Cyclopharm Limited Annual Report 2010

Cyclopharm Limited and its Controlled Entities

ABN 74 116 931 250

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Annual Report 2010

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Contents

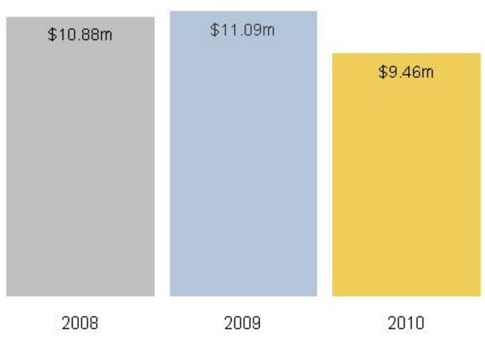
Financial Highlights

Full Year ending 31 December		2008	2009	2010	% Change
Sales Revenue	$'000	10,888	11,099	9,465	(14.7%)
Net Profit Before Tax	$'000	1,896	2,568	808	(68.5%)
Adjusted Net Profit Before Tax*	$'000	1,896	2,044	1,983	(3.0%)
Net Profit After Tax	$'000	1,705	2,044	450	(78.0%)
EPS	cents	1.20	1.20	0.26	(78.0%)

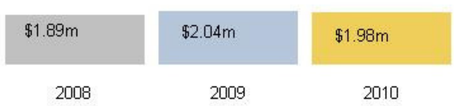
*Adjusted Net Profit Before Tax removes the impact of abnormal costs and revenues. Adjustments are made for:

1. The loss arising from the new Molecular Imaging Division of $864,385 and 20% share of the loss in the Macquarie Medical Imaging Joint Venture of $311,372. Both commenced operations during the 2010 year.
2. The Clinquest Inc settlement and legal costs of $2,013,841 and $797,922 respectively and FDA Development write down of $691,705 in 2009.

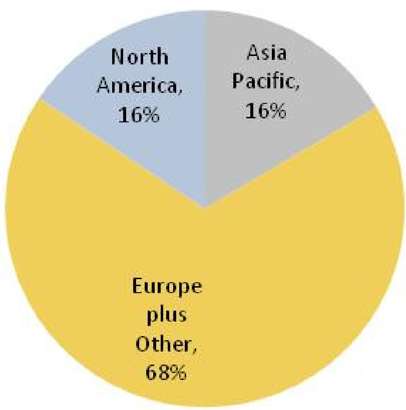
Sales revenue down



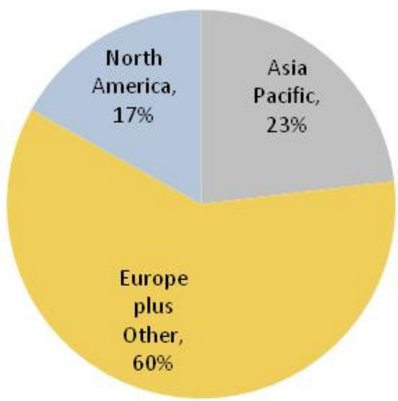
Adjusted Net Profit



Sales by Region - 2009



Sales by Region - 2010



Chairman's Letter

25 March 2011

Dear Shareholder,

It is with pleasure that I advise that we sold our first doses of Fluorodeoxyglucose (FDG) from our PET Facility at Macquarie University Hospital (Macquarie), North Ryde, in December 2010 – a momentous feat given the construction and regulatory challenges the Company has faced. Your Directors are pleased that their strategy, approved by shareholders over three years ago, has finally given your Company a new dimension to its activities and moved it from being simply a sole product company one step closer to becoming a national nuclear pharmacy provider.

Our Net Profit After Tax of $450,106 is disappointing. The result was impacted by the anticipated start-up costs, such as rent and wages, associated with the new Molecular Imaging division. In addition, there were factors that were outside the control of management, such as the reduction in the number of nuclear medicine procedures worldwide due to the Molybdenum shortage (which is an essential component to the operation of a Technegas machine and is sourced principally from Canada) and foreign currency movements.

Our longstanding purpose is to build shareholder value by manufacturing and distributing nuclear medicine products to save lives. Technegas has helped over 2.5 million patients suffering from the life-threatening condition, Pulmonary Embolism (PE), over the course of two decades. We see our expansion into Molecular Imaging, to assist in the superior diagnosis and monitoring of cancer, as a major component of our strategy. We have invested over $10.0m in this vision via the PET Facility at Macquarie University Hospital and $0.5m in our joint venture interest in the imaging department, Macquarie Medical Imaging (MMI), housed within the Hospital.

Our ties with the academic, clinical and medical fraternities have deepened via our strategic partnerships with Macquarie University and Alfred Health Solutions, our MMI JV Partner. In recognition of that partnership our Director of Science Professor Nabil Morcos has accepted an appointment as an Associate Professor with the Australian School of Advanced Medicine at Macquarie University. The Board congratulates Professor Morcos publicly on his appointment. The Board eagerly awaits the fruits of these close ties and the consequential commercial outcomes.

The Board also congratulates our Managing Director, Mr McBrayer, on his appointment to an Advisory Board of the Therapeutic Goods Administration (TGA).

As previously advised, our entry into the US to sell Technegas has at times seemed unachievable because of forces within the FDA (US Food & Drug Administration) which we have not been able to accommodate. Nevertheless, Technegas is used in the majority of leading hospitals in over 55 countries, and has been the subject of more than 300 nuclear medicine journal articles and clinical trials. Your Board is of the view that ultimately common sense must prevail and this view is supported by the Food and Drug Administration (FDA) approval of our Special Protocol Assessment (SPA) in February 2011. The FDA-approved SPA is the roadmap to approval to sell Technegas in the US to nuclear medicine departments, representing over 50% of the potential world's market for Technegas. Your Directors have dedicated significant time in determining the most prudent and suitable funding structure to complete the clinical trial. Sales are forecast for 2014. There is also a refreshment of our patent rights consequent upon FDA approval which potentially will be very helpful.

Whilst words may seem an unsavoury consolation for long-suffering shareholders, I am reminded of Pierre Corneille's observation, "When there is no peril in the fight, there is no glory in the triumph", and such an observation is relevant to the more than 10 years of attempts to achieve FDA registration. I have been a professional investor for more than 25 years and this phrase encapsulates the highs and lows that I have experienced throughout my career. But my confidence in Cyclopharm remains strong and when combined with the knowledge of the Company's contribution to society and the strength of its technology and people, it reminds me to remain steadfast in the belief that ultimately our efforts and commitment will be even further vindicated by both the number of lives our products save throughout the world and increased financial substance.

The PET Facility at Macquarie is a state-of-the-art asset - we have the right strategic partners in place and a team that can deliver. Much of the risk associated with our expansion into Molecular Imaging has been eliminated. Your Directors foresee 2011 as a year to capitalise on the strategic footprint that is now in place. Meaningful revenues and consequently an uplift in shareholder value is anticipated. We have submitted tenders to provide the radiopharmaceuticals for the NSW public hospital sector and we are in discussions to expand our offering to other locations within Australia. We look forward to providing shareholders with positive news on this front.

We thank our management and staff, led by Mr James McBrayer and Professor Morcos - their persistence and commitment to delivering on the Company's objectives has been exemplary. We also thank our shareholders, bankers and customers for their support.

In conclusion, we acknowledge that change is the only constant in business and as Sir Francis Bacon aptly said, "He that will not apply new remedies must expect new evils; for time is the greatest innovator". Sir Francis Bacon was arguably the first modern Western Christian man. In 1573 he entered Cambridge at 12 years of age. He saw that improving the lot of mankind would necessitate replacing the old Aristotelian framework with an "inductive" framework in which facts would be first gathered without preconception, then analysed (see William Bernstein's *The Birth of Plenty*). These principles will be foundational in the ground-breaking work we will do at Macquarie. We are the first commercially licensed TGA facility located within a teaching hospital in Australia and under contract we will be doing world-class medical research. Often we will earn a "carried interest" in the intellectual property developed.

We look forward with confidence to the future as heirs of the heritage of Sir Francis Bacon.

Yours faithfully,

Vanda Gould
Chairman

Managing Director's Review

Features

I am pleased to provide you with the overview of Cyclopharm Limited's ("Cyclopharm") performance for 2010. Since listing in 2007, this past year will represent a significant year for Cyclopharm with the commercialisation of key projects. The delivery of these projects have not only diversified your company but also opened a path for further expansion and profitability.

In the Company's listing Prospectus the Director's outlined a strategy to develop a new Molecular Imaging division to manufacture and sell radiopharmaceuticals including F18 Flurodeoxyglucose (FDG) for use in Positron Emission Tomography (PET) scanning. During the year, we commissioned our first PET facility at Macquarie University Hospital (MUH) and received a Good Manufacturing Process (GMP) license approval from the Australian Therapeutic Goods Administration (TGA).

The Molecular Imaging business contributed revenues of $21,842 (2009: $0) and a Loss after tax of $864,385 (2009: $250,755). During the year in review, property, plant and equipment increased to $10,059,528 (2009: $5,052,951) due primarily to the development of our PET nuclear pharmacy at MUH. The Director's consider the commercialisation of the Molecular Imaging division as a key step in increasing shareholder value.

Macquarie Medical Imaging (MMI) purchased our first commercial doses of FDG. MMI, Cyclopharm's medical imaging joint venture with Alfred Health Solutions provides state of the art imaging facilities including 3T MRI, CT, X-ray, Ultrasound and PET scanning for the new hospital located on the campus of Macquarie University and neighbouring suburbs. During the year, Cyclopharm made an investment of $500,000 into MMI (2009: $0). The share of the loss in associate was $311,372 (2009: $0).

The combined sales of the Company's key products TechnegasPlus generators (Generators) and Patient Administration Sets (PAS), decreased from $11.09m to $9.46m or 15%. Techengas Generator revenue was consistent with the prior year while both the sale of Patient Administration Sets (PAS) and revenues were lower.

As mentioned in the 2009 Annual Report and 2010 Half Year Report, PAS sales were dampened by the global molybdenum shortage. Molybdenum is used to make Technetium^{99} which is an essential component of Technegas. In addition unfavourable foreign currency movements impacted foreign sales.

For the reasons mentioned above, the Company's profit after tax of $450,106 (2009: $2,044,490) was negatively impacted. The table below outlines the current year to prior year results whereby abnormal revenues and costs relating to a case against Clinquest Inc, the share of the loss in associate and Molecular imaging division are adjusted. An adjusted comparison follows:

Full Year ending 31 December		**2009**	**2010**
Net Profit Before Tax	**$'000**	**2,568**	**808**
Clinquest settlement net gain	$'000	(524)	-
MMI share of loss of associate	$'000	-	311
Molecular Imaging Division loss	$'000	-	864
Adjusted Net Profit Before Tax		**2,044**	**1,983**

Operating review

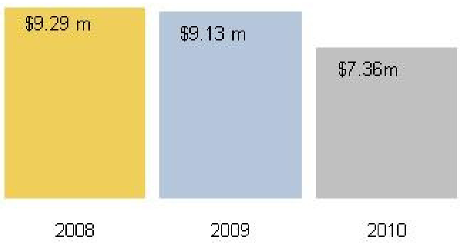
Technegas

Technegas is a lung imaging device used primarily to diagnose the presence of blood clots in the lungs known as Pulmonary Emboli (PE). For the last 20 years, over 2,400,000 patients have benefited from the Technegas system. The company faced similar challenges as in prior years with continued competition from Computed Tomography Pulmonary Angiogram ("CTPA") and the global molybdenum shortage dampened demand for all nuclear medicine products. In spite of these hurdles Technegas has demonstrated its relevance and has once again generated sales and cash flows.

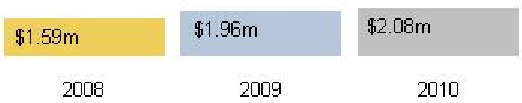
Revenue Composition

Overall sales revenue of $9.46m from the Company's key products, Generators and PAS were lower than the preceding year (2009: $11.09m). PAS or consumable revenue declined 19% to $7.36 million (162,800 units) for the current period compared to that of the previous year (2009: $9.13 million or 163,250 units). Sales margins were significantly lower than the prior year due to foreign exchange movements in the Euro to Australian dollar and a change in sales by region.

We recorded 54 Technegas Plus Generator sales in 2010, which is consistent with the prior year (2009: 57). Sales into Asia were strong with 12 generators being sold into China during the year. Technegas generator and other sales revenues of $2.08m were consistent with the prior year (2009: $1.96m). The strengthening of the Australian dollar against the Euro impacted revenues and gross margins as approximately 60% of sales are made to European countries.



Group, PAS Revenue



Group, Technegas and Other

New Drug Application to sell Technegas in the USA

As required by the FDA, the Company's next step is to undertake an additional Phase III clinical trial prior to approval of Technegas for sale in the USA. After a series of proposals and meetings throughout 2010, the FDA approved the Company's Special Protocol Assessment (SPA) in February 2011.

A SPA is a mechanism through which the FDA and sponsor reach agreement on the design, size, clinical endpoints, and data analysis of a clinical trial that is intended to support an efficacy claim in a New Drug Application (NDA) for regulatory approval. The SPA ensures that the agreed clinical trial design meets the FDA's expectations for a pivotal study.

Over half of the world's nuclear medicine departments are located in the United States. Although, not all nuclear medicine departments perform lung imaging, the significance of this market for Technegas is undeniable. It has been a strategy of the Company to obtain approval to sell Technegas for over 10 years.

In parallel with the clinical trial development, we have also engaged a number of the leading United States medical centres to participate in the upcoming trial. Technegas is the globally recognised ventilation imaging agent of choice in determining pulmonary embolism from both a safety and efficacy standpoint. While we will only require 10 to 15 centres for our clinical trial, we have been approached by scores more wanting to be first to have access to our technology in the United States.

New Drug Application to sell Technegas in the USA (continued)

Potential clinical trial sites are now submitting budgets for the trial. Provided clinical site negotiations go well, patient recruitment is anticipated to start mid 2011. It is expected that the clinical trial will take a year to complete followed by a New Drug Application submission to the FDA. Based on this timeline, it is anticipated that Technegas will be available for sale in the United States in 2014. As the USA represents such a major growth opportunity, your Directors will continue to sensibly pursue entry into this market.

Regional Review

Europe

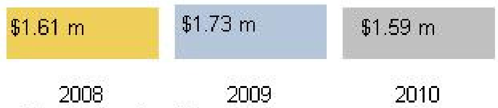
Approximately 60% of sales revenue was derived in Europe compared with 68% in 2009. Sales revenue decreased 24% on the same time last year despite higher Generator sales. 30 Generators were sold in 2010 compared with 24 in the prior year. Revenues from PAS sales were down 30% lower on 2009 due changes in the sales mix (fewer sales were made to countries with high gross margins). Sales revenue was also impacted by an approximate 15% movement in the Australian dollar relative to the Euro.

North America

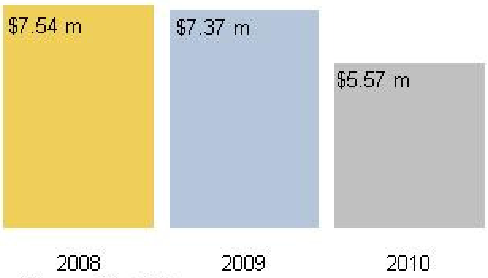
In the 2009 Annual Report we advised shareholders that North America revenues were expected to grow by 4% however revenues from the sale of Generators and PAS decreased 9%, on the prior year. Only 4 generators were sold in 2010 (2009: 12) while a 7th year of consecutive growth in PAS unit sales were recorded with 32,900 PAS sold (2009: 29,250 PAS). Total revenue of $1.59m has meant Canada is now our second largest market behind Europe. The directors have been overjoyed with the success of Technegas in Canada. Now that the FDA has approved our SPA we are well positioned to leverage from our Canadian team once approval to sell Technegas is obtained.

Asia Pacific

Revenues in the Asia Pacific region were 19% higher than 2009. In Australia, where Technegas enjoys a very high market share total revenues grew by 9%. In Asia, sales almost doubled. Sales to Hong Kong and China drove the 101% increase in revenues of over the prior year. This trend is not expected to continue at such a rapid rate however sales executives will focus on expanding the footprint of Technegas in leading hospitals throughout China's mainland and surrounding territories. The new regulatory approval in Japan was not received during 2010 and we expect sales growth once approval is received.



North America, Total Revenue



Europe, Total Revenue

Other, Total Revenue

Asia Pacific, Total Revenue

Molecular Imaging

In the Company's listing Prospectus the strategy to establish a new revenue stream for the Company, in the form of the Molecular Imaging division was outlined. The premise for the new division was the growth in the incidence of Australians affected by cancer (1 in 3 males and 1 in 4 females before the age of 75) and the impact PET (Positron Emission Tomography) imaging was having in Europe and the United States on cancer sufferers.

PET is clinically proven to better identify the location and extent of certain active cancer cells in the body and to assist physicians to refine the course of resection or therapy. The Directors' maintain their vision to establish PET Facilities in major Australian capital cities which will supply PET radiopharmaceuticals to hospitals for use in PET scans.

In July 2010, MUH's 183 bed facility was opened. The facility will support 12 operating theatres and is designed to be a clinical centre of excellence in oncology and neurology. It is Australia's first privately owned, campus-based university hospital and will combine academic medicine with group practice. As Australia's newest university hospital, MUH will support the advancement of future surgeons and leaders of the medical profession.

In December 2010 Cyclopharm announced to its Shareholders that the wholly owned subsidiary Cyclopet Pty Limited (Cyclopet) received Good Manufacturing Process (GMP) license approval from the Australian Therapeutic Goods Administration (TGA) for the cyclotron production and research facility located at Macquarie University Hospital (MUH), our first Molecular Imaging facility.

In December 2010, Cyclopharm advised Shareholders that the first commercial doses of the radiopharmaceutical compound F18 Flurodeoxyglucose (FDG) for use in Positron Emission Tomography (PET) scanning were sold to MMI. PET is the fastest growing nuclear medicine diagnostic imaging modality in the world. PET is clinically proven to better identify the location and extent of certain active cancer cells in the body as well as many neurodegenerative diseases.

Macquarie Medical Imaging

Macquarie Medical Imaging commenced its operations in May 2010 just prior to the grand opening of Macquarie University Hospital in July 2010 and purchased the first commercial doses of FDG. The first patient injected with our product confirmed the presence and location of Squamous Cell Carcinoma (SCC). SCC is a form of cancer of the carcinoma type that may occur in many different organs, including the skin, lips, mouth, esophagus, urinary bladder, prostate, lungs, vagina, and cervix. 115,000 Australians will be diagnosed with cancer this year. This figure represents a 10% increase since 2006. Cyclopet's products and research will play a major role in early diagnosis and therapeutic management of these cancer patients.

MMI, Cyclopharm's medical imaging joint venture with Alfred Health Solutions provides access to state of the art imaging facilities including 3T MRI, CT, X-ray, Ultrasound and PET scanning for the new hospital and neighbouring suburbs.

PET radiopharmaceuticals will be supplied on-site to Macquarie Medical Imaging and other hospitals predominately located in New South Wales. Other revenue streams generated from the PET radiopharmaceutical production facility include opportunities for Phase III clinical trials and pharmaceutical drug development.

Your directors are pleased with the quality of the MMI facility and hold the strong belief in the synergies that the joint venture and the co-located PET facility will provide such as the provision of a fully aligned and integrated diagnostic, therapeutic and research platform.

OUTLOOK

In 2011, your Directors expect growth in Technegas revenues to result from targeted marketing and new anticipated regulatory approvals campaigns in Japan, Russia and South America. We forecast a change in the mix of Technegas products. We anticipate more generators (lower margins) relative to PAS box sales and therefore lower profit margins.

Your directors expect revenues from the PET Facility at the MUH to ramp up throughout the year and for the division to be profitable by year's end. We expect operating costs, depreciation and finance costs to be higher since the Molecular Imaging division will be operational for the full 12 months.

The Director's maintain their view that the PET facility is a major investment that will yield significant long term returns for the Company but recognise that the interim working capital shortfall will require funding from the Technegas business.

We expect to make a further investment into MMI of circa $0.30m during the year to part-fund the working capital requirements of the business during its preliminary stages. Our estimates indicate the venture will generate a substantial return on investment in subsequent years.

I want to express my gratitude to my staff and management team, and our trading partners. I also take this opportunity to note my appreciation to the Chairman, Mr Vanda Gould, and my fellow Directors Mr John Sharman and Mr David Heaney.

Lastly I want to thank you our Shareholders for your continued support and patience. The investments we have made over the past years are now beginning to bear fruit. I believe that 2011 is destined to be an exciting year for the Company and I look forward to sharing with you the milestones we will achieve this year as we move closer to becoming Australia's leading nuclear medicine company.

James S McBrayer

James McBrayer
Managing Director and CEO

Directors' Report

The Directors of Cyclopharm submit their report for the year ended 31 December 2010.

DIRECTORS

The names and details of the Company's Directors in office during the financial year and until the date of this report are as follows. Directors were in office for this entire year unless otherwise stated.

Names, qualifications, experience and special responsibilities

Mr V R Gould – Non Executive Chairman
M Com, FCA, FCPA, B Com
Mr Gould has been a member of the Board since 21 November 2005. He is currently the Group Non-Executive Chairman appointed 1 March 2007 and also serves as Chairman of the Audit, Board Nominations, and Remuneration Committees of the Group.

Mr Gould has broad business experience having practiced as a chartered accountant for more than 30 years. As founding Chairman in 1984 of CVC Limited (listed on the ASX) he has overseen investments in several companies involved in the health services/medical industries including Cyclopharm. He is also chairman of Vita Life Sciences Limited (listed on the ASX) and several other private and public companies and educational establishments.

Mr Gould lives in Sydney and is 62 years old.

Mr J M McBrayer – Managing Director
BSPharm, GDM, FAICD, AIM
Mr McBrayer has been a member of the Board since 3 June 2008 at which time he accepted the role of Managing Director. Mr McBrayer serves as a member of the Board Nominations Committee.

Mr McBrayer has more than 20 years experience in nuclear medicine and is a trained Nuclear Pharmacist. Mr McBrayer held the role of Managing Director at Lipa Pharmaceuticals, Australia's largest contract manufacturer of over-the-counter products and senior management positions with Brambles Cleanaway business and Syncor, the world's largest radioactive diagnostic and therapeutic pharmaceutical provider.

Mr McBrayer lives in Sydney and is 45 years old.

DIRECTORS (CONTINUED)

Mr D J Heaney – Non Executive Director (Independent)
Mr Heaney was appointed to the Cyclopharm Board on 20 November 2007. David serves as a member of the Audit, Remuneration and Board Nominations Committees.

Mr Heaney is currently an executive director of Thompson Partners Pty Ltd and a non-executive director of Colorpak Limited (since 24 January 2004) and Dromana Estate Limited (since 10 July 2009). Mr Heaney also served as a director of Mariner Financial Limited between 27 May 2005 and 12 May 2009.

Mr Heaney has more than 40 years experience in all aspects of wholesale banking and finance, gained in senior management roles with National Australia Bank Limited and subsidiary companies in both Australia and the US.

Mr Heaney lives in Melbourne and is 66 years old.

Mr J S Sharman –Executive Director
M.App.Fin, CA, B Ec
Mr Sharman has been a member of the Board since 21 November 2005. Mr Sharman has been involved with the Cyclopharm Group since early 2004 and resigned from his role as Managing Director of Cyclopharm on 3 June 2008. Mr Sharman serves as a member of the Board Nominations Committees.

Mr Sharman has over 15 years experience in company management, private equity, investment banking and corporate finance. He has extensive experience in capital raisings, negotiation of key agreements, recovery and commercial strategies for performing and non-performing companies in all stages of company development. Mr Sharman is also a Non-Executive Director of Vita Life Sciences Limited (listed on the ASX).

Mr Sharman lives in Melbourne and is 44 years old.

Directors Report
Continued

Interests in the shares of the Company and related bodies corporate

The movement during the reporting period in the number of ordinary Cyclopharm shares (no options are on issue) held directly, indirectly or beneficially, by Directors and key management personnel, including their personally-related entities is as follows:

	Interest	31 December 2009	Granted or lapsed under long term incentive schemes	Ceased to control	On market purchases	On market sales	31 December 2010
Directors							
Mr VR Gould	NBI	2,848,092	-	-	-	-	2,848,092
Mr DJ Heaney	NBI	261,704	-	-	-	-	261,704
Mr JS McBrayer	BI	1,559,090	(700,000)	-	-	-	859,090
Mr JS McBrayer	NBI	-	-	-	300,000	-	300,000
Mr JS Sharman	BI	1,494,755	-	-	-	(84,755)	1,410,000
Mr JS Sharman*	NBI	182,905	-	(147,928)	-	-	34,977
Key Management Personnel							
Prof N Morcos	BI	1,058,297	(1,000,000)	-	-	-	58,297
Mr C Buttigieg	NBI	100,000	-	-	-	-	100,000

NBI: Non beneficial interests
BI: Beneficial interest

*Mr Sharman is a director of CVC Venture Managers Pty Ltd which holds certain shares in the company. Mr Sharman has assessed that he did not control the voting rights of those shares and ceased to disclose an interest in those shares.

DIVIDENDS

No dividends were declared or paid during the financial year. Shareholders approved the Dividend Reinvestment Plan at the Annual General Meeting held on 1 May 2008.

The balance of franking credit available for future dividend payments is nil.

ON MARKET BUY-BACK

The Company has not initiated an on market buy-back.

PRINCIPAL ACTIVITIES

During the year the principal continuing activities of the consolidated entity consisted of the manufacture and sale of medical equipment and radiopharmaceuticals, including associated research and development.

OPERATING AND FINANCIAL REVIEW

Operating Results for the Year

For the financial year the economic entity recorded a consolidated profit after tax attributable to members of $450,106 (2009: $2,044,490).

Directors Report
Continued

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

During the year in review, property, plant and equipment increased to $10,059,528 (2009: $5,052,951) due primarily to the development of our PET nuclear pharmacy at MUH. Intangibles of $2,621,152 were consistent with the prior year (2009: $2,412,667). At 31 December 2010, our borrowings of $6,102,753 increased due primarily to the development of our PET nuclear pharmacy at MUH. (2009: $2,733,250).

There was no other significant change in the state of affairs of the consolidated entity during the year.

Shares issued during the year

No shares were issued during the year.

SIGNIFICANT EVENTS AFTER BALANCE DATE

BANKING FACILITIES

In March 2011, the Company renewed its $5.10m Multi Option Facility with the National Australia Bank until 31 May 2011 at which time the facility will be reviewed for extension until February 2012. At balance date, $5.10m was drawn on this facility which has been recorded as a current liability.

Cyclopharm has an amortising bank bill facility provided by the National Australia Bank of $0.97 million. At balance date $975,900 was drawn down against this facility. Repayments under the amortising facility commenced in July 2010 and the entirety of the facility must be repaid by 31 July 2011.

The Company breached its interest cover covenant for the year ended 31 December 2010.

LIKELY DEVELOPMENTS AND FUTURE RESULTS

Technegas

As the USA represents such a major growth opportunity, your Directors will continue to sensibly pursue entry into this market . Potential clinical trial sites are now submitting budgets for the trial. Provided clinical site negotiations go well, patient recruitment is anticipated to start mid 2011.

Molecular Imaging

Commercial production of PET radiopharmaceuticals will take place for the full 12 months from our first PET Nuclear pharmacy at MUH in North Ryde. Management will focus on securing new customers to purchase the PET radiopharmaceuticals.

ENVIRONMENTAL REGULATIONS

Cyclopet Pty Limited, a member of the consolidated group's operations is subject to significant environmental regulations under the Radiation Control Act, 1990 by the Department of Environment, Climate Change and Water. The Board believe that the consolidated group has adequate systems in place for the management of its environmental requirements as they apply to the consolidated group.

RETIREMENT, ELECTION AND CONTINUATION IN OFFICE OF DIRECTORS

In accordance with the Company's Constitution all Directors have been elected by members at the Annual General Meeting (AGM) with the exception of Mr McBrayer. Mr McBrayer was appointed as Managing Director on 3 June 2008 and under the Constitution is exempt from election by members.

INDEMNIFICATION AND INSURANCE OF OFFICERS

In accordance with clause 49.1 of Cyclopharm's constitution and section 199A of the Corporations Act 2001 the Company has resolved to indemnify its Directors and officers for a liability to a third party provided that:

1. the liability does not arise from conduct involving a lack of good faith; or

2. the liability is for costs and expenses incurred by the director or officer in defending proceedings save as not permitted by law.

During or since the financial year, the Company has paid premiums in respect of a contract insuring all the Directors against legal costs incurred in defending proceedings for conduct involving:

a) a wilful breach of duty; or
b) a contravention of sections 182 or 183 of the Corporations Act 2001, as permitted by section 199B of the Corporations Act 2001.

The total amount of insurance contract premiums paid for the year ending 31 December 2011 are $15,818 (For the year ending 31 December 2010 $16,459).

The Officers of the Company covered by the insurance policy include the Directors, the Company Secretary and Executive Officers. The indemnification of the Directors and officers will extend for a period of at least 6 years in relation to events taking place during their tenure (unless the Corporations Act 2001 otherwise precludes this time frame of protection.)

The liabilities insured include costs and expenses that may be brought against the Officers in their capacity as Officers of the Company that may be incurred in defending civil or criminal proceedings that may be brought against the Officers of the Company or a controlled entity.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the Auditor's Independence Declaration as required under section 307C of the Corporations Act 2001 is set out on page 23.

Fees of $12,077 (2009: $12,781) have been paid for share registry services and fees of $11,030 (2009: $12,730) for taxation services to an associate of Russell Bedford NSW for the year ended 31 December 2010 for non-audit related services. The Directors do not believe these services compromised the external auditor's independence.

The Company has not otherwise, during or since the financial year, indemnified or agreed to indemnify an auditor of the Company or any related body corporate.

REMUNERATION REPORT

The Remuneration Report outlines the director and executive remuneration arrangements of the Company and the group in accordance with the requirements of the Corporations Act 2001 and its Regulations. It also provides the remuneration disclosures required by paragraphs Aus 25.4 to Aus 25.7.2 of AASB 124 Related Party Disclosures, which have been transferred to the Remuneration Report in accordance with Corporations Regulation 2M.6.04. For the purposes of this report Key Management Personnel of the group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the group, directly or indirectly, including any director (whether executive or otherwise) of the parent Company, and includes the five executives in the parent and the group receiving the highest remuneration.

For the purposes of this report, the term 'executive' encompasses the Chief Executive, senior executives, general managers and secretaries of the parent and the group.

The remuneration disclosures set out in the tables on pages 15 to 18 have been audited.

Directors' Report
Continued

Consolidated	Salary & Fees $	Superannuation $	Cash Bonus $	Non-monetary benefits $	Superannuation $	Share-based payment $	Total $	Performance related %
	Short-term employee benefits				Post employment benefits			
2010								
Directors								
Vanda Gould Non-Executive Director	41,200	-	-	-	-	-	**41,200**	0%
David Heaney Non-Executive Director	30,900	-	-	-	-	-	**30,900**	0%
Executive Directors								
John Sharman Non-Executive Director	15,450	-	-	-	-	-	**15,450**	0%
James McBrayer Managing Director	282,798	28,844	-	-	-	14,175	**325,817**	4%
Total Directors' Compensation	**370,348**	**28,844**	**-**	**-**	**-**	**14,175**	**413,367**	**3%**

Consolidated	Short-term employee benefits				Post employment benefits		Total	Performance related
	Salary & Fees $	Superannuation $	Cash Bonus $	Non-monetary benefits $	Superannuation $	Share-based payment $	$	%
2010								
Key Management Personnel								
Nabil Morcos Chief Operating Officer	184,244	18,382	-	-	-	82,000	**284,626**	29%
Gary Somerville Quality and Regulatory Manager	115,768	10,869	-	-	-	-	**126,637**	0%
Graham Phillips Finance Manager	107,603	10,764	-	-	-	-	**118,367**	0%
Charles Buttigieg Sales and Marketing Manager - Australia	126,639	9,233	-	-	-	-	**135,872**	0%
Bjorn Altmann General Manager – Europe	152,644	-	-	-	-	-	**152,644**	0%
Lynn McLauchlin General Manager – Canada	127,722	-	28,500	-	-	-	**156,222**	18%
Total Key Management Personnel's Compensation	**814,620**	**49,248**	**28,500**	**-**	**-**	**82,000**	**974,368**	**11%**
Total Compensation	**1,184,968**	**78,092**	**28,500**	**-**	**-**	**96,175**	**1,387,735**	**9%**

Consolidated	Salary & Fees $	Superannuation $	Cash Bonus $	Non-monetary benefits $	Superannuation $	Share-based payment $	Total $	Performance related %
	Short-term employee benefits				Post employment benefits			
2009								
Directors								
Vanda Gould Non-Executive Director	40,000	-	-	-	-	-	**40,000**	0%
David Heaney Non-Executive Director	30,000	-	-	-	-	-	**30,000**	0%
Executive Directors								
John Sharman[1] Executive Director	75,688	-	-	-	-	10,333	**86,021**	12%
James McBrayer Managing Director	275,000	28,163	37,700	-	-	22,750	**363,613**	17%
Total Directors' Compensation	**420,688**	**28,163**	**37,700**	**-**	**-**	**33,083**	**519,634**	**14%**

1. In 2009 payments of $75,688 were made to VA Consulting Pty Ltd (an entity controlled by Mr Sharman). Of this amount, payments of $60,688 were for his role as litigation case manager and $15,000 for his role as a director.

Consolidated	Short-term employee benefits Salary & Fees $	Superannuation $	Cash Bonus $	Non-monetary benefits $	Post employment benefits Superannuation $	Share-based payment $	Total $	Performance related %
2009								
Key Management Personnel								
Nabil Morcos Chief Operating Officer	181,448	18,130	20,000	-	-	41,000	**260,578**	23%
Gary Somerville Quality and Regulatory Manager	114,011	10,711	5,000	-	-	-	**129,722**	4%
Graham Phillips Finance Manager	101,595	10,043	10,000	-	-	-	**121,638**	8%
Charles Buttigieg Sales and Marketing Manager - Australia	122,800	8,948	5,000	-	-	-	**136,748**	4%
Bjorn Altmann General Manager – Europe	185,409	-	35,316	-	-	-	**220,725**	16%
Lynn McLauchlin General Manager – Canada	143,716	-	22,189	-	-	-	**165,905**	13%
Total Key Management Personnel's Compensation	**848,979**	**47,832**	**97,505**	**-**	**-**	**41,000**	**1,035,316**	**13%**
Total Compensation	**1,269,667**	**75,995**	**135,205**	**-**	**-**	**74,083**	**1,554,950**	**13%**

Remuneration committee

The Remuneration Committee currently comprises Mr Gould, Committee Chairman and Mr Heaney

The Remuneration Committee is responsible for:
- reviewing and approving the remuneration of Directors and other senior executives; and
- reviewing the remuneration policies of the Company generally.

Remuneration philosophy

The performance of the Company depends upon the quality of its Directors and executives. To prosper, the Company must attract, motivate and retain highly skilled Directors and executives.

To this end, the Company embodies the following principles in its remuneration framework:
- provide competitive rewards to attract high calibre executives;
- link executive rewards to shareholder value;
- have a significant portion of executive remuneration 'at risk'; and
- establish appropriate, demanding performance hurdles for variable executive remuneration.

Remuneration structure

In accordance with best practice corporate governance, the structure of non-executive director and executive remuneration is separate and distinct.

Non-executive director remuneration

Objective

The Board seeks to set aggregate remuneration at a level that provides the Company with the ability to attract and retain Directors of the highest calibre, whilst incurring a cost that is acceptable to Shareholders.

Structure

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive Directors shall be determined from time to time by a general meeting. The latest determination was at the Annual General Meeting held in March 2007 when Shareholders approved an aggregate remuneration of $100,000 per year.

The amount of aggregate remuneration sought to be approved by Shareholders and the fee structure is reviewed annually. The Board considers advice from external consultants as well as the fees paid to non-executive Directors of comparable companies when undertaking the annual review process.

Each director receives a fee as set out in the Director and Executive Remuneration Table for being a director of the Company. Directors' fees cover all main Board activities and the membership of committees. There are no additional fees for committee membership. These fees exclude any additional 'fee for service' based on arrangements with the Company, which may be agreed from time to time. Agreed out of pocket expenses are payable in addition to Directors' fees. There is no retirement or other long service benefits that accrue upon appointment to the Board. Retiring non-executive Directors are not currently entitled to receive a retirement allowance.

Executive remuneration

Objective

The Company aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Company so as to:

- reward executives for Company, business unit and individual performance against targets set by reference to appropriate benchmarks;
- align the interests of executives with those of Shareholders; and
- ensure total remuneration is competitive by market standards.

In determining the level and make-up of executive remuneration, the Remuneration Committee engages external consultants as needed to provide independent advice.

The Remuneration Committee has entered into a detailed contract of employment with the Managing Director and a standard contract with other executives. Details of these contracts are provided below.

Remuneration consists of the following key elements:

- Fixed remuneration (base salary, superannuation and non-monetary benefits)
- Variable remuneration
    - short term incentive (STI); and
    - long term incentive (LTI)

The proportion of fixed remuneration and variable remuneration (potential short term and long term incentives) for each executive is set out in the Director and Executive Remuneration Table.

Fixed Remuneration

Objective

Fixed remuneration is reviewed annually by the Remuneration Committee. The process consists of a review of Company, business unit and individual performance, relevant comparative remuneration in the market and internally and, where appropriate, external advice on policies and practices. As noted above, the Committee has access to external advice independent of management.

Structure

Executives are given the opportunity to receive their fixed (primary) remuneration in a variety of forms including cash and fringe benefits. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Group. All forms of executive remuneration are detailed in the Remuneration Report.

Variable remuneration - Short Term Incentive

The objective of the STI is to link the achievement of the Group's operational targets with remuneration received by the executives charged with meeting those targets. The total potential STI available is set at a level so as to provide sufficient incentive to the executive to achieve the operational targets and such that the cost to the Group is reasonable in the circumstances.

Actual STI payments granted to each executive depends on the extent to which specific targets set at the beginning of the year are met. The targets consist of a number of Key Performance Indicators (KPI's) covering both financial and non-financial, corporate and individual measures of performance. Typically included measures are sales, net profit after tax, customer service, risk management and leadership/team contribution. These measures were chosen as they represent the key drivers for short term success of the business and provide a framework for long term value.

The Group has predetermined benchmarks that must be met in order to trigger payments under the STI scheme. On an annual basis, after consideration of performance against KPI's, the Remuneration Committee, in line with their responsibilities, determine the amount, if any, of the short term incentive to be paid to each executive. This process usually occurs within 3 months of reporting date.

The aggregate of annual STI payments available for executives across the Group is subject to the approval of the Remuneration Committee. Payments are delivered as a cash bonus in the following reporting period. Participation in the Short Term Incentive Plan is at the Directors discretion.

Variable remuneration – Long Term Incentive

Long Term incentives are delivered under the Long Term Incentive Plan (LTIP), which is designed to reward sustainable, long-term performance in a transparent manner. Under the LTIP, individuals are granted LTIP shares, which have a two or three year performance period (Term). The number of LTIP Shares is determined by the Board. The number of LTIP shares that an individual will be entitled to at the end of the Term will depend on the extent to which the Hurdle has been met. Performance Hurdles are determined by the Board to align individual performance with the Company's performance.

At the Annual General Meeting held on 8 May 2007, Shareholders approved the Company's Long Term Incentive Plan ("Plan").

The purpose of the Plan is to encourage employees, Directors and officers to share in the ownership of the Company and therefore retain and motivate senior executives to drive performance at both the individual and corporate level. Performance hurdles have been determined by the Board to align individual performance with the Company's key success factors.

Employment contracts

Managing Director

The Managing Director, Mr McBrayer, is employed under a rolling contract. Mr McBrayer's current contract was executed on 13 May 2008. Under the terms of the present contract:

- Mr McBrayer receives fixed remuneration of $300,000 (including superannuation) per annum effective 1 January 2009.
- Each year from 1 January, on 31 December Mr McBrayer may be entitled to receive additional amounts up to a maximum of $50,000 based on achieving certain benchmarks and targets.
- Mr McBrayer may resign from his position and thus terminate this contract by giving 6 months written notice unless a mutually agreeable date can be agreed upon.
- The Company may terminate this employment agreement by providing 6 months written notice or providing payment in lieu of the notice period.
- The Company may terminate the contract at any time without notice if serious misconduct has occurred. Where termination with cause occurs the Managing Director's is only entitled to that portion of remuneration that is fixed, and only up to the date of termination.
- On 3 June 2008, two strictly limited recourse loans were made to Mr McBrayer under the Company's LTIP. The first loan was to enable the purchase of 700,000 shares for a period of 2 years at the price of 25 cents per share. The second loan was to enable the purchase of 700,000 shares for a period of 4 years at the price of 35 cents per share.

Other Executives (standard contracts)

All executives have rolling contracts. The Company may terminate the executive's employment agreement by providing depending on the individuals contract between 1 to 3 months written notice or providing payment in lieu of the notice period. Where termination with cause occurs the executive is only entitled to that portion of remuneration that is fixed, and only up to the date of termination.

DIRECTORS' MEETINGS

The number of meetings of Directors (including meetings of committees of Directors) held during the year and the numbers of meetings attended by each director were as follows:

Director	Cyclopharm Board Meetings		Audit Committee Meetings		Board Nomination Committee		Remuneration Committee Meetings	
	Held by members	Attended	Held by members	Attended	Held by members	Attended	Held by members	Attended
Mr V R Gould	11	11	2	2	-	-	2	2
Mr J S Sharman	11	10	-	-	-	-	-	-
Mr D J Heaney	11	11	2	2	-	-	2	2
Mr J M McBrayer	11	11	-	-	-	-	-	-

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 leave of the Court under section 237 of the Corporations Act 2001.

This report is made and signed in accordance with a resolution of the Directors:

James S McBrayer

James McBrayer
Managing Director and CEO

Sydney, 25 March 2011

Auditor’s Independence Declaration

Russell Bedford
New South Wales

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25 March 2011

The Board of Directors
Cyclopharm Limited
Suite 630, Level 6
1 Queens Road
Melbourne VIC 3004

Dear Directors

AUDITORS INDEPENDENCE DECLARATION
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

We declare that, to the best of our knowledge and belief, during the year ended 31 December 2010, there have been:

- No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- No contraventions of any applicable Code of Professional Conduct in relation to the audit.

Yours faithfully
RUSSELL BEDFORD NSW
Chartered Accountants

GREGORY C RALPH M.Com., F.C.A.
Partner

Corporate Governance

The Directors of Cyclopharm are responsible for the corporate governance of the Cyclopharm Group ("Cyclopharm" or the "Company"). The Board guides and monitors the business and affairs of the Company on behalf of the Shareholders by whom they are elected and to whom they are accountable.

The Company's main corporate governance practices are applicable to all subsidiaries and are summarised below.

1 Compliance with ASX best practice recommendations

The ASX Listing Rules require a statement in a listed Company's Annual Report which discloses the extent to which the ASX 27 best practice recommendations have been followed in the reporting period. As a listed Company, Cyclopharm must identify those recommendations which have not been followed and provide reasons for non-compliance.

This Statement sets out in detail the Company's compliance with the ASX Corporate Governance Council's best practice recommendations.

The Company considers that practices comply with 26 of the ASX best practice recommendations as at 31 December 2010. The Company considers that its recommendations comply with the best practice recommendations, other than recommendation 4.2 an explanation for the departure is provided in this statement in section 3(a). A checklist summarising this is set out in section 8 of this Statement.

2 The Board of Directors

(a) Membership

The Board has a range of relevant financial and other skills, experience and expertise to meet its objectives. The current Board composition, including details of director backgrounds is contained within the Directors Report.

ASX Recommendation 2.6 (refer to best practice summary)

The Company's Constitution requires a minimum of 3 Directors and a maximum of 9 Directors. As at 31 December 2010, there were two non-executive Directors and two executive directors.. The Chairman, Mr Gould, is a non-executive director.

The terms and conditions of appointment and retirement of Directors are set out in the Company's Constitution. The Board believes that its membership should have enough Directors to serve on various committees of the Board without overburdening the Directors or making it difficult for them to fully discharge their responsibilities.

(b) Board role and responsibilities

The Board is responsible to Shareholders and investors for the Group's overall corporate governance.

The Board has established and approved a Board Charter. Under this Charter the Board is responsible for:

- Considering and approving the corporate strategies proposed by the Managing Director and monitoring their implementation;
- Approving, overseeing and monitoring financial and other reporting to Shareholders, investors, employees and other stakeholders of the Company;
- Ensuring that the Company has the appropriate human, financial and physical resources to execute its strategies;
- Appointing and monitoring the performance of, and removing the Managing Director;
- Ratifying the appointment, and where appropriate, the removal of the Chief Financial Officer (or equivalent) and / or Company Secretary;

- Reviewing the effectiveness of the Company's policies and procedures regarding risk management, including internal controls and accounting systems; and
- Ensuring appropriate governance structures are in place including standards of ethical behaviour and a culture of corporate and social responsibility.

ASX Recommendations 1.1, 2.6 (refer to best practice summary)

(c) Chairman

The Chairman, satisfies the requirements for an Independent Chairman under *ASX Recommendations 2.1 and 2.2* as Mr Gould is a non-executive, and has approximately 1.7% of the Shares (Recommendations permit 5%). Mr Gould is the Chairman of CVC Limited, whose subsidiary Stinoc Pty Limited controls 19.45% of the Shares of Cyclopharm. Mr Gould has advised the Board that under the Corporations Act tests he does not control these Shares and therefore has not disclosed them as part of his director's interest. However, given Mr Gould's role as Chairman of CVC Limited and Cyclopharm Limited, Cyclopharm's Board has considered this matter and decided, Mr Gould abstaining from expressing a view, that the Mr Gould's role at CVC Limited does not effect the operation of the Company and that so long as Mr Gould continues to act as he has since his appointment to the Boards of various entities making up the Cyclopharm Group, there is no reason to treat his actions as otherwise than that of an independent, non executive.

The Chairman is elected by the full Board of Directors and is responsible for:

- Leadership of the Board;
- The efficient organisation and conduct of the Board's functions;
- The promotion of constructive and respectful relations between Board members and between the Board and management;
- Contributing to the briefing of Directors in relation to issues arising at Board meetings;
- Facilitating the effective contribution of all Directors; and
- Committing the time necessary to effectively discharge the role of the Chairman.

ASX Recommendation 2.3 (refer to best practice summary)

(d) Independent Directors

The Company recognises that independent Directors are important in assuring Shareholders that the Board is properly fulfilling its role and is diligent in holding senior management accountable for its performance. The Board assesses each of the Directors against specific criteria to decide whether they are in a position to exercise independent judgement.

Directors are considered to be independent if they are independent of management and free from any business or other relationship that could materially interfere with, the exercise of their unfettered and independent judgement. Materiality is assessed on a case-by-case basis by reference to each director's individual circumstances rather than general materiality thresholds.

In assessing independence, the Board considers whether the director has a business or other relationship with the Company, directly or as a partner, shareholder or officer of a Company or other entity that has an interest or a business relationship with the Company or another Cyclopharm group member.

Mr Heaney, Mr Gould and Mr Sharman meet the Recommendations' various tests of independence. Therefore there is a majority of independent non-executive Directors and independent Directors on the Board.

ASX Recommendation 2.1, 2.6 (refer to best practice summary)

(e) Avoidance of conflicts of interest by a director

In accordance with the Corporations Act and the Company's Constitution, Directors must keep the Board advised of any interest that could potentially conflict with those of the Company.

In the event that a conflict of interest may arise, involved Directors must withdraw from all deliberations concerning the matter. They are not permitted to exercise any influence over other Board members further when that matter is being considered the Director may not vote on that matter, in accordance with the *Corporations Act*.

(f) Board Meetings

The Board regularly monitors the operational and financial performance of the Company and the economic entity against budget and other key financial risks. Appropriate risk management strategies are developed to mitigate all identified risks of the business.

The number of times the Board has formerly met and the number of meetings attended by Directors during the financial year are reported in the Directors' Report. The Board Charter dictates that the Board will hold 10 scheduled meetings each year and, other meetings may be held at short notice as required.

(g) Review of Board Performance

The process for conducting the Board's annual performance review was agreed by the Board and was performed by the Chairman of the Board. Matters covered in the annual performance review include:

- The Board's contribution to developing strategy and policy;
- Interaction between the Board and management, and between Board members;
- The Board's processes to monitor business performance and compliance, control risk and evaluate Management;
- Board composition and structure; and
- The operation of the Board, including the conduct of Board meetings, Board Committee meetings and group behaviours.

ASX Recommendation 2.5 (refer to best practice summary)

(h) Nomination and appointment of new Directors

Recommendations for nominations of new Directors are made by the Board Nominations Committee and considered by the Board in full. All current members of the Board are members of the Board Nominations Committee and Mr Gould is Chairman of the Committee. Board membership is reviewed annually by the Committee to ensure the Board has appropriate mix of qualifications, skills and experience. External advisers may be used in this process. Candidates are appointed by the Board and must stand for election at the next general meeting of Shareholders. If a new director is appointed during that year, that person will stand for election by Shareholders at the next annual general meeting. Shareholders are provided with relevant information on the candidates for election. The Nominations Committee reviews appointment criteria from time to time and makes recommendations concerning the re-election of any director by Shareholders.

ASX Recommendations 2.1, 2.4 (refer to best practice summary)

(i) Retirement and re-election of Directors

The Company's Constitution states that one-third of Directors excluding the Managing Director must retire each year. The maximum term that each director can serve in any single term is three years. A director appointed during the year must, under the Constitution, retire at the next annual general meeting. At that meeting, they can stand for re-election. The Board Nominations Committee conducts a peer review of those Directors during the year in which that director will become eligible for re-election.

ASX Recommendation 2.4 (refer to best practice summary)

(j) **Board access to information and advice**

All Directors have unrestricted access to Company records and information and receive regular detailed financial and operational reports from executive management to enable them to carry out their duties. Each Director has the right, subject to prior consultation with the Chairman, to seek independent professional advice at the Company's expense if such advice is essential to the proper discharge of the Director's duties. The Chairman may notify other Directors of the approach with any resulting advice being made available to all other Board members.

ASX Recommendation 2.5 (refer to best practice summary)

3 Board Committees

To assist the Board in fulfilling its duties and responsibilities, it has established the following committees:

- Audit and Risk Committee;
- Board Nominations Committee; and
- Remuneration Committee.

(a) Audit and Risk Committee

The Audit and Risk Committee is governed by its charter, as approved by the Board. The Charter is available within the Corporate Governance section on Cyclopharm's website, at www.cyclopharm.com.au. The Audit and Risk Committee comprises two Directors, both being non-executive Directors. The non-executive Directors are Mr Gould, Chairman of the Audit Committee and Mr Heaney. The qualifications of the committee are located in the Directors Report on page 8. The Audit Committee's responsibilities include:

- Reviewing procedures, and monitoring and advising on the quality of financial reporting (including accounting policies and financial presentation);
- Reviewing the proposed fees, scope, performance and outcome of external audits. However, the auditors are appointed by the Board;
- Reviewing the procedures and practices that have been implemented by management regarding internal control systems;
- Ensuring that management have established and implemented a system for managing material financial and non-financial risks impacting the Company;
- Reviewing the corporate governance practices and policies of the Company; and
- Reviewing procedures and practices for protecting intellectual property ("IP") and aligning IP to strategy.

The Committee does not comply with the requirement to have an independent chairperson, who is not the chairperson of the Board. The Board believes that Mr Gould is the most appropriate person to be elected Chairman of the Committee. The Board does not comply with the ASX requirement to have at least 3 members on the Audit Committee. The Board believes that the experience that Mr Gould and Mr Heaney have in the finance industry adequately mitigates this non-compliance.

The number of times the Audit and Risk Committee has formerly met and the number of meetings attended by Directors during the financial year are reported in the Directors' Report.

The Audit and Risk Committee monitors and reviews:

- The effectiveness and appropriateness of the framework used by the Company for managing operational risk;
- The adequacy of the Company's internal controls including information systems controls an security;
- The adequacy of the process for reporting and responding to significant control and regulatory breaches;
- The effectiveness of the compliance function in ensuring adherence to applicable laws and regulations, including the actioning of legal and regulatory developments which may have a significant impact;
- Operational risk issues;
- Action plans to address control improvement areas.

The Company's Auditor, is requested to attend the Annual General Meeting and to be available to answer Shareholders questions about the conduct of the audit and the preparation and content of the Auditor's Report.

ASX Recommendations 4.2, 4.3, 4.4, 4.5 (refer to best practice summary)

(b) Board Nominations Committee

The Board Nominations Committee is governed by its charter, as approved by the Board. The Charter is available within the Corporate Governance section on Cyclopharm's website, at www.cyclopharm.com.au.

The primary function of the Nominations Committee is performing review procedures to assist the Board in fulfilling its oversight responsibility to Shareholders by ensuring that the Board comprises individuals best able to discharge the responsibilities of Directors having regard to the law and the highest standards of governance. The Committee as delegated by the Board, is responsible for:

- developing and reviewing policies on Board composition, strategic function and size;
- performance review process of the Board, its Committees and individual Directors;
- developing and implementing induction programs for new Directors and ongoing education for existing Directors;
- developing eligibility criteria for nominating Directors;
- recommending appointment of Directors of the Board;
- reviewing director independence; and
- succession planning for the Board.

The number of times the Board Nominations Committee has formerly met and the number of meetings attended by Directors during the financial year are reported in the Directors' Report.

ASX Recommendations 2.4, 2.6 (refer to best practice summary)

(c) Remuneration Committee

The Remuneration Committee is governed by its charter, as approved by the Board. The Charter is available within the Corporate Governance section on Cyclopharm's website, at www.cyclopharm.com.au.

The Remuneration Committee advises the Board on remuneration policies and practices generally, and makes specific recommendations on remuneration packages and other terms of employment for executive Directors, senior executives and non-executive Directors. Each member of the senior executive team signs a formal employment contract at the time of their appointment covering a range of matters including their duties, rights and responsibilities. Executive remuneration and other terms of employment are reviewed annually by the Committee having regard to personal and corporate performance contribution to long-term growth, relevant comparative information and independent expert advice. As well as base salary, remuneration packages may include superannuation and retirement and termination entitlements.

The Remuneration Report, which has been included in the Directors' Report, provides information on the Group's remuneration policies and payment details for Directors and key management personnel.

The number of times the Board Nominations Committee has formerly met and the number of meetings attended by Directors during the financial year are reported in the Directors' Report.

ASX Recommendation 9.2 (refer to best practice summary)

4 Recognising and managing risk

A range of factors and risks some of which are beyond the Company's control can influence performance. The Company has in place a range of procedures to identify, assess and control risks which are reviewed by the Audit and Risk Committee and also by the Board periodically.

(a) Board oversight of the risk management system

The Board is responsible for approving and overseeing the risk management system. The Board reviews, at least annually, the effectiveness of the implementation of the risk management controls and procedures.

The Company recognises four main types of risk:

- Market risk, relates to the risk to earnings from changes in market conditions including economic activity, interest rates, investor sentiment and world events.
- Operational risk, relates to inadequacy of or a failure of internal processes, people or systems or from external events.
- Credit risk, relates to the risk that the other party to a transaction will not honour their obligation; and
- Regulatory risk, relates to the risk that there may be changes to legislation (including but not limited to laws which relate to corporations and taxation) in the future which restricts or limits in some way the Company's activities.

ASX recommendations 7.1, 7.4 (refer to best practice summary)

The Board, based on the recommendations of the Managing Director, Mr McBrayer, makes decisions on investments for the Company. The Board considers that the general retention by it of the power to make the final investment or divestment decision by majority vote provides an effective review of the investment strategy.

A majority of the Directors must approve any modification to the investment parameters applying to the Company's assets. Any proposed major change in investment strategy is first put to Shareholders for their approval.

The Board is also responsible for identifying and monitoring areas of significant business risk. Internal control measures currently adopted by the Board include:

- monthly reporting to the Board in respect of operations and the Company's financial position, with a comparison of actual results against budget; and
- regular reports to the Board by appropriate members of the management team and/or independent advisers, outlining the nature of particular risks and highlighting measures which are either in place or can be adopted to manage or mitigate those risks.

(b) Risk management roles and responsibilities

The Board is responsible for approving and reviewing the Company's risk management strategy and policy. Executive management is responsible for implementing the Board approved risk management strategy and developing policies, controls, processes and procedures to identify an manage risks in all of the Company's activities.

(c) Managing Director and Chief Financial Officer Certification

The Managing Director and Chief Financial Officer (or equivalent) provide to the Board written certification that in all material respects:

- The Company's financial statements present a true and fair view of the Company's financial condition and operational results and are in accordance with relevant accounting standards;
- The statement given to the Board on the integrity of the Company's financial statements is founded on a sound system of risk management, internal compliance and controls which implements the policies adopted by the Board; and
- The Company's risk management, internal compliance and control system is operating efficiently and effectively in all material respects.

ASX recommendations 7.3 (refer to best practice summary)

(d) Internal review and risk evaluation

Assurance is provided to the Board by senior management on the adequacy and effectiveness of management controls for risk.

5 Remuneration

(a) Overview

The Remuneration Committee is responsible for reviewing the compensation arrangements for the Managing Director and other key personnel. The Remuneration Committee is also responsible for reviewing management incentive schemes, superannuation, retirement and termination entitlements, fringe benefits policies, and professional indemnity and liability insurance policies. The nature and amount of each element of the fee or salary of each director and each of the highest-paid officers of the Company are set out in the Remuneration Report on page 13. Non-executive Directors' fees and payments are reviewed annually by the Board. Executive Directors are, subject to the information above, paid in salary or fees.

Mr Heaney and Mr Gould meet the Recommendation's various tests of independence. Therefore there is a majority of independent non-executive Directors on the Remuneration Committee and is chaired by an independent Director.

ASX recommendations 8.1, 8.2, 8.3, 8.4 (refer to best practice summary)

(b) Equity-based key management personnel remuneration

The Long Term Incentive Plan (LTIP) was approved by Shareholders at the Annual General Meeting held on 8 May 2007 in Melbourne. The purpose of the LTIP is to attract, retain and motivate employees and officers of the Company to drive performance at both the individual and corporate level. Any further participation by Directors in the LTIP will require Shareholders approval in accordance with the ASX Listing Rules.

6 Timely and balanced disclosure

The Company believes that all Shareholders should have equal and timely access to material information about the Company including its financial situation, performance, ownership and governance. The Company's market disclosure policy approved by the Board and governs how the Company communicates with Shareholders and the market. Shareholders are encouraged to participate in general meetings.

(a) Market disclosure policy and practices

The Continuous Disclosure and Market Communication Policy is available within the Corporate Governance section on Cyclopharm's website, at www.cyclopharm.com.au.

This policy includes provision for communications by the Company to:

- Be factual and subject to internal vetting and authorisation before issue;
- Be made in a timely manner;
- Not omit material information;
- Be expressed in a clear and objective manner to allow investors to assess the impact of the information when making investment decisions; and

- Be in compliance with ASX Listing Rules continuous disclosure requirements

The policy also contains guidelines on information that may be price sensitive. The Company Secretary has been nominated as the person responsible for communications with the Australian Securities Exchange (ASX). This role includes responsibility for ensuring compliance with the continuous disclosure requirements with the ASX Listing Rules and overseeing and coordinating information disclosure to the ASX.

ASX Recommendations 5.1, 5.2, 6.1 (refer to best practice summary)

(b) Communication strategy

The Company publishes on its website the annual reports, profit announcements, press releases and notices to meeting to encourage shareholder and investor participation in Cyclopharm.

ASX Recommendations 5.1, 6.1 (refer to best practice summary)

7 Ethical and responsible decision-making

(a) Code of Ethics and Conduct

The Board endeavours to ensure that the Directors, officers and employees of Cyclopharm act with integrity and observe the highest standards of behaviour and business ethics in relation to their corporate activities. All officers and employees are expected to:

- comply with the law;
- act in the best interests of the Company;
- be responsible and accountable for their actions; and
- observe the ethical principles of fairness, honesty and truthfulness, including prompt disclosure of potential conflicts.

ASX Recommendations 3.1, 3.2, 3.3, 10.1 (refer to best practice summary)

(b) Policy concerning trading in Company securities

On 19 February 2009, the Board resolved to adopt a new Policy concerning trading in Company securities. An executive, director or relevant employees ('employee') must not trade in any securities of the Company at any time when they are in possession of unpublished, price sensitive information in relation to those securities. An employee should not deal in securities of Cyclopharm without receiving clearance from a Committee comprised of the Managing Director and the Chairman (or in the absence of either of these two directors by any other director) who has ensured that there is no unpublished price sensitive information.

Generally, an employee must not be given clearance to deal in any securities of Cyclopharm during a prohibited period. A 'prohibited period' means:

(a) The period from year end and preliminary announcement of the full year results (usually 1 February to end February);

(b) The period from half year end and preliminary announcement of the half year results (usually 1 August to end August); and

(c) Any other periods advised to employees by the Board (via the Company Secretary).

As required by the ASX Listing Rules, the Company notifies the ASX of any transaction conducted by directors in the securities of the Company.

8 Diversity

The Company publishes on its website its Diversity Policy.

The proportion of women employees within the following three levels:

• Whole organisation	51%
• Senior executive positions	11%
• Board	0%

The Board has set the following objectives which are reviewed annually:

- Establish a Diversity Committee to oversee selection of new board members and senior executives;
- For vacancies at the Board and Senior Management level ensure that a diverse candidate pool and input from a diverse selection pool;
- Where a vacancy arises and the Board exceeds four members select a female candidate; and
- Establish a senior mentoring program overseen by the Managing Director for all female senior managers.

ASX Recommendations 3.2, 3.3 (refer to best practice summary)

8 Checklist for summarising the best practice recommendations and compliance

ASX Principle	Reference	Compliance
Principle 1: Lay solid foundations for management and oversight		
1.1 Formalise and disclose the functions reserved to the board and those delegated to management	2b	comply
1.2 Companies should disclose the process for evaluating the performance of senior executives.	2g, 5a, 5b	comply
1.3 Provide the information indicated in the Guide to reporting on Principle 1.	2a, 2b, 5a, 5b	comply
Principle 2: Structure the board to add value		
2.1 A majority of the board should be independent directors.	2a, 2d, 2h	comply
2.2 The chair should be an independent director	2c	comply
2.3 The roles of chair and managing director should not be exercised by the same individual	2a, 2c	comply
2.4 The board should establish a nomination committee	2h, 2i, 3b	comply
2.5 Companies should disclose the process for evaluating the performance of the board, its committees and individual directors	2g, 3c	comply
2.6 Provide the information in the Guide to reporting on this Principle 2	2a, 2b, 2d, 2j, 3b	comply
Principle 3: Promote ethical and responsible decision-making		
3.1 Companies should establish a code of conduct and disclose the code or a summary of the code as to:	7a	comply
3.1.1 the practices necessary to maintain confidence in the company's integrity		
3.1.2 the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders		
3.1.3 the responsibility and accountability of individuals for reporting and investigating reports of unethical practices		
3.2 Disclose the policy concerning diversity including achieving gender diversity and the board's assessment of achieving its objectives annually.	8	comply
3.3 Provide the information indicated in the Guide to reporting on Principle 3.	7a	comply
Principle 4: Safeguard integrity in financial reporting		
4.1 The board should establish an audit committee	3a	comply
4.2 The audit committee should be structured so that it:	3a	do not comply
4.2.1 consists only of non-executive directors		
4.2.2 consists of a majority of independent directors		
4.2.3 is chaired by an independent chair, who is not the chair of the board		
4.2.4 has at least three members		
4.3 The audit committee should have a formal charter.	3a	comply
4.4 Provide the information in the Guide to reporting on this Principle 4	2a, 3a	comply

8 Checklist for summarising the best practice recommendations and compliance (continued)

Principle 5: Make timely and balanced disclosure		
5.1 Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance	6a	comply
5.2 Provide the information in the Guide to reporting on this Principle 5	6a	comply
Principle 6: Respect the rights of shareholders		
6.1 Design and disclose a communications strategy to promote effective communication with sharholders and encourage participation at general meetings	6a, 6b	comply
6.2 Provide the information indicated in the Guide to reporting on Principle 6.	3a	comply
Principle 7: Recognise and manage risk		
7.1 The board or appropriate board committee should establish policies on risk oversight and management	4a	comply
7.2 The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being effectively managed and disclose that management has reported to it as to the effectiveness of the company's management of business risks.	4a	comply
7.3 The chief executive officer (or equivalent) and chief financial officer (or equivalent) should state to the board in writing that in accordance with section 295A of the Corporations Act:	4c	comply
7.3.1 the statement given in accordance with best practice recommendation 4.1 (the integrity of financial statements) is founded on a sound system of risk management and internal compliance and controls to implement the policies adopted by the board		
7.3.2 the company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects		
7.4 Provide the information in the Guide to reporting on this Principle 7	4a	comply
Principle 8: Remunerate fairly and responsibly		
8.1 The board should establish a remuneration committee	3c, 5a	comply
8.2 Clearly distinguish the structure of non-executive director's remuneration from that of executives	5a	comply
8.3 The remuneration committee should be structured so that it consists of a majority of independent directors, chaired by an independent director and have at least three members.	5a	comply
8.4 Provide the information in the Guide to reporting on this Principle 8	5a	comply

Statement of Comprehensive Income

for the year ended 31 December 2010

	Notes	Consolidated 2010 $	Consolidated 2009 $
CONTINUING OPERATIONS			
Sales revenue	4	9,464,605	11,098,579
Finance revenue		68,972	93,186
Other revenue	4	-	2,403,090
Total revenue		**9,533,577**	**13,594,855**
Cost of materials and manufacturing	4a	(2,308,992)	(2,546,484)
Employee benefits expense	4e	(2,957,231)	(3,537,984)
Advertising and promotion expense		(238,646)	(271,165)
Depreciation and amortisation expense	4c	(350,546)	(450,229)
Freight and duty expense		(342,666)	(384,682)
Research and development expense	4d	(16,847)	(39,728)
Administration expense	4f	(1,663,503)	(2,875,245)
Other expenses	4g	(337,067)	(784,334)
Share of loss of an associate	11	(311,372)	-
Profit / (loss) before tax and finance costs		**1,006,707**	**2,705,004**
Finance costs	4b	(198,299)	(137,503)
Profit / (loss) before income tax		**808,408**	**2,567,501**
Income tax expense	5	(358,302)	(523,011)
Net profit for the year		**450,106**	**2,044,490**
Other comprehensive income after income tax			
Exchange differences on translating foreign controlled entities		(708,770)	(1,363,434)
Total comprehensive (loss) / income for the year		**(258,664)**	**681,056**
Earnings per share (cents per share)	6	**cents**	**cents**
-basic earnings per share for continuing operations		0.26	1.20
-basic earnings per share		0.26	1.20
-diluted earnings per share		0.26	1.20

The Statement of Comprehensive Income is to be read in conjunction with the notes to the financial statements.

Statement of Financial Position

as at 31 December 2010

cyclopharm
Nuclear Medicine

	Notes	Consolidated 2010 $	Consolidated 2009 $
Assets			
Current Assets			
Cash and cash equivalents	7	1,541,644	4,612,205
Trade and other receivables	8	4,295,487	4,281,369
Inventories	9	2,546,867	3,242,992
Other assets		25,490	33,227
Total Current Assets		**8,409,488**	**12,169,793**
Non-current Assets			
Inventories	9	702,000	-
Trade and other receivables	8	161,500	-
Property, plant and equipment	10	10,059,528	5,052,951
Investments in associate	11	188,231	-
Intangible assets	12	2,621,152	2,421,667
Total Non-current Assets		**13,732,411**	**7,474,618**
Total Assets		**22,141,899**	**19,644,411**
Liabilities			
Current Liabilities			
Trade and other payables	13	1,082,492	1,900,153
Interest bearing loans and borrowings	14	6,078,300	1,757,350
Provisions	15	499,283	498,283
Tax liabilities	5	318,850	174,039
Total Current Liabilities		**7,978,925**	**4,329,825**
Non-current Liabilities			
Interest bearing loans and borrowings	14	24,453	975,900
Provisions	15	27,710	42,741
Deferred tax liabilities	5	344,657	367,304
Total Non-current Liabilities		**396,820**	**1,385,945**
Total Liabilities		**8,375,745**	**5,715,770**
Net Assets		**13,766,154**	**13,928,641**
Equity			
Contributed equity	16	11,088,908	11,088,908
Employee equity benefits reserve	23	314,149	217,972
Foreign currency translation reserve		(1,543,224)	(834,454)
Retained Profits / (Accumulated losses)		3,906,321	3,456,215
Total Equity		**13,766,154**	**13,928,641**

The Statement of Financial Position is to be read in conjunction with the notes to the financial statements.

Statement of Cash Flows
for the year ended 31 December 2010

	Notes	Consolidated 2010 $	2009 $
Operating activities			
Receipts from customers		9,458,224	14,569,018
Payments to suppliers and employees		(9,183,719)	(10,641,452)
Interest received		68,972	93,186
Borrowing costs paid		(198,299)	(137,503)
Income tax paid		(236,138)	(192,216)
Net cash flows (used) / from operating activities	7	**(90,960)**	**3,691,033**
Investing activities			
Investment in associate		(500,000)	-
Purchase of property, plant and equipment		(5,470,211)	(2,732,029)
Payments for deferred expenditure		(247,897)	(364,836)
Net cash flows (used in) investing activities		**(6,218,108)**	**(3,096,865)**
Financing activities			
Proceeds from borrowings		3,743,603	-
Repayment of borrowings		(374,100)	-
Net cash flows from financing activities		**3,369,503**	**-**
Net increase / (decrease) in cash and cash equivalents		**(2,939,565)**	**594,168**
Cash and cash equivalents			
- at beginning of the period		**4,612,205**	**4,206,271**
- net foreign exchange differences from translation of cash and cash equivalents		(130,996)	(188,234)
- at end of the period	7	**1,541,644**	**4,612,205**

The Statement of Cash Flows is to be read in conjunction with the notes to the financial statements.

Statement of Changes in Equity
for the year ended 31 December 2010

CONSOLIDATED	Share capital $	Other Contributed Equity $	Total Contributed Equity $	Accumulated Profits $	Foreign Currency Translation Reserve $	Employee Equity Benefits Reserve $	Attributable to Equity Holders of the Parent $	Total $
Balance at 1 January 2009	**16,422,066**	**(5,295,657)**	**11,126,409**	**1,411,725**	**528,980**	**143,689**	**13,210,803**	**13,210,803**
Cost of share based payments	-	-	-	-	-	74,283	74,283	74,283
Other comprehensive income	-	-	-	-	(1,363,434)	-	(1,363,434)	(1,363,434)
Total income (expense) for the year recognised directly in equity	-	-	-	-	(1,363,434)	74,283	(1,289,151)	(1,289,151)
Profit for the year	-	-	-	2,044,490	-	-	2,044,490	2,044,490
Total income (expense) for the year	**-**	**-**	**-**	**2,044,490**	**(1,363,434)**	**74,283**	**755,339**	**755,339**
Other	-	(37,501)	(37,501)	-	-	-	(37,501)	(37,501)
Balance at						-		
31 December 2009	**16,422,066**	**(5,333,158)**	**11,088,908**	**3,456,215**	**(834,454)**	**217,972**	**13,928,641**	**13,928,641**
Balance at 1 January 2010	**16,422,066**	**(5,333,158)**	**11,088,908**	**3,456,215**	**(834,454)**	**217,972**	**13,928,641**	**13,928,641**
Cost of share based payments	-	-	-	-	-	96,177	96,177	96,177
Other comprehensive income	-	-	-	-	(708,770)	-	(708,770)	(708,770)
Total income (expense) for the year recognised directly in equity	-	-	-	-	(708,770)	96,177	(612,593)	(612,593)
Profit for the year	-	-	-	450,106	-	-	450,106	450,106
Total income (expense) for the year	**-**	**-**	**-**	**450,106**	**(708,770)**	**96,177**	**(162,487)**	**(162,487)**
Balance at 31 December 2010	**16,422,066**	**(5,333,158)**	**11,088,908**	**3,906,321**	**(1,543,224)**	**314,149**	**13,766,154**	**13,766,154**

The Statement of Changes in Equity is to be read in conjunction with the notes to the financial statements.

1. CORPORATE INFORMATION

The financial report of Cyclopharm Limited ("Cyclopharm" or the Company") for the year ended 31 December 2010 was authorised for issue by a resolution of the Directors

Cyclopharm is a Company limited by shares incorporated and domiciled in Australia. The shares are publicly traded on the Australian Securities Exchange ("ASX").

During the year the principal continuing activities of the consolidated entity consisted of the manufacture and sale of medical equipment and radiopharmaceuticals, including associated research and development.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards. The financial report has been prepared on a historical cost basis.

The financial report is presented in Australian dollars.

There are no changes to accounting policies applicable for the financial year ended 31 December 2010 for the Company and the consolidated entity.

b) Statement of compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards ('AIFRS'). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards ('IFRS').

New accounting standards and interpretations not yet adopted

The AASB has issued new, revised and amended standards and interpretations that have mandatory application dates for future reporting periods. The Group has decided against early adoption of these standards. A discussion of those future requirements and their impact on the Group follows:

AASB 9: Financial Instruments and AASB 2009–11: Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12] (applicable for annual reporting periods commencing on or after 1 January 2013).

These Standards are applicable retrospectively and amend the classification and measurement of financial assets. The Group has not yet determined potential impact on the financial statements.

The changes made to accounting requirements include:

- simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;
- simplifying the requirements for embedded derivatives;
- removing the tainting rules associated with held-to-maturity assets;
- allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument; and
- requiring financial assets to be reclassified where there is a change in an entity's business model as they are initially classified based on: (a) the objective of the entity's business model for managing the financial assets; and (b) the characteristics of the contractual cash flows.

AASB 1053: Application of Tiers of Australian Accounting Standards and AASB 2010–2: Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements [AASB 1, 2, 3, 5, 7, 8, 101, 102, 107, 108, 110, 111, 112, 116, 117, 119, 121, 123, 124, 127, 128, 131, 133, 134, 136, 137, 138, 140, 141, 1050 & 1052 and Interpretations 2, 4, 5, 15, 17, 127, 129 & 1052] (applicable for annual reporting periods commencing on or after 1 July 2013).

AASB 1053 establishes a revised differential financial reporting framework consisting of two tiers of financial reporting requirements for those entities preparing general purpose financial statements:

Tier 1: Australian Accounting Standards; and

Tier 2: Australian Accounting Standards — Reduced Disclosure Requirements.

This Standard deems the Group to be a Tier 1 entity and hence there is no accounting impact to be considered going forward.

AASB 2009–10: Amendments to Australian Accounting Standards — Classification of Rights Issues [AASB 132] (applicable for annual reporting periods commencing on or after 1 February 2010).

This Standard clarifies that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all existing owners of the same class of its own non-derivative equity instruments. The amendments are not expected to have significant impact on the Group.

AASB 2009–12: Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052] (applicable for annual reporting periods commencing on or after 1 January 2011).

This Standard makes a number of editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRSs by the IASB. The Standard also amends AASB 8 to require entities to exercise judgment in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures.

The amendments are not expected to impact the Group.

AASB 2009–13: Amendments to Australian Accounting Standards arising from Interpretation 19 [AASB 1] (applicable for annual reporting periods commencing on or after 1 July 2010).

This Standard makes amendments to AASB 1 arising from the issue of Interpretation 19. The amendments allow a first-time adopter to apply the transitional provisions in Interpretation 19.

This Standard is not expected to impact the Group.

AASB 2009–14: Amendments to Australian Interpretation — Prepayments of a Minimum Funding Requirement [AASB Interpretation 14] (applicable for annual reporting periods commencing on or after 1 January 2011).

This Standard amends Interpretation 14 to address unintended consequences that can arise from the previous accounting requirements when an entity prepays future contributions into a defined benefit pension plan. This Standard is not expected to impact the Group.

AASB 2010–3: Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 3, AASB 7, AASB 121, AASB 128, AASB 131, AASB 132 & AASB 139] (applicable for annual reporting periods commencing on or after 1 July 2010).

- requiring that recognition and/or adjustment of contingent consideration for acquisitions preceding 1 July 2009 be recognised against the cost of acquisition
- clarifying the accounting for replacement share-based payments awarded to the acquiree's employees as part of the cost of the combination service, or in the case of non-replaced and

unvested share-based payments of the acquiree that do not form part of the exchange, an allocation to both the cost of acquisition and post-combination services on the basis of a market-based measure; and
- making sundry transitional amendments to various Standards

This Standard is not expected to impact the Group.

AASB 2010–4: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101 & AASB 134 and Interpretation 13] (applicable for annual reporting periods commencing on or after 1 January 2011).

This Standard details numerous non-urgent but necessary changes to Accounting Standards arising from the IASB's annual improvements project. Key changes include:

- clarifying the application of AASB 108 prior to an entity's first Australian-Accounting-Standards financial statements;
- adding an explicit statement to AASB 7 that qualitative disclosures should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments;
- amending AASB 101 to the effect that disaggregation of changes in each component of equity arising from transactions recognised in other comprehensive income is required to be presented, but is permitted to be presented in the statement of changes in equity or in the notes;
- adding a number of examples to the list of events or transactions that require disclosure under AASB 134; and
- making sundry editorial amendments to various Standards and Interpretations.

This Standard is not expected to impact the Group.

AASB Interpretation 19: Extinguishing Financial Liabilities with Equity Instruments (applicable for annual reporting periods commencing from1 July 2010).

This Interpretation deals with how a debtor would account for the extinguishment of a liability through the issue of equity instruments. The Interpretation states that the issue of equity should be treated as the consideration paid to extinguish the liability, and the equity instruments issued should be recognised at their fair value unless fair value cannot be measured reliably, in which case they shall be measured at the fair value of the liability extinguished. The Interpretation deals with situations where either partial or full settlement of the liability has occurred. This Interpretation is not expected to impact the Group.

The Group does not anticipate early adoption of any of the above reporting requirements and does not expect these requirements to have any material effect on the Group's financial statements.

c) Basis of consolidation

The consolidated financial statements comprise the financial statements of Cyclopharm and its subsidiaries as at 31 December each year ('the Group').

Subsidiaries

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which Cyclopharm has control.

The financial statements of subsidiaries are prepared for the same reporting period as the parent Company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Transactions eliminated on consolidation

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

The Directors have identified that the business combination, encompassing the restructure of the Cyclopharm Group that occurred in May 2006 constituted a reverse acquisition as defined under *AASB3 Business Combinations*. Accordingly the consolidated financial statements have been issued under the name of the new legal parent, Cyclopharm, but reflect a continuation of the financial statements of the economic entity that existed prior to the business combination/reorganisation.

For business combinations involving entities under common control, which are outside the scope of *AASB 3 Business Combinations*, the Company applies the purchase method of accounting by the legal parent.

d) Foreign currency translation

Functional and presentation currency

The functional currency of each of the group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars (AUD $) which is the parent entity's functional and presentation currency.

Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items that are measured in terms of 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 when the fair value was determined.

Exchange differences arising on the translation of monetary items are recognised in the Statement of Comprehensive Income, except where deferred in equity as a qualifying cash flow or net investment hedge. On disposal of a foreign entity the deferred cumulative amount in equity is recognised in the Statement of Comprehensive Income.

Group companies

The functional currency of the overseas subsidiaries Cyclomedica Ireland Limited, Cyclomedica Germany GmbH, Cyclomedica Europe Limited, is European Euro (Euro €) and Cyclomedica Canada Limited is Canadian dollars (CAN $).

The financial results and position of foreign operations whose functional currency is different from the group's presentation currency are translated as follows:

- Assets and liabilities are translated at year-end exchange rates prevailing at that reporting date.
- Income and expenses are translated at the average exchange rates for the period.
- Retained profits are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on the translation of foreign operations are transferred directly to the group's foreign currency translation reserve in the Statement of Financial Position. These differences are recognised in the Statement of Comprehensive Income in the period in which the entity is disposed. 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 Comprehensive Income.

e) Income tax

Income tax on the profit and loss for the year comprises current and deferred tax. Income tax is recognised in the Statement of Comprehensive Income, except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted as at the end of the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the Statement of Financial Position liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted as at the end of the reporting date and are expected to apply when the deferred tax asset is realised or the deferred tax liability is settled. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Tax consolidation

The Company is the head entity of the tax consolidated group comprising all the Australian wholly owned subsidiaries. The implementation date for the tax consolidated group was 31 May 2006, Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax consolidated group are recognised in the separate financial statements of the members of the tax consolidated group using a "stand alone basis without adjusting for intercompany transactions" approach by reference to the carrying amounts of assets and liabilities in the separate financial statements of each entity and the tax values applying under consolidation.

Any current tax Australian liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries is assumed by the head entity in the tax consolidated group and are recognised as amounts payable (receivable) to (from) other entities in the tax consolidated group. Any difference between these amounts is recognised by the head entity as an equity contribution or distribution.

The Company recognises deferred tax assets arising from unused tax losses of the tax consolidated group to the extent that it is probable that future taxable profits of the tax consolidated group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

f) Property, plant and equipment

Plant and equipment is measured at cost less accumulated depreciation and impairment losses.

The cost of fixed assets constructed within the economic entity includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be reliably. All other repairs and maintenance are charged to the Statement of Comprehensive Income during the financial period in which they are incurred.

Certain expenditure in establishing and commissioning Cyclopharm's PET central Pharmacies has been capitalised. No impairment provision has been deemed appropriate. The Directors are satisfied that the future economic benefits will eventuate to justify the capitalisation of the expenditure incurred.

Impairment

The carrying amount of plant and equipment is reviewed annually by Directors to consider impairment. 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 present values in determining recoverable amounts.

Depreciation

The depreciable amount of all fixed assets including capitalised lease assets are depreciated on a straight-line basis over their useful lives commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

	Basis	**Method**
Plant and equipment	10-33%	Straight-line method
Leasehold Land and Buildings	2.5%	Straight-line method
Leasehold Improvements	20-50%	Straight-line method
Motor vehicles	20-25%	Straight-line method

	New Patents and licences	**Technegas Development costs**
Useful lives	Patents - Finite	Finite
Method used	8 years - Straight line	8 years - Straight line
Internally generated / Acquired	Acquired	Internally generated
Impairment test / Recoverable Amount testing	Annually and where an indicator of impairment exists	Amortisation method reviewed at each financial year-end; Reviewed annually for indicator of

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the Statement of Comprehensive Income in the year the item is derecognised.

g) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in the Statement of Comprehensive Income in the year in which they are incurred.

Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs incurred in connection with arrangement of borrowings, foreign exchange losses net of hedged amounts on borrowings, including trade creditors and lease finance charges.

h) Intangibles

Intangible assets

Intangible assets acquired separately are capitalised at cost and from a business combination are capitalised at fair value as at the date of acquisition. Following initial recognition, the cost model is applied to the class of intangible assets.

The useful lives of these intangible assets are assessed to be either finite or indefinite. Where amortisation is charged on assets with finite lives, this expense is taken to the Statement of Comprehensive Income through the 'depreciation and amortisation' line item.

Intangible assets, excluding development costs, created within the business are not capitalised and expenditure is charged against profits in the year in which the expenditure is incurred.

Intangible assets are tested for impairment where an indicator of impairment exists, and in the case of indefinite life intangibles, annually, either individually or at the cash generating unit level. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

Research and development costs
Expenditure on research activities is recognised as an expense when incurred.

Expenditure on development activities is capitalised only when it is probable that future benefits will exceed deferred costs and these benefits can be reliably measured. Capitalised development expenditure is stated at cost less accumulated amortisation. Amortisation is calculated using a straight-line method to allocate the costs over a period during which the related benefits are expected to be realised.

Expenditure on the development of the TechnegasPlus generator has been capitalised. A useful life of 8 years has been applied and amortisation for the year included in the Statement of Comprehensive Income. No impairment provision has been deemed appropriate. The Directors are satisfied that the future economic benefits will eventuate to justify the capitalisation of the expenditure incurred.

Expenditure on costs incurred in the application to the Food & Drug Administration authority have been capitalised. A useful life has not been determined as Cyclopharm have not yet received approval from the Food & Drug Administration authority. In 2009, $691,705 was written off the capitalised costs following the settlement of a claim against Clinquest Inc. No impairment provision has been deemed necessary at balance date. The Directors are satisfied that the future economic benefits will eventuate to justify the carrying value of the capitalised expenditure.

Development expenditure is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired. Capitalised development expenditure is measured at cost less any accumulated amortisation and impairment losses.

i) Inventories

Inventories are valued at the lower of cost and net realisable value where net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Costs incurred in bringing each product to its present location and conditions are accounted for as follows:

- Raw materials: purchase cost on a first-in, first-out basis;
- Finished goods and work-in-progress: cost of direct materials and labour and an appropriate portion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

j) Trade and other receivables

Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. A specific estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

k) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held at call with banks, short-term deposits with an original maturity of three months or less and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the Statement of Financial Position. For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

l) Trade and other payables

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. Trade payables are normally settled within 30 to 60 days.

m) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs and any discount or premium on settlement. Gains and losses are recognised in the Statement of Comprehensive Income when the liabilities are derecognised and as well as through the amortisation process.

n) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of past events, for which it is probable that an outflow of economic benefits will result and that an outflow can be reliably measured. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Statement of Comprehensive Income net of any reimbursement.

o) Employee entitlements

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave and long service leave.

Employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled plus related on-costs. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the market yield as at the reporting date on national government bonds, which have terms to maturity approximating the terms of the related liability, are used.

Employee benefit expenses and revenues arising in respect of wages and salaries, non-monetary benefits, annual leave, long service leave and other leave benefits; and other types of employee benefits are recognised against profits on a net basis in their respective categories.

p) Employee share and performance share schemes

The fair value of performance rights issued under the Cyclopharm Long Term Incentive Plan are recognised as a personnel expense over the vesting period with a corresponding increase in Employee Equity Benefits Reserve.

The fair value of performance the implied option attached to shares granted is determined using a pricing model that takes into account factors that include exercise price, the term of the performance option, the vesting and performance criteria, the share price at grant date and the expected price volatility of the underlying share. The fair value calculation excludes the impact of any non market vesting conditions. Non market vesting conditions are included in assumptions about the number of performance options that are expected to become exercisable. At each balance date, the entity revises its estimate of the number of performance rights that are expected to become exercisable. The personnel expense recognised each period takes into account the most recent estimate.

Shares issued under employee and executive share plans are held in trust until vesting date. Unvested shares held by the trust are consolidated into the group financial statements.

q) Leases

Finance Leases

Leases of fixed assets where substantially all the risks and benefits, incidental to the ownership of the asset, but not the legal ownership are transferred to entities in the consolidated group, are classified as finance leases.

Operating Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the Statement of Comprehensive Income on a straight-line basis over the lease term. Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease.

r) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Revenue is recognised (net of returns, discounts and allowances) when the significant risks and rewards of ownership and therefore control of the goods have passed to the buyer and can be measured reliably. Control is considered to have passed to the buyer at the time of delivery of the goods to the customer.

Interest

Revenue is recognised as the interest accrues using the effective interest rate method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Research and development grants

Where a grant is received relating to research and development costs that have been expensed, the grant is recognised as revenue.

All revenue is stated net of the amount of goods and services tax (“GST”).

s) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except where the GST incurred is not recoverable from the Australian Taxation Office (“ATO”), and is therefore recognised as part of the asset’s cost or as part of the expense item. Receivables and payables are stated inclusive of GST. The net amount of GST recoverable from, or payable to, the ATO is included as part of receivables or payables in the Statement of Financial Position. Cash flows are presented in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to the taxation authority are classified as operating cash flows.

t) Financial instruments

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

Financial assets at fair value through profit and loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term, or if so designated by management and within the requirement of AASB139: Recognition and Measurement of Financial Instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

De-recognition of financial instruments

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration received that the Group could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Impairment of financial assets

The Group assesses at each Statement of Financial Position date whether a financial asset or group of financial assets is impaired.

Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through use of an allowance account. The amount of the loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value (because its fair value cannot be reliably measured), or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset.

u) Contributed equity

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Other contributed equity

In accordance with *UIG 1052 Tax Consolidation Accounting*, additional contributed equity was recorded to recognise the transfer of tax liabilities from Vita Medical Limited to Vita Life Sciences Limited, being the parent of the Australian tax consolidated group at the relevant time. This event occurred prior to Cyclopharm acquiring its interests in the net assets of Vita Medical Limited.

As part of the restructure a subsidiary of Cyclopharm, Vita Medical Australia Pty Ltd acquired all the assets, liabilities and business from Vita Medical Limited, the former group parent.

With effect from 31 May 2006, Cyclopharm also acquired 100% of the other group operating subsidiaries from the ultimate holding company, Vita Life Sciences Limited. Accordingly, the group comprises Cyclopharm and the following wholly owned subsidiaries:

- Cyclomedica Australia Pty Ltd (formerly Vita Medical Australia Pty Ltd)
- Cyclomedica Ireland Ltd (formerly Vitamedica Europe Ltd)
- Cyclomedica Europe Ltd
- Cyclomedica Canada Limited (formerly Vita Medical Canada Ltd)
- Cyclomedica Germany GmbH
- Allrad 28 Pty Ltd
- Allrad 29 Pty Ltd

These entities collectively comprise the medical diagnostic equipment and associated consumables business formerly operated as the Vita Medical Group – now known as the Cyclopharm Group. The transaction has been accounted for as a 'reverse acquisition' as defined in *AASB 3 Business Combinations* whereby Cyclopharm is the legal parent and Cyclomedica Australia Pty Limited is the financial parent, which for accounting purposes is deemed to be the acquirer.

The consideration for the minority interests of the controlled entities and costs of acquisition have been charged to other contributed equity in accordance with *AASB 127 Consolidated and Separate Financial Statements*.

v) Earnings per share

Basic earnings per share

Basic earnings per share is determined by dividing the net profit/(loss) after income tax attributable to members of the Company by the weighted average number of ordinary shares outstanding during the financial year. Where a change in the number of ordinary shares on issue without a corresponding change in recognised resources during the year the number of ordinary shares for all periods presented are correspondingly adjusted as if the event had occurred at the beginning of the earliest period presented.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares. Where a change in the number of ordinary shares on issue without a corresponding change in recognised resources during the year the number of ordinary shares for all periods presented are correspondingly adjusted as if the event had occurred at the beginning of the earliest period presented.

w) Critical Accounting Estimates and Judgments

The directors evaluate estimates and judgments incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

Management has identified the following critical accounting policies for which significant judgments, estimates and assumptions are made. Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

Key estimates and judgements

(i) Capitalised development costs

Development costs are only capitalised by the Group when it can be demonstrated that the technical feasibility of completing the intangible asset is valid so that the asset will be available for use or sale.

(ii) Impairment

The Group assess impairment at the end of each reporting period by evaluating conditions and events specific to the Group that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value-in-use calculations which incorporate various key assumptions.

3. SEGMENT REPORTING

The Group's primary segment reporting format is business segments as the Group's risks and returns are affected predominantly by differences in the products and services produced. The Group's secondary segment is geographical.

The operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

The Technegas segment is a supplier of diagnostic equipment and consumables used by physicians in the detection of pulmonary embolism.

The Molecular Imaging segment will produce radiopharmaceuticals to be used by physicians in the detection of cancer, neurological disorders and cardiac disease.

Transfer prices between business segments are set on an arm's length basis in a manner similar to transactions with third parties. Segment revenue, segment expense and segment result include transfers between business segments. Those transfers are eliminated on consolidation.

Business segments

The tables under the heading business segments present revenue and profit information and certain asset and liability information regarding business segments for the years ended 31 December 2010 and 31 December 2009.

Geographical segments

The tables under the heading geographical segment present revenue and profit information and certain asset and liability information regarding geographical segments for the years ended 31 December 2010 and 31 December 2009.

3. SEGMENT REPORTING (continued)

Business Segments

For the period ended 31 December 2010	Consolidated Technegas $	Molecular Imaging $	Total $
Revenue			
Sales to external customers	9,442,763	21,842	9,464,605
Finance revenue	63,802	5,170	68,972
Total revenue	**9,506,565**	**27,012**	**9,533,577**
Result			
Segment net profit from continuing operations before tax	**1,989,865**	**(519,539)**	**1,470,326**
Depreciation and amortisation	(317,072)	(33,474)	(350,546)
Share of loss of an associate	-	(311,372)	(311,372)
Profit / (Loss) before income tax	**1,672,793**	**(864,385)**	**808,408**
Assets and liabilities			
Segment assets	10,603,331	11,538,568	22,141,899
Segment liabilities	(3,152,832)	(5,222,913)	(8,375,745)

3. SEGMENT REPORTING (continued)

Business Segments

For the period ended 31 December 2009	Technegas $	Consolidated Molecular Imaging $	Total $
Revenue			
Sales to external customers	11,098,579	-	11,098,579
Finance revenue	22,285	70,901	93,186
Other revenue	2,403,090	-	2,403,090
Total revenue	**13,523,954**	**70,901**	**13,594,855**
Result			
Segment net profit from continuing operations before tax	**3,960,190**	**(250,755)**	**3,709,435**
Depreciation and amortisation	(450,229)	-	(450,229)
Impairment w rite dow ns	(691,705)	-	(691,705)
Profit / (Loss) before income tax	**2,818,256**	**(250,755)**	**2,567,501**
Assets and liabilities			
Segment assets	13,452,842	6,191,569	19,644,411
Segment liabilities	(3,583,244)	(2,132,526)	(5,715,770)

Notes
Continued

Geographical Segments

For the year ended 31 December 2010	Asia Pacific $	Europe $	Canada $	Other $	Total $
Revenue					
Sales to external customers	2,280,115	5,487,463	1,598,679	98,348	9,464,605
Finance revenue	59,832	9,140	-	-	68,972
Total segment revenue	**2,339,947**	**5,496,603**	**1,598,679**	**98,348**	**9,533,577**
Assets and liabilities					
Segment assets	17,282,538	4,075,722	783,639	-	22,141,899
Segment liabilities	(7,985,879)	(255,157)	(134,709)	-	(8,375,745)

		Consolidated			
For the year ended 31 December 2009	**Asia Pacific $**	**Europe $**	**Canada $**	**Other $**	**Total $**
Revenue					
Sales to external customers	1,886,030	7,309,497	1,734,492	168,560	11,098,579
Finance revenue	89,994	3,192	-	-	93,186
Other revenue	2,403,090	-	-	-	2,403,090
Total segment revenue	**4,379,114**	**7,312,689**	**1,734,492**	**168,560**	**13,594,855**
Assets and liabilities					
Segment assets	13,858,482	5,210,112	575,817	-	19,644,411
Segment liabilities	(5,082,328)	(531,659)	(101,783)	-	(5,715,770)

4. REVENUES AND EXPENSES

	Notes	Consolidated 2010 $	2009 $
Revenue			
Sales revenue		9,464,605	11,098,579
Finance revenue		68,972	93,186
Other Revenue			
Realised foreign exchange gains		-	389,249
Clinquest settlement proceeds		-	2,013,841
Total other revenue		-	2,403,090
Expenses			
a) Cost of materials and manufacturing			
Cost of materials and manufacturing		2,308,992	2,546,484
b) Finance costs			
Interest paid on loans from external parties		198,299	137,503
c) Depreciation and amortisation			
Depreciation of plant and equipment		291,220	398,671
Depreciation of leasehold improvements		10,914	6,241
Amortisation of intangibles		48,412	45,317
		350,546	450,229
d) Research & development			
Research and development expense		16,847	39,728
		16,847	39,728
e) Employee benefits expense			
Salaries and wages		2,698,471	3,307,153
Non-Executive Director fees and consultant costs		162,583	156,548
Share-based payments expense	23a	96,177	74,283
		2,957,231	3,537,984
f) Administration expense			
Legal and professional costs		543,391	1,581,287
Office and facility costs		662,997	736,873
Travel and motor vehicle costs		457,115	557,085
		1,663,503	2,875,245
g) Other expenses			
Writedown of capitalised FDA development cost		-	691,705
Other		337,067	92,629
		337,067	784,334

5. INCOME TAX

	Consolidated 2010 $	Consolidated 2009 $
Current income tax (expense) / benefit	(242,522)	(563,249)
Deferred tax (expense) / benefit	(115,780)	40,238
Income tax reported in income statement	**(358,302)**	**(523,011)**

A reconciliation of income tax benefit / (expense) applicable to accounting profit before income tax at the statutory income tax rate to income tax expense at the Group's effective income tax rate is as follows:

	2010 $	2009 $
Accounting profit / (loss) before income tax	**808,408**	**2,567,501**
Statutory income tax rate of 30%	(242,522)	(770,250)
Expenditure not allowable for income tax purposes	(1,208)	(1,218)
Share based payments for which no deduction is obtained	(28,853)	(22,285)
Deferred expenditure	(146,089)	-
Effects of lower rates on overseas income	39,254	207,001
Tax losses not recognised in foreign subsidiaries	21,116	63,741
Total income tax (expense) / benefit	**(358,302)**	**(523,011)**
Effective income tax rate	(44.3%)	(20.4%)
Current tax liabilities		
Current income tax liability	**318,850**	**174,039**
Deferred tax assets/liabilties		
Deferred tax assets and liabilities relate to the following:		
Deferred tax assets from temporary differences on:		
Provisions	223,418	154,629
Tax losses applied in current year	(475,955)	(447,450)
Tax losses of parent entity brought to account	413,273	384,768
Tax losses / (payable) transferred from Australian subsidiaries	62,682	(117,850)
Adjustment to recognise deferred tax asset arising from share issue costs	48,389	25,901
Transfer to deferred tax liability	(365,219)	-
Investment accounted for using equity method	93,412	-
Other	-	2
Total deferred tax assets	**-**	**-**
Deferred tax liabilities from temporary differences on:		
Capitalised expenditure	709,876	367,304
Transfer to deferred tax assets	(365,219)	-
Total deferred tax liabilities	**344,657**	**367,304**

6. NET TANGIBLE ASSETS AND EARNINGS PER SHARE

Net Tangible Assets per share

	Consolidated	
	2010	**2009**
	$	**$**
Net assets per share	0.08	0.08
Net tangible assets per share	0.07	0.07
	Number	**Number**
Weighted average number of ordinary shares for net assets per share	171,012,616	171,012,616
	2010	**2010**
	$	**$**
Net assets	13,766,154	13,928,641
Net tangible assets	11,145,002	11,506,974

Earnings per share

	Consolidated	
	2010	**2009**
	cents	**cents**
Basic earnings per share for continuing operations	0.26	1.20
Basic earnings per share	0.26	1.20
Diluted earnings per share	0.26	1.20
	Number	**Number**
Weighted average number of ordinary shares for basic and diluted earnings per share	171,012,616	171,012,616
	2010	**2010**
	$	**$**
Earnings used to calculate basic earnings per share	450,106	2,044,490
Earnings used to calculate diluted earnings per share	450,106	2,044,490

7. CASH AND CASH EQUIVALENTS

	Consolidated 2010 $	Consolidated 2009 $
Cash at bank and in hand	1,541,644	4,612,205
Total cash and cash equivalents	**1,541,644**	**4,612,205**

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates.

The fair value of cash equivalents is $1,541,644 (2009: $4,612,205).

Reconciliation of Cash Flow Statement	2010	2009
For the purpose of the Cash Flow Statement, cash and cash equivalents comprise the following:		
Cash at bank and in hand	1,541,644	4,612,205
	1,541,644	**4,612,205**

(a) Reconciliation of net profit / (loss) after tax to net cash flows from operations		
Net profit / (loss) after tax	**450,106**	**2,044,490**
Adjustments for non-cash income and expense items:		
Depreciation	302,134	404,912
Amortisation	48,412	45,317
Impairment writedown	-	(691,705)
Movement in equity	-	325,957
Share of loss in investment in associate	311,769	-
Movement provision for employee benefits	64,078	113,522
Movement in foreign exchange	(577,774)	-
Movement in employee benefits reserve	96,177	74,283
Movement in other provisions	(78,109)	24,609
	616,793	**2,341,385**
Increase/decrease in assets and liabilities:		
(Increase) / decrease in receivables	71,626	812,099
(Increase) / decrease in inventories	(5,875)	(387,626)
(Increase) / decrease in other receivables	(78,007)	255,250
(Increase) / decrease in deferred tax assets	-	616,379
Increase / (decrease) in creditors	(817,661)	339,130
Increase / (decrease) in current tax liabilities	144,811	168,968
Increase / (decrease) in deferred tax liabilities	(22,647)	(454,552)
Net cash from operating activities	**(90,960)**	**3,691,033**

8. TRADE AND OTHER RECEIVABLES

	Notes	Consolidated 2010 $	2009 $
Current			
Trade receivables, third parties	(i)	3,680,579	3,590,705
Other receivables	(ii)	522,595	690,664
Current income tax receivable	5	92,313	-
Total Current trade and other receivables		**4,295,487**	**4,281,369**
Non-current			
Other receivables	(ii)	161,500	-
Total Non-current other receivables		**161,500**	**-**
Total Current trade and other receivables		**4,456,987**	**4,281,369**

-

Terms and conditions
Terms and conditions relating to the above financial instruments
(i) Trade receivables are non-interest bearing and generally on 30 and 60 day terms.
(ii) Other debtors are non-interest bearing and have repayment terms between 30 and 90 days.
(iii) Related party details are set out in the Note 19 Related party disclosures, controlled entities.

9. INVENTORIES

	Notes	Consolidated 2010 $	2009 $
Current			
Raw materials at cost		625,955	853,415
Finished goods at low er of cost or net realisable value		1,920,912	2,389,577
Total current inventory		**2,546,867**	**3,242,992**
Non-current			
Finished goods at low er of cost or net realisable value		702,000	-
Total non-current inventory		**702,000**	**-**
Total inventory		**3,248,867**	**3,242,992**

10. PROPERTY, PLANT AND EQUIPMENT

Year ended 31 December 2010 Consolidated	Leasehold Land and buildings $	Leasehold improvements $	Plant and equipment $	Leased Plant and Equipment $	Capital Work in Progress $	Total $
1 January 2010						
at written down value	161,500	19,631	726,433	-	4,145,387	5,052,951
Additions / Transfers	1,983,729	2,825,047	5,091,490	26,962	-	9,927,228
Disposals / Transfers	(161,500)	-	(324,667)	-	(4,132,350)	(4,618,517)
Depreciation for the year	(3,261)	(10,914)	(287,960)	-	-	(302,134)
31 December 2010						
at written down value	**1,980,468**	**2,833,764**	**5,205,297**	**26,962**	**13,037**	**10,059,528**
1 January 2010						
Cost value	161,500	208,116	2,527,570	114,049	4,145,387	7,156,622
Accumulated depreciation	-	(188,485)	(1,801,137)	(114,049)	-	(2,103,671)
Net carrying amount	**161,500**	**19,631**	**726,433**	**-**	**4,145,387**	**5,052,951**
31 December 2010						
Cost value	1,983,729	3,033,163	7,053,894	141,011	13,037	12,224,834
Accumulated depreciation	(3,261)	(199,399)	(1,848,597)	(114,049)	-	(2,165,306)
Net carrying amount	**1,980,468**	**2,833,764**	**5,205,297**	**26,962**	**13,037**	**10,059,528**

During the year, the PET Facility at Macquarie University Hospital, New South Wales was commissioned and $4,132,350 of Capital Work in Progress was transferred to the Leasehold Land and Buildings, Leasehold improvements and the Plant and Equipment asset classes. The remaining Capital Work in Progress balance of $13,037 relates solely to the development of the PET Facility at Kensington, Victoria.

Year ended 31 December 2009 Consolidated	Land and buildings	Leasehold improvements $	Plant and equipment $	Leased Plant and Equipment $	Capital Work in Progress $	Total $
1 January 2009						
at written down value	161,500	23,945	1,165,043	-	1,375,346	2,725,834
Additions / Transfers	-	1,927	134,135	-	2,770,041	2,906,103
Disposals / Transfers	-	-	(174,074)	-	-	(174,074)
Depreciation for the year	-	(6,241)	(398,671)	-	-	(404,912)
31 December 2009						
at written down value	**161,500**	**19,631**	**726,433**	**-**	**4,145,387**	**5,052,951**
1 January 2009						
Cost value	161,500	206,189	2,796,499	114,049	1,375,346	4,653,583
Accumulated depreciation	-	(182,244)	(1,631,456)	(114,049)	-	(1,927,749)
Impairment		-	-	-		**-**
Net carrying amount	**161,500**	**23,945**	**1,165,043**	**-**	**1,375,346**	**2,725,834**
31 December 2009						
Cost value	161,500	208,116	2,527,570	114,049	4,145,387	7,156,622
Accumulated depreciation	-	(188,485)	(1,801,137)	(114,049)	-	(2,103,671)
Net carrying amount	**161,500**	**19,631**	**726,433**	**-**	**4,145,387**	**5,052,951**

11. INVESTMENTS IN ASSOCIATE

	Consolidated	
	2010	**2009**
	$	**$**
Associated companies	188,231	-

Name	Principal Activities	Country of Incorporation	Shares	Ownership Interest	
				2010	**2009**
Macquarie Medical Imaging Pty Ltd	Imaging centre	Australia	Preference	20%	0%

	Consolidated	
	2010	**2009**
Macquarie Medical Imaging Pty Ltd	**$**	**$**
At 1 January	-	-
Investment in associate	500,000	-
Sales to associate	(397)	-
Share of losses after income tax	(311,372)	-
At 31 December	188,231	-

	Consolidated	
	2010	**2009**
Extract from the associates statement of financial position:	**$**	**$**
Current Assets	2,100,522	
Non-current Assets	4,108,207	-
Current Liabilities	1,413,137	-
Non-current Liabilities	3,652,567	-
Net assets	1,143,025	-
Share of assocaites' net assets	228,605	

	Consolidated	
	2010	**2009**
Extract from the associates statement of comprehensive income:	**$**	**$**
Revenue	1,313,215	-
Net Loss	(1,556,857)	-

Cyclopharm's wholly owned subsidiary Cyclopet Pty Ltd has invested $500,000 in Macquarie Medical Imaging Pty Ltd, an imaging joint venture at Macquarie University Hospital. Cyclopet Pty Ltd has a 20% interest in Macquarie Medical Imaging Pty Ltd. The share of the associate's loss for the period was $311,372. Commercial operations commenced in July 2010.

The fair value of the Group's investment in Macquarie Medical Imaging Pty Ltd is $188,231.

11. INVESTMENTS IN ASSOCIATE (continued)

	Consolidated 2010	Consolidated 2009
Contingent liabilitieis relating to the associates:	**$**	**$**
Guarantee of associates financing facilities for w hich the Group is severally liable	16,000,000	-

The guarantee by Cyclopharm Limited and Cyclopet Pty Limited is security for the whole Macquarie Medical Imaging Pty Ltd financing facility provided by the Commonwealth Bank of Australia. Cyclopharm Group's liability is limited to the amount that Cyclopharm Limited and Cyclopet Pty Limited are obliged to fund under a Subscription Agreement with Alfred Health Solutions Pty Ltd which at the date of this report is 20% of the liability.

12. INTANGIBLE ASSETS

Consolidated	Intellectual property $	Technegas Development $	FDA Development $	Total $
Balance at				
1 January 2009	110,083	161,916	2,149,668	2,421,667
Arising during the year	37,311	-	210,586	247,897
Amortisation	(17,692)	(30,720)	-	(48,412)
Balance at				
31 December 2010	**129,702**	**131,196**	**2,360,254**	**2,621,152**
31 December 2010				
Non-Current	129,702	131,196	2,360,254	2,621,152
Total	**129,702**	**131,196**	**2,360,254**	**2,621,152**
31 December 2009				
Non-Current	110,083	161,916	2,149,668	2,421,667
Total	**110,083**	**161,916**	**2,149,668**	**2,421,667**

The recoverable amount of FDA development costs have been assessed using a discounted cash flow methodology forecasting six years of pre-tax cash flows.

The following describes each key assumption on which management has based its value in use calculations:

(a) Six year pre- tax cash flow projections, based upon management approved budgets and growth rates covering a one year period, with the subsequent periods based upon management expectations of growth excluding the impact of possible future acquisitions, business improvement capital expenditure and restructuring.

(b) The discount factor used was 15% in 2010 (2009: 15%).

(c) The Directors have concluded that the recoverable amount of the FDA development costs and other intangibles exceed their carrying value.

(d) In February 2011, the FDA approved the Company's Special Protocol Assessment. The SPA ensures that the agreed clinical trial design meets the FDA's expectations for a pivotal study. Cyclopharm's positive SPA response leaves no clinical issues outstanding, and provides Cyclopharm with confidence that the design of the Phase III development program and clinical trial for Technegas is suitable to support regulatory approval for the United States.

Intellectual Property and Technegas Development costs have been assessed as having finite lives and are amortised over 8 years. Amortisation is recognised in the consolidated statement of comprehensive line item "depreciation and amortisation" expense.

13. TRADE AND OTHER PAYABLES

		Consolidated	
		2010	2009
	Notes	$	$
Trade payables, third parties	(i)	688,933	1,414,254
Other payables and accruals	(ii)	393,559	485,899
Total trade and other payables		**1,082,492**	**1,900,153**

Terms and conditions

Terms and conditions relating to the above financial instruments:

(i) Trade payables are non-interest bearing and are normally settled on 30-60 day terms.

(ii) Other payables and accruals are non-interest bearing and have an average term of 4 months.

14. INTEREST BEARING LOANS AND BORROWINGS

		Consolidated	
		2010	2009
	Notes	$	$
Current			
Lease liabilty		2,400	-
Bank loan - secured		6,075,900	1,757,350
Interest bearing loans and borrowings (current)		**6,078,300**	**1,757,350**
Non-current			
Lease liabilty		24,453	-
Bank loan - secured		-	975,900
Interest bearing loans and borrowings (non-current)		**24,453**	**975,900**
Total interest bearing loans and borrowings		**6,102,753**	**2,733,250**

At 31 December 2010, borrowing costs relating to the PET Facility at Macquarie University Hospital capitalised to the Statement of Financial Position were $161,817 (2009: $99,167).

14. INTEREST BEARING LOANS AND BORROWINGS (continued)

(a) Financing facilities available:
At reporting date, the following financing facilities had been negotiated and were available:

		Consolidated	
		2010	2009
	Notes	$	$
Total facilities available:			
- secured bank loans, third party		6,075,900	6,450,000
		6,075,900	**6,450,000**
Facilities used at reporting date:			
- secured bank loans, third party	14	6,075,900	2,733,250
		6,075,900	**2,733,250**
Facilities unused at reporting date:			
- secured bank loans, third party		-	3,716,750
		-	**3,716,750**
Total facilities		6,075,900	6,450,000
Facilities used at reporting date:		(6,075,900)	(2,733,250)
Facilities unused at reporting date:		**-**	**3,716,750**

(b) Secured Bank Loans

(i) Cyclopharm has an amortising bank bill facility provided by the National Australia Bank of $0.97 million. The entirety of the facility must be repaid by 31 July 2011. The Company breached its interest cover covenant for the year ended 31 December 2010. The facility is secured by a first registered mortgage debenture over Cyclopharm Limited and a guarantee and indemnity for $6,450,000 from Cyclomedica Australia Pty Ltd, CycloPET Pty Ltd, Allrad No. 28 Pty Ltd and Allrad No. 29 Pty Ltd. Supported by Fixed and Floating Charge and First Registered Debenture charges over these companies.

(ii) Cyclopharm has a 15 month multi-option facility (MOF) provided by the National Australia Bank for $5.1 million. The facility was renewed until 31 May 2011 at which time the facility will be reviewed for extension until February 2012. The Company breached its interest cover covenant for the year ended 31 December 2010. The facility is secured by a first registered mortgage debenture over Cyclopharm Limited and a guarantee and indemnity for $6,450,000 from Cyclomedica Australia Pty Ltd, CycloPET Pty Ltd, Allrad No. 28 Pty Ltd and Allrad No. 29 Pty Ltd. Supported by Fixed and Floating Charge and First Registered Debenture charges over these companies.

15. PROVISIONS

	Consolidated		
Consolidated	Employee Entitlements $	Other $	Total $
Balance at			
1 January 2010	**462,915**	**78,109**	**541,024**
Arising during the year	200,545	-	200,545
Utilised	(136,467)	(78,109)	(214,576)
Balance at			
31 December 2010	**526,993**	**-**	**526,993**
31 December 2010			
Current	499,283	-	499,283
Non-Current	27,710	-	27,710
Total	**526,993**	**-**	**526,993**
Number of employees			
Number of employees at year end	38		
31 December 2009			
Current	420,174	78,109	498,283
Non-Current	42,741	-	42,741
Total	**462,915**	**78,109**	**541,024**
Number of employees			
Number of employees at year end	41		

16. CONTRIBUTED EQUITY

	Notes	Consolidated 2010 Number	2009 Number	2010 $	2009 $
Issued and paid up capital					
Ordinary shares	(a)	171,012,616	171,012,616	16,422,066	16,422,066
Other contributed equity	(b)	-	-	(5,333,158)	(5,333,158)
Total issued and paid up capital		**171,012,616**	**171,012,616**	**11,088,908**	**11,088,908**
Ordinary shares					
(a) Issued and paid up capital					
Balance at the beinning of the period		171,012,616	171,012,616	16,422,066	16,422,066
Balance at end of period		**171,012,616**	**171,012,616**	**16,422,066**	**16,422,066**
(b) Other contributed equity					
Balance at the beginning of the period		-	-	(5,333,158)	(5,295,657)
Acquisition of minority interests in controlled entities		-	-	-	(37,501)
Balance at end of period		**-**	**-**	**(5,333,158)**	**(5,333,158)**

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

16. CONTRIBUTED EQUITY (continued)

When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns for shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity.

The Group's debt and capital includes ordinary share capital and financial liabilities.

Management constantly assess the capital structure to take advantage of favourable costs of capital and/or high returns on assets. As the market in continually changing, management may issue dividends to shareholders, issue new shares, increase its short or long term borrowings or sell assets to reduce borrowings.

The Directors did not declare a dividend during the financial year ended 31 December 2010.

Management monitor capital through the gearing ratio (net debt/total capital). Management aim to ensure that the Group's gearing ratio does not exceed 45%. The Group has satisfied its year-end externally imposed capital requirements of its banking facilities detailed in Note 14 (b).

		Consolidated	
		2010	2009
	Notes	$	$
Total interet bearing loans and borrowings	14	6,102,753	2,733,250
Less cash and cash equivalents	7	(1,541,644)	(4,612,205)
Net debt / (cash)		**4,561,109**	**(1,878,955)**
Total equity		13,766,154	13,928,641
Gearing ratio*		33.1%	(13.5%)

*A negative ratio denotes that net cash exceeded net borrow ings at the reporting date

17. FINANCIAL RISK MANAGEMENT OBJECTIVES

The Group's principal financial instruments comprise receivables, payables, bank loans and overdrafts and cash and short-term deposits. The Group manages its exposure to key financial risks, including interest rate and currency risk in accordance with the Group's financial risk management policy. The objective of the policy is to support the delivery of the Group's financial targets while protecting future financial security.

The Group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate, foreign exchange risk and assessments of market forecasts for interest rate, foreign exchange and commodity prices. Ageing analysis and monitoring of specified credit allowances are undertaken to manage credit risk, liquidity risk is monitored through the development of future rolling cash flow forecasts.

The Board review and agrees policies for managing each of these risks as summarised below.

Primary responsibility for identification and control of financial risks rests with the Audit and Risk Management Committee under the authority from the Board. The Board reviews and agrees policies for managing each of the risks identified below, including for interest rate risk, credit allowances and cash flow forecast projections. It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 2.

(a) Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with a floating interest rate. The Group's policy is to manage its interest cost using a mix of fixed and variable rate debt. The Group constantly analyses its interest rate exposure. Within this analysis consideration is given to potential renewals of existing positions, alternative financing, positions and the mix of fixed and variable interest rates.

The following sensitivity analysis is based on the interest rate risk exposures in existence at the Statement of Financial Position date.

At 31 December 2010, if interest rates had moved, as illustrated in the table below, with all other variables held constant, pre tax profit would have been affected as follows:

		Consolidated	
		2010	2009
	Notes	$	$
Judgements of reasonably possible movements:			
Profit / (loss) before income tax			
+1.0% (100 basis points)		(44,046)	(21,224)
-0.5% (50 basis points)		22,023	10,612

The movements in profit are due to possible higher or lower interest costs from variable rate debt and cash balances.

17. FINANCIAL RISK MANAGEMENT OBJECTIVES (continued)

At balance date, the Group had the following mix of financial assets and liabilities exposed to variable interest rate risk:

(a) Cash flow interest rate risk (continued)

Consolidated Year ended	Note	Weighted average interest rate %	Non interest bearing	Floating interest rate	Floating interest maturing in: 1 year or less	1 to 5 years	More than 5 years	Total
31 December 2010								
FINANCIAL ASSETS								
Cash and cash equivalents	7	4.70%	-	1,541,644	-	-	-	1,541,644
Trade and other receivables	8	n/a	4,295,487	-	-	-	-	4,295,487
Total financial assets			**4,295,487**	**1,541,644**	**-**	**-**	**-**	**5,837,131**
FINANCIAL LIABILITIES								
Trade payables, third parties	13	n/a	1,082,492	-	-	-	-	1,082,492
Leases, third party	14	16.76%	-	-	2,400	24,453	-	26,853
Secured bank loans, third party	14	7.01%	-	-	6,075,900	-	-	6,075,900
Employee entitlements	15	n/a	526,993	-	-	-	-	526,993
Total financial liabilities			**1,609,485**	**-**	**6,078,300**	**24,453**	**-**	**7,712,238**
Net exposure			**2,686,002**	**1,541,644**	**(6,078,300)**	**(24,453)**	**-**	**(1,875,107)**

Consolidated Year ended	Note	Weighted average interest rate %	Non interest bearing	Floating interest rate	Floating interest maturing in: 1 year or less	1 to 5 years	More than 5 years	Total
31 December 2009								
FINANCIAL ASSETS								
Cash and cash equivalents	7	4.00%	-	4,612,205	-	-	-	4,612,205
Trade and other receivables	8	n/a	4,281,369	-	-	-	-	4,281,369
Total financial assets			**4,281,369**	**4,612,205**	**-**	**-**	**-**	**8,893,574**
FINANCIAL LIABILITIES								
Trade payables, third parties	13	n/a	1,900,153	-	-	-	-	1,900,153
Secured bank loans, third party	14	5.83%	-	-	1,757,350	975,900	-	2,733,250
Employee entitlements	15	n/a	462,915	-	-	-	-	462,915
Total financial liabilities			**2,363,068**	**-**	**1,757,350**	**975,900**	**-**	**5,096,318**
Net exposure			**1,918,301**	**4,612,205**	**(1,757,350)**	**(975,900)**	**-**	**3,797,256**

17. FINANCIAL RISK MANAGEMENT OBJECTIVES (continued)

(b) Credit risk

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents and trade and other receivables. The Group's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. Exposure at balance date is addressed in each applicable note.

The Group does not hold any credit derivatives to offset its credit exposure.

The Group trades only with recognised, creditworthy third parties and as such collateral is not requested nor is it the Group's policy to scrutinise its trade and other receivables. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures such as reviewing their industry reputation, financial position and credit rating. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is constantly managed.

There are no significant unprovided concentrations of credit risk within the Group.

(c) Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and bank loans.

The Group's policy is to monitor the maturity of borrowings at all times. At 31 December 2010, 100% of the Group's debt will mature in less than one year (2009: 64%) however the majority of these facilities are in the process of renewal to extend the maturity dates.

Refer to the Note 17 (a) Cash flow interest rate risk which reflects all contractually fixed pay-offs for settlement of financial liabilities and collection of financial assets. Trade payables and other financial liabilities generally originate from the financing of assets used in our ongoing operations such as investments in working capital eg inventories and trade receivables and investment in property plant and equipment. These assets are considered in the Group's overall liquidity risk. To monitor existing financial assets and liabilities as well as to enable an effective controlling of future risks, Cyclopharm monitors its Group's expected settlement of financial assets and liabilities on an ongoing basis.

The Group monitors rolling forecast of liquidity reserves on the basis of expected cash flow. At balance date the Group has no unused credit facilities (2009: $3,716,750).

Consolidated Year ended	Note	Less than 6 months	6 months to 1 year	1 year to 5 years	Greater than 5 years	Total
31 December 2010						
Trade payables, third parties	13	1,082,492	-	-	-	1,082,492
Leases, third patry	14	-	2,400	24,453	-	26,853
Secured bank loans, third party	14	-	6,075,900	-	-	6,075,900
31 December 2009						
Trade payables, third parties	13	1,900,153	-	-	-	1,900,153
Secured bank loans, third party	14	-	1,757,350	975,000	-	2,732,350

(d) Commodity price risk

The Group's exposure to commodity price risk is minimal.

17. FINANCIAL RISK MANAGEMENT OBJECTIVES (continued)

(e) Foreign currency risk

As a result of significant operations in Europe, the Group's Statement of Financial Position can be affected significantly by movements in the EURO / A$ exchange rates. The Group does not hedge this exposure.

The Group also has transactional currency exposures. Such exposure arises from sales or purchases by an operating unit in currencies other than the unit's functional currency. Approximately 80% (2009: 85%) of the Group's sales are denominated in currencies other than the functional currency of the operating unit making the sale, whilst approximately 69% (2009: 51%) of costs are denominated in the unit's functional currency.

At 31 December 2010, the Group had the following financial instrument exposure to foreign currency fluctuations:

	Consolidated	
	2010	**2009**
	$	**$**
United States dollars		
Amounts payable	79,456	25,064
Amounts receivable	115,787	103,098
Euros		
Amounts payable	317,164	223,259
Amounts receivable	2,695,532	2,881,680
Canadian dollars		
Amounts payable	4,729	4,457
Amounts receivable	356,688	351,148
Net exposure	**2,766,658**	**3,083,146**

Management believe the balance date risk exposures are representative of the risk exposure inherent in the financial instruments.

Fair values

All of the Group's financial instruments recognised in the Statement of Financial Position have been assessed at fair values.

17. FINANCIAL RISK MANAGEMENT OBJECTIVES (continued)

(e) Foreign currency risk (continued)

Foreign currency sensitivity

Currency risk is measured using sensitivity analysis. A portion of Cyclopharm's receivables and payables are exposed to movements in the values of those currencies relative to the Australian dollar. Cyclopharm management have determined that it is not cost effective to hedge against foreign currency fluctuations.

Cyclopharm is exposed to US Dollars (USD) and European Euro (Euro) movements. The following table details Cyclopharm's sensitivity to a 10% change in the Australian dollar against respective currencies with all other variables held constant as at reporting date for unhedged foreign exposure risk. A positive number indicates an increase in net profit/equity.

A sensitivity has been selected as this is considered reasonable given the current level of exchange rates and the volatility observed on a historic basis and market expectation for future movement.

	Consolidated	
	Increase in AUD of 10%	Decrease in AUD of 10%
	$	$
Euro		
31 December 2010		
Net profit	(162,471)	198,574
Equity increase/(decrease)	(162,471)	198,574
31 December 2009		
Net profit	(509,351)	622,538
Equity increase/(decrease)	(509,351)	622,538

18. COMMITMENTS

(a) Operating lease commitments

Future minimum rentals payable under non-cancellable operating leases are as follows:

	Consolidated	
	2010	2009
	$	$
Operating Lease Commitments		
Minimum lease payments		
Due not later than one year	432,441	170,266
Due later than 1 year & not later than 5 years	1,123,854	649,356
More than 5 years	1,332,720	-
Total operating lease commitments	**2,889,015**	**819,622**
Operating lease expenses recognised as an expense during the period:	165,897	148,579

- The Group has entered into commercial leases on office space within certain buildings. These leases have an average life of between 3 to 5 years with renewal options included in the contracts. There are no restrictions placed upon the lessee by entering into these leases.
- Cyclopet Pty Ltd has entered into a commercial lease for the PET Facility at Macquarie University Hospital. The lease has a term of 10 years and commenced upon commissioning of the Hospital in June 2010.
- The Group also has entered into commercial leases on motor vehicles that have an average life of approximately 3 to 5 years.

(b) Finance lease commitments

		Consolidated	
		2010	2009
	Notes	$	$
Finance Lease Commitments			
Minimum lease payments			
Due not later than one year	(i)	2,400	-
Due later than 1 year & not later than 5 years	(i)	24,453	-
More than 5 years		-	-
Total finance lease commitments		**26,853**	**-**

(i) The Group also has entered into a commercial lease on motor vehicles that have a life of 5 years.

(c) Other commitments

		Consolidated	
		2010	2009
	Notes	$	$
The company has the following other commitments:			
Not later than one year	(i) & (ii)	6,075,900	1,757,350
Due later than 1 year & not later than 5 years	-	-	975,900
More than 5 years	-	-	-
Total		**6,075,900**	**2,733,250**

(i) Cyclopharm has a 15 month multi-option facility (MOF) provided by the National Australia Bank for $5.1 million which has been renewed until 31 May 2011 at which time the facility will be reviewed for extension until February 2012. At balance date $5.1 million had been drawn down against this facility.

(ii) Cyclopharm has an amortising bank bill facility provided by the National Australia Bank of $975,900. At balance date $975,900 was drawn down against this facility. Repayments under the amortising facility commenced in July 2010 and the entirety of the facility must be repaid by 31 July 2011.

18. COMMITMENTS (continued)

(d) Capital commitments

	Consolidated	
	2010 $	2009 $
The company has the following capital expenditure commitments contracted for property, plant and equipment:		
Due later than 1 year & not later than 5 years	-	4,352,503
Total	**-**	**4,352,503**

19. RELATED PARTY DISCLOSURES

(a) The consolidated financial statements include the financial statements of Cyclopharm and the subsidiaries as stated in Note 19 (b).

The following table provides the total amount of transactions that were entered into with related parties for the relevant financial year (for information regarding outstanding balances at year-end, refer to Note 8 Trade and other receivables, Note 13 Trade and other payables and Note 14 Interest bearing loans and borrowings):

CONSOLIDATED		Sales to related parties $	Purchases from related parties $	Transactions with related parties $	Amounts owed by related parties $	Amounts owed to related parties $
CVC Venture Managers Pty Ltd	*2010*	-	-	16,189	-	2,963
	2009	-	-	39,160	-	1,870
VA Consulting Pty Ltd	*2010*	-	-	15,450	-	-
	2009	-	-	75,688	-	8,250
Macquarie Medical Imaging	*2010*	21,842	-	-	2,508	-
	2009	-	-	-	-	-

Ultimate parent entity

Cyclopharm Limited is the ultimate parent entity in the wholly owned group.

Terms and conditions of transactions with related parties

- During the year payments of $16,189 (2009: $39,160) were made to CVC Venture Managers (an entity of which Mr Sharman and Mr Gould are Non-Executive Directors) in relation to the rental of office space. Mr Gould does not receive any benefits from CVC Venture Managers.
- During the year payments of $15,450 (2009: $75,688) were made to VA Consulting Pty Ltd (an entity controlled by Mr Sharman). All payments related to Mr Sharman's role as a non-executive director.
- Cyclomedica Australia Pty Ltd manufactures products that are sold to its subsidiaries.
- Cyclopet Pty Ltd, a wholly owned subsidiary of Cyclopharm has a 20% interest in Macquarie Medical Imaging. Cyclopet manufactures products that are sold to Macquarie Medical Imaging.

19. RELATED PARTY DISCLOSURES (continued)

(b) Controlled Entities

Name	Note	Country of Incorporation	Percentage of equity interest held 2009	2008
Cyclopharm Limited	1,2	Australia		
Controlled entities				
CycloPET Pty Ltd	2	Australia	100%	100%
Cyclomedica Australia Pty Limited	2	Australia	100%	100%
Cyclomedica Ireland Limited	3	Ireland	100%	100%
Cyclomedica Europe Limited	3	Ireland	100%	100%
Cyclomedica Germany GmbH	5	Germany	100%	100%
Cyclomedica Canada Limited	4	Canada	100%	100%
Allrad No 28. Pty Ltd	2	Australia	100%	100%
Allrad No 29. Pty Ltd	2	Australia	100%	100%

Notes

1. Cyclopharm Limited is the ultimate parent entity in the wholly owned group.
2. Audited by Russell Bedford NSW, Australia.
3. Audited by Moore Stephens Nathans, Republic of Ireland.
4. Audited by Schwartz Levitsky & Feldman & LLP, Toronto, Canada.
5. Audited by Bilzanzia GmbH Wirtschaftsprufungsgesellschaft, Germany

20. EVENTS AFTER THE BALANCE DATE

In March 2011, the Company renewed its $5.10m Multi Option Facility with National Australia Bank until 31 May 2011 at which time the facility will be reviewed for extension until February 2012. At balance date, $5.10m was drawn on this facility which has been recorded as a current liability. The Company breached its interest cover covenant for the year ended 31 December 2010.

Other than stated above there have not been any subsequent events after balance sheet date affecting the operating results of financial position of the Consolidated Group.

21. AUDITORS' REMUNERATION

The following total remuneration was received, or is due and receivable, by auditors of the Company in respect of:

	Consolidated	
	2010	**2009**
	$	**$**
Amounts received or due and receivable by Russell Bedford NSW and associated entities for:		
Audit and review of the financial statements	89,181	93,000
Other services:		
- tax compliance	11,030	12,730
- share registry	12,077	12,781
	112,288	**118,511**
Amounts received or due and receivable by auditors other than Russell Bedford NSW for:		
Audit of the financial statements	41,539	40,303
Other services	21,810	53,103
	63,349	**93,406**
Total auditors' remuneration	**175,637**	**211,917**

22. DIRECTOR AND KEY MANAGEMENT PERSONNEL DISCLOSURE

In accordance with the Corporations Amendment Regulations 2005 (No.4), the Company has transferred the remuneration disclosures required by *AASB 124: Related Party Disclosures* from the notes to the financial statements, to the Directors' Report under the heading of 'Remuneration Report'.

23. SHARE BASED PAYMENT PLANS

(a) Recognised share-based payment expenses

The expense recognised for employee services received in relation to share based payments during the year is shown in the table below:

	Consolidated	
	2010	2009
	$	$
Expense arising from equity-settled share-based payment transactions (note 4)	96,177	74,283

The accumulated share based payment expense to 31 December 2010 was $314,149 (2009: $217,972).

(b) Type of share based payment plans

The share-based payment plan is described below. There have not been any modifications to the Long Term Incentive Plan ("Plan") following its approval by members at the Annual General Meeting held on 8 May 2007.

Shares

Long Term Incentive Plan ("Plan") Shares ("Shares") are granted to certain executive Directors and certain employees.

In valuing transactions settled by way of issue of shares, performance conditions and market conditions linked to the price of the shares of Cyclopharm Limited are taken into account. All shares issued have market performance conditions so as to align shareholder return and reward for the Company's selected management and staff ("Participants").

The Shares vest upon the satisfaction of certain performance conditions ("Hurdles") within the term ("Term") specified for Participants in the Plan. The Board has residual discretion to accelerate vesting (i.e. Reduce or waive the Hurdles) and exercise of Shares in the event of a takeover or merger or any other circumstance in accordance with the terms of the Plan.

Shares in relation to which Hurdles have not been satisfied (i.e. that do not vest) will lapse and will not be able to be exercised, except in the circumstances described below. Shares which have not vested will lapse where a Participant ceases employment with Cyclopharm other than on retirement, redundancy, death or total and permanent disablement or unless as otherwise determined by the Board in its absolute discretion.

Where a Participant has ceased employment with Cyclopharm as a result of resignation, retirement, redundancy, death or total and permanent disablement prior to the end of a performance period only Shares that have vested may be retained by the Participant on a pro-rata basis. If an option holder ceases employment for any reasons mentioned above prior to the first anniversary of the grant date, the Participant forfeits all entitlement to Shares.

LTIP Shares issued

At the Annual General Meeting held on 8 May 2007, Shareholders approved the Company's Plan.

23. SHARE BASED PAYMENT PLANS (continued)

Implied Options

AASB 2 Share based Payment requires that the benefit to an employee arising from an employee share scheme such as the Cyclopharm Long Term Incentive Plan be treated as an expense in which the benefit is gained. No benefit to the employee arises from the Plan Shares as a corresponding loan applies to the issued Shares (although not required to be accounted for in the Financial Statements) instead the employee benefit is deemed to be the implied option ("Implied Option") arising from the Plan.

The International Financial Reporting Council have determined that where employee shares are issued under a non-recourse loan payment plan, the loan assets and the increment to share capital should not be recognised at grant date but rather, the transactions be treated as Implied Options. Consequently the value of the discount which has been determined using a binomial pricing model will be charged to the Statement of Comprehensive Income over the vesting period. Other increments to share capital will be recognized as the share loans are settled by the relevant employees.

(c) Summary of implied options granted

The following table illustrates movements in implied options during the current year:

	Consolidated 2010 Number	Consolidated 2009 Number
Balance at the beinning of the year	2,400,000	3,500,000
Granted during the year	-	-
Exercised during the year	-	-
Lapsed during the year	(1,700,000)	(1,100,000)
Balance at the end of the year	**700,000**	**2,400,000**

23. SHARE BASED PAYMENT PLANS (continued)

(d) Option pricing models

The following assumptions were used to derive a value for the Implied Options granted using the Black Scholes Option model as at the grant date, taking into account the terms and conditions upon which the Shares were granted:

Exercise price per implied option	**$0.35**
Number of recipients	1
Nunber of implied options	700,000
Grant Date	3/06/2008
Dividend yield	-
Expected annual volatility	38%
Risk-free interest rate	7.25%
Expected life of implied option (years)	4 years
Fair value per implied option	$0.046
Share price at grant date	$0.210
Model used	Black Scholes

Expected volatility percentages used for the Implied Option pricing calculations were determined using historic data over 12 months and were adjusted to reflect comparable companies in terms of industry and market capitalisation. The Implied Options arising from the Plan are not listed and as such do not have a market value.

24. PARENT ENTITY DISCLOSURE

	Consolidated 2010 $	Consolidated 2009 $
Financial Position		
Assets		
Current Assets	591,924	3,094,392
Non-current Assets	18,094,243	12,075,174
Total Assets	**18,686,167**	**15,169,566**
Liabilities		
Current Liabilities	5,505,951	1,496,730
Non-current Liabilities	1,264,500	2,066,976
Total Liabilities	**6,770,451**	**3,563,706**
Net assets	**11,915,716**	**11,605,860**
Equity		
Contributed equity	11,289,438	11,289,438
Employee equity benefits reserve	314,149	217,972
Retained Profits / (Accumulated losses)	312,129	98,450
Total Equity	**11,915,716**	**11,605,860**
Financial Performance		
Loss for the year	(213,679)	(968,804)

(a) Guarantees

The $16,000,000 guarantee by Cyclopharm Limited and Cyclopet Pty Limited is security for the whole Macquarie Medical Imaging Pty Ltd financing facility provided by the Commonwealth Bank of Australia. Cyclopharm Group's liability is limited to the amount that Cyclopharm Limited and Cyclopet Pty Limited are obliged to fund under a Subscription Agreement with Alfred Health Solutions Pty Ltd which at the date of this report is 20% of the liability.

(b) Commitments and Contingent Liabilities

There are no commitments or contingent liabilities.

25. RESERVES

Nature and purpose of reserves:

(a) Employee equity benefits reserve

The employee share based payments reserve is used to record the value of share based payments provided to employees, including key management personnel, as part of their remuneration.

(b) Foreign currency Translation Reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

Directors' Declaration

In the opinion of the Directors of Cyclopharm Limited:

1. (a) The financial statements and notes and of the consolidated entity are in accordance with the Corporations Act 2001, including:
   - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the year ended on that date; and
   - (ii) complying with Accounting Standards and Corporations Regulations 2001: and

   (b) The remuneration disclosures that are contained in the Remuneration Report on pages 15 to 18 of the Directors' Report comply with the Australian Accounting Standard AASB 124 Related Party Disclosures; and

   (c) There are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable.

2. The Directors have been given the declarations required by section 295A of the Corporations Act 2001 from the chief executive officer and chief financial officer for the financial year ended 31 December 2010.

Signed in accordance with a resolution of the Directors:

James S McBrayer

James McBrayer
Managing Director and CEO

Sydney, 25 March 2011

Russell Bedford
New South Wales

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Independent Auditor's Report

To the members of Cyclopharm Limited

Report on the Financial Report

We have audited the accompanying financial report of Cyclopharm Limited, which comprises the consolidated statement of financial position as at 31 December 2010, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the company and the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility 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 is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report. Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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

Independent Audit Report

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. In addition to our audit of the financial statements we were engaged to undertake services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Auditor's Opinion

In our opinion:

(a) the financial report of Cyclopharm Limited is in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of it's performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and

(b) the consolidated financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

Report on the Remuneration Report

We have audited the Remuneration Report included on pages 15 to 18 of the directors' report for the year ended 31 December 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion on the Remuneration Report

In our opinion, the Remuneration Report of Cyclopharm Limited for the year ended 31 December 2010, complies with section 300A of the *Corporations Act 2001*.

RUSSELL BEDFORD NSW
Chartered Accountants

GREGORY C RALPH, M.COM,FCA
Partner

Dated this 25th day of March 2011

ASX Additional Information

The following information is current at 28 February 2011

A. SUBSTANTIAL SHAREHOLDERS

The following have advised that they have a relevant interest in the capital of Cyclopharm Limited. The holding of a relevant interest does not infer beneficial ownership. Where two or more parties have a relevant interest in the same shares, those shares have been included for each party.

Shareholder	No. of ordinary shares held	Percentage held of issued ordinary capital
Stinoc Pty Limited (a subsidiary of CVC Ltd)	33,264,378	19.45%
Chemical Trustee Limited	31,899,015	18.65%
Barings Acceptance Limited	17,052,895	9.97%
Lloyds & Casanove Investment Partners Limited	9,965,180	5.83%

B. DISTRIBUTION OF EQUITY SECURITY HOLDERS

(i) Analysis of numbers of equity security holders by size of holding as at 28 February 2011

Category	Ordinary Shareholders
1 - 1,000	24
1,001 - 5,000	282
5,001 - 10,000	193
10,001 - 100,000	468
100,001 and over	123
Total	1,090

(ii) There were 368 holders of less than a marketable parcel of ordinary shares.

C. EQUITY SECURITY HOLDERS

	Twenty largest quoted equity security holders	Ordinary shares: Number held	Ordinary shares: Percentage of issued shares
1	STINOC PTY LIMITED	33,264,378	19.45%
2	CHEMICAL TRUSTEE LIMITED	31,899,015	18.65%
3	BARINGS ACCEPTANCE LIMITED	17,052,895	9.97%
4	LLOYDS & CASANOVE INVESTMENT LIMITED	9,965,180	5.83%
5	INDO-SUEZ INVESTMENTS LIMITED	5,363,822	3.14%
6	MR KEVIN TAY HAK-LEONG	4,436,453	2.59%
7	MRS TERRI LAMBROS	3,500,000	2.05%
8	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	2,966,994	1.73%
9	DERRIN BROTHERS PROPERTIES LIMITED	2,831,655	1.66%
10	NORMANDY FINANCE & INVESTMENTS ASIA PTY LIMITED	2,205,403	1.29%
11	SOUTHGATE INVESTMENTS FUNDS LIMITED	2,000,000	1.17%
12	MR JOHN LAMBROS	1,700,000	0.99%
13	MR JOHN SHARMAN	1,410,000	0.82%
14	OCI CONSTRUCTION LIMITED	1,406,054	0.82%
15	ABASUS INVESTMENTS LIMITED	1,278,916	0.75%
16	CITY & WESTMINISTER LIMITED	1,255,226	0.73%
17	NEWRIDGE ENGINEERS LIMITED	1,108,459	0.65%
18	SOUTH SEAS HOLDINGS PTY LTD	1,100,000	0.64%
19	GLEN NOMINEES LIMITED	1,014,795	0.59%
20	L J K NOMINEES PTY LTD	1,012,199	0.59%
		126,771,444	**74.13%**

D. VOTING RIGHTS

The Company's constitution details the voting rights of members and states that every member, present in person or by proxy, shall have one vote for every ordinary share registered in his or her name.

General Information

Directors
Vanda Gould
Non-Executive Chairman

James McBrayer
Managing Director & CEO

David Heaney
Non-Executive Director

John Sharman
Non-Executive Director

Company Secretary
William Richardson

Registered Office
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F: 02 9543 0960

Cyclopet
Macquarie University Hospital
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Macquarie University NSW 2109
T: 02 9541 0411
F: 02 9543 0960

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Burlington ON L7P 4X4
Canada

Cyclomedica Germany
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D-38226 Salzgitter
Germany

Cyclomedica Europe
Ulysses House
Foley Street
Dublin 1 Ireland

Auditors
Russell Bedford NSW
Level 42, Suncorp Place
259 George Street
Sydney NSW 2000

Share Registry
Gould Ralph Pty Ltd
Level 42
259 George Street
Sydney NSW 2000
T: 02 9032 3000
F: 02 9032 3088

Bankers
National Australia Bank
Level 2, 151 Rathdowne Street
Carlton VIC 3053

Solicitors
Piper Alderman
Level 24, 385 Bourke Street
Melbourne VIC 3000

Stock Exchange Listing
The ordinary shares of Cyclopharm Limited are listed on the Australian Securities Exchange Ltd (code: CYC).

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Cyclopharm Limited Annual Report 2010