approved; and
- Section 2.3.6 provides our opinion on the reasonableness of the Proposed Transaction to the Non-Associated Shareholders.

2.3.2 Advantages of the Proposed Transaction

Table 2.2 below outlines the potential advantages to the Non-Associated Shareholders of approving the Proposed Transaction.

Table 2.2: Potential Advantages of Approving the Proposed Transaction

Advantage	Explanation
Only option available to raise the required capital	The independent Board committee comprising non-conflicted directors being Mr Duncan Stovell, Professor Stuart Crozier, and Mr Clint Gouveia ('the Transaction Committee') has been actively seeking investors and financiers, other than Avingtrans, to provide the requisite capital. As at the date of this Report, no investor other than Avingtrans has made a firm commitment to provide the investment. Accordingly, the Proposed Transaction represents the only option available to raise the required capital.
Structured to reduce shares issued to Avingtrans if support from other investors	We have been informed that it is the preference of both the Transaction Committee and Avingtrans' for other investors, both existing and new, to support Magnetica via the proposed capital raising. To facilitate this, the proposed capital raising has been structured to provide two pathways for investors to secure a new, or additional shareholding in Magnetica. Specifically, the two pathways are: - A placement, for sophisticated and professional investors; and - An SPP for eligible existing retail shareholders based in Australia, New Zealand and the UK to purchase up to $30,000 of fully paid ordinary shares in Magnetica at the $0.05 issue price. If existing eligible shareholders elect to participate in the capital raising, they may be able to mitigate or reduce the level of dilution this capital raising potentially represents. Participating in the capital raising will also reduce the number of shares Avingtrans needs to purchase under the Proposed Transaction by the sum of the shares subscribed to by other investors under the placement and SPP pathways. If Magnetica is successful in raising capital from other investors, Avingtrans' relevant interest will be less than the maximum 76.6%.

Advantage	Explanation
Provides cash to continue product commercialisation and reduce risk of insolvency	Magnetica has relied upon shareholder loans from Avingtrans to continue its operations, including to commercialise its Musculoskeletal ('MSK') Extremity Magnetic Resonance Imaging ('MRI') system. Magnetica recorded a net profit after tax ('NPAT') loss of ~$2.5 million in FY22, and its current liabilities are greater than its current assets. Further, Magnetica is projecting further cash outflows in excess of $40 million before it becomes cash flow positive. As Avingtrans has agreed to be a cornerstone investor to the capital raising and provide the full amount of capital, if required, approval of the Proposed Transaction will provide Magnetica with the cash it requires to continue product commercialisation and avoid any insolvency issues arising from a lack of funding.
May increase time available to become profitable	Magnetica is a pre-commercialisation medical technology company focussing on the commercialisation of its MSK Extremity MRI system. It is common for early-stage technology companies to operate at a loss and to rely on external investors before becoming self-sustaining and profitable as they mature. Completion of the Proposed Transaction will help provide Magnetica with a pathway and the time in operation required to reach this maturity and profitability.
Converts the shareholder loans owed to Avingtrans into equity	Avingtrans has advanced a series of loans to Magnetica to bridge the cash required by Magnetica to continue operations until a capital raising is complete. We are informed that while there is no formal agreement or interest rate associated with these loans, the loans were made on the understanding that upon completion of a capital raising the loans would be converted into equity at the same price that the broader capital raising was completed under. Should the Proposed Transaction be approved, these loans will be converted into equity at the same price as the broader transaction.
Ability to realise a control premium via a takeover is unlikely to change materially	Notwithstanding our consideration of a control premium and minority discount in Section 2.2 above, in our view it could be argued that a control premium and minority discount is less relevant in the current analysis as the Non-Associated Shareholders ability to realise a control premium via a takeover is unlikely to change materially. Given Avingtrans' existing 61.3% shareholding, a potential acquirer will be unable to acquire 100% of the Company without the support of Avingtrans, irrespective of whether this shareholding interest increases to 76.6% under the Proposed Transaction.
Results in further alignment between Magnetica and Avingtrans	The Transaction Committee consider Avingtrans to be a supportive cornerstone investor that provided funds when Magnetica required them over the past financial year. If the Proposed Transaction is approved, Avingtrans' shareholding will increase from 61.3% to an ownership interest up to 76.6%. Accordingly, the interests of Avingtrans and Magnetica will be further aligned. Cornerstone investors can often assist a company in a range of ways, including assisting to secure future funding and/or stimulating investor demand by enhancing the credibility of the company. The greater Avingtrans' shareholding in the Company, the more incentivised it will be to assist the Company with achieving its objectives.

Source: BDOCF analysis

2.3.3 Disadvantages of the Proposed Transaction

Table 2.3 below outlines the potential disadvantages to the Non-Associated Shareholders of approving the Proposed Transaction.

Table 2.3: Potential Disadvantages of the Proposed Transaction

Disadvantage	Explanation
The Proposed Transaction is Not Fair	As set out in Section 2.2 above, the Proposed Transaction is Not Fair to the Non-Associated Shareholders as at the date of this Report.
Dilution of the Magnetica Shareholders' relevant interest in the company	If the Proposed Transaction is approved, Avingtrans' relevant interest in Magnetica shares will increase from 61.3% and this increase may be up to 76.6% if other shareholders do not participate in the capital raising. This increase in shareholding will dilute the Non-Associated Shareholders' relevant interest in the Company and decrease their exposure to any upside in the value of Magnetica.
Avingtrans may gain the ability to pass special resolutions	If the Proposed Transaction is approved, then Avingtrans' relevant interest in Magnetica shares may become greater than 75%. A relevant interest greater than 75% would mean that Avingtrans could unilaterally pass a special resolution, including amendments to the constitution and changing of the company name.
Potential loss of shareholder protections	As set out in Section 5.2.2 below, at the time of the Avingtrans transaction, the Subscription and Shareholders' Agreement incorporated certain shareholder protections while the existing Magnetica shareholders at the time ('the Existing Shareholders') of the transaction had a collective interest greater than 30%. If Avingtrans' ownership interest increases above 70% or new investors result in the Existing Shareholders interest decreasing below 30%, this would lead to the additional shareholder protections being removed. Notwithstanding the above, we note that under the Subscription and Shareholders' Agreement, the shareholder protections will remain in place until the initial Chair is appointed. As at the date of this Report, an initial independent Chair had not been appointed and we understand the current board of directors of Magnetica ('the Board') has no immediate plans to hire an independent Chair.

Disadvantage	Explanation
Future capital raises may be more difficult given issuance price reflects a 'down price' to previous capital raises	Early-stage investment can often be raised with reference to the issue price of previous capital rounds. The Transaction Committee has stated the Proposed Transaction is a 'Down Round', meaning the issue price is lower than the price used in previous capital raises. This decreased price may influence future capital raises and result in a lower price being achieved in the future.

Source: BDOCF analysis

2.3.4 Ineligible *Shareholders*

Only eligible shareholders can participate in the SPP. Eligible shareholders are those holders of Magnetica shares who:

- Are registered as a holder of shares on the record date;
- Have a registered address in Australia, New Zealand or the United Kingdom; and
- Are eligible under all applicable securities laws to receive an offer under the SPP.

Shareholders that are not eligible shareholders are ineligible shareholders. We understand that ineligible shareholders are estimated to make up less than 2.5% of the total number of Magnetica shares on issue and comprise approximately 44 by number.

Ineligible shareholders that are unable to otherwise participate in the capital raising will not have the ability to subscribe for shares under the capital raising and will have their interest in Magnetica diluted if the Proposed Transaction is approved.

2.3.5 Position of the Non-Associated Shareholders if the Proposed Transaction is Not Approved

Table 2.4 below outlines the potential position of individual Magnetica Non-Associated Shareholders if the Proposed Transaction is not approved.

Table 2.4: Position of the Non-Associated Shareholders if the Proposed Transaction is Not Approved

Position of Shareholders	Explanation
Avingtrans may not provide further financing	While Magnetica had a net asset deficiency as at 31 May 2022 (excluding intangible assets) and forecast cash outflows in the immediate future, the Board formed the view that Magnetica was a going concern. We understand that this view was reached by the Board, in part, as a result of Avingtrans' commitment to continue to fund the Company for the relevant future period. Should the Non-Associated Shareholders vote against the Proposed Transaction, the Transaction Committee is of the view there would be no reasonable justification for the Non-Associated Shareholders to expect Avingtrans to continue to make loans to the business to continue operations, despite Avingtrans being the majority shareholder. There is also no guarantee that Avingtrans' (or any other investor) would agree to a higher proposed price relative to the current $0.05 under the Proposed Transaction. For completeness, we note that in arriving at the $0.05 issue price, the Transaction Committee considered: ▸ Their view of the current uncertainties in the market; ▸ Magnetica's early stage of commercialisation and associated risk; and ▸ Their view of a price that may attract new investment into Magnetica.
Magnetica may be unable to raise capital elsewhere to meet its need for funding	Magnetica needs funding to continue its operations including to commercialise its MSK Extremity MRI system. Magnetica has attempted to secure this funding by: ▸ Approaching new investors, including by providing them the opportunity to participate in the current capital raising. As at the date of this Report, we understand that no firm commitments had been received from any investor other than Avingtrans; ▸ Approaching lending institutions to access debt working capital funding. This was unsuccessful due to the early stage of commercialisation of Magnetica's products; and ▸ Monitoring for opportunities to seek grant funding support from Government. The Non-Associated Shareholders should note that further attempts to identify a suitable funding source (e.g. a second cornerstone investor) may require considerable amounts of time and even if an alternative funding source was able to be identified, there is no guarantee that they would invest in the Company at a share price higher than the $0.05 under the Proposed Transaction.
There is a material risk Magnetica will become insolvent	If the Proposed Transaction is not approved, the Transaction Committee has indicated Magnetica will be at material risk of insolvency and could be forced to cease trading, particularly if Avingtrans does not provide further financing and Magnetica is unable to raise capital elsewhere to meet its need for funding. If a voluntary administrator or receiver is appointed, then there is a material risk that the value ultimately realised will not exceed the value implied by the issue price under the Proposed Transaction.
Magnetica Shareholders will not be diluted	If the Proposed Transaction is not approved, no shares will be issued at $0.05 under the Proposed Transaction and the Non-Associated Shareholders will not have their collective interest diluted.

Position of Shareholders	Explanation
Level of control will remain unchanged	If the Proposed Transaction is not approved, Avingtrans' relevant interest will remain at 61.3% and the shareholder protections incorporated into the Subscription and Shareholders' Agreement (refer Section 5.2.2 for additional discussion) at the time of Magnetica's acquisition of SciMag will remain unchanged.
Magnetica Shareholders will not be able to recover the costs incurred in relation to the Proposed Transaction	If the Proposed Transaction is not approved, Magnetica will not be able to recover the costs incurred in relation to the Proposed Transaction.

Source: BDOCF analysis

2.3.6 Assessment of the Reasonableness of the Proposed Transaction

In our opinion, after considering all of the issues set out in this Report, it is our view that, in the absence of any other information or a superior proposal, the Proposed Transaction is **Reasonable** to the Non-Associated Shareholders as at the date of this Report.

2.4 Opinion

After considering the above assessments, it is our view that, in the absence of any other information, the Proposed Transaction is **Not Fair but Reasonable** as at the date of this Report.

Before forming a view on whether to vote in favour of or against the Proposed Transaction, the Non-Associated Shareholders must:

- Have regard to the information set out in the balance of this Report, including the Important Information set out in Section 3;
- Consult their own professional advisers; and
- Consider their specific circumstances.

In considering whether to vote in favour of or against the Proposed Transaction, the Non-Associated Shareholders should also consider that, for reasons set out in Section 2.2 of this Report, the valuation work set out in this Report does not specifically consider any financial distress for Magnetica (e.g. if the Proposed Transaction is not approved and an alternative source of funds is not available) and assumes that Magnetica is able to rely on the continued support of shareholders, including Avingtrans, for funding.

As discussed in Table 2.4, should the Non-Associated Shareholders vote against the Proposed Transaction, the Transaction Committee is of the view there would be no reasonable justification for the Non-Associated Shareholders to expect Avingtrans to continue to make loans to the business to continue operations, despite Avingtrans being the majority shareholder.

If Avingtrans ceases to provide funding and/or an alternative funding source is not available, the Board would need to immediately act, with the solvency of the Company being a primary focus given the current liabilities that exist. If a receiver or liquidator is appointed and unable to obtain a value for the Company in excess of the value of the liabilities, it is possible that the Non-Associated Shareholders will realise a value for their investment which is less than the $0.05 price under the capital raising or that they may not receive any value at all.

The Non-Associated Shareholders should refer to Section 2.3.5 for a more detailed discussion of their position in the event that the Proposed Transaction is not approved and implemented.

The analysis set out in this Report has relied on certain economic, market and other conditions prevailing as at the date of this Report. We note that changes in these conditions may have a material impact on the results presented in this Report. BDOCF is not responsible for updating this Report in the event that these circumstances change.

3.0 Important Information

3.1 Read this Report, and Other Documentation, in Full

This Report, including Part I and Part II, should be read in full to obtain a comprehensive understanding of the purpose, scope, basis of evaluation, limitations, information relied upon, analysis, and assumptions underpinning our work and our findings.

Other information provided to the Non-Associated Shareholders in conjunction with this Report should also be read in full, including the Notice of Meeting.

3.2 Shareholders' Individual Circumstances

Our analysis has been completed and our conclusions expressed at an aggregate level having regard to the Non-Associated Shareholders as a whole. BDOCF has not considered the impact of the Proposed Transaction on the particular circumstances of individual Non-Associated Shareholders. Individual Non-Associated Shareholders may place a different emphasis on certain elements of the Proposed Transaction relative to the emphasis placed in this Report. Accordingly, individual Non-Associated Shareholders may reach different conclusions as to whether or not the Proposed Transaction is fair and reasonable in their individual circumstances.

The decision of an individual Non-Associated Shareholder to vote in favour of or against the Proposed Transaction is likely to be influenced by their particular circumstances and accordingly, the Non-Associated Shareholders are advised to consider their own circumstances and seek their own independent advice.

Voting in favour of or against the Proposed Transaction is a matter for individual Non-Associated Shareholders based on their expectations as to the expected value, future prospects, and market conditions together with their particular circumstances, including risk profile, liquidity preference, portfolio strategy and tax position. The Non-Associated Shareholders should carefully consider the Notice of Meeting. Non-Associated Shareholders who are in doubt as to the action they should take in relation to the Proposed Transaction should consult their professional adviser.

With respect to the taxation implications of the Proposed Transaction, it is strongly recommended that the Non-Associated Shareholders obtain their own taxation advice, tailored to their own particular circumstances.

3.3 Scope

In this Report we provide our opinion on whether the Proposed Transaction is fair and reasonable to the Non-Associated Shareholders.

This Report has been prepared at the request of the Transaction Committee for the sole benefit of the Non-Associated Shareholders entitled to vote, to assist them in their decision to vote in favour of or against the Proposed Transaction. This Report is to accompany the Notice of Meeting to be sent to the Non-Associated Shareholders to consider the Proposed Transaction and was not prepared for any other purpose. Accordingly, this Report and the information contained herein may not be relied upon by anyone other than the Transaction Committee and the Non-Associated Shareholders without our written consent. We accept no responsibility to any person other than the Transaction Committee and the Non-Associated Shareholders in relation to this Report.

This Report should not be used for any other purpose and we do not accept any responsibility for its use outside this purpose. Except in accordance with the stated purpose, no extract, quote or copy of this Report, in whole or in part, should be reproduced without our written consent, as to the form and context in which it may appear.

We have consented to the inclusion of this Report with the Notice of Meeting. Apart from this Report, we are not responsible for the contents of the Notice of Meeting or any other document associated with the Proposed Transaction. We acknowledge that this Report may be lodged with regulatory authorities to obtain the relevant approvals prior to it being made available to the Non-Associated Shareholders.

The scope of procedures we have undertaken has been limited to those procedures required to form our opinion. Our procedures did not include verification work nor constitute an audit or assurance engagement in accordance with Australian Auditing and Assurance Standards. In preparing this Report we considered a range of matters, including the necessary legal requirements and guidance of the Corporations Act, the Corporation Regulations 2001 ('the Regulations'), the regulatory guides ('RGs') published by the Australian Securities and Investments Commission ('ASIC'), the listing requirements of the relevant exchanges (where relevant) and commercial practice.

In forming our opinion, we have made certain assumptions and outline these in this Report including:

- We have performed our analysis on the basis that the conditions precedent to the Proposed Transaction are satisfied;
- That matters such as title to all relevant assets, compliance with laws and regulations and contracts in place are in good standing, and will remain so, and that there are no material legal proceedings, other than as publicly disclosed;
- All information which is material to the Non-Associated Shareholders' decision on the Proposed Transaction has been provided and is complete, accurate and fairly presented in all material respects;
- Publicly available information relied on by us is accurate, complete and not misleading;

- If the Proposed Transaction is approved, that it will be implemented in accordance with the stated terms outlined in the Proposed Transaction;
- The legal mechanism to implement the Proposed Transaction is correct and effective;
- There are no undue changes to the terms and conditions of the Proposed Transaction or complex issues unknown to us; and
- Other assumptions, as outlined in this Report.

In this Report we have not provided any taxation, legal or other advice of a similar nature in relation to the Proposed Transaction. Magnetica has engaged other advisors in relation to those matters.

Magnetica has acknowledged that the Company's engagement of BDOCF is as an independent contractor and not in any other capacity, including a fiduciary capacity.

The statements and opinions contained in this Report are given in good faith and are based upon our consideration and assessment of the information provided by the Board, executives, and management of all the entities.

3.4 Purpose of this Report

Section 606 of the Corporations Act states that, subject to the exceptions set out in section 611, a 'relevant interest' in issued voting shares in a listed company cannot be increased from 20% or below to more than 20%, or increasing from a starting point that is above 20% and below 90%. A 'relevant interest' is broadly defined as an interest giving the holder the power to control the right to vote or dispose of shares.

If the Proposed Transaction is approved, Avingtrans will be issued up to 222 million fully paid ordinary Magnetica shares. Following the Proposed Transaction, Avingtrans' and its associates' relevant interest in Magnetica will increase from approximately 61.3% to up to 76.6%. In these circumstances, an exemption from section 606 must be sought under item 7 of section 611 of the Corporations Act.

Item 7 of section 611 allows a party to gain a relevant interest in shares of a public company that would otherwise be prohibited under subsection 606(2) of the Corporations Act if the Proposed Transaction is approved in advance by a resolution passed at a general meeting of the company, and:

- No votes are cast in favour of the resolution by any party who is associated with the party acquiring the shares, or by the party acquiring the shares; and
- There was full disclosure of all information known by both the party proposing to make the acquisition, their associates, and the company in relation to the transaction which was material to a decision on how to vote on the resolution.

ASIC RG 74: *Acquisitions Approved by Members* states that the obligation to supply shareholders with all material information can be satisfied by the Transaction Committee by either:

- Undertaking a detailed examination of the Proposed Transaction themselves, if they consider that they have sufficient expertise; or
- Commissioning an independent expert's report.

We have been requested to prepare this independent expert's report to provide additional information to the Non-Associated Shareholders to assist them to form a view on whether to vote in favour of or against the Proposed Transaction.

3.5 Current Market Conditions

Our opinion and the analysis set out in this Report is based on economic, commodity, market and other conditions prevailing at the date of this Report. Such conditions can change significantly over relatively short periods of time and may have a material impact on the results presented in this Report and result in any valuation or other opinion becoming quickly outdated and in need of revision.

In circumstances where we become aware of and believe that a change in these conditions, prior to the Meeting, results in a material statement in this Report becoming misleading, deceptive or resulting in a material change in valuation, we will provide supplementary disclosure to Magnetica. BDOCF is not responsible for updating this Report following the Meeting or in the event that a change in prevailing circumstance does not meet the above conditions.

3.6 Reliance on Information

Magnetica recognises and confirms that, in preparing this Report, except to the extent to which it is unreasonable to do so, BDOCF, BDO Services Pty Ltd or any of the partners, directors, agents or associates (together 'BDO Persons'), will be using and relying on publicly available information and on data, material and other information furnished to BDO Persons by Magnetica, its management, and other parties, and may assume and rely upon the accuracy and completeness of, and is not assuming any responsibility for independent verification of, such publicly available information and the other information so furnished.

Unless the information we are provided suggests the contrary, we have assumed that the information provided was reliable, complete, and not misleading, and material facts were not withheld. The information provided was evaluated through analysis and inquiry for the purpose of forming an opinion as to whether or not the Proposed Transaction is fair and reasonable.

We do not warrant that our inquiries have identified or verified all of the matters which an audit, extensive examination or due diligence investigation might disclose. In any event, an opinion as to whether a corporate transaction is fair and reasonable is in the nature of an overall opinion rather than an audit or detailed investigation.

It is understood that the accounting information provided to us was prepared in accordance with generally accepted accounting principles.

Where we relied on the views and judgement of management, the information was evaluated through analysis and inquiry to the extent practical. Where we have relied on publicly available information, we have considered the source of the information and completed our own analysis to assist us to determine the accuracy of the information we have relied on. However, in many cases the information we have relied on is often not capable of external verification or validation and on that basis we provide no opinion or assurance on the information.

The Transaction Committee represent and warrant to us for the purpose of this Report, that all information and documents furnished by Magnetica (either by management directly or through its advisors) in connection or for use in the preparation of this Report do not contain any untrue statements of a material fact or omit to state a material fact necessary in order to make the statements therein. We have received representations from the Transaction Committee in relation to the completeness and accuracy of the information provided to us for the purpose of this Report.

Under the terms of our engagement, Magnetica has agreed to indemnify BDO Persons against any claim, liability, loss or expense, costs, or damage, arising out of reliance on any information or documentation provided, which is false or misleading or omits any material particulars, or arising from failure to supply relevant documentation or information.

3.7 Glossary

Capitalised terms used in this Report have the meanings set out in the glossary. A glossary of terms used throughout this Report is set out immediately following the Table of Contents at the start of this Report.

All dollar ('$') references in this Report are in Australian dollars unless otherwise stated.

3.8 Sources of Information

This Report has been prepared using information obtained from sources including the following:

- Magnetica annual reports for the 11 months ending 31 May 2021 and the year ending 31 May 2022;
- Magnetica management accounts as at 30 Sep 2022;
- The Financial Model ('Financial Model') provided by Magnetica;
- The Notice of Meeting;
- Capital IQ;
- IBISWorld;
- Consensus Economics;
- MergerMarket;
- Other research publications and publicly available data as sourced throughout this Report;
- Various transaction documents provided by the Transaction Committee and their advisors; and
- Discussions and other correspondence with Magnetica, the Transaction Committee and their advisers.

3.9 APES 225 Valuation Services

This assignment is a Valuation Engagement as defined by Accounting Professional & Ethical Standards Board professional standard APES 225 *Valuation Services* ('APES 225'). A Valuation Engagement is defined by APES 225 as 'an Engagement or Assignment to perform a Valuation and provide a Valuation Report where the Valuer is free to employ the Valuation Approaches, Valuation Methods, and Valuation Procedures that a reasonable and informed third party would perform taking into consideration all the specific facts and circumstances of the Engagement or Assignment available to the Valuer at that time.'

This Valuation Engagement has been undertaken in accordance with the requirements set out in APES 225.

3.10 Forecast Information

Any forecast financial information referred to in this Report has originated from the Company's management and is adopted by the Transaction Committee to provide us with a guide to the potential financial performance of Magnetica. There is a considerable degree of subjective judgement involved in preparing forecasts since they relate to event(s) and transaction(s) that have not yet occurred and may not occur. Actual results are likely to be different from the forecast financial information since anticipated event(s) or transaction(s) frequently do not occur as expected and the variation between actual results and those forecast may be material.

The Transaction Committee's best-estimate assumptions on which the forecast is based relate to future event(s) and/or transaction(s) that management expect to occur and actions that management expect to take and are also subject to uncertainties and contingencies, which are often outside the control of Magnetica. Evidence may be available to support the Transaction Committee's best-estimate assumptions on which the forecast is based however, such evidence is generally future-oriented and therefore speculative in nature. In certain circumstances, we may adjust the forecast assumptions provided by management to complete our valuation work. In this instance, the forecasts we have adopted for our valuation work will not be the same as the forecasts provided by management.

BDOCF cannot and does not provide any assurance that any forecast is representative of results or outcomes that will actually be achieved. While we have considered the forecast information to the extent we considered necessary to complete the analysis set out in this Report, we have not been engaged to provide any form of assurance conclusion on any forecast information set out in this Report. We disclaim any assumption of responsibility for any reliance on this Report, or on any forecast to which it relates, for any purpose other than that for which it was prepared. We have assumed, and relied on representations from the Transaction Committee, that all material information concerning the prospects and proposed operations of Magnetica has been disclosed to us and that the information provided to us for the purpose of our work is true, complete, and accurate in all respects. We have no reason to believe that those representations are false.

3.11 Qualifications

BDOCF has extensive experience in the provision of corporate finance advice, including takeovers, valuations, and acquisitions. BDOCF holds an Australian Financial Services Licence issued by ASIC for preparing expert reports pursuant to the Listing Rules of the ASX and the Corporations Act.

BDOCF and its related parties in Australia have a wide range of experience in transactions involving the advising, auditing or expert reporting on companies that have operations domestically and in foreign jurisdictions. BDO in Queensland and in Australia is a national association of separate partnerships and entities and is a member of the international BDO network of individual firms.

Mark Whittaker and Chris Catanzaro have prepared this Report with the assistance of staff members. Mr Whittaker, BCom (Hons), CA, CFA, and Mr Catanzaro, BCom (Hons), BBusMan, CA, CFA are directors of BDOCF. Both Mr Whittaker and Mr Catanzaro have extensive experience in corporate advice and the provision of valuation and professional services to a diverse range of clients, including large private, public and listed companies, financial institutions and professional organisations. Mr Whittaker and Mr Catanzaro are considered to have the appropriate experience and professional qualifications to provide the advice offered within this Report.

BDO Corporate Finance Ltd

Mark Whittaker **Director**	**Chris Catanzaro** **Director**

PART II: INFORMATION SUPPORTING OUR OPINION ON THE PROPOSED TRANSACTION

4.0 Overview of the Proposed Transaction

This section sets out an overview of the Proposed Transaction and is structured as follows:

- Section 4.1 provides a summary of the Proposed Transaction;
- Section 4.2 describes Avingtrans and the shareholder loan made by Avingtrans to Magnetica;
- Section 4.3 summarises the conditions precedent to the Proposed Transaction;
- Section 4.4 details the rationale for the Proposed Transaction; and
- Section 4.5 summarises Avingtrans' intentions should the Proposed Transaction be approved.

This section is a summary only and should not be treated as a complete description of the Proposed Transaction. The Non-Associated Shareholders should refer to the Notice of Meeting and any subsequent disclosures for additional information relating to the Proposed Transaction and the key parties involved.

4.1 Summary of the Proposed Transaction

4.1.1 Overview of Transaction

Magnetica is proposing to undertake a transaction that involves:

a) An issue price per share of $0.05;

b) The issue of approximately 87 million shares to Avingtrans for conversion of $4.35 million of shareholder loans (being the forecast balance on the date the capital raising is completed) at the $0.05 issue price;

c) The issue of 135 million shares at the $0.05 issue price to raise $6.75 million through:

   i. An SPP offer to allow eligible existing shareholders (i.e. those based in Australia, New Zealand and the UK) to purchase up to $30,000 of fully paid ordinary shares in Magnetica at the $0.05 issue price. If the SPP is oversubscribed, the Company will give applicants under the SPP priority over applicants (including Avingtrans) under the placement; and

   ii. A placement at the $0.05 issue price to new and/or existing sophisticated, professional and other investors to whom no disclosure is required under the Corporations Act;

d) In circumstances that 135 million shares are not issued under point c) above, a placement to Avingtrans equal to the shortfall such that a total of 135 million shares are issued in aggregate to all investors at the $0.05 issue price.

We have been informed that it is the preference of both the Transaction Committee and Avingtrans' for other investors, both existing and new, to support Magnetica via the proposed capital raising.

If existing eligible shareholders elect to participate in the capital raising, they may be able to mitigate or reduce the level of dilution this capital raising potentially represents. Participating in the capital raising will also reduce the number of shares Avingtrans needs to purchase under the Proposed Transaction by the sum of the shares subscribed to by other investors under point c) above. If Magnetica is successful in raising capital from other investors, Avingtrans' relevant interest will be less than the maximum 76.6%.

In this Report, we refer to Avingtrans increasing its relevant interest in Magnetica from 61.3% up to a maximum of 76.6% through the issue of shares under points b) and d) above as 'the Proposed Transaction'. The maximum relevant interest will only be reached if no shares under points c) above (i.e. there is no participation in the SPP by eligible Magnetica shareholders and no capital raised from non-Avingtrans investors through the placement).

The transaction referred to above is subject to shareholder approval of the Proposed Transaction.

4.1.2 Intended Use of Funds Raised

Magnetica anticipates that the funds raised under the capital raising will be used to meet working capital requirements and also will be applied towards:

- commercialising its MSK Extremity MRI system, including:
  - completing the development of a system capable of being produced on a commercial basis;
  - verification activities, including compliance testing; and
  - preparatory activities for in-clinic usability trials including preparing applications for regulatory approvals;

- relocating the Brisbane team to a new facility in Brisbane (approximately three times the size of the current facility);
- engaging additional personnel and scaling up manufacturing to build out production capabilities for manufacture of the MRI system, with sub-systems being manufactured at each of its locations in Brisbane (AU), Abingdon (UK) and Houston (US);
- ongoing development of market entry plans (with timing and scope of activities always being subject to applicable regulatory approvals); and
- collaboration with Adaptix plc ('Adaptix') on a range of matters including evaluating the opportunity to combine the images produced from Magnetica's Cryogen-free MRI system and Adaptix's Digital Tomosynthesis ('DT') imaging system. Adaptix is a UK-based company developing technology for low-cost, low-dose 3D portable imaging including DT.

4.1.3 Movement in Capital Structure

Table 4.1 sets out the indicative capital structure following completion and assumes that no additional shares are issued, or options exercised, prior to completion.

Table 4.1: Indicative Capital Structure following the Proposed Transaction

	Magnetica Shares on Issue[1]	Magnetica Shares held by Avingtrans	Avingtrans' Relevant Interest in Magnetica
Prior to the Proposed Transaction	339,871,648	208,230,884	61.3%
Movement from Loan Conversion	87,000,000	87,000,000	n/a
Sub-total	**426,871,648**	**295,230,884**	**69.2%**
Movement from Maximum Avingtrans' Participation in Proposed Transaction	135,000,000	135,000,000	n/a
Total	**561,871,648**	**430,230,884**	**76.6%**

Source: Management; BDO analysis

1 Includes employee share plan restricted ordinary shares.

Table 4.1 shows the scenario in which there are no shares issued under the placement or SPP, therefore representing the maximum shareholding Avingtrans could obtain. In the Notice of Meeting, Magnetica provides two alternative scenarios for the capital structure of Magnetica as follows:

- Partial issue to Avingtrans whereby $4,350,000 of shareholder loans are capitalised, $500,000 is raised under the placement, and $1,674,000 is raised under the SPP (representing a take up rate of approximately 10% from the 558 eligible shareholders entitled to participate in the SPP); and
- Minimal issue to Avingtrans whereby $3,850,000 of shareholder loans are capitalised and the full $6,750,000 is raised under the placement and SPP from investors other than Avingtrans.

In the scenario of partial issue to Avingtrans, after the capital raise Avingtrans would have a shareholding of 68.8% whereas in the minimal issue scenario, Avingtrans would have a shareholding of 51.7%, representing a decrease in the shareholding of Avingtrans compared to the current value.

4.2 Description of Avingtrans PLC and the Shareholder Loan Provided to Magnetica

4.2.1 Avingtrans PLC

This section is a summary based on information set out in the Notice of Meeting. Non-Associated Shareholders should refer to section 2 of the Notice of Meeting for further information.

Avingtrans is a United Kingdom-based company, principally engaged in acquiring businesses that operate across three markets: aerospace, energy, and medical. In catering to their respective markets, Avingtrans' business divisions design and manufacture original equipment and systems and provide associated aftermarket services. Listed on the London Stock Exchange's Alternative Investment Market, Avingtrans' market capitalisation as at 26 October 2022 was £121.56 million ($218.17 million).

Avingtrans' portfolio holdings are structured into three segments, Engineered Pumps and Motors; Process Solutions and Rotating Equipment; and Medical. With a clear focus on these segments, Avingtrans' believes the true value of its acquisitions are realised through its "Pinpoint-Invest-Exit" strategy. This encompasses managerial action, operational improvements, and integration with existing portfolio holdings to generate synergistic gains.

4.2.2 Summary of Shareholder Loan Made by Avingtrans to Magnetica

To fund ongoing product commercialisation and general operations, Magnetica has received funds from an intercompany loan facility made available by Avingtrans from 1 June 2022. The process involved Magnetica management completing a 13-week ('13W') cash flow forecast (weekly resolution) that is provided to the Board as part of the information pack supplied in advance of each of the scheduled board meetings.

The shareholder loans have been provided by Avingtrans to bridge the funding requirements of Magnetica until the anticipated capital raising is completed and no formal terms were documented. No interest rate or security has been required/agreed and the duration is, in essence, the period of time from the draw down date to the completion of the Proposed Transaction and allotment of shares to Avingtrans as the loans convert. If the Non-Associated Shareholders do not approve the Proposed Transaction then we understand the shareholder loans to Avingtrans will remain outstanding and Avingtrans and Magnetica will be required to negotiate an alternative repayment schedule.

As at the date of the Meeting, it is anticipated that the total amount owing by Magnetica under the shareholder loans will be $4,350,000 comprising:

- Current loans – $3,850,000, being the amount Avingtrans has provided in shareholder loans as at the date of the Notice of Meeting; and
- Anticipated loans – $500,000, being the amount of additional loans that it is anticipated Avingtrans will provide between the date of the Notice of Meeting and the date of the Meeting.

If the total of the shareholder loans as at the date of the Meeting is less than $4,350,000, Magnetica will only issue such number of shares at $0.05 per share which is sufficient to retire the shareholder loan amounts.

If the total of the shareholder loans is more than $4,350,000, Magnetica will issue only 87,000,000 shares at $0.05 per share to retire $4,350,000 of the shareholder loan amount.

4.3 Strategic Rationale for the Proposed Transaction

The Transaction Committee has provided a summary of the rationale for the Proposed Transaction. We have included this summary below.

- **Need for funding:** Magnetica needs funding to continue its operations including to commercialise its MSK Extremity MRI system. The need for additional funding has arisen in part due to delays in Magnetica commercialising its products as a result of COVID 19 and technical challenges with Magnetica's first 3 Tesla ('T') extremity magnet. Nevertheless, additional funding was always a requirement, beyond the initial funds committed by Avingtrans at the merger, to complete the commercialisation and launch its first MRI product.
- **No alternative funding sources:** Magnetica has attempted to secure alternative funding by:
    - *New investors*: approaching new investors but has not secured any interest to date;
    - *Debt funding*: attempting to access debt working capital funding from lending institutions, but has been unsuccessful due to the early stage of commercialisation of Magnetica's products; and
    - *Grant funding*: monitoring for opportunities to seek support from Government.
- **Strategically reasonable:** it is strategically beneficial for Magnetica to continue to encourage and secure the ongoing support of its largest shareholder and further align Avingtrans' interests with Magnetica's interests. Magnetica has benefited from Avingtrans' support through:
    - *Enhanced manufacturing capability*: enabling Magnetica to become an MRI system Original Equipment Manufacturer ('OEM') following the merger with Avingtrans subsidiaries. As an MRI system OEM, Magnetica can design, manufacture and sell products without reliance on third party manufacturers or being in the supply chain of large medical device system integrators;
    - *Equity funding*: providing initial cash funding of approximately $4.4 million (£2.4 million), which allowed Magnetica to continue its operations until the end of its 2022 financial year (31 May 2022);
    - *Loan funding*: providing additional funding of approximately $3.85 million to date through shareholder loans to allow Magnetica to continue its operations after the original equity funding had been expended; and
    - *Commercial Synergy*: facilitating the collaboration with Avingtrans' new 'sister' company Adaptix.
- **Pricing:** the proposed issue price reflects the current significant uncertainties in the market, Magnetica's early stage of commercialisation, and associated risk and is at a level that the Board considers will be more likely to attract new investment into Magnetica.

Further details regarding the rationale for the Proposed Transaction are set out in the Notice of Meeting.

4.4 Avingtrans' Intentions in Relation to Magnetica

Avingtrans' intentions in relation to Magnetica are set out in section 3.6 of the Notice of Meeting. We note that Avingtrans has not detailed any intentions to change the management or direction of the Company following completion of the Proposed Transaction.

5.0 Background of Magnetica

This section is set out as follows:

- Section 5.1 provides an overview of Magnetica and its product portfolio;
- Section 5.2 summarises the corporate structure of Magnetica;
- Section 5.3 summarises the equity structure of Magnetica; and
- Section 5.4 summarises the historical financial information of Magnetica.

5.1 Overview of Magnetica

5.1.1 Background

Magnetica is a Brisbane based company, engaged in the design, development, and manufacture of MRI technologies, including extremity MRI systems and MRI system components. The Company aims to differentiate itself from existing MRI manufacturers by providing a high-field compact MRI system that can target specific body parts using the industry gold-standard of 3T field strength.

Corporate Timeline

Magnetica was restructured in 2004 to become a medical device company by acquiring the University of Queensland's patent asymmetric magnet technology through an equity for intellectual property ('IP') swap. Through its continuing strategic partnership with the University of Queensland, Magnetica has developed core IP related to 3T asymmetric extremity superconducting magnets, gradient coils, and radio frequency ('RF') coils, which are all key components of MRI systems. The Company has also built and tested a compact helium-free 3T MRI system for dedicated extremity imaging with its previous system integration partner.

Magnetica has previously commercialised its 1.5T orthopaedic/extremity magnet under an agreement with ONI/General Electric ('GE'). The Company received a royalty from licensing its IP to ONI/GE, which ended in 2015, by which time ONI/GE had sold ~228 dedicated orthopaedic MRI systems into a range of clinical applications. Development until this point was largely funded by government grants and equity placements by the Company's major shareholders at the time.

In 2015, Magnetica commenced partnering with a major systems integrator to commercialise a 3T extremity MRI system. In 2019, the product developed from the partnership was subject to in-house testing. This represented the final stage in determining the product's commercial viability. Despite reaching this stage however, Magnetica's system integration partner decided not to proceed for its own strategic reasons.

In early 2021, Magnetica acquired Space Cryomagnetics Limited, trading as Scientific Magnetics ('SciMag'), and its wholly owned subsidiary, Tecmag, Inc. ('Tecmag'), from Avingtrans. The purpose of the acquisition was to enable Magnetica to progress up the value chain from being an MRI component/sub-system designer and manufacturer to an MRI system OEM.

The directors of Magnetica at the time of the acquisition were of the view that the acquisition of SciMag and Tecmag would have the following advantages:

- Provide access to, and commercial exploitation of, core IP from across the merged entity, design specifications and in-house manufacturing capabilities of key high-value sub systems such as the superconducting magnet, gradient coils, RF coils and spectrometer. The product's produced by SciMag and Tecmag – in particular, the spectrometers and magnets – are significant in MRI systems. Where Magnetica was previously reliant on third parties to manufacture its MRI systems, SciMag and Tecmag are now used to design, engineer, and manufacture the superconducting magnetics and spectrometers used in Magnetica's MRI systems;
- Reduce the cost of goods sold ('COGS') by manufacturing the highest cost sub-system in-house, being the superconducting magnet;
- Expand Magnetica's product portfolio by including:
  - SciMag's existing nuclear magnetic resonance ('NMR') products, services, and revenues, as well as the small companion animal specific MRI system (that targets veterinary practices); and
  - Tecmag's existing Spectrometer products, services, and revenues;
- Reduce overseas market expansion risk, given the pre-existing overseas operations of SciMag and Tecmag;
- Increase business scale, customer base, resources, and capabilities; and
- Provide additional capital and revenue flows that will be used to fund Magnetica's product development and proposed commercialisation strategy.

Current Operational Focus

Magnetica's current operational focus includes:

- Advancing the commercialisation of its compact MRI systems, with its first system focused on addressing musculoskeletal extremity imaging. In terms of target market, Magnetica has identified:
  - A primary market of the orthopaedic industry and the market segments of orthopaedic surgeons, tertiary/research, and radiologists. Management have advised they expect orthopaedic surgeons in the United States to be a particularly strong opportunity; and
  - A secondary market opportunity in the industrial space. Management has asked that details of the opportunities in the industrial space remain confidential as commercial discussions are at an early stage;
- Continuing the ongoing sale and supply of bespoke MRI / MNR / nuclear quadrupole resonance ('NQR') products, primarily to research-based customers; and
- Finalising the business integration, transitioning from three companies located in different geographic regions to one company with three regional offices, each located in key markets.

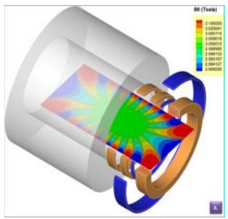
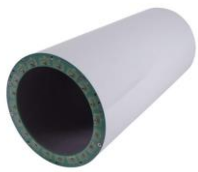
While the Company will continue to generate revenue from the sale and supply of bespoke products (i.e. the sale of gradient and RF coils), these revenues are expected to decrease as resources are reallocated to advancing the commercialisation of Magnetica's compact MRI systems and expanding its portfolio of MRI systems and custom MRI system components. Similarly, SciMag and Tecmag are expected to experience a decrease in revenue over the coming years, as their resources are shifted towards supporting Magnetica and their growing focus on commercialising the compact MRI system.

Magnetica has been adversely affected by the COVID-19 pandemic, with customers deferring a range of opportunities linked to its technologies, however, the Company maintained internal product development and commercialisation activities throughout.

5.1.2 Product Portfolio

Table 5.1 below summarises Magnetica's product portfolio.

Table 5.1: Summary of Magnetica's Product Portfolio

Product	Description	
Compact MRI Systems	Magnetica designs and manufactures 1.5T and 3T compact MRI systems for dedicated musculoskeletal/extremity imaging. The product is differentiated via the compact, superconducting magnets designed using the Company's asymmetric magnet IP. This smaller and lighter magnet delivers a more economical MRI system whilst maintaining image quality. Magnetica's compact MRI systems offer a number of competitive advantages over traditional whole body MRI systems including: ▸ Weigh just a fifth of the weight of a traditional whole-body MRI system; ▸ Can be installed and operated in locations previously inaccessible to whole-body MRI systems; ▸ Helium-free (dry) superconducting magnet, negating the need for a liquid helium supply to support the product through its operational life and minimising the infrastructure required to support the installation and operation of the MRI system; and ▸ The internal magnets shift the imaging zone towards the patient's chair, reducing how far the limb or head needs to be placed inside the MRI system.	
Superconducting MRI Magnets	Magnetica's patent protected superconducting magnets design has a focus on dedicated applications including helium free (conduction-cooled), traditional cryogen-cooled technologies, and other bespoke designs. The superconducting magnets have the capability to generate high and very high field strengths, producing a higher resolution scan.	
Gradient Coils	Magnetica designs and manufactures gradient coils for in-house MRI systems and for clinical, pre-clinical and research applications. The primary function of gradient coils is to allow for spatial encoding of the MR signal, such that a three-dimensional scan can be generated. The Company employs modelling and simulations of coil configurations to verify performance, and conducts testing throughout the build process to ensure quality is maintained.	

Product	Description	
RF Coils	Magnetica specialises in the design and manufacture of RF coils for uses across clinical, pre-clinical, and research applications. Coils can be tailored to meet the specific needs of customers, such as for use in small animal imaging, neurological/head imaging, and extremity/musculoskeletal imaging. RF coils serve as the antennae of the MRI system, transmitting the RF signal to the patient and/or receiving the return signal.	
Spectrometers	Tecmag designs and manufactures spectrometer consoles for MRI, NMR and NQR applications. Tecmag's premier product, their Redstone spectrometer, is used for NMR/MRI imaging, and is an ideal research tool due to its compact form and fast performance. Tecmag's NMR and MRI spectrometers form part of Magnetica's product solutions.	

Source: Magnetica, BDOCF Analysis

5.1.3 Adaptix

Magnetica management are of the view that an exciting collaboration opportunity exists by way of ongoing investment by Avingtrans into a 'sister' company, Adaptix, a UK-based company transforming radiology, through low-cost, low-dose 3D portable imaging.

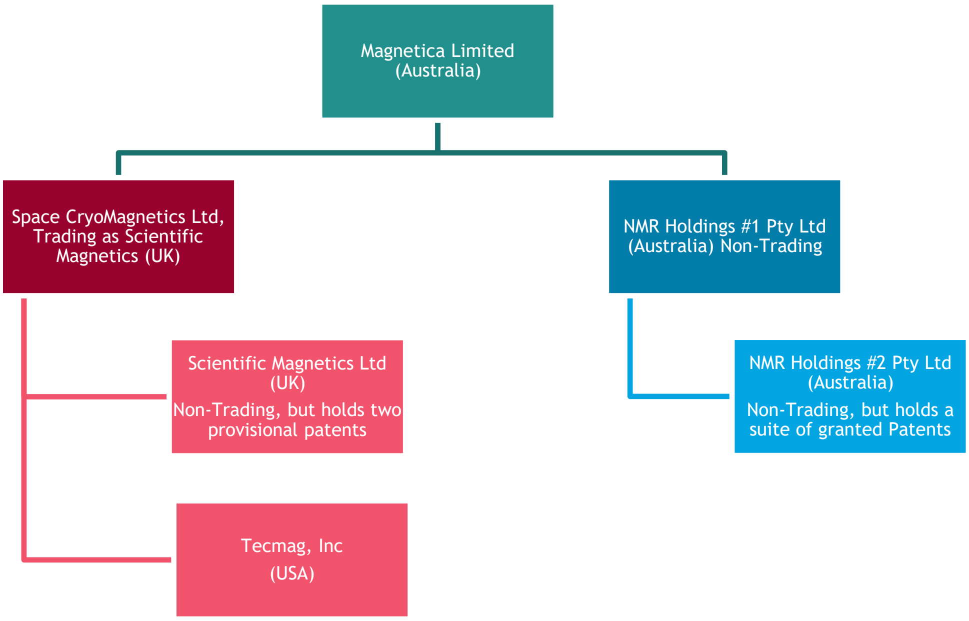
Adaptix has developed a number of novel technologies and imaging approaches, in relation to DT. Magnetica is collaborating with Adaptix on a range of matters to drive business efficiency and examining the opportunity to develop a disruptive multi-modality business offering for low-cost 3D imaging, by combining its Cryogen-free MRI images with Adaptix's DT images. The offering would allow fusing of the image data, giving enhanced low-cost diagnostic capability, initially for orthopaedic imaging.

5.2 Corporate Structure of Magnetica and Shareholder Protections

5.2.1 Corporate Structure

Magnetica's corporate structure is set out in Figure 5.1 below.

Figure 5.1: Magnetica's Corporate Structure



Source: Magnetica Management

5.2.2 *Shareholder Protections*

The Subscription and Shareholders' Agreement dated 5 January 2021 between Avingtrans and Magnetica set out a number of matters in Part 1 of schedule 6 that cannot be affected:

- while the Existing Shareholders (defined as 'the Shareholders immediately prior to completion under the Sale and Purchase Agreement') have a Cornerstone Interest (defined as 'a shareholding of 30% or more of the Ordinary Shares in the Company'), the approval of the two directors appointed by Magnetica shareholders (excluding Avingtrans); and
- while Avingtrans has a Cornerstone Interest, the approval of the three directors appointed by Avingtrans.

Clauses included in Part 1 of schedule 6 of the Subscription and Shareholders' Agreement include, but are not limited to, matters relating to the following:

- The issue of any equity securities in circumstances which would require shareholder approval under Chapter 7 of the ASX Listing Rules, if the Company was listed on ASX;
- The material acquisition or disposal of the whole or a substantial part of the undertaking of the Company, or the merger of the Company or any substantial part of its business with any other person or a proposal to do so; and
- The process to permit the Company to cease, or propose to cease, to carry on its business or to permit the Company or its directors (or any one of them) to take any step to wind up the Company, save where it is insolvent.

Prior to the Proposed Transaction, Avingtrans has an existing shareholding of 62.92% (excluding restricted shares) in Magnetica and holds a Cornerstone Interest. We also understand that the Existing Shareholders also continue to hold a Cornerstone Interest.

If, through the Proposed Transaction, Avingtrans were to increase their shareholding to above 70%, this would mean that there cannot be any other entity with a Cornerstone Interest. Additionally, it would mean that the Existing Shareholders would no longer hold a Cornerstone Interest and Avingtrans would be able to act on the clauses in Part 1 of schedule 6 without the need for approval of the directors appointed by Magnetica shareholders (excluding Avingtrans).

Notwithstanding the above, we note that under the Subscription and Shareholders' Agreement, until the initial independent Chair is appointed, the Board must not affect any of the matters referred to in schedule 6 without the consent of the directors appointed by Magnetica. As at the date of this Report, an initial Chair had not been appointed and we understand the current Board has no immediate plans to hire an independent Chair.

The above rights are summarised in more detail in section 2.8 of the Notice of Meeting.

5.3 Equity Structure of Magnetica

5.3.1 *Ordinary Shares*

As at 14 November 2022 Magnetica had 330,946,648 ordinary shares on issue. The shareholders with a relevant interest greater than 5% are set out in Table 5.2. Table 5.2 does not consider the impact of any changes in shareholding as a result of the Proposed Transaction nor does it include restricted shares.

Table 5.2: Magnetica Shareholders with a Relevant Interest Greater than 5% as at 19 October 2022

	Shareholders	Number of Ordinary Shares	Percentage Holding
1	Avingtrans PLC	208,230,884	62.92%
2	Uniquest Pty Limited	37,184,975	11.24%
	Other shareholders	85,530,789	25.84%
	Total ordinary shares on issue	**330,946,648**	**100%**

Source: Holdings Report provided by Magnetica Management dated 19 October 2022

5.3.2 *Options on Issue*

Magnetica has 3,000,000 unlisted options with a weighted average exercise price of $0.54. Table 5.3 below summarises the options outstanding in Magnetica.

Table 5.3: Magnetica Options

Grant Date	First Exercise Date	Last Exercise Date	Number Outstanding	Exercise Price
20 May 2005	Relisting date	Relisting date + 3 Years	1,000,000	$0.50
20 May 2005	Relisting date + 1 Years	Relisting date + 4 Years	1,000,000	$0.54
20 May 2005	Relisting date + 2 Years	Relisting date + 5 Years	1,000,000	$0.60
Total			**3,000,000**	

Source: Magnetica FY2022 Annual Report

The options set out in Table 5.3 are long-dated and will be on issue until the last exercise date and this date will not be known until such time that the Company lists on a stock exchange.

5.3.3 *Restricted Ordinary Shares*

Historically, a Performance Rights Plan instituted by the Company was used to incentivise staff, directors, and contractors. Under the scope of a Share and Option Plan adopted in January 2021, 8,925,000 fully paid Restricted Ordinary Shares were issued at no cost to recipients in exchange for 8,925,000 cancelled Performance Rights that were on issue under the historical Performance Rights Plan.

A Share and Option Plan participant must not dispose or otherwise deal with any shares issued or transferred to a participant under the plan while they are restricted shares and subject to a restriction period. The restriction period is from the date of issue until the earlier of:

- The occurrence of a liquidity event;
- The date that is 15 years from the date of issue; or
- The date determined by the Board in its absolute discretion.

5.4 Historical Financial Information of Magnetica

This section sets out the historical financial information of Magnetica. As this Report contains only summarised historical financial information, we recommend that any user of this Report read and understand the additional notes and financial information contained in Magnetica’s annual reports, including the full Statements of Profit or Loss and Other Comprehensive Income, Statements of Financial Position and Statements of Cash Flows.

Magnetica’s financial statements have been audited by Hall Chadwick Queensland. BDO has not performed any audit or review of any type on the historical financial information of Magnetica and we make no statement as to the accuracy of the information provided. However, we have no reason to believe that any of the information provided is false or misleading.

5.4.1 *Statements of Comprehensive Income*

Table 5.4 summarises the consolidated statement of comprehensive income of Magnetica for the financial years ended 30 June 2020, 31 May 2021 and 31 May 2022.

Table 5.4: Summarised Magnetica Statements of Comprehensive Income

	12 Months Ended 30 June 2020 Audited ($)	11 Months Ended 31 May 2021 Audited ($)	12 Months Ended 31 May 2022 Audited ($)
Sales	4,341	1,186,729	3,987,479
Other Income	741,658	996,423	513,301
Total Income	**745,999**	**2,183,152**	**4,500,780**
Cost of Goods Sold	(11, 896)	(571,253)	(3,009,789)
Consultancy	(395,988)	(713,808)	(744,702)
Employee Benefits Expense	(1,185,547)	(1,752,781)	(3,139,895)
General and Administration	(271,658)	(417,886)	(964,341)
Standards and Approvals	(15,547)	(2,716)	-
Marketing and Sales	(17, 612)	(1,707)	(20,646)
Travel Expenses	(31, 096)	(2,250)	(53,754)
Share Based Payments	(352,500)	(66,888)	-
Other Operating Expenses	(82,306)	(949,759)	(543,894)
IP and Development Costs Added Back	837,396	729,051	1,944,342
Total Expenses	**(1,526,754)**	**(3,749,997)**	**(6,532,679)**
EBITDA	**(780,755)**	**(1,566,845)**	**(2,031,899)**
Depreciation & Amortisation Expenses	(105,889)	(177,941)	(404,237)
EBIT	**(886,644)**	**(1,744,786)**	**(2,436,136)**
Interest Income	5,159	761	26
Net Profit	**(881,485)**	**(1,744,025)**	**(2,436,110)**

Source: Magnetica FY2021 and FY2022 Annual Reports

With reference to Table 5.4 above, we note the following:

- In 2021, Magnetica changed its financial year end to 31 May to align with Avingtrans, SciMag and Tecmag. As a result, the financial statements for the period ending 31 May 2021 are an 11-month period;

- Sales has risen by $1.2m and $2.8m respectively over the past two years following Magnetica's acquisition of SciMag and Tecmag;
- Other income fell between FY21 and FY22 due to a decrease in grant income, research and development costs, and other income, which included subsidies associated with COVID-19; and
- IP and development costs added back relate to research and development expenses that have been capitalised. Development costs are capitalised only after technical and commercial feasibility of an asset for sale or use, and/or the ability to generate future economic benefits has been established.

5.4.2 Statements of Financial Position

Table 5.9 summarises Magnetica statements of financial position as at 30 June 2020, 31 May 2021 and 31 May 2022.

Table 5.9: Magnetica's Summarised Consolidated Statements of Financial Position

	As at 30-June-20 Audited ($'000)	As at 31-May-21 Audited ($'000)	As at 31-May-22 Audited ($'000)
Current assets			
Cash and cash equivalents	1,579,632	1,331,144	395,027
Trade and other receivables	16,676	623,724	1,765,061
Inventories	73,772	707,219	670,966
Other current assets	118,505	582,631	289,748
Total current assets	**1,788,585**	**3,244,718**	**3,120,802**
Non-current assets			
Property, plant and equipment	192,742	705,853	549,447
Right of use assets	27,085	323,599	725,775
Intangible assets	5,856,892	14,089,320	17,009,790
Investments	-	118,630	118,630
Total non-current assets	**6,076,719**	**15,237,402**	**18,403,642**
Total assets	**7,865,304**	**18,482,120**	**21,524,444**
Current liabilities			
Trade and other payables	164,706	1,975,618	2,898,822
Lease liabilities	27,085	152,450	281,011
Employee benefits	74,244	84,224	146,252
Interest-bearing loans and borrowings	-	628,502	675,550
Total current liabilities	**266,035**	**2,840,794**	**4,001,635**
Non-current liabilities			
Provision for employee benefits	2,739	5,563	89,420
Lease liabilities	-	188,227	492,283
Total non-current liabilities	**2,739**	**193,790**	**581,703**
Total liabilities	**268,774**	**3,304,584**	**4,583,338**
Net assets	**7,596,530**	**15,447,536**	**16,941,106**
Equity			
Issued capital	58,088,535	85,880,503	89,705,503
Reserves	903,500	(18,720,227)	(18,572,005)
Accumulated losses	(51,395,505)	(51,712,740)	(54,192,392)
Total equity attributable to owners of Magnetica	**7,596,530**	**15,447,536**	**16,941,106**

Source: Magnetica FY2021 and FY2022 Annual Reports

With reference to Table 5.9 above, we note the following:

- Cash and cash equivalents decreased by 75% between FY20 and FY22 due to the requirement to fund ongoing commercialisation of Magnetica's MSK Extremity MRI system;
- Magnetica's increase in trade and other receivables and trade and other payables reflects the incorporation of the underlying balances from SciMag and Tecmag following Magnetica's acquisition; and
- The significant increase in intangible assets between FY20 and FY21 is attributed to the $5.97m of goodwill resulting from the purchase of SciMag.

5.4.3 Statements of Cash Flows

Table 5.10 summarises Magnetica's Statement of Cash Flows for the financial years ended 30 June 2020, 31 May 2021 and 31 May 2022.

Table 5.10: Magnetica's Summarised Consolidated Statements of Cash Flows

	12 Months Ended 30 June 2020 Audited ($)	11 Months Ended 31 May 2021 Audited ($)	12 Months Ended 31 May 2022 Audited ($)
Cash flows from operating activities			
Receipts from customers (inclusive of GST)	903,463	1,576,104	3,788,875
Payments to suppliers and employees (inclusive of GST)	(1,337,246)	(1,571,009)	(5,476,053)
Finance costs paid	-	-	(50,817)
GST Recovered/(Paid)	77,915	144,467	151,113
Interest Received	5,159	761	26
Net cash (outflow)/inflow from operating activities	**(350,709)**	**150,233**	**(1,586,856)**
Cash flows from investing activities			
Payments for property, plant and equipment	(72,194)	(425,993)	(62,148)
Cash acquired from purchase of subsidiaries	-	1,085,055	-
Payment for development costs	(856,946)	(985,686)	(2,973,774)
Net cash (outflow)/inflow from investing activities	**(929,140)**	**(326,624)**	**(3,035,922)**
Cash flows from financing activities			
Share issue costs	-	(29,951)	-
Share capital issued	-	-	3,772,574
Proceeds from Development Contributions	1,520,000	-	-
Payment of lease liabilities	(96,559)	(109,034)	(85,913)
Reimbursement for stamp duty costs (acquisition of SciMag)	-	66,888	-
Net cash (outflow)/inflow from financing activities	**1,423,441**	**(72,097)**	**3,686,661**
Net increase/(decrease) in cash held	**143,592**	**(248,488)**	**(936,117)**
Net cash at beginning of year	1,436,040	1,579,632	1,331,144
Net cash at end of year	**1,579,632**	**1,331,144**	**395,027**

Source: Magnetica FY2021 and FY2022 Annual Reports

With reference to Table 5.10 above, we note the following:

- The combination of the operating and investing cash flows are negative across all periods. This is reflective of Magnetica's primary focus on product development, reflected in the payments for development costs; and
- Magnetica's persistently negative operating and investing cash flows have been funded through a combination of capital raising and development contributions from its previous integration partner. Since 31 May 2022, intercompany loans from Avingtrans have been used to fund the Company.

6.0 Industry Overview

Magnetica operates in the diagnostic imaging industry (and specifically, MRI) which is a subset of the broader healthcare sector.

The information presented in this section has been compiled from a range of publicly available sources, together with information taken from various databases to which we subscribe. BDOCF has not independently verified any of the information and we recommend that users of this Report refer to the original source of any information listed in this section. This section should be referred to as a broad guide only.

6.1 Diagnostic Imaging Overview

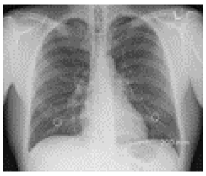
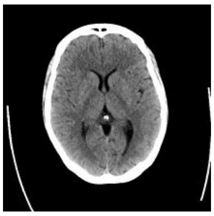
6.1.1 Summary

The medical industry uses various diagnostic imaging modalities, including Conventional Radiography, Computed Tomography ('CT'), MRI, Ultrasound, and Nuclear Medicine Imaging, to produce images of the human body for clinical analysis.

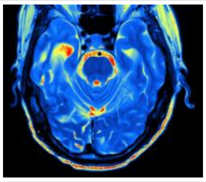
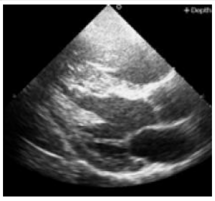
According to Grand View Research[1], the global diagnostic imaging industry was valued at US$28.02 billion in 2021 and is expected to grow at a compound annual growth rate ('CAGR') of 4.9% from 2022 to 2030. This growth is underpinned by increasing prevalence of lifestyle-related diseases, increasing demand for early-stage diagnosis of chronic disease, and ageing demographics. The ultrasound segment represented the largest market share in 2021, with the segment accounting for more than 28% of global revenue. Further, the segment is expected to maintain its dominance over the 2022 to 2030 period, due to the increased number of applications.

The choice of the imaging test is primarily influenced by the nature and location of the patient's condition, and the evidence or information the referrer is seeking. Table 6.1 summarises the key diagnostic imaging modalities.

Table 6.1: Summary of Major Diagnostic Imaging Modalities

Technology	Description	Example Conditions Requiring Diagnostic Imaging Services	System Cost (AUD)	Visual Output
Conventional Radiography (X-ray)	Radiography uses x-rays to visualise the internal structures of a patient. X-Rays are a form of electromagnetic radiation, produced by an x-ray tube. They pass through the body and are captured behind the patient by a detector. The x-rays exhibit variation in absorption due to the different tissues of the body. This variance produces contrast within the image to give a 2D representation of all the structures within the patient.	• Cancer • Asthma • Fractures • Pulmonary disease (lung)	~$80,000 to $850,000	
Computed Tomography (CT)	CT utilises an x-ray beam to produce multiple cross-sectional images of a particular area of anatomy. The x-ray tube, within the CT scanner, produces an x-ray beam that passes through the patient. This beam is captured by detectors and reconstructed to produce a 2D or 3D image. The data reconstructed represents cross-sectional slices of the patient and each image is acquired at a slightly different angle. CT imaging is typically much faster compared to other modalities such as MRI. A complete typical patient CT exam lasts several minutes, whereas MRI imaging exams typically range from 15 to 45 minutes.	• Cancer (oncology) • Cardiovascular disease • Dementia • Pulmonary disease (lung) • Hearing loss	~$250,000 to $3.3 million	
Magnetic Resonance Imaging (MRI)	MRI uses radiofrequency waves and magnetic field gradients to generate images. The patient undergoing MRI is placed in a gradient magnetic field delivering radiofrequency pulses to the patient and processing the electromagnetic signals emitted from the region being examined. The advantages of MRI over other imaging techniques include absence of radiation, superior soft tissue contrast resolution, high-resolution imaging, and multi-planar imaging capabilities. MRI is best suited for evaluation of internal derangement of joints, central nervous system abnormalities, as well as other pathologic processes in the patient with pain. However, the time to generate MRI images has been a major weakness	• Cancer • Cardiovascular disease • Multiple sclerosis • Musculoskeletal • Parkinson's disease	~$650,000 to $13.2 million	

[1] Accessed via Grand View Research's "Medical Imaging Market Size, Share & Trends Analysis Report By Product (X-ray, CT, MRI, Ultrasound), By End-use (Hospitals, Diagnostic Imaging Centres), By Region (APAC, MEA, North America), And Segment Forecasts, 2022-2030" – Report ID: 978-1-68038-139-9, dated June 2022

Technology	Description	Example Conditions Requiring Diagnostic Imaging Services	System Cost (AUD)	Visual Output
	and continues to be so with the advent of faster CT scanners.			
Nuclear Medicine Imaging	Nuclear medicine involves injection of radioactive tracers to visualise various organs. The tracer or radiopharmaceutical is produced through addition of a radioactive isotope to a pharmaceutical specific to the organ being imaged. The radioactive tracer emits gamma radiation, which is then imaged using a gamma camera.	• Cancer • Thyroid disorders • Stress fractures • Dementia	N/A	
Ultrasound	Ultrasound utilises high-frequency sound waves to provide cross-sectional images of the body. A component within the ultrasound machine, called the transducer, performs two functions. Firstly, it emits sound waves at a certain frequency and secondly, captures the returning soundwaves at frequencies dependent on the tissues through which the waves traverse. Like MRI, there is no exposure to radiation. A unique feature of Ultrasound is that pictures can be seen in real time.	• Cardiovascular • Pregnancy • Digestive and muscular conditions	~$25,000 to $500,000	

Source: BDOCF Analysis, Siemens Healthineers AG IPO Prospectus dated 5 March 2018

6.1.2 *Industry Outlook*[2]

Traditional diagnostic radiology procedures, such as X-rays, have become less popular over the past decade. These procedures have been displaced by new technologies that provide more detailed images and do not expose patients to radiation. Ultrasounds and MRI are procedures that have benefited from this transition, increasing their contribution to industry revenue.

As diagnostic imaging becomes increasingly digitised, the electronic transmission of radiological images has allowed the industry to transfer images between practices. This efficiency has helped doctors to assist with higher quality medical assessments and information transfers.

An ageing population positions the industry to grow further over the coming years. Growth in industry demand will likely come from older demographics, with this age group requiring more diagnostic imaging services than any other age group. CT and nuclear medicine imaging services are both used with older patients.

The focus on the early detection and prevention of medical conditions is also anticipated to support the industry's performance in the coming years. Additionally, technological improvements in the accuracy and capability of imaging techniques are expected to supplement industry growth. This will also be driven by an expected transition away from invasive diagnostic techniques, and towards non-invasive diagnosis procedures such as MRI and CT scanning.

6.2 MRI Industry

6.2.1 *Summary*

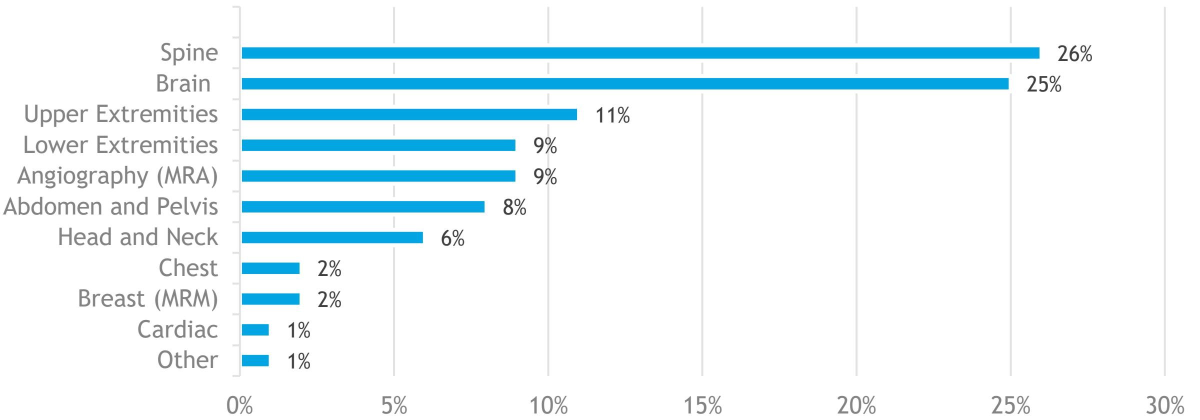
According to Grand View Research, the MRI systems market was estimated to be worth US $4.8 billion in 2021 and is projected to grow at a CAGR of 7.1% from 2022 to 2030[3]. The global MRI market is moderately consolidated, with Siemens Healthineers, GE Healthcare and Philips Healthcare accounting for approximately 70% of the market. Other key MRI manufacturers include Canon Medical Systems, Fujifilm Healthcare, Esaote, Neusoft, Analogic, United Imaging, Aspect Imaging, and Aurora.

Some common clinical MRI applications and their distribution are shown in Figure 6.1. Extremities of the body (upper extremities, lower extremities, head & neck, and brain) accounts for more than 50% of all imaging, whereas breast, cardiac, and interventional studies represent less than 5%. This demonstrates a significant segment of the market for extremity-related MRI services.

[2] Accessed via IBISWorld report "Diagnostic Imaging Services in Australia - Market Research Report" dated 21 March 2022

[3] Accessed via Grand View Research's "Medical Imaging Market Size, Share & Trends Analysis Report By Product (X-ray, CT, MRI, Ultrasound), By End-use (Hospitals, Diagnostic Imaging Centres), By Region (APAC, MEA, North America), And Segment Forecasts, 2022-2030" – Report ID: 978-1-68038-139-9 dated June 2022

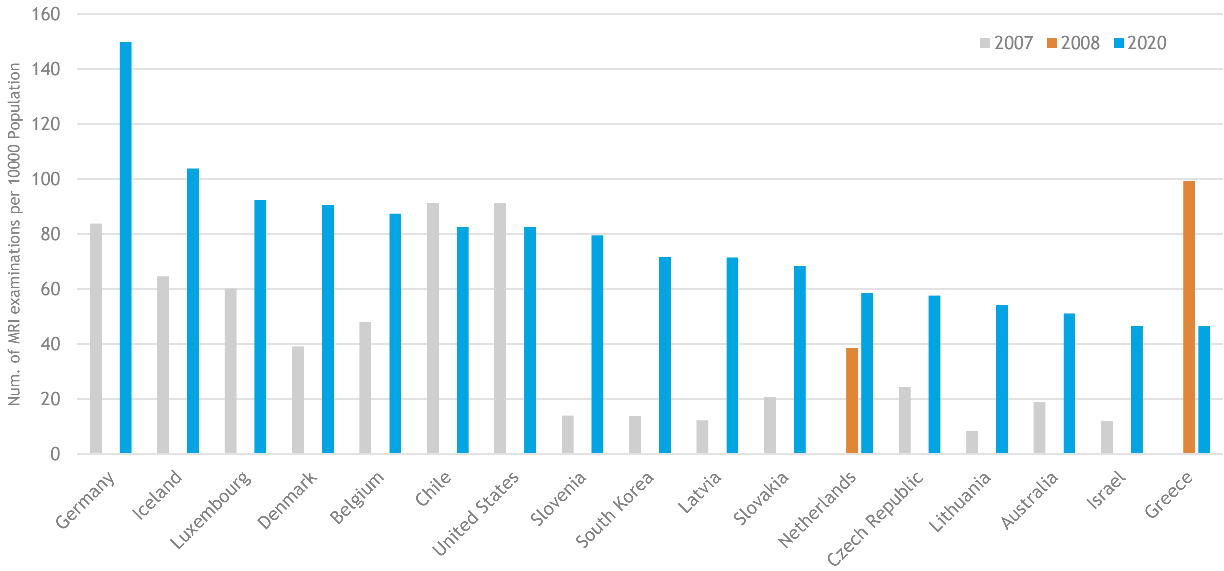
Figure 6.1: Organ Distribution of MRI Studies



Source: 'Magnetic Resonance: A Peer Reviewed, Critical Introduction'

As depicted in Figure 6.2, the demand for MRI scans has grown over the past decade across OECD counties. The number of MRI examinations per capita in 2020 was highest in Germany, Iceland, and Luxembourg, all of which have more than 90 MRI exams per 1,000 population.

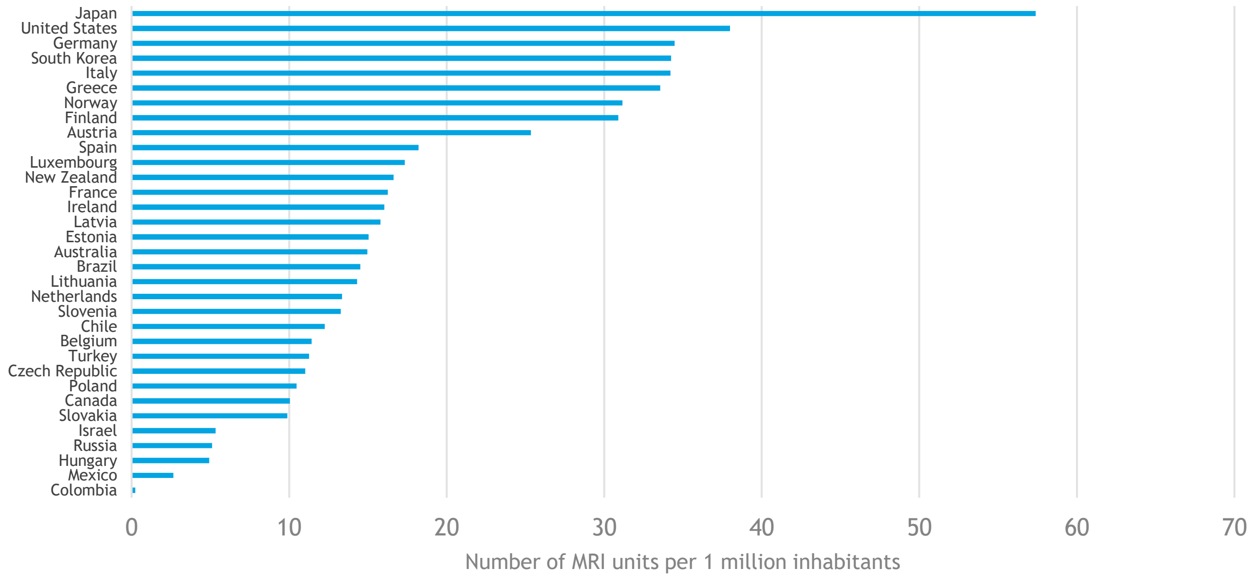
Figure 6.2: Number of MRI examinations per capita in select OECD Countries



Source: OECD (2022)

There are large variations in the availability of MRI units across OECD counties. As displayed below in Figure 6.3, Japan has the highest number of MRI scanners per capita, followed by the United States and Germany. While there is no general benchmark regarding the ideal number of MRI units per population, lower number of units may indicate access problems in terms of geographic proximity or longer waiting times.

Figure 6.3: MRI Units in OECD Countries



Source: OECD (2022)

6.2.2 MRI Product Segmentation

MRI products are usually classified by the field strength of the magnet measured in T (Tesla)[4]. They are often categorised as:

- Low field (≤0.5T)
- Mid-field (>0.5T - <1.5T)
- High-field (1.5T - 3T)
- Ultra-high field (>3T)

In general, higher field strengths result in improved image resolution and higher acquisition speeds. Most commercial MRI systems use magnetic field intensities of 1.5T and 3T, with 3T being the gold standard for clinical imaging worldwide. In 2017, the first MRI scanner operating at the very high magnetic field strength of 7T received United States Food and Drug Administration ('FDA') clearance for clinical use. Most low-field and some mid-field systems use permanent magnet technology, whereas higher field systems utilise superconducting magnet technology.

Based on architecture, the MRI systems are segmented into closed MRI, open MRI, and extremity MRI Systems. Table 6.2 outlines the types of MRI machines.

Table 6.2: Types of MRI Machines

Type	Description	Advantages	Disadvantages	Image
Closed MRI	The standard closed MRI has a large cylindrical bore and requires the patient to be supine and stationary within the bore for an extended period of time. Closed MRI scanners come in different magnet field strengths, usually between 1T and 3T.	• Can be used for all indications • Provide superior quality images compared with open MRI • Require less time to complete a scan compared to open MRI	• Can cause anxiety, claustrophobia • Less comfortable positioning of the patient examined for specific joints (e.g. wrist and elbow)	

[4] Tesla (T) is the SI unit of magnetic field strength.

Type	Description	Advantages	Disadvantages	Image
Open MRI	Open MRI machines use two flat magnets on the top and bottom areas and are open on all four sides of the scanning region where the patient is placed (between the two plates). Open MRIs have medium strength magnets of 0.3T with permanent magnets and up to 1.5T with superconducting magnets.	• Minimises anxiety and claustrophobia because it offers a spacious environment in which patients lie between two plates • Can be used for intraoperative imaging or image-guided interventions where easy access to the patient is required • Quieter than traditional closed units	• Lower quality of images. Not as sensitive as high-field MRI used in the other two types • Requires more time to produce images compared to other types	
Extremity MRI	Extremity MRI is a variation of closed MRI where only the body extremity being examined is placed inside the machine.	• Lower purchasing price and maintenance cost • Requires less space than a whole-body MRI system • Reduced weight enables installation in locations previously inaccessible to traditional heavier whole-body systems • More comfortable for the patient (position and less noise) • Anxiety is less likely and claustrophobia issues are resolved	• Might not be suitable for all diagnostic extremity indications, depending on the bore configuration	

Source: American Health Imaging, Magnetic Resonance in Medicine: A Critical Introduction

6.2.3 Key Drivers

The growth of the MRI industry will be driven by a number of key external factors. Table 6.3 outlines the factors contributing to the growth (or otherwise) in this industry.

Table 6.3: Key Drivers in the MRI Industry

Driver	Description
Population demographics	Older individuals are more susceptible to injury and disease. An ageing population will increase MRI demand.
Prevention of medical conditions	Countries have transitioned towards early detection and subsequent prevention of medical conditions. This will sustain MRI demand into the future.
Move away from radiation use	Ongoing shift from basic diagnostic radiology towards more advanced procedures without radiation, such as MRI and ultrasound.
Increasing number of applications	Recent technological advances have enabled physicians in a wide variety of specialties, including orthopaedics, neurology, and cardiology to utilise MRI equipment to examine organs that previously required an invasive procedure.
Increased demand for improved imaging equipment in Emerging Markets	Developing regions are likely to emerge as new destinations in the global MRI market, as health infrastructure continues to improve in these areas.
Demand for MRI systems in physician practices	Increasingly, physician practices that have historically referred patients to hospitals or imaging clinics are installing MRI systems on-site.
Research needs of pharmaceutical industry	The R&D investment by the pharmaceutical industry in the clinical development of science products will affect the growth of the MRI industry. This is because medical imaging plays a key role in supporting clinical trials.
Demand to overcome patient comfort challenges	Traditional MRI systems do not cater well to patient comfort due to positioning requirements and claustrophobia concerns. Smaller sized extremity MRI systems resolve such challenges.
Increasing use of MRI systems for extremities	Extremities are increasingly the majority of MRI use cases. This will increase the demand for smaller sized and lower cost MRI systems.

Source: BDOCF Analysis, IBISWorld

7.0 Common Valuation Methodologies

A 'fair market value' is often defined as the price that reflects a sales price negotiated in an open and unrestricted market between a knowledgeable, willing but not anxious buyer and a knowledgeable, willing but not anxious seller, with both parties at arm's length. The valuation work set out in this Report assumes this relationship.

RG 111 outlines a number of methodologies that a valuer should consider when valuing securities or assets for the purposes of, among other things, share buy-backs, selective capital reductions, schemes of arrangement, takeovers and prospectuses. The valuation methodologies we have considered in this Report include the discounted cash flow ('DCF'), capitalisation of maintainable earnings ('CME'), asset-based valuation ('ABV') and market-based valuation ('MBV') methodologies.

RG 111 does not prescribe which methodology should be used by the expert, but rather notes that the decision lies with the expert based on the expert's skill and judgement and after considering the unique circumstances of the securities or assets being valued.

7.1 Discounted Cash Flows ('DCF')

The DCF approach calculates the value of an entity by adding all of its future net cash flows discounted to their present value at an appropriate discount rate. The discount rate is usually calculated to represent the rate of return that investors might expect from their capital contribution, given the riskiness of the future cash flows and the cost of financing using debt instruments.

In addition to the periodic cash flows, a terminal value is included in the cash flow to represent the value of the entity at the end of the cash flow period. This amount is also discounted to its present value. The DCF approach is usually appropriate when:

- An entity does not have consistent historical earnings but is identified as being of value because of its capacity to generate future earnings; and
- Future cash flow forecasts can be made with a reasonable degree of certainty over a sufficiently long period of time.

Any surplus assets, along with other necessary valuation adjustments, are added to the DCF calculation to calculate the total entity value.

7.2 Capitalisation of Maintainable Earnings ('CME')

The CME approach involves identifying a maintainable earnings stream for an entity and multiplying this earnings stream by an appropriate capitalisation multiple. Any surplus assets, along with other necessary valuation adjustments, are added to the CME calculation to calculate the total entity value.

The maintainable earnings estimate may require normalisation adjustments for non-commercial, abnormal or extraordinary events.

The capitalisation multiple typically reflects issues such as business outlook, investor expectations, prevailing interest rates, quality of management, business risk and any forecast growth not already included in the maintainable earnings calculation. While this approach also relies to some degree on the availability of market data, the multiple is an alternative way of stating the expected return on an asset.

The CME approach is generally most appropriate where an entity has historical earnings and/or a defined forecast or budget. Further, a CME is usually considered appropriate when relevant comparable information is available.

7.3 Asset Based Valuation ('ABV')

An ABV is used to estimate the fair market value of an entity based on the book value of its identifiable net assets. The ABV approach using a statement of financial position alone may ignore the possibility that an entity's value could exceed the book value of its net assets. However, when used in conjunction with other methods which determine the value of an entity to be greater than the book value of its net assets, it is also possible to arrive at a reliable estimate of the value of intangible assets including goodwill.

Alternatively, adjustments can be made to the book value recorded in the statement of financial position in circumstances where a valuation methodology exists to readily value the identifiable net assets separately and book value is not reflective of the true underlying value. Examples of circumstances where this type of adjustment may be appropriate include when valuing certain types of identifiable intangible assets and/or property, plant and equipment.

The ABV approach is most appropriate where the assets of an entity can be identified and it is possible, with a reasonable degree of accuracy, to determine the fair value of those identifiable assets.

7.4 Market Based Valuation ('MBV')

An MBV methodology determines a value for an entity by having regard to the value at which securities in the entity have recently been purchased. This approach is particularly relevant to:

- Entities whose shares are traded on an exchange. The range of share prices observed may constitute the market value of the shares where a sufficient volume of shares is traded and the shares are traded over a sufficiently long period of time; and/or
- Entities for which it is possible to observe recent transactions relating to the transfer of relatively large parcels of shares (e.g. recent capital raisings).

For listed entities, the range of share prices observed may constitute the market value of the shares in circumstances where sufficient volumes of shares are traded and the shares are traded over a sufficiently long period of time. Share market prices usually reflect the prices paid for parcels of shares not offering control to the purchaser.

7.5 Industry Based Metrics (Comparable Analysis)

It is often appropriate to have regard to industry specific valuation metrics in addition to the traditional valuation approaches outlined above. These metrics are particularly relevant in circumstances where it is reasonably common for market participants to have regard to alternative measures of value.

8.0 Valuation of Magnetica Prior to the Proposed Transaction

This section sets out our valuation of the shares in Magnetica prior to the Proposed Transaction and is structured as follows:

- Section 8.1 sets out our view of the most appropriate methodology to value Magnetica;
- Section 8.2 sets out our valuation of Magnetica having regard to the DCF approach;
- Section 8.3 sets out our valuation of Magnetica having regard to the ABV; and
- Section 8.4 sets out our view of an appropriate value to adopt for Magnetica for the purposes of this Report.

8.1 Our Valuation Approach for Magnetica

We have considered each of the valuation methodologies outlined in Section 7 above and determined, in our view, the most appropriate methodology for calculating the value of Magnetica. In relation to the valuation methodologies applied, we note:

- As set out in Table 5.4 above, Magnetica is loss making at an EBIT, EBITDA and net profit level. This is not uncommon for companies commercialising products at a similar stage of product development to Magnetica. In our view, Magnetica does not currently have maintainable earnings suitable for use in a CME valuation methodology;
- Magnetica is expected to have cash outflows in the immediate future as the process of product commercialisation continues and cash inflows in later years following product commercialisation. A forecast cash flow profile of this nature can be captured by a DCF valuation methodology and we consider it appropriate to adopt a DCF valuation methodology as our primary valuation methodology. Our DCF valuation has regard to the financial model the Transaction Committee has provided us with, which sets out forecast financial information and the expected annual performance of Magnetica from FY23 to FY29 ('the Financial Model');
- An ABV is most appropriate for businesses where the value lies in the underlying assets and not the ongoing operations of the business. An ABV does not capture the growth potential and intangible assets associated with a business, particularly for a business that has a considerable amount of self-created intangible assets like Magnetica. Notwithstanding these limitations, to provide additional information to the Non-Associated Shareholders, we have cross-checked our DCF valuation methodology by considering an ABV that has regard to Magnetica's unaudited balance sheet as of 31 October 2022;
- For the purposes of our ABV, we have included Magnetica's intangible assets at their book value of $18.8 million. These intangible assets include computer software, patents, development costs, and goodwill. We have incorporated this value into our ABV on the basis that a potential acquirer may place a value on Magnetica's intangible assets that approximates the cost that would need to be incurred to recreate or replace them. We consider this approach a broad proxy for value only as the value ultimately paid by an acquirer will have regard to the acquirer's view of the economic returns that can be generated on the assets (i.e. a methodology more akin to our DCF methodology set out in Section 8.2); and
- We considered an MBV to be less relevant for the purposes of this Report. Post the completion of the acquisition of SciMag and Tecmag in early 2021, the only shares that have been issued by Magnetica are the 25.5 million shares issued to Avingtrans at an issue price of $0.15 for the drawdown of tranches of funding agreed to at the time of acquisition. We also note that Magnetica is not listed on any exchange and we understand that the Transaction Committee of Magnetica are not aware of any off-market trades of shares being undertaken post the acquisition.

8.2 DCF Valuation of Magnetica

Our DCF valuation of Magnetica is set out as follows:

- Section 8.2.1 sets out the basis of the Financial Model adopted for our DCF valuation;
- Section 8.2.2 sets out the key assumptions of our DCF valuation;
- Section 8.2.3 sets out our DCF valuation of Magnetica;
- Section 8.2.4 sets out a sensitivity and scenario analysis of our DCF valuation;
- Section 8.2.5 sets out the valuation adjustment for surplus assets and liabilities;
- Section 8.2.6 sets out our equity valuation of Magnetica; and
- Section 8.2.7 sets out our DCF valuation of each Magnetica share on a controlling interest basis.

8.2.1 Basis of the Financial Model Adopted for the DCF

Our DCF valuation of Magnetica is based on the following:

- The Financial Model which sets out the Transaction Committee's best estimate of:
  - Revenue growth rates;
  - Gross margin improvement;

- Timelines for product development; and
- Timelines for regulatory approval;

- Our critical analysis of the reasonableness of the Financial Model and the underlying assumptions including:
  - Analysing the integrity and mathematical accuracy of the Financial Model;
  - Where required, making changes to the financial assumptions underpinning the Financial Model;
  - Making enquiries of the Transaction Committee to confirm the reasonableness of company specific assumptions and the basis of the forecast; and
  - Considering the impact of key industry risks, growth prospects and general economic outlook;
- Completing research to determine reasonable macro-economic assumptions to adopt;
- Completing research to determine an appropriate discount rate to adopt; and
- Undertaking a scenario and sensitivity analysis regarding material assumptions.

Our work in relation to the Financial Model did not include undertaking a review in accordance with ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*. We do not express an opinion on the achievability of the forecast and the assumptions adopted in the Financial Model do not represent projections. Rather, the assumptions are intended to reflect the assumptions that could reasonably be adopted by industry participants in their pricing of similar businesses. Nothing has come to our attention through our procedures to suggest the assumptions underlying the Financial Model are not reasonable for the purposes of the DCF valuation.

Many of the assumptions adopted in the DCF Model are subjective and may be subject to material change in short periods of time. Changes in these assumptions may have a material impact on the overall value determined in this Report. There can be no guarantee that the cash flow forecasts or valuation calculations will hold for any length of time as circumstances are continually changing. Noting the uncertainty inherent in future cash flows, we have set out a sensitivity analysis in Section 8.2.4.

8.2.2 Key Assumptions of our DCF Valuation

This section sets out the key assumptions adopted in the Financial Model.

General Assumptions

Regarding the general assumptions in the Financial Model, we note:

- The Financial Model includes monthly earnings and cash flow forecasts until FY2024 in nominal terms, and then annualised earnings and cash flows forecasts from FY2025 onwards;
- The Financial Model assumes the Company is able to partner with distributors to distribute its product to the market. If the Company faces difficulties in distributing its product to the market, the value of Magnetica may be impacted;
- In relation to the existing revenue, the Financial Model assumes:
  - Revenue from the sale of RF coils and Gradient coils will continue with future growth;
  - Revenue from the sale of bespoke superconducting magnets and spectrometers, typically to research-based customers, is expected to be marginally reduced from 2025 onwards as the Company's focus shifts to its MSK Extremity MRI systems;
- The Financial Model assumes that the sale price of MSK Extremity MRI Systems and distributor costs will remain constant over time with the increase in volume, maturity of product and changes in the competitive landscape;
- The Financial Model assumes that material costs of sales will steadily reduce from 2025 onwards due to efficiencies from scale and buying power; and
- A long-term growth rate of 2.5% per annum has been adopted for the free cash flows of the Company post FY2029, in line with the mid-point of the Reserve Bank of Australia's target inflation rate.

Sales Model

The Transaction Committee of Magnetica has identified three potential sales models for commercialising their technology, including:

- Direct sales of capital equipment;
- Leasing the capital equipment and receiving flat monthly payments; and
- A 'Pay-per-scan' arrangement, where Magnetica receive a flat monthly management fee and a payment per MRI scan.

A market sounding of each sales model has been undertaken by the Transaction Committee and they are of the view that initially, it is appropriate to assume that the MRI systems will be acquired by capital purchase. As the business model becomes proven, the Transaction Committee believes there will be more scope to incorporate the other two sales models along with direct sales of capital equipment, although it would be preliminary to incorporate at the current time given Magnetica's stage of commercialisation.

Sale Volume

Regarding the sales volume assumptions, we note the majority of the Company's revenue is assumed to come from the sale of its MSK Extremity MRI systems from FY2025. See Section 5.1.2 for a description of the various products.

The Transaction Committee has considered three ramp-up scenarios. In addition to the base case ramp-up ('Base Case'), we have also been provided with scenarios assuming 150% of the Base Case and 200% of the Base Case. The logic applied by the Transaction Committee in determining these higher ramp-up scenarios is that the clinical uptake may be quicker than currently envisaged and/or there may be a need for the product for industrial applications (Magnetica has identified a potential opportunity however we understand discussions are too early to disclose in this Report).

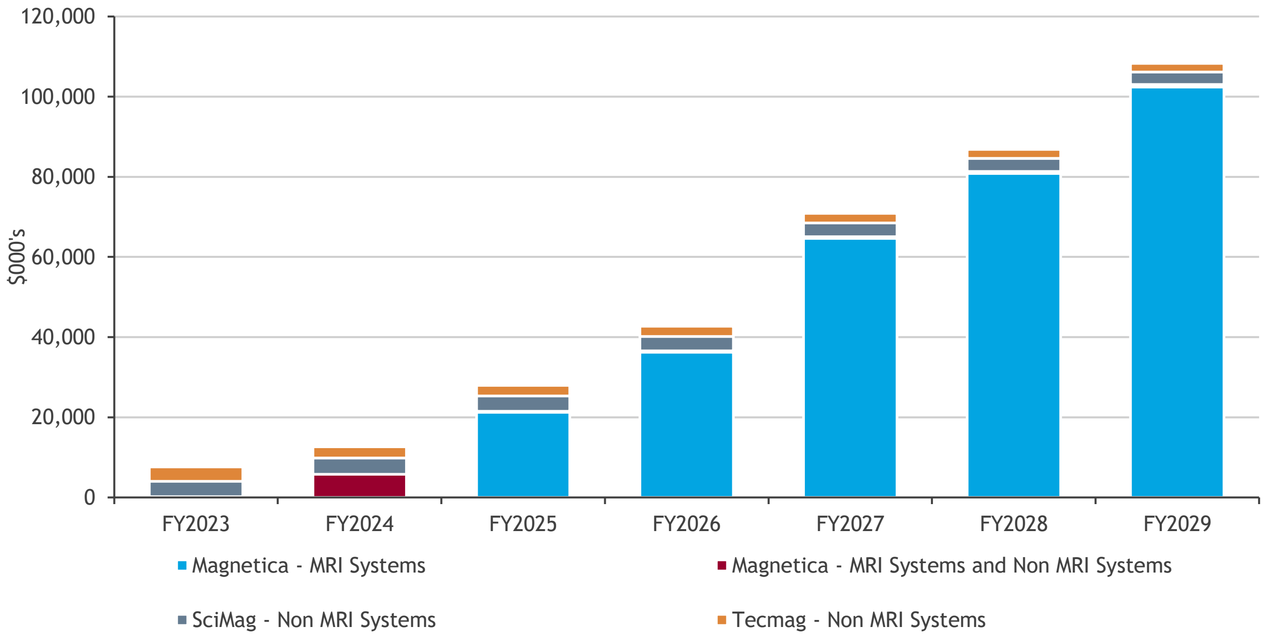
Sale Price

We have been provided with sales price assumptions by the Transaction Committee based on their market sounding and have adopted these values in the Financial Model.

Projected Revenue

Figure 8.1 summarises the revenue by type that we have calculated for our DCF valuation of Magnetica.

Figure 8.1: Projected Revenue by Type – Base Case



Source: The Financial Model, BDOCF Analysis

Cost of Goods Sold

Regarding the COGS assumptions in the Financial Model, we note:

- We have been provided with the COGS assumptions by the Transaction Committee and have adopted these in the Financial Model;
- COGS comprises of the bill of materials, machine costs, and production labour costs; and
- COGS as a percentage of revenue is highest in FY2025 at ~85% and declines steadily over the forecast period at an average annual rate of ~9% per year to ~58% in FY2029.

Expenses

The main expenses ('Other Expenses') (asides from COGS) in the Financial Model include:

- General and administrative expenses;
- Marketing and sales expenses; and

- Research and development expenses.

We note that Other Expenses as a percentage of revenue is highest in FY2024 at ~34% and declines over the forecast period to ~10% in FY2029.

Income Tax

The Financial Model calculates income tax expense on the forecast unlevered net income at 25.0% in years where forecast revenue is below $50 million, and 30% in years where forecast revenue is greater than $50 million. We have assumed Magnetica is able to utilise in full tax losses of $31.7 million from previous periods to offset its future tax expense.

Working Capital

Movements in working capital have been included in the Financial Model.

Forecast Exchange Rate

The cashflows presented in the model are denominated in GBP and USD. For the purposes of our valuation, we have converted the cash flows in the model from GBP and USD to AUD based on Consensus Economics forecasts as at November 2022, as outlined in Table 8.1 below.

Table 8.1: Exchange Rate Forecasts Adopted

	CY2023	CY2024	CY2025	CY2026	CY2027	CY2028+[1]
GBP/AUD	1.708	1.706	1.708	1.719	1.726	1.756
USD/AUD	1.493	1.401	1.330	1.311	1.316	1.315

Source: Consensus Economics as at November 2022

1 We have adopted CY2028 GBP/AUD and USD/AUD forecasts for all periods after CY2028.

Discount Rate

The discount rate represents the rate of return that capital providers expect from their capital contribution and is typically based on the weighted average cost of capital ('WACC') for the asset being valued. In broad terms, the WACC considers the rate of return required by capital providers given the riskiness of the future cash flows and the cost of financing using debt instruments for the relevant asset.

In selecting a discount rate appropriate for the Company, we have considered the following:

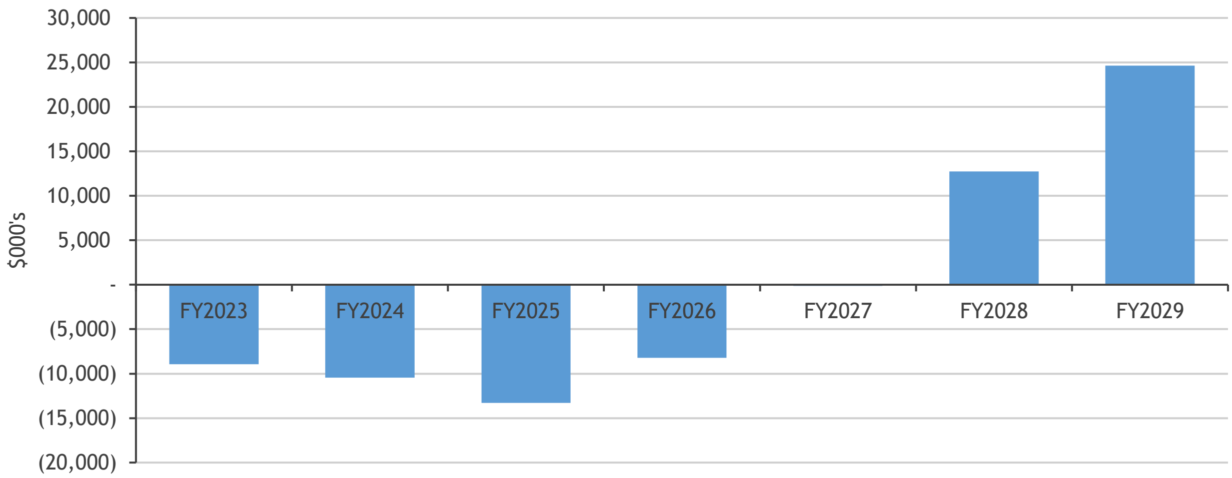
- The projected cash flows of Magnetica;
- The required rate of return of comparable companies;
- The capital structure of Magnetica as at the date of this Report is unlikely to be able to support any debt;
- The cost of equity derived from applying the capital asset pricing model ('CAPM') methodology (a commonly used methodology for deriving the cost of equity). In relation to CAPM, we note the cost of equity capital is determined by multiplying the market risk premium by an appropriate beta and adding the risk-free rate. Our view on the appropriate inputs to the CAPM to apply in the circumstances are as follows:
  - A risk-free rate of 4.0% based on the Australian Government 10-year bond rate as at 10 November 2022;
  - An equity market risk premium of 6.0%;
  - A beta in the range of 1.2 to 1.4;
- The CAPM assumes investors are diversified and not concerned with the specific risk of a particular investment. In our view, investors may apply a company specific risk premium to reflect certain risks that cannot be readily allowed for in the base case cash flows for a company. In the case of Magnetica, these risks include Magnetica's ability to commercialise the MSK Extremity MRI system and prove itself as a viable and profitable business proposition;
- A value for imputation credits (γ) of nil. This assumption has been made with reference to the fact that imputation credits for Australian companies are available to domestic investors only and that not all investors in Magnetica are Australian. The marginal investor is likely to be an investor who is not entitled to claim imputation credits; and
- Current market conditions including heightened market uncertainties in relation to inflation rates, interest rates, and the ongoing impacts of COVID-19.

Taking the above factors into consideration as well as the nature of Magnetica, we believe it is not unreasonable to adopt a nominal after-tax discount rate for Magnetica in the range of 16.0% to 18.0%. We have set out a sensitivity analysis on the discount rate in Section 8.2.4 to assist users of this Report that may have an alternative view on an appropriate discount rate or would like to understand the impact of applying an alternative discount rate.

Projected Free Cash Flow to the Firm ('FCFF')

Figure 8.2 graphs the projected free cash flows that we have adopted for our DCF valuation of Magnetica over the explicit forecast period to FY2029.

Figure 8.2: Projected Free Cash Flow of Magnetica



Source: BDOCF Analysis

With reference to Figure 8.2 and based on the assumptions adopted, we note Magnetica exhausts its accumulated tax losses and starts paying tax from FY2029 onwards.

8.2.3 DCF Valuation of Magnetica

The DCF valuation is based on the Projected FCFF set out in Figure 8.2. A terminal value is calculated by utilising the Gordon Growth Method and applying a perpetual growth assumption of 2.50% to the final forecast year's net after tax FCFF.

Having regard to the assumptions outlined above, Table 8.2 summarises our estimated enterprise value for Magnetica using a DCF valuation methodology having regard to the Transaction Committee's best estimate of the future performance of Magnetica under the Base Case. We note the low and high values are determined by using the high and low ends of our discount rate range, respectively.

Table 8.2: Base Case DCF Valuation of Magnetica

	Low ($000's)	High ($000's)
DCF Value	16,109	25,690

Source: BDOCF analysis

Table 8.2 shows that we estimate the Base Case enterprise value of Magnetica using a DCF valuation methodology to be within the range of $16.1 million to $25.7 million on a controlling interest basis. We have set out a sensitivity analysis in Section 8.2.4 to assist users of this Report that may have an alternative view on certain key assumptions adopted for our work.

8.2.4 Sensitivity and Scenario Analysis of the DCF Valuation

Sensitivity Analysis

The DCF valuation of Magnetica is based on a number of assumptions which are subject to uncertainty. We have completed a sensitivity analysis on the enterprise value of Magnetica by adjusting the following variables in isolation, all other things held equal:

- ±10% increase in MSK Extremity MRI system volumes;
- ±10% increase in COGS;
- ±10% increase in Other Expenses;
- ±10% increase in exchange rate;
- An absolute ±1% change in the discount rate; and
- An absolute ±1% change in the terminal growth rate.

Table 8.3 summarises the impact of the abovementioned variables on our DCF valuation of Magnetica using the high and low ends of our discount rate range, holding all factors constant, except the relevant sensitivity variable.

Table 8.3: Sensitivity Analysis of Key Inputs - Base Case

	Base Case ($000's)	
	Low (18%)	High (16%)
Base Case	16,109	25,690
MRI system volume		
10% increase	23,664	35,014
10% decrease	8,555	16,366
COGS		
10% increase	2,353	9,415
10% decrease	29,477	41,504
Other Expenses		
10% increase	11,997	20,925
10% decrease	20,221	30,455
Exchange rate		
10% increase	33,888	47,188
10% decrease	(1,669)	4,192
Discount rate		
1% increase	12,349	20,507
1% decrease	20,507	31,852
Terminal growth rate		
1% increase	18,618	29,366
1% decrease	13,905	22,521

Source: BDOCF Analysis

Scenario Analysis

In addition to the sensitivity analysis set out above, we have also completed a scenario analysis on the enterprise value of Magnetica as follows:

- A case that assumes a one-year delay in the sale of MSK Extremity MRI systems ('Delay Case'). Given that a number of milestones remain to be met to commercialise the MSK Extremity MRI system, we consider it appropriate to model a case that assumes sales of MRI Systems are delayed by one year relative to the Base Case. To run this scenario we have delayed the EBIT forecasted in FY2025 and onwards by one-year (i.e. forecast EBIT in FY2025 was delayed to FY2026), and used the EBIT forecast in FY2024 as a proxy for the EBIT in FY2025; and
- A case that assumes a 150% ramp-up and a case that assumes a 200% ramp-up. These cases will be relevant if the clinical market uptake is greater than expected and/or the industrial application eventuates as the Transaction Committee expect. To run the two ramp-up scenario we have:
  - Increased the quantity of MSK Extremity MRI systems sold in each year from 2025 onwards by 1.5x and 2x;
  - Increased the material costs, distributor costs, and direct MRI system labour costs in each year from 2025 onwards by 1.5x and 2x; and
  - Increased warranty costs in proportion with the increase in material costs and distributor costs.

Table 8.4 below sets out the results of our scenario analysis.

Table 8.3: Scenario Analysis of Key Inputs

	Value ($000's)	
	Low (18%)	High (16%)
Base Case	16,190	25,690
Delay Case	8,633	17,317
Ramp-up Scenario		
150% increase	55,312	74,130
200% increase	94,020	122,150

Source: BDOCF Analysis

8.2.5 *Adjustment for Surplus Assets and Liabilities*

The DCF value excludes, amongst other issues, the impact of any surplus assets or liabilities held by the Company. In our view, it is appropriate to add the company's cash and cash equivalents and add/subtract the value of any other surplus assets/liabilities.

We have considered the carrying values recorded in Magnetica's financial statements as at 31 October 2022 and have made enquiries of the Transaction Committee. Based on our enquiries, we have summarised the values we have adopted for Magnetica's surplus assets and liabilities in Table 8.4 below.

Table 8.4: Values Adopted for the Surplus Assets and Liabilities

	Value ($000's)
Cash and Cash Equivalents	1,117
Other Surplus Assets	513
Interest-bearing Loans	(719)
Shareholder Loan	(4,350)
Total	**(3,440)**

Source: Magnetica's management accounts as at 31 October 2022, Management representations and BDOCF analysis

In relation to Magnetica's surplus assets and liabilities we note:

- We have adjusted cash and cash equivalents as at 31 October 2022 for the estimated costs of the Proposed Transaction that will be incurred regardless of whether the Proposed Transaction is successful. These costs are expected to be approximately $150,000;
- We have added the additional amount of funding expected to be contributed by Avingtrans prior to the Proposed Transaction completion date. This increased the cash balance and Avingtrans shareholder loan balance by $750,000; and
- We have included other surplus assets, which relates to a loan that Avingtrans has with SciMag, and liabilities of Magnetica not otherwise included in the DCF.

All other operating assets and liabilities in Magnetica's balance sheet are allowed for within our DCF valuation of Magnetica. We have also been informed by the Transaction Committee that there are no other material surplus assets or liabilities that have not been recorded in the financial statements as at the date of this Report.

8.2.6 *Equity Value of Magnetica based on DCF Valuation*

Having regard to the assumptions outlined above, Table 8.4 summarises our estimated equity value for Magnetica using a DCF valuation methodology.

Table 8.5: DCF Valuation of Magnetica

	Reference	Low ($000s)	High ($000s)
DCF Value	Section 8.2.3	16,109	25,690
Surplus Assets and Liabilities	Section 8.2.5	(3,440)	(3,440)
Equity Value of Magnetica		**12,670**	**22,250**

Source: BDOCF analysis

Table 8.5 shows that we estimate the equity value of Magnetica using a DCF valuation methodology to be within the range of $12.7 million to $22.3 million on a controlling interest basis.

8.2.7 *Value of a Magnetica Share based on DCF Valuation*

Table 8.6 below sets out the value of Magnetica on a per share basis.

Table 8.6: Value of a Magnetica Ordinary Share on a Controlling Interest Basis

	Reference	Low ($000's)	High ($000's)
Equity Value Attributable to all Security Holders	Section 8.2.6	12,670	22,250
Number of Magnetica Ordinary Shares on Issue[1]	Section 5.3	339,871,648	339,871,648
Equity Value of Magnetica on a Controlling Interest Basis per Share ($/share)		**0.037**	**0.065**

Source: BDOCF analysis

1 Total number of shares is based on 330,946,648 ordinary shares outstanding as at 14 November 2022 and 8,925,000 fully paid Restricted Ordinary Shares issued for the conversion of performance rights. We have excluded the impact of Magnetica's options on issue prior to the Proposed Transaction as the impact of these options is considered to be immaterial given that they are 'out of the money'

Table 8.6 sets out our value of a Magnetica ordinary share within the range of $0.037 to $0.065 per share. We note that our DCF valuation of Magnetica provides a value per share for Magnetica on a controlling interest basis.

8.3 ABV of Magnetica

8.3.1 Value Adopted

Table 8.7 below sets out our view of the value of Magnetica using an ABV methodology.

Table 8.7: ABV of Magnetica

	Value Adopted ($'000)
Cash and cash equivalents	1,117
Trade receivables	434
Inventories	1,127
Other current assets	1,433
Total current assets	**4,111**
Property, plant and equipment	645
Intangible assets	18,782
Other non-current assets	356
Total non-current assets	**19,784**
Total assets	**23,895**
Trade payables	819
Lease liabilities	278
Other current liabilities	1,711
Shareholder loan	4,350
Total current liabilities	**7,159**
Non-current lease liabilities	388
Total non-current liabilities	**388**
Total liabilities	**7,547**
Net assets	**16,348**
Number of Magnetica Ordinary Shares on Issue following the Proposed Transaction	559,871,648
Net assets per share ($/share)	**0.029**

Source: Magnetica's management accounts as at 31 October 2022, BDOCF analysis

In relation to Table 8.7, we note:

- We have subtracted from the cash balance an amount of $150,000 for the estimated costs of the Proposed Transaction that will be incurred regardless of whether the Proposed Transaction is approved by the Non-Associated Shareholders;
- We have added the additional amount of funding expected to be contributed by Avingtrans prior to the Proposed Transaction completion date. This increased the cash balance and Avingtrans shareholder loan balance by $750,000;
- In October 2022 SciMag adopted a new method for recognising both revenue and costs based on percentage of completion (i.e. actual cost divided by actual cost plus costs to completion). We understand this method was chosen because it removes a subjective element of the engineer estimating the percentage of completion each month and is more compliant with the IFRS 15 *Revenue from Contract with Customers* accounting standard. The impact of this change is that the balances for trade receivables and trade payables will be less comparable to the 31 May 2022 balances set out in Section 5.4.2 above;
- As at 31 October 2022, Magnetica recognised a balance of $18.8 million for intangible assets including computer software, patents, development costs, and goodwill. We have incorporated this value into our ABV on the basis that a potential acquirer may place a value on Magnetica's intangible assets that approximates the cost that would need to be incurred to recreate or replace them. We consider this approach a broad proxy for value only as the value ultimately paid by an acquirer will have regard to the acquirer's view of the economic returns that can be generated on the assets (i.e. a methodology more akin to our DCF methodology set out in Section 8.2);
- As at 31 May 2022, Magnetica had carried forward tax losses of $31.7 million which are not recognised in the Company's balance sheet. The ability to realise value for these tax losses will ultimately depend on Magnetica's ability to generate taxable income in the future. Noting the limited ability to use these tax losses in the immediate future, for the purpose of our ABV, we have adopted a value of nil for carried forward tax losses. We have however assumed they can be utilised in our DCF valuation set out in Section 8.2 to offset tax payable on the taxable income generated; and
- Unless otherwise stated in the bullet points directly above, we have adopted the book value of the assets and liabilities as at 31 October 2022 for the purposes of our ABV.

8.3.2 Reconciliation of ABV to DCF

The valuation adopted for our ABV of $0.029 is below the valuation range adopted for our DCF valuation of $0.037 to $0.065. In our view, the difference is being driven by:

- Our ABV incorporates the book value of intangible assets while our DCF incorporates a value for the intangible assets based on their ability to generate future free cash flows for Magnetica; and
- Our ABV does not allow any value for the carried forward tax losses while our DCF assumes they are able to be utilised to offset tax payable on taxable income.

For completeness, we note that if we incorporated an additional intangible asset value to the low and high ends of our ABV of approximately $4.2 million and approximately $20.4 million respectively, the valuation range would match the DCF valuation range.

8.4 Value of Magnetica's Shares Prior to the Proposed Transaction on a Controlling Interest Basis

Having regard to our valuation of Magnetica's shares, in our view, for the purpose of our assessment of the Proposed Transaction it is appropriate to adopt a value as at the date of this Report in the range of $0.037 to $0.065 per Magnetica share on a controlling interest basis. In relation to our valuation range we note:

- This valuation range was determined having regard to our DCF methodology. We consider the DCF valuation methodology to be the most relevant as it has regard to underlying assumptions that reflect Magnetica's strategy for commercialising its technology. We have set out a sensitivity analysis in Section 8.2.4 to assist users of this Report that may have an alternative view on certain key assumptions adopted for our work;
- Our ABV value of $0.029 is below our DCF valuation range. A summary of the reasons driving the difference in valuation methodologies is set out in Section 8.3.2 above and we believe, for the purposes of this Report, it is appropriate to place less weight on the ABV; and
- Magnetica is in the early stages of its growth cycle and is still in the process of proving itself as a viable and profitable business proposition. In our view, the value of such companies may increase or decrease materially over short time periods depending on the ability to meet certain milestones. The fluctuations in value are further exacerbated at the current time because of the market volatility and economic uncertainty caused by heightened inflation rates, increasing interest rates, and the ongoing impacts of COVID-19.

The Non-Associated Shareholders should note that our valuation range of Magnetica is on the basis of a knowledgeable and willing, but not anxious, seller that is able to consider alternative options to the Proposed Transaction. In accordance with paragraph 111.15 of RG 111, we have not adjusted our valuation range for any financial distress that may be experienced by Magnetica in circumstances that the Proposed Transaction is not approved by the Non-Associated Shareholders and an alternative source of funding is not available. We would ordinarily expect a company in financial distress to trade at lower values as there is a risk the company will be unable to complete an arm's length transaction within the available timeframe. We have considered the availability of alternative options available to Magnetica to address any potential financial distress when considering the reasonableness of the Proposed Transaction in Section 2.3 of this Report.

9.0 Valuation of Magnetica following the Proposed Transaction

9.1 Valuation Methodology

In our view, to value Magnetica post the Proposed Transaction it is appropriate to:

- Adopt the equity value of Magnetica prior to the Proposed Transaction based on our DCF valuation (for the reasons summarised in Section 8.4);
- Increase the equity value by $4.35 million to reflect the removal of the liability associated with the Avingtrans shareholder loan;
- Increase the equity value by $6.75 million to reflect the cash to be received under the Proposed Transaction;
- Increase the number of shares by 222 million to reflect the 87 million shares to be issued on conversion of the Avingtrans shareholder loan and the 135 million shares to be issued as part of the capital raising; and
- Applying a minority discount to the calculated share price following the Proposed Transaction (refer Section 9.2 below).

9.2 Minority Discount to Apply to the Valuation

A controlling interest in a company is usually regarded as being more valuable than a minority interest as it provides the owner with control over the operating and financial decisions of the company, the right to set the strategic direction of the company, control over the buying, selling and use of the company's assets, and control over the appointment of staff and setting of financial policies.

The increase in value for a controlling interest is often observed where an acquirer launches a takeover bid, or some other mechanism for control, for another company. For the purposes of our research on control premiums, we have defined a controlling interest to be an interest where the acquirer has acquired a shareholding of greater than 50% in the target company.

Generally, control premiums may be impacted by a range of factors including the following:

- Specific acquirer premium and/or special value that may be applicable to the acquirer;
- Level of ownership in the target company already held by the acquirer;
- Market speculation about any impending transactions involving the target and/or the sector that the target belongs to;
- The presence of competing bids; and
- General market sentiment and economic factors.

To form our view of an appropriate range of control premium applicable to Magnetica for the purposes of this Report, we have considered information which includes:

- Recent independent expert's reports which apply control premiums in the range of 20% to 40%;
- Various industry and academic research, which suggests that control premiums are typically within the range of 20% to 40%;
- Various valuation textbooks; and
- Industry practice.

Having regard to the information set out above, in our view, it is appropriate to consider control premiums within the range of 20% to 40% for the purposes of assessing the Proposed Transaction within the context of this Report. Specifically, we have adopted a control premium of 30%, representing the midpoint of the range.

9.3 Our Valuation of Magnetica following the Proposed Transaction

Table 9.1 sets out our valuation of Magnetica following the Proposed Transaction on a minority interest basis.

Table 9.1: Value of a Magnetica Share following the Proposed Transaction on a Minority Interest Basis

	Reference	Low ($000's)	High ($000's)
Equity value of Magnetica prior to the Proposed Transaction (controlling interest)	**8.2.6**	**12,670**	**22,250**
Add: Removal of liability associated with Avingtrans shareholder loan	4.1	4,350	4,350
Add: Additional cash raised from the Proposed Transaction	4.1	6,750	6,750
Equity Value of Magnetica following the Proposed Transaction (controlling interest basis)		**23,770**	**33,350**
Number of shares on issue prior to the Proposed Transaction[1]	5.3	339,872	339,872
Additional shares issued for the Proposed Transaction	4.1	222,000	222,000
Total shares outstanding following the Proposed Transaction		**561,872**	**561,872**
Value of a Magnetica Share following the Proposed Transaction (controlling interest basis)		**0.042**	**0.059**
Minority discount	9.2	-23.1%	-23.1%
Value of a Magnetica Share following the Proposed Transaction (minority interest basis)		**0.033**	**0.046**

Source: BDOCF analysis

1 Number of shares is based on 330,946,648 ordinary shares outstanding and 8,925,000 fully paid Restricted Ordinary Shares issued for the conversion of performance rights. We have excluded the impact of Magnetica's options on issue prior to the Proposed Transaction as the impact of these options is considered immaterial given that they are 'out of the money'.

2 Minority interest discount calculated as 1/(1+0.3), with the 0.3 input referring to the 30% control premium adopted, as outlined in Section 9.2.

9.4 Value of Magnetica following the Proposed Transaction on a Minority Interest Basis

Having regard to our valuation of Magnetica's shares, in our view, for the purpose of our assessment it is appropriate to adopt a value as at the date of this Report in the range of $0.033 to $0.046 on a minority interest basis following the Proposed Transaction.