MAGNETICA

ANNUAL REPORT

FOR THE YEAR ENDED 31 MAY 2023

Magnetica Limited
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Magnetica Limited & Controlled Entities

NEXT GENERATION MRI TECHNOLOGIES

Resolve / Evolve / Productise

Contents

Corporate Information

DIRECTORS
Stephen McQuillan
Prof. Stuart Crozier
Clint Gouveia
Stephen King
Duncan Stovell

SECRETARY
Stephen Denaro

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LEGAL ADVISERS
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SHARE REGISTRY
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FY23 Review of Operations and Future Developments

Our market facing activities have increased this last year, as we get closer to completing the commercialisation of our prototype compact 3-Tesla (3T) MRI system, for use in dedicated musculoskeletal (MSK) extremity imaging applications. Our attendance at industry events continues to ramp up, with us exhibiting for the first time at annual meetings of the International Skeletal Society (ISS) and Society of Skeletal Radiology (SSR). The events were held in Barcelona, Spain in October 2022 and Savannah, USA in March 2023 respectively. We have existing longer-term involvement at other key industry events, including exhibiting at the International Society of Magnetic Resonance in Medicine (ISMRM) annual meeting, and attending the Radiological Society of North America (RSNA) Scientific Assembly and Annual meeting.

The feedback we have been receiving regarding the features and specifications of our prototype 3T MSK extremity MRI system, from Radiologists and Technologists/Radiographers alike, has been collectively very positive. Beyond the feedback and enquiries from the events we have attended, we are regularly being contacted by potential customers with existing compact MRI systems being used in dedicated imaging applications. Primarily, people are enquiring about the availability of our MSK extremity MRI system in their market - in many cases they are seeing it as their upgrade pathway to replace existing older or less capable systems. This market pull is very encouraging and helps us to remain focused upon the end goal of getting our products installed at customer sites and becoming available to their clinicians to make a difference for the patients they serve.

With all of the interest in the 3T MSK extremity MRI system, our sales opportunity pipeline is steadily growing in a range of markets – we 'just' need to secure the regulatory approval to market the product as a medical device as soon as reasonably practicable. We are of course very keen to start converting the significant levels of interest we are experiencing from enquiries into sales. The Product Development team remains highly focused upon completing the development of the product to enable a range of verification and validation testing to be undertaken. These activities will culminate in us making our first application to a regulator, being the US Food and Drug Administration (FDA), to seek approval to market the MRI system. The testing activities still ahead of us include compliance testing with an external certified test-house, US-based in-clinic usability trials, and a range of internal testing to confirm the functionality, performance and reliability of the product is meeting the customer, regulatory and clinical requirements of such a diagnostic medical device.

With the launch of the MSK extremity MRI system getting closer, our activities to appoint our first US-based distributor, to undertake the sales and support of the system, are progressing well. We have identified a suitable partner and agreed non-binding commercial terms. We are working to finalise the commercial agreement before being able to announce their appointment as our distributor. In support of these activities, we are working to mature our service and support function to ensure that initial system deployments (subject to regulatory approvals being obtained) are completed as smoothly as possible and our customers, and distributor, are well supported.

Whilst our Product Development team has been working hard, it has not been a pain-free journey as we seek to complete the range of product realisation activities that are underway. Stepping up to become an MRI system Original Equipment Manufacturer (OEM), despite our existing pedigree as MRI, NMR and NQR sub-system OEMs across the three merged businesses, has been a significant challenge for the team as a whole. Notwithstanding efforts to maintain schedule, a range of impediments have impacted our velocity, with the areas of supply chain (material costs and lead times) and recruitment of personnel being notable pain-points. We are not unique in experiencing problems in these areas of course, with the impacts of the continuing global pandemic, inflationary pressures, and global unrest continuing to be felt for companies operating across similar industries and geographies. Nevertheless, observationally it does feel as if we have turned a collective corner with a number of indicators starting to improve for us.

With the Product Development team now broadly established, and product realisation activities progressing towards completion, our attention has shifted towards scaling out other key functions within our business. These functions include production, marketing and sales, and service and support. We have bolstered our team with a number of new hires, as well as investing in the development and readiness of our systems, processes and equipment, in an effort to ensure we have the appropriate resources available at the right time to support our anticipated growth phase.

Another key area of our business is the ongoing design and manufacture of superconducting magnets and spectrometers, being undertaken by our UK-based and US-based teams at Scientific Magnetics and Tecmag respectively. Order intake for the year delivered a strong order book, ensuring the delivery teams remain very busy with a healthy backlog of work to complete. In fact, during FY23 the UK-based magnet team's order backlog hit a new record, being the largest it has ever been. Given the uncertain times that we are all living in, this outcome speaks volumes regarding the relationships the team have established and maintained with their customers. All of this activity resulted in our sales revenue as a consolidated entity increasing to A$6.54M in FY23 from A$3.99M in FY22, representing a 64% increase, for which the team is to be congratulated.

The range of secured orders and the resulting jobs that are underway continue to be primarily for research-focused applications, often requiring mass customisation of our base market offerings to meet the sometimes unique requirements of our customers. Looking forward, the approval of funding sources and a level of bureaucracy in some customer organisations mean the profile of order intake from these research and government entities will likely remain lumpy in nature. With repeat business from existing customers outstripping orders from new customers each year, we will continue to maintain a close focus upon this important customer segment. Nevertheless, by way of a reminder, the key reason for completing the merger in January 2021 was to move up the value chain to become an MRI system OEM in our own right, enabling us to sell and supply repeatable product into regulatory controlled markets, providing important alternate and growing revenue streams to the business.

Compliance with regulations and standards is a key activity as a medical device company. Further, ensuring we supply medical devices that are safe and effective is a core requirement in everything that we do. As such, Quality Assurance is, and will remain, one of the areas that we continue to focus upon across the business. Ongoing activities to progress and mature our Quality Management System (QMS) at each of site has led to all three sites being certified as compliant with ISO 13485, a QMS standard for medical device companies. Continuous Improvement is a focus for our teams moving forward, to embed the cultural change required to fully exploit the inherent value that has been created in Magnetica. Other compliance activities underway across the business includes meeting the requirements of EU and UK General Data Protection Regulations (GDPR). Our UK team achieved GDPR compliance last year, and the AU and US based teams are working to follow suit.

We have outgrown our existing Brisbane-based facility in the suburb of Eagle Farm where we have been located for many years, with the team hot desking and undertaking remote working as required for the last year as a result. As we continue to gear-up for the impending growth phase of our business, we have signed a lease on a new facility in the suburb of Northgate, which is approximately three times the size of the Eagle Farm facility. The lease at the new facility commenced in March and amongst a range of activities, we have installed a new imaging suite, containing our flagship MSK extremity MRI system. We have maintained both facilities for a number of months to enable us to undertake testing of our MRI system in parallel at each site. The Eagle Farm site has now been returned to the Landlord, with the lease having expired in mid-September.

One key personnel change during the last FY was the retirement at the end of 2022 of our UK-based General Manager of Business Development, Dr Peter Penfold. A long-time senior leadership team member at Scientific Magnetics and then Magnetica, Peter has contributed strongly to the success of the company. Ably filling Peter's shoes in this role, however, is Antonio Augello. Based in Italy, Antonio was consulting with us for a number of months before taking on this new challenge. Having him join us in a full-time capacity strengthens the team, not least because Antonio originally trained as a Radiographer. With his previous experience selling compact MRI systems and managing distributors, Antonio is a key new hire for Magnetica, and we look forward to working with him in his new role. Despite Peter retiring, he has now rejoined us in a part-time consulting role, in effect completing a role swap with Antonio, so the team remains together, just 'wearing different hats'.

A second key personnel change saw Dr Sara Eastwood promoted into the role of General Manager – Australia. Sara has worked tirelessly in a range of roles within the business over the last 6+ years and her promotion is much deserved. As well as enabling Sara to take responsibility for the Australian business activities, this change enables Duncan Stovell to relinquish a range of his local AU-based responsibilities and thus maintain more of a focus upon his global CEO responsibilities. Sara and Duncan are working closely to ensure a smooth transition of responsibilities.

The final key change in terms of roles and responsibilities saw Clint Gouveia take on the role of Chief Technology Officer for Magnetica, in addition to his existing Chief Operating Officer role for Magnetica and Managing Director role for Scientific Magnetics. Clint has a very strong technical background and will be readily able to provide a consistent technical steer across the business, liaising with the primarily Brisbane-based MRI system Product Development team and the existing spectrometer and superconducting magnet engineering teams based in the US and UK respectively.

A capital raising was announced at the end of November 2022, which was successfully completed in late January 2023. The outcome of the capital raise saw shareholders approve the:

- retirement of debt on the Company's balance sheet, by converting A$4.35M of loans from Avingtrans into equity, with new shares being issued;
- issuing of ~A$0.54M of new shares to non-Avingtrans investors, both new and existing, who took up the opportunity to participate in the capital raise via both a Placement and Share Purchase Plan; and
- drawdown of ~A$6.21M of new equity funding from Avingtrans, in tranches in the subsequent year, with new shares being issued for each tranche.

Prior to the capital raise Avingtrans held 61.27% of Magnetica's issued capital. At completion of the capital raise and allotment of the new shares, Avingtrans held 67.46% of Magnetica's issued capital, as approved by shareholders via an Extraordinary General Meeting held in January. The ongoing drawdown of new funds in tranches over subsequent months has seen Avingtrans' holding gradually increasing in line with the approval obtained from shareholders. As an event occurring subsequent to the end of the reporting period, the final tranche drawdown was completed in August 2023, seeing the company funded for an additional two months beyond that forecast within the capital raise documents provided to shareholders. As a result, Avingtrans holds 74.65% of the issued capital in Magnetica. The company is now being supported by intercompany loans from Avingtrans, ahead of an anticipated capital raise to be completed in calendar 2024.

Our plan to hire an independent Chair at the appropriate time, to round out the Board composition, has not changed. However, the Directors remain comfortable that the existing Board, with myself in the role of Chair, continues to be effective and meets the needs of the business at this current phase of our journey.

Collaboration between Adaptix Ltd and Magnetica has seen strong and open relations develop between the two teams, with a range of opportunities to assist one another being exploited whenever possible. We continue to see good synergies in terms of a common focus upon the clinical diagnostic imaging market, seeking to launch product in the same regulatory controlled geographic markets and utilising the same (or very similar) channels to market, to name a few. In fact, the two companies will be sharing an exhibition stand at this year's RSNA annual event in Chicago in late November, where Magnetica plans to launch its MSK extremity MRI system!

The Directors wish to acknowledge the continuing support we receive from our customers, partners, suppliers, shareholders, other stakeholders and the broader community. Despite of the range of challenges we have faced, we continue to strive to achieve the milestones that should deliver value to shareholders and the broader stakeholder community - enabling high-quality imaging close to the patient point-of-care remains the focus for our global team.

Stephen McQuillan

Chair

Chatteris, UK, 25 September 2023

DIRECTORS' REPORT

Your directors present their report for the year ended 31 May 2023.

DIRECTORS

The following persons were directors of Magnetica Limited during the financial year, from the 1st June 2022 and up to the date of this report:

- Stephen McQuillan;
- Prof. Stuart Crozier;
- Clint Gouveia;
- Stephen King; and
- Duncan Stovell.

Stephen McQuillan
(Non-Executive Director, Board Chair, Member of Audit & Risk Management Committee)

Steve joined Avingtrans as CEO in October 2008. Over the last fifteen years, the market cap of Avingtrans has increased by more than a factor of 15, deriving from multiple acquisitions and disposals and consistent performance improvements, to build shareholder value.

Steve joined Avingtrans from Serco, where he had spent four years as Director General of the National Physical Laboratory and, then as the Managing Director of the Serco Defence Operations business. A graduate engineer, Steve started his career in the oil industry, working for Conoco. A long period at Mars Inc followed, mostly at Mars Electronics, where Steve moved to France to run Western European operations and then became the general manager of the Swiss banknote recognition business, Sodeco. Subsequently, as sales director, Steve was part of the team that sold Marconi Instruments to IFR Inc., before spending the following six years at Oxford Instruments, as Managing Director of its Superconductivity Division.

Steve is currently a trustee director of the Institute of Export and was previously a non-executive director at EEF, the manufacturers' organisation and at the UK Atomic Energy Authority.

Prof. Stuart Crozier
(Non-Executive Director, Member of Audit & Risk Management Committee)

Stuart is a past Associate Dean (Research) in The Faculty of Engineering Architecture and IT at The University of Queensland. He currently holds a part-time CSO role at EMVision medical devices Ltd. He is an ATSE Fellow, a Fellow of The Institute of Physics (UK) and a Senior Fellow of ISMRM. He holds a PhD and higher Doctorate (D.Eng.) in Biomedical Engineering.

Stuart has published over 300 journal papers and holds approximately 30 patents in the field of medical imaging. He has supervised more than 40 PhD students to graduation in the field. In 2012, he was awarded the ATSE Clunies Ross medal for research with a societal benefit. His main contributions have been to the development of applications and engineering innovation in Medical Imaging, particularly Magnetic Resonance Imaging (MRI). Several of his innovations have been adopted by industry with GE and Siemens licensing some of his patents. He is a past Deputy Editor of Magnetic Resonance in Medicine.

Clint Gouveia
(Executive Director and Chief Operating Officer/Chief Technology Officer)

Clint has worked in the superconducting magnet industry since 1987. After almost two decades at Oxford Instruments in various engineering and management roles, Clint joined Varian Inc. in 2006, taking responsibility for their superconducting magnet test facility and product output, generating approximately $80M of revenue per annum. By 2012 Clint was overseeing the entire manufacturing and test functions at Agilent's Oxford campus, with approximately 100 reports.

Formerly Scientific Magnetics (SciMag) Director of Operations, Clint took over the role of Managing Director of SciMag in February 2018. Clint is a Chartered Scientist, holds a BSc with first-class honours, a Fellow of The Institute of Science and Technology and a Senior Member of the IEEE. Clint also works as a volunteer, assessing Chartered Scientist Applications on behalf of the Institute of Science and Technology.

Stephen King
(Non-Executive Director, Chair of Audit & Risk Management Committee)

Steve was appointed as Chief Financial Officer and Company Secretary of Avingtrans in September 2002. Before joining Avingtrans, he was at PricewaterhouseCoopers, where he was a Senior Manager in the Assurance and Specialist Transaction practice. Stephen has a first-class degree in Mechanical Engineering.

He has extensive experience in M&A, having overseen over 24 acquisitions and 3 significant disposals to date for Avingtrans, as well as the establishment of Chinese wholly-owned foreign enterprises, restructuring & turnaround of underperforming businesses, capital raising and reporting.

Duncan Stovell
(Managing Director and Chief Executive Officer)

Duncan has spent the last 15 years living and working in Brisbane, having grown up and worked in the UK prior to moving to Australia. Duncan has a business and technical background, with 25 years of experience gained from high-tech product commercialisation in a range of industries including MedTech, energy, mining, defence and satellite communications.

Duncan holds a number of qualifications, including an MBA from The University of Queensland and two technical degrees from Universities in the UK. He is a graduate of the Australian Institute of Company Directors and a Chartered Engineer.

COMPANY SECRETARY

Stephen Denaro CA

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

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

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

DIRECTORS' REPORT (CONTINUED)

INTERESTS IN THE SHARES AND OPTIONS OF THE COMPANY

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

Director	Ordinary Shares	Restricted Ordinary Shares	Unlisted options
Stephen McQuillan	-	-	-
Stuart Crozier	-	1,500,000	-
Clint Gouveia	1,844,442	-	-
Stephen King	-	-	-
Duncan Stovell	600,000	1,000,000	-

SHARE OPTIONS

Unissued shares

As at the date of this report (and at the end of the reporting period) there were 3,000,000 unissued ordinary shares under options as detailed in Note 15(a) to the financial statements. During the year ended 31 May 2023, and up to the date of this report, no shares were issued as a result of the exercise of an option over unissued shares.

Share & Option Plan and Share Incentive Plan

Under the Share and Option Plan adopted in January 2021, at year end (as detailed in Note 15(b) to the financial statements), 8,925,000 restricted ordinary shares were on issue.

A new Share Incentive Plan was adopted by the Board in January 2022, however, at the date of this report no shares or options have been issued under the plan.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Court under section 237 of the *Corporations Act* 2001 for leave to bring proceedings on behalf of the Company or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings. No proceedings have been brought or intervened in on behalf of the Company with the leave of the Court under section 237 of the *Corporations Act* 2001.

CORPORATE INFORMATION

Corporate structure

Magnetica Limited is a company limited by shares which is incorporated and domiciled in Australia. Magnetica Limited has prepared a consolidated financial report which consolidates its wholly owned subsidiaries Space Cryomagnetics Limited (trading as Scientific Magnetics Limited), Tecmag Inc., NMR Holdings No. 1 Pty Limited, NMR Holdings No. 2 Pty Limited and Scientific Magnetics Limited.

Nature of operations and principal activities

The principal activities of the Company during the financial year has focused upon:

- Commercialisation of compact MRI systems, aimed at niche and emerging global human Magnetic Resonance Imaging (MRI) markets; as well as
- Operating in the capacity as a sub-system designer and manufacturer, within MRI, Nuclear Magnetic Resonance (NMR) and Nuclear Quadrupole Resonance (NQR) markets, specialising in:
    - Superconducting magnets;
    - Gradient coils;
    - RF coils; and
    - Spectrometers.

Employees

As at 31 May 2023, the Company employed 51 full-time and 8 part-time employees (excluding the Non-Executive Directors and Secretary), including employees engaged through Magnetica's subsidiaries. The Company also engages external consultants, particularly for research and development work, as well as compliance and regulatory, when required. The most notable of these are from The University of Queensland's Biomedical Engineering Group.

REVIEW OF FINANCIAL CONDITION

Capital structure

During the period to 31 May 2023, 162,770,000 shares were issued (2022: 25,500,000).

Treasury policy

The Company does not have a formally established treasury function. The Board is responsible for managing the Company's currency risks and finance facilities. The Company does not currently undertake hedging of any kind.

OPERATING RESULTS

For the year ended 31 May 2023, the loss from ordinary activities for the consolidated entity after providing for income tax was $(989,802), (2022: $(2,479,652)).

DIVIDENDS PAID OR RECOMMENDED

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

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the state of affairs during the reporting period.

FUTURE DEVELOPMENTS

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

SUBSEQUENT EVENTS AFTER THE REPORTING PERIOD

The last tranche of equity funds committed by Avingtrans in the capital raising completed in January 2023 were drawn down in August 2023. Avingtrans has subsequently provided Magnetica with cash via intercompany loans to support business operations. A capital raising, with Avingtrans being the cornerstone investor, is expected to complete in calendar year 2024, at which point it is anticipated that the loan funds will convert into equity as part of the funding round.

DIRECTORS' REPORT (CONTINUED)

ENVIRONMENTAL REGULATIONS

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

INDEMNIFICATION AND INSURANCE OF DIRECTORS, OFFICERS AND AUDITOR

Each of the Directors, Officers and the Secretary of the Company have entered into a Deed with the Company whereby the Company has provided certain contractual rights of access to books and records of the Company and certain indemnities to those Directors, Officers and Secretary.

The Company has not indemnified its auditor.

No insurance premiums have been paid, during or since the end of the financial year for any person who is or has been a director or officer of the Company.

DIRECTORS' MEETINGS

The number of meetings of directors held during the period and the number of meetings attended by each director are as follows:

	Board meetings		Audit & Risk Management Committee meetings	
	Number of meetings held while in office	**Meetings attended**	**Number of meetings held while in office**	**Meetings attended**
Stephen McQuillan	8	8	2	2
Prof Stuart Crozier	8	8	2	2
Clint Gouveia	8	8	2	2
Stephen King	8	8	2	2
Duncan Stovell	8	8	2	2

AUDITOR'S INDEPENDENCE DECLARATION

The Auditor's Independence Declaration forms part of the Directors' Report and can be found on page 13 of the Annual Report.

Signed in Chatteris, UK this 25 day of September 2023 in accordance with a resolution of the directors.

Stephen McQuillan
Chair

HALL CHADWICK
CHARTERED ACCOUNTANTS & BUSINESS ADVISORS | QLD

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Auditor's Independence Declaration under Section 307C of the Corporations Act 2001 to the directors of Magnetica Limited and controlled entities.

As lead auditor for the audit of the financial report of Magnetica Limited for the financial year ended 31 May 2023, I declare to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Magnetica Limited and entities it controlled during the financial period.

Clive Massingham
Director

HALL CHADWICK QLD
Chartered Accountants

Dated this 25th day of September 2023

HALL CHADWICK
CHARTERED ACCOUNTANTS & BUSINESS ADVISORS | QLD

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Independent Auditor's Report

To the members of Magnetica Limited

Report on the Financial Report

Opinion

We have audited the financial report of Magnetica Limited and controlled entities (the Company), which comprises the statement of financial position as at 31 May 2023, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion the accompanying financial report of the Company is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Company's financial position as at 31 May 2023 and of its financial performance for the year then ended; and

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

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

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

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

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

The directors are responsible for the other information. The other information comprises the information included in the Company's annual report for the year ended 31 May 2023, but does not include the financial report and our auditor's report thereon. Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon. In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Company audit. We remain solely responsible for our audit opinion.

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

Clive Massingham
Director

HALL CHADWICK QLD
Chartered Accountants

Dated this 25th day of September 2023

Directors' Declaration

The directors of the company declare that:

1. the financial statements and notes, as set out on pages 18 to 51 are in accordance with the *Corporations Act 2001* and:

    a. comply with Accounting Standards and the Corporations Regulations 2001; and

    b. give a true and fair view of the consolidated entity's financial position as at 31 May 2023 and of its performance for the period ended on that date.

2. in the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and

3. in the directors' opinion, the financial statements and notes to the financial statements are prepared in compliance with International Financial Reporting Standards as made by the International Accounting Standards Board.

Signed in Chatteris, UK this 25 day of September 2023 in accordance with a resolution of the directors.

S. McQuillan

Stephen McQuillan
Chair

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 May 2023

	Notes	2023 June 22-May 23 $	2022 Jun 21-May 23 $
Revenue	2	7,632,878	4,500,806
Expenses	3	(8,592,927)	(6,980,458)
Loss before income tax		(960,049)	(2,479,652)
Income tax expense	4	(29,753)	-
Loss attributable to members of Magnetica Limited		(989,802)	(2,479,652)
Other comprehensive income, net of income tax			
Exchange differences on translating foreign controlled entities		309,389	148,222
Other comprehensive income for the year, net of tax		309,389	148,222
Total comprehensive loss for the year attributable to the members of Magnetica Limited		(680,413)	(2,331,430)

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

Consolidated Statement of Financial Position

As at 31 May 2023

	Notes	31 May 2023	31 May 2022
		$	$
CURRENT ASSETS			
Cash and cash equivalents	20	627,648	395,027
Trade and other receivables	5	838,200	1,765,061
Inventories		1,043,549	670,966
Other current assets	6	2,353,211	289,748
TOTAL CURRENT ASSETS		**4,862,608**	**3,120,802**
NON-CURRENT ASSETS			
Property, plant and equipment	8	647,477	549,447
Right-of-use assets	11	1,714,077	725,775
Intangible assets	9	23,045,586	17,009,790
Investments	25	118,630	118,630
TOTAL NON-CURRENT ASSETS		**25,525,770**	**18,403,642**
TOTAL ASSETS		**30,388,378**	**21,524,444**
CURRENT LIABILITIES			
Trade and other payables	10	3,343,092	2,898,822
Lease liabilities	11	411,177	281,011
Employee Benefits	12	271,398	146,252
Interest bearing loans borrowings	24	632,052	675,550
TOTAL CURRENT LIABILITIES		**4,657,719**	**4,001,635**
NON-CURRENT LIABILITIES			
Employee Benefits	12	110,963	89,420
Lease Liability	11	1,390,286	492,283
TOTAL NON-CURRENT LIABILITIES		**1,501,249**	**581,703**
TOTAL LIABILITIES		**6,158,968**	**4,583,338**
NET ASSETS		**24,229,410**	**16,941,106**
EQUITY			
Issued capital	13	97,674,220	89,705,503
Reserves	14,15	(18,262,616)	(18,572,005)
Accumulated losses		(55,182,194)	(54,192,392)
TOTAL EQUITY		**24,229,410**	**16,941,106**

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

Consolidated Statements of Changes in Equity

For the year ended 31 May 2023

Consolidated	Share capital	Reserves	Reserves	Reserves	Reserves	Accumulated Losses	Total equity
	Ordinary	Share premium Reserve	Share option Reserve	Share Based Payments	Foreign Currency Translation Reserve		
	$	$	$	$	$	$	$
Balance at 1 June 2022	**89,705,503**	**(19,130,051)**	**281,000**	**-**	**277,046**	**(54,192,392)**	**16,941,106**
Issue of Ordinary Shares	8,138,500	-	-	-	-	-	8,138,500
Share Issue Costs	(169,783)	-	-	-	-	-	(169,783)
Loss for the year	-	-	-	-	-	(989,802)	(989,802)
Other Comprehensive income for the year	-	-	-	-	309,389	-	309,389
Balance at 31 May 2023	**97,674,220**	**(19,130,051)**	**281,000**	**-**	**586,435**	**(55,182,194)**	**24,229,410**

Consolidated	Share capital	Reserves	Reserves	Reserves	Reserves	Accumulated Losses	Total equity
	Ordinary	Share premium Reserve	Share option Reserve	Share Based Payments	Foreign Currency Translation Reserve		
	$	$	$	$	$	$	$
Balance at 1 June 2021	**85,880,503**	**(19,130,051)**	**281,000**	**-**	**128,824**	**(51,712,740)**	**15,447,536**
Issue of Ordinary Shares	3,825,000	-	-	-	-	-	3,825,000
Share Issue Costs	-	-	-	-	-	-	-
Loss for the year	-	-	-	-	-	(2,479,652)	(2,479,652)
Other Comprehensive income for the year	-	-	-	-	148,222	-	148,222
Balance at 31 May 2022	**89,705,503**	**(19,130,051)**	**281,000**	**-**	**277,046**	**(54,192,392)**	**16,941,106**

Consolidated Statement of Cash Flows

For the year ended 31 May 2023

	Inflows/(Outflows)	
	31 May 2023 **$**	**31 May 2022** **$**
Cash flows from operating activities		
Receipts from customers and grants	9,305,787	3,788,875
Payments to suppliers and employees	(10,795,594)	(5,476,053)
Finance costs paid	(73,417)	(50,817)
GST Recovered/(Paid)	252,926	151,113
Interest Received	15,673	26
Net cash used in operating activities (Note 21)	**(1,294,625)**	**(1,586,856)**
Cash flows from investing activities		
Payments for property, plant and equipment	(232,715)	(62,148)
Payment for development costs	(6,054,554)	(2,973,774)
Net cash used in investing activities	**(6,287,269)**	**(3,035,922)**
Cash flows from financing activities		
Share issue costs	(169,783)	-
Share Capital Issued	8,138,500	3,772,574
Financing of lease liabilities	(154,202)	(85,913)
Net cash provided by financing activities	**7,814,515**	**3,686,661**
Net increase (decrease) in cash and cash equivalents held	232,621	(936,117)
Cash and cash equivalents at the beginning of the financial year	395,027	1,331,144
Cash and cash equivalents at the end of the financial year (Note 20)	**627,648**	**395,027**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

Accounting Policies

a. Principles of consolidation

The consolidated financial statements include the financial position and performance of controlled entities from the date on which control is obtained until the date that control is lost.

Intragroup assets, liabilities, equity, income, expenses and cashflows relating to transactions between entities in the consolidated entity have been eliminated in full for the purpose of these financial statements.

Appropriate adjustments have been made to a controlled entity's financial position, performance and cash flows where the accounting policies used by that entity were different from those adopted by the consolidated entity. All controlled entities have a 31 May financial year end.

A list of controlled entities is contained in Note 7 to the financial statements.

Subsidiaries

Subsidiaries are all entities (including structured entities) over which the parent has control. Control is established when the parent is exposed to, or has rights to variable returns from, its involvement with the entity and has the ability to affect those returns through its power to direct the relevant activities of the entity.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b. Business Combinations

Business combinations are accounted for by applying the acquisition method which requires an acquiring entity to be identified in all cases. The acquisition date under this method is the date that the acquiring entity obtains control over the acquired entity.

The fair value of identifiable assets and liabilities acquired are recognised in the consolidated financial statements at the acquisition date.

Goodwill or a gain on bargain purchase may arise on the acquisition date, this is calculated by comparing the consideration transferred and the amount of non-controlling interest in the acquiree with the fair value of the net identifiable assets acquired. Where consideration is greater than the net assets acquired, the excess is recorded as goodwill. Where the net assets acquired are greater than the consideration, the measurement basis of the net assets are reassessed and then a gain from bargain purchase recognised in profit or loss.

All acquisition-related costs are recognised as expenses in the periods in which the costs are incurred except for costs to issue debt or equity securities.

Any contingent consideration which forms part of the combination is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and the settlement is accounted for within equity. Otherwise, subsequent changes in the value of the contingent consideration liability are measured through profit or loss.

c. Goods and services tax

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. Revenue Recognition

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

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

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

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

- Manufacturing segment – sale of compact MRI systems, superconducting magnets, spectrometers, gradient coils and Radio Frequency (RF) coils;
- Interest;
- R&D tax offsets; and
- Grants.

The Company manufactures and sells compact MRI systems, superconducting magnets, spectrometers, gradient coils and RF coils.

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

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

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

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

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

Interest

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

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Research and Development Tax Offset

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

Grants

Non-reciprocal grants revenue is recognised in the statement of profit or loss and other comprehensive income when the entity obtains control of the grant and it is probable that the economic benefits gained from the grant will flow to the entity and the amount of the grant can be measured reliably.

Grants with conditions attached which must be satisfied before the contributions will be received will only be recognised as revenue once those conditions are satisfied.

When grant revenue is received whereby the company incurs an obligation to deliver economic value directly back to the contributor, this is considered a reciprocal transaction and the grant revenue is recognised in the statement of financial position as a liability until the service has been delivered to the contributor, otherwise the grant is recognised as income on receipt.

Sale of non-current assets

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

e. Intangible assets

Goodwill

Goodwill is carried at cost less accumulated impairment losses. Goodwill is calculated as the excess of the sum of:

i) the consideration transferred;

ii) any non-controlling interest; and

iii) the acquisition date fair value of any previously held equity interest;

over the acquisition date fair value of net identifiable assets acquired in a business combination.

The value of goodwill recognised on acquisition of each subsidiary in which the Group holds less than a 100% interest will depend on the method adopted in measuring the aforementioned non-controlling interest. The Group can elect to measure the non-controlling interest in the acquiree either at fair value ('full goodwill method') or at the non-controlling interest's proportionate share of the subsidiary's identifiable net assets ('proportionate interest method'). The Group determines which method to adopt for each acquisition.

Under the 'full goodwill method', the fair values of the non-controlling interests are determined using valuation techniques which make the maximum use of market information where available.

Goodwill is not amortised but is tested for impairment annually and is allocated to the Group's cash generating units or groups of cash generating units, which represent the lowest level at which goodwill is monitored but where such level is not larger than an operating segment. Gains and losses on the disposal of an entity include the carrying amount of goodwill related to the entity sold.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Intellectual property

Intellectual property is recorded in the financial statements at acquisition cost less accumulated impairment losses. Intellectual property costs, having a benefit or relationship to more than one accounting period, are deferred and amortised to the statement of profit or loss and other comprehensive income using the straight-line method of calculation over the period of time during which the benefits are expected to arise.

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

Research and development

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

The expenditure capitalised includes the cost of materials, labour, non-recurring engineering and overhead costs that are directly attributable to preparing the asset for its intended use, and capitalised borrowing costs. Other development expenditure is recognised in profit or loss as incurred.

Capitalised development costs are measured at cost less accumulated amortisation and accumulated impairment losses.

Development costs have a finite life and are amortised on a systematic basis matched to the future economic benefits over the useful life of the project, which is measured in years.

Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

f. Property, plant and equipment

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

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

Depreciation

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

The principal rates of depreciation for plant and equipment are the rates which correspond to the company's assessment of the particular asset's useful life, e.g if it is assessed to have a 5-year life, it is depreciated 20% each year.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Impairment

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

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

Where it is not possible to estimate the recoverable amount of an individual asset, the consolidated entity estimates the recoverable amount of the cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash generating unit.

g. Inventories

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

h. Income Tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or non-allowable items. It is calculated using tax rates that have been enacted or are substantively enacted as at the end of the reporting period.

Deferred tax is accounted for using the liability method in respect of differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss, or where it is associated with investments in subsidiaries, associates or interests in joint ventures and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is charged in the statement of profit or loss and other comprehensive income except where it relates to items that may be charged directly to equity, in which case the deferred tax is adjusted directly against equity. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be claimed. The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income tax legislation and the anticipation that the consolidated entity, and its constituent member entities as applicable, will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

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

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

i. Financial Instruments

(i) Recognition and initial measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification

On initial recognition, a financial asset is classified as measured at amortised cost or FVTPL. Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortised cost or FVOCI are measured at FVTPL. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest in the principal amount outstanding.

All financial assets not classified as measured at amortised cost or FVOCI are measured at FVTPL. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest

The Company recognises a financial asset arising from a service concession arrangement when it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction or upgrade services provided. Such financial assets are measured at fair value upon initial recognition. Subsequent to initial recognition the financial assets are measured at amortised cost.

(ii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. The Company's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, and foreign currency differences on available-for-sale equity instruments, are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

(iii) Financial assets – Assessment of contractual cash flows as principal or interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Company considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the sole payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

(iv) Financial assets – Subsequent measurement and gains and losses

Financial assets at FVTPL are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

Financial assets at amortised cost are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

The Company's financial assets are classified as loan and receivables.

(v) Derecognition

Financial assets

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

Financial liabilities

The Company derecognises a financial liability when its contractual obligations are discharged, or cancelled, or expire. The Company also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred, or liabilities assumed) is recognised in profit or loss.

(vi) Financial currency

Functional and presentation currency

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

Transactions and balances

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

Exchange differences arising on the translation of monetary items are recognised in the statement of profit or loss and other comprehensive income, except where deferred in equity as a qualifying cash flow or net investment hedge.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the statement of profit or loss and other comprehensive income.

j. Employee benefits

Wages, salaries and annual leave

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

Long Service Leave

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

Equity-settled compensation

The consolidated entity previously operated a share option arrangement with its directors. The bonus element over the exercise price of the director services rendered in exchange for the grant of shares and options is recognised as an expense in the statement of profit or loss and other comprehensive income. The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares and options granted which is determined using the Black Scholes Model.

Provisions

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

k. Cash and cash equivalents

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

Bank overdrafts are carried at the principal amount within short-term borrowings in current liabilities in the statement of financial position.

l. Leases

At the lease commencement, the Group recognises a right-of-use asset and associated lease liability for the lease term. The lease term includes extension periods where the Group believes it is reasonably certain that the option will be exercised.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The right-of-use asset is measured using the cost model where cost on initial recognition comprises of the lease liability, initial direct costs, prepaid lease payments, estimated cost of removal and restoration less any lease incentives received.

The right-of-use asset is depreciated over the lease term on a straight-line basis and assessed for impairment in accordance with the impairment of assets accounting policy.

The lease liability is initially measured at the present value of the remaining lease payments at the commencement of the lease. The discount rate is the rate implicit in the lease, however, where this cannot be readily determined then the Group's incremental borrowing rate is used.

Subsequent to initial recognition, the lease liability is measured at amortised cost using the effective interest rate method. The lease liability is remeasured whether there is a lease modification, change in estimate of the lease term or index upon which the lease payments are based (e.g. CPI) or a change in the Group's assessment of lease term.

Where the lease liability is remeasured, the right-of-use asset is adjusted to reflect the remeasurement or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

m. Fair value measurement

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

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

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

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

n. Comparatives

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

o. Foreign currency transactions and balances

Transaction and balances

Foreign currency transactions are recorded at the spot rate on the date of the transaction.

At the end of the reporting period:

- Foreign currency monetary items are translated using the closing rate;
- Non-monetary items that are measured at historical cost are translated using the exchange rate at the date of the transaction; and
- Non-monetary items that are measured at fair value are translated using the rate at the date when fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition or in prior reporting periods are recognised through profit or loss, except where they relate to an item of other comprehensive income or whether they are deferred in equity as qualifying hedges.

Foreign operations

The translation of foreign operations with different functional currency from Australian dollars is performed as follows:

- Assets and liabilities (including goodwill and fair value adjustments on acquisition) for each statement of financial position presented are translated at the closing rate at the date of the statement;
- Income and expenses for each statement of profit or loss and other comprehensive income are translated at the rate at the date of the transaction (or an average rate if that rate approximates the rate at the date of transaction); and
- All resulting exchange differences are recognised in other comprehensive income.

On disposal of a foreign operation, the cumulative amount of the exchange difference related to that foreign operation recognised in other comprehensive income is reclassified from equity to profit or loss.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

p. Going Concern

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

Magnetica Ltd is an emerging technology company and is in the continuing process of fund raising to develop its technology to a stage where the company becomes profitable and self-sufficient. The Company has made a net loss over the financial year of ($989,802) and a loss of ($2,479,652) in the corresponding prior period.

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

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

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

1. Avingtrans PLC has confirmed its' willingness to provide funding in support of the agreed plan that is being executed during financial year 2024;
2. Periodic sales of superconducting magnets, spectrometers, gradient coils and RF coils are expected to occur throughout the financial year;
3. As an MRI system OEM, Magnetica will be focused upon the commercialisation of dedicated compact MRI systems, with the Musculoskeletal (MSK) Extremity (EXT) MRI system being the first such market offering, from which future revenues are expected to be generated;
4. The company has historically had the ability to secure Government grant funding and to secure share capital as needed;
5. The company is entitled to a substantial annual research and development tax rebate; and
6. The company has a surplus of net current assets at period end and as the date of this report.

(q) Critical Accounting Estimates and Judgements

The directors make estimates and judgements during the preparation of these financial statements regarding assumptions about current and future events affecting transactions and balances.

These estimates and judgements are based on the best information available at the time of preparing the financial statements, however, as additional information is known then the actual results may differ from the estimates.

The significant estimates and judgements made have been described below.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of Goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy. The recoverable amounts of cash generating units have been determined based on value in use calculations. These calculations require the use of assumptions.

Business combinations

Business combinations are initially accounted for on a provisional basis. The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by the Group taking into consideration all available information at the reporting date. Fair value adjustments on the finalisation of the business combination accounting is retrospective, where applicable, to the period the combination occurred and may have an impact on the assets and liabilities, depreciation and amortisation reported.

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

(r) New accounting standards for application in future periods

Certain new accounting standards and interpretations have been published that are not mandatory for 31 May 2023 reporting periods and have not been adopted early by the Company. There are no new standards to be applied in future periods that are expected to have a significant impact on the Company.

		2023 $	2022 $
2.	**REVENUE**		
	Sales	6,454,050	3,987,479
	Interest received	15,673	26
	Grant income	-	65,368
	Research and development tax offset	1,163,155	447,381
	Other income	-	552
		7,632,878	**4,500,806**
3.	**EXPENSES**		
	Consultancy	1,008,380	744,702
	Travel	127,651	53,754
	Employee benefits expense	3,908,257	3,139,895
	General and Admin – Premises and Facilities	409,153	359,728
	General and Admin – Corporate and other costs	711,541	604,613
	Marketing and Sales	69,429	20,646
	Depreciation	524,755	395,011
	Interest Expense	84,644	43,542
	Cost of Goods Sold	3,582,364	3,009,789
	Amortisation	47,862	9,226
	Other	602,959	543,894
	Total Expenses before capitalised development costs	11,076,995	8,924,800
	Less Development costs capitalised applicable to costs above	(2,484,068)	(1,944,342)
	Total Expenses	**8,592,927**	**6,980,458**
4.	**INCOME TAX**		
a)	**Numerical reconciliation of income tax expense to prima facie tax payable**		
	Loss before income tax expense	(960,049)	(2,457,355)
	Tax at the Australian tax rate of 25% (2022: 25%)	(240,012)	(614,339)
	Research and development not assessable	(290,789)	(111,845)
	Depreciation and amortisation	5,193	6,979
	Prepayments	(1,693)	12,065
	Research and development expenses capitalised	(1,561,849)	(483,988)
	Lease payments – right of use	(15,290)	(16,251)
	Research and development expenses non-deductible	1,693,010	666,708
	Movements in provisions and accruals	44,973	38,960
	Tax Effect of Profit of Tecmag and loss of SciMag	39,190	239,248
	Deferred tax assets (recognised)/not recognised	297,514	262,463
	Income tax expense	**(29,753)**	**-**

4b)	**Tax losses (continued)**	**2023**	**2022**
		$	**$**
	Unused tax losses for which no deferred tax asset has been recognised	31,144,677	30,148,538
	Potential tax benefit @ 25% (2022: 25%)	7,786,169	7,537,134

Realisation of the potential tax benefit is dependent upon:

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

		2023	**2022**
		$	**$**
5.	**TRADE AND OTHER RECEIVABLES**		
	Trade receivables	768,485	1,672,661
	GST receivable	69,715	92,400
		838,200	**1,765,061**
6.	**OTHER CURRENT ASSETS**		
	Refundable deposits	179,958	13,750
	Deposits paid	34,247	7,336
	Prepayments	280,290	196,416
	Accrued revenue	1,700,725	2,793
	Other Assets	157,991	69,453
		2,353,211	**289,748**

7. CONTROLLED ENTITIES

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

	Country of Incorporation	Class of share	2023 % holding	2022 % holding
NMR Holdings No. 1 Pty Ltd (non-trading)	Australia	Ordinary	100%	100%
NMR Holdings No. 2 Pty Ltd (non-trading)	Australia	Ordinary	100%	100%
Space Cryomagnetics Limited (trading as Scientific Magnetics Limited)	England	Ordinary	100%	100%
Scientific Magnetics Limited (non-trading)	England	Ordinary	100%	100%
Tecmag Inc	United States of America	Ordinary	100%	100%

8. PROPERTY, PLANT AND EQUIPMENT

	2023 $	2022 $
Plant and equipment		
Cost	1,357,803	852,689
Less: Accumulated depreciation	(710,326)	(303,242)
Total plant and equipment	**647,477**	**549,447**

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

	2023 $	2022 $
Plant and equipment		
Carrying amount at beginning of year	549,447	705,853
Additions	808,356	52,219
Depreciation	(710,326)	(208,625)
Carrying amount at end of year	**647,477**	**549,447**

		2023 $	2022 $
9.	**INTANGIBLE ASSETS**		
	Goodwill (i)		
	At cost	5,972,548	5,972,548
	Less: Accumulated impairment losses	-	-
	Total goodwill	**5,972,548**	**5,972,548**
	Computer software		
	At cost	121,322	19,551
	Less: Accumulated amortisation	(39,615)	(12,728)
	Total computer software	**81,707**	**6,823**
	Patents		
	At cost	655,006	623,388
	Less: Accumulated impairment losses	(224,950)	(224,950)
	Total patents	**430,056**	**398,438**
	Development costs		
	At cost	17,085,628	11,114,010
	Less: Accumulated amortisation	(524,353)	(482,029)
	Total development costs	**16,561,275**	**10,631,981**
	Total intangible assets	**23,045,586**	**17,009,790**
	Reconciliations		
	Carrying amount at beginning of year	17,009,790	14,089,320
	Goodwill acquired	-	-
	Additions	6,054,554	3,038,281
	Amortisation	(18,758)	(117,811)
	Carrying amount at end of year	**23,045,586**	**17,009,790**

(i). On the 29th of January 2021 Magnetica acquired 100% of the ordinary shares of Space Cryomagnetics Limited which was valued at $7,927,201 for accounting purposes. The identifiable net assets of Space Cryomagnetics Limited comprises of $4,918,497 and liabilities of $2,963,845. As a result, the net identifiable assets were $1,954,652 and Goodwill is $5,972,548. Recognition and measurement Goodwill: Where the fair value of the consideration paid for a business acquisition exceeds the fair value of the identifiable assets, liabilities and contingent liabilities acquired, the difference is treated as goodwill. Where consideration is less than the fair value of acquired net assets, the difference is recognised immediately in the income statement. Goodwill is not amortised and is measured at cost less any impairment losses.

		2023 $	2022 $
10.	**TRADE AND OTHER PAYABLES**		
	Trade payables	1,000,843	988,853
	Unearned revenue	1,548,963	373,436
	PAYG withholding payable	169,005	41,904
	Accrued expenses	510,319	278,613
	Other Payables	113,962	1,216,016
		3,343,092	**2,898,822**

		2023 $	2022 $
11.	**LEASES**		
	Right of use Assets		
	Carrying Amount at beginning of year	725,775	323,599
	Additions	1,274,762	626,717
	Less Accumulated Amortization	(286,460)	(224,541)
	Carrying amount at end of year	**1,714,077**	**725,775**
	Lease Liability		
	Opening Balance	773,294	340,677
	Additions during the year	1,274,763	626,717
	Payments	(246,594)	(194,100)
	As at 31 May 2023	**1,801,463**	**773,294**

The right-to-use assets represent leases of office and factory premises at Eagle Farm and Northgate in AU, Abingdon in UK, and Houston in US.

		2023 $	2022 $
12	**EMPLOYEE BENEFITS**		
	Current		
	Provision for Long Service Leave	28,701	-
	Provision for Annual leave	242,697	146,252
		271,398	**146,252**
	Non-Current		
	Provision for Long Service Leave	110,963	89,420
		110,963	**89,420**

		2023 No. of Shares	2023 $	2022 No. of Shares	2022 $
13.	**ISSUED CAPITAL**				
(a)	*Ordinary shares*				
	Balance at 1 Jun 2021			314,371,648	85,880,503
	Balance at 1 June 2022	339,871,648	89,705,503		
	Ordinary Shares issued during the year at $0.15 per share			25,500,000	3,825,000
	Ordinary Shares issued during the year at $0.05 per share	162,770,000	8,138,500		
	Share issue costs		(169,783)	-	-
	Balance at 31 May 2022			**339,871,648**	**89,705,503**
	Balance at 31 May 2023	**502,641,648**	**97,674,220**		

		2023 No. of Options	2023 $	2022 No. of Options	2022 $
(b)	*Options*				
	Balance at 1 July 2021			**3,000,000**	**281,000**
	Balance at 1 June 2022	**3,000,000**	**281,000**		
	Options lapsed	-	-	-	-
	Balance at 31 May 2022			**3,000,000**	**281,000**
	Balance at 31 May 2023	**3,000,000**	**281,000**		

Details of the share options are included in Note 15 Share-Based Payments.

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

Capital Risk Management

Management controls the capital of the company in order to maintain a good debt to equity ratio, provide the shareholders with adequate returns and to ensure that the company can fund its operations and continue as a going concern. The company's debt and capital includes ordinary share capital and financial liabilities, supported by financial assets.

There are no externally imposed capital requirements.

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

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

14. **RESERVES**

Share Option Reserve

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

15(a) **SHARE-BASED PAYMENTS - OPTIONS**

No options were granted or exercised during the financial year (2022: Nil).

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

Grant date	First exercise date	Last exercise date	Exercise price per share	Balance at 31 May 2023	Balance at 31 May 2022
20-May-05	Relisting date	Relisting date+3yr	$0.50	1,000,000	1,000,000
20-May-05	Relisting date+1yr	Relisting date+4yr	$0.54	1,000,000	1,000,000
20-May-05	Relisting date+2yr	Relisting date+5yr	$0.60	1,000,000	1,000,000
				3,000,000	**3,000,000**

	2023	2022
Options outstanding at year-end	3,000,000	3,000,000
Options exercisable at year-end	-	-
Weighted average exercise price of outstanding options	$0.54	$0.54
Weighted average fair value of outstanding options	$0.09	$0.09

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

- Risk free interest rate 5.37%
- Expected share price volatility 78.00%
- Underlying share price $0.40
- Expiry date see last exercise date above.

15(b) **SHARE–BASED PAYMENTS – 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 Magnetica 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:

(a) the occurrence of a Liquidity Event;

(b) the date that is 15 years from the date of issue; or

(c) the date determined by the Board in its absolute discretion.

Liquidity Event means the first to occur of:

a) the date on which any Shares are either or both allotted or transferred under a prospectus lodged with the Australian Securities and Investments Commission (or other relevant regulatory body) in connection with an IPO;
b) the date on which a takeover bid for all of the Shares not owned by the bidder becomes unconditional;
c) the merger or consolidation of the company into another company;
d) a scheme of arrangement is made or undertaken in respect of the company;
e) the date on which, following a trade sale all or part of the net proceeds of sale are paid to shareholders; or
f) any event similar to those described in (a) to (e) involving a change in ownership or control of the company or all or substantial part of the assets of the group.

When a share ceases to be a restricted share, all restrictions on disposing of or otherwise dealing or purporting to deal with that share under the rules of the plan will cease.

16. **CONTINGENT LIABILITIES**

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

		2023 $	2022 $
17.	**AUDITOR'S REMUNERATION**		
	Remuneration of the auditors of the parent entity for:		
	- auditing or reviewing the financial report	42,000	36,000

18. **RELATED PARTIES**

Directors and specified executives:

Disclosure relating to directors and key management personnel remuneration are included in note 22.

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

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

Wholly Owned Group:

The wholly owned group consists of Magnetica Limited and its wholly owned controlled entities. Information relating to the controlled entities is set out in note 7.

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

The last tranche of equity funds committed by Avingtrans in the capital raising completed in January 2023 were drawn down in August 2023. Avingtrans has subsequently provided Magnetica with cash via intercompany loans to support business operations. A capital raising, with Avingtrans being the cornerstone investor, is expected to complete in calendar year 2024, at which point it is anticipated that the loan funds will convert into equity as part of the funding round.

Other than the above, the directors are not aware of any other significant events since the end of the reporting period.

		2023 $	2022 $
20.	**RECONCILIATION OF CASH**		
	For the purpose of the statement of cash flows, cash includes cash on hand and at banks and investments in the money market, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:		
	Cash and cash equivalents	**627,648**	**395,027**

	2023 $	2022 $
21. **RECONCILIATION OF NET CASH USED IN OPERATING ACTIVITIES TO LOSS AFTER INCOME TAX**		
Loss after income tax	(989,802)	(2,479,652)
Depreciation and amortisation	729,084	340,919
Movements in other reserves	(575,641)	87,516
Change in assets and liabilities		
(Increase) decrease in assets		
Trade debtors	926,861	(1,198,990)
Inventory	(372,583)	(101,622)
Other current assets	(2,063,463)	(6,974)
Increase (decrease) in liabilities		
Trade creditors & other payables	904,230	1,756,218
Provisions	146,689	15,729
Net cash used in operating activities	**(1,294,625)**	(1,586,856)

22. MANAGEMENT PERSONNEL DISCLOSURES

(a) Key Management Personnel

(i) Details of Directors

Stephen McQuillan – Non-Executive Director and Board Chair
Prof. Stuart Crozier – Non-Executive Director
Clint Gouveia – Executive Director and Chief Operating Officer/Chief Technology Officer
Stephen King – Non-Executive Director
Duncan Stovell – Managing Director and Chief Executive Officer

(ii) Details of Other Key Management Personnel

Dr. Sara Eastwood – General Manager - Australia
Ryan Grieger – Finance Manager
Dr. Atul Minhas – Head of Product Development

(iii) Key Management Personnel Compensation

	2023 $	2022 $
Non-Executive Director fees	45,000	45,000
Short term employee benefit	1,015,002	824,758
Post-employment employee benefit	151,981	107,878
Other related parties – director related entities		
- consulting expenses	96,000	88,000
Other long-term employee benefits	-	-
Share based payments rights – Restricted Ordinary Shares	-	-
Total	**1,307,983**	**1,065,636**

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

There were no options over ordinary shares in the company held during the financial year by any director or other key management personnel (2022: Nil).

(c) Share Based Payments

Information pertaining to share based payments is detailed in note 15.

MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

(d) Shareholdings of Directors and Other Key Management Personnel

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

31 May 2023	Balance 1 June 2022	Net change - Restricted Ordinary Shares	Net change – Options Exercised	Net Change - Other	Balance 31 May 2023
Directors					
Stephen McQuillan	-	-	-	-	-
Prof. Stuart Crozier	1,500,000	-	-	-	1,500,000
Clint Gouveia	1,844,442	-	-	-	1,844,442
Stephen King	-	-	-	-	-
Duncan Stovell	1,000,000	-	-	600,000	1,600,000
Other Key Management Personnel					
Dr. Sara Eastwood	250,000	-	-	200,000	450,000
Ryan Grieger	-	-	-	-	-
Dr. Atul Minhas	-	-	-	-	-
	4,594,442	**-**	**-**	**800,000**	**5,394,442**

31 May 2022	Balance 1 July 2021	Net change - Restricted Ordinary Shares	Net change - Options Exercised	Net Change - Other	Balance 31 May 2022
Directors					
Stephen McQuillan	-	-	-	-	-
Prof. Stuart Crozier	1,500,000	-	-	-	1,500,000
Clint Gouveia	1,844,442	-	-	-	1,844,442
Stephen King	-	-	-	-	-
Duncan Stovell	1,000,000	-	-	-	1,000,000
Other Key Management Personnel					
Dr. Sara Eastwood	250,000	-	-	-	250,000
Ryan Grieger	-	-	-	-	-
Dr. Atul Minhas	-	-	-	-	-
Dr. Peter Penfold	904,138	-	-	-	904,138
	5,498,580	**-**	**-**	**-**	**5,498,580**

		2023 $	2022 $
23.	**PARENT ENTITY INFORMATION**		
	Net loss attributable to members of Magnetica Limited	(684,280)	(1,267,363)
	Total comprehensive income for the year	**(684,280)**	**(1,267,363)**
	Current assets	1,355,574	329,973
	Total assets	**25,784,672**	**18,659,288**
	Current liabilities	(341,114)	(500,144)
	Total liabilities	**(341,114)**	**(500,144)**
	Issued capital	97,674,220	89,705,503
	Reserves	(18,849,051)	(18,849,051)
	Accumulated losses	(53,381,611)	(52,697,308)
	Total Equity	**25,443,558**	**18,159,144**

		2023 $	2022 $
24.	**BORROWINGS**		
	Current		
	Bank loan	632,052	675,550
	Total borrowings	**632,052**	**675,550**

This represents a loan interest and principal bill of US$410,518 (converted to AU$632,052) by a wholly owned subsidiary Tecmag to HSBC. This a rolling facility with an interest rate of between 4.1% and 4.5%.

		2023 $	2022 $
25.	**INVESTMENTS**		
	Investment in Acorn NMR Incorporated	118,630	118,630
	Total comprehensive income for the year	**118,630**	**118,630**

In 2019 Tecmag Inc entered into an intellectual property assignment agreement with Acorn NMR Incorporated for trademarks and Logos. This investment was brought into the group through the acquisition of Space Cryomagnetics Limited (trading as Scientific Magnetics).

26. **FINANCIAL RISK MANAGEMENT**

The Group is exposed to a variety of financial risks through its use of financial instruments. The Group's overall risk management plan seeks to minimise potential adverse effects due to the unpredictability of financial markets.

The most significant financial risks to which the Group is exposed to are described below:

Specific risks

- Liquidity risk;
- Credit risk; and
- Market risk - currency risk and interest rate risk.

Financial instruments used

The principal categories of financial instrument used by the Group are:

- Trade receivables;
- Cash at bank;
- Trade and other payables;
- Lease liabilities; and
- Fixed and floating rate loans.

Objectives, policies and processes

The Board of Directors have overall responsibility for the establishment of the Group's financial risk management framework. This includes the development of policies covering specific areas such as foreign exchange risk, interest rate risk, liquidity risk, credit risk and the use of derivatives.

Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The day-to-day risk management is carried out by the Group's finance function under policies and objectives which have been approved by the Board of Directors. The Chief Executive Officer and Finance Manager have been delegated the authority for designing and implementing processes which follow the objectives and policies. This includes monitoring the levels of exposure to interest rate and foreign exchange rate risk and assessment of market forecasts for interest rate and foreign exchange movements.

The Board of Directors receives monthly reports which provide details of the effectiveness of the processes and policies in place. Mitigation strategies for specific risks faced are described below:

Liquidity risk

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

26. **FINANCIAL RISK MANAGEMENT (CONTINUED)**

The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities as and when they fall due. The Group maintains cash and marketable securities to meet its liquidity requirements for up to 30-day periods. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities and the ability to sell long-term financial assets.

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash-outflows due in day-to-day business.

Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a 90-day and a 360-day period are identified monthly.

At the reporting date, these reports indicate that the Group expected to have sufficient liquid resources to meet its obligations under all reasonably expected circumstances however will remain dependent on matters outlined in note 1 (p) of the financial statements.

The timing of cash flows to settle financial liabilities reflects the earliest contractual settlement dates and does not reflect management's expectations that banking facilities will be rolled forward.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group.

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposure to wholesale and retail customers, including outstanding receivables and committed transactions.

The credit risk for liquid funds and other short-term financial assets is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

Trade receivables and contract assets

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

The Group has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults. The risk management committee has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group review includes external ratings, if they are available, financial statements, credit agency information and industry information. Credit limits are established for each customer and the utilisation of credit limits by customers is regularly monitored by line management. Customers who subsequently fail to meet their credit terms are required to make purchases on a prepayment basis until creditworthiness can be re-established.

26. **FINANCIAL RISK MANAGEMENT (CONTINUED)**

The Board receives monthly reports summarising the turnover, trade receivables balance and aging profile of each of the key customers individually and the Group's other customers analysed by industry sector as well as a list of customers currently transacting on a prepayment basis or who have balances in excess of their credit limits.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of its customer base, including the default risk associated with the industry and country in which the customers operate.

Management considers that all the financial assets that are not impaired for each of the reporting dates under review are of good credit quality, including those that are past due.

The Group has no significant concentration of credit risk with respect to any single counterparty or group of counterparties.

The Group has no significant credit risk to any specific geographical region.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

(i) Interest rate risk

The Group is exposed to interest rate risk as funds are borrowed at floating and fixed rates. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

The Group's policy is to minimise interest rate cash flow risk exposures on long-term financing. Longer-term borrowings are therefore usually at fixed rates. At the reporting date, the Group is exposed to changes in market interest rates through its bank borrowings, which are subject to variable interest rates.

(ii) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity’s functional currency.

The Group operates internationally and is exposed to foreign exchange risk primarily arising from sale and purchase transactions denominated in GBP, US dollars, Euros and AU dollars. The risk is measured using sensitivity analysis and cash flow forecasting.