

**Cyclopharm Limited
Annual Report 2016**

**Cyclopharm Limited and its Controlled Entities
ABN 74 116 931 250**

cyclopharm

Contents

FINANCIAL HIGHLIGHTS	2
CHAIRMAN'S LETTER	3
MANAGING DIRECTOR'S REVIEW	5
DIRECTORS' REPORT	16
AUDITOR'S INDEPENDENCE DECLARATION	35
CORPORATE GOVERNANCE	36
STATEMENT OF COMPREHENSIVE INCOME	48
STATEMENT OF FINANCIAL POSITION	49
STATEMENT OF CASH FLOWS	50
STATEMENT OF CHANGES IN EQUITY	51
NOTES	52
DIRECTORS' DECLARATION	103
INDEPENDENT AUDIT REPORT	104
ASX ADDITIONAL INFORMATION	107
GENERAL INFORMATION	108

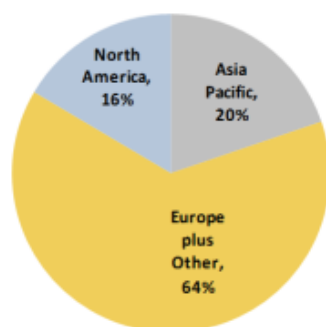
FINANCIAL HIGHLIGHTS

Full Year ending 31 December		2014	2015	2016	% Change
Sales Revenue	\$'000	12,047	12,583	14,386	14.3%
Profit Before Tax	\$'000	3,470	4,090	1,421	(65.3%)
Profit After Tax	\$'000	4,066	4,793	891	(81.4%)
Diluted Earnings Per Share	cents	7.08	8.35	1.63	(80.5%)

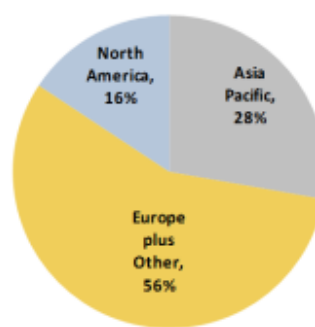
Sales Revenue for the Full Year ending 31 December		2014	2015	2016	% Change
Technegas Division	\$'000	11,490	12,508	14,386	15.0%
Molecular Imaging Division	\$'000	557	75	-	(100.0%)
Total Sales Revenue	\$'000	12,047	12,583	14,386	14.3%

Net Profit/(Loss) Before Tax for the Full Year ending 31 December		2014	2015	2016	% Change
Technegas Division	\$'000	1,913	2,132	1,789	(16.1%)
Molecular Imaging Division	\$'000	1,557	1,958 *	(368)	(118.8%)
Total Net Profit Before Tax	\$'000	3,470	4,090	1,421	(65.3%)

Sales by Region - 2015



Sales by Region - 2016



Underlying Results** for the Full Year ending 31 December		2015	2016	Inc/(Dec)	% Change
Sales Revenue	\$'000	12,583	14,386	1,803	14.3%
Gross Margin	\$'000	10,108	11,182	1,074	10.6%
Gross Margin % Sales	%	80.3%	77.7%	(2.6%)	
Consolidated EBITDA	\$'000	4,260	1,546	(2,714)	(63.7%)
Add back:					
Cpet/Ultralut Division	\$'000	139	366	227	163.3%
Proceeds from Insurance Claim	\$'000	(2,105)	-	(2,105)	(100.0%)
Relocation Expenses***	\$'000	-	428	428	100.0%
FDA Expenses	\$'000	686	1,098	412	60.1%
Underlying EBITDA	\$'000	2,980	3,438	458	15.4%

* The Molecular Imaging Division's Net Profit Before Tax includes the net insurance settlement of \$2.10 million, after costs.

** Underlying Results represent results from the Technegas Division excluding one off items (Insurance/Litigation settlement and costs/lease termination and double rent period costs), and FDA Expenses.

*** Includes make good, moving costs and double rent associated with facility relocation from Lucas Heights to Kingsgrove NSW.

Chairman's Letter

28 March 2017

Dear Shareholders,

In 2016 the effective implementation of Cyclopharm's focussed business growth strategy delivered an impressive set of operating results. The Company reported record revenues and operating EBITDA for the year and the Board declared a Final Dividend of 0.5 cents per share, bringing total 2016 dividends to 1.0 cent per share (partially franked).

Sales revenue of \$14.39 million was 14 per cent higher than in the prior year and underlying EBITDA reached \$3.44 million, a rise of 15 per cent on 2015. Gross margins totalled \$11.18 million, an 11 per cent improvement year-on-year.

These very pleasing results were driven primarily by the outstanding sales figures achieved by our Technegas Division. Technegas, Cyclopharm's flagship business, delivered a 95 per cent increase in unit sales of Technegas generators and secured a 10 per cent lift in unit sales of Patient Administration Sets (PAS).

Technegas is a lung imaging device used primarily to diagnose the presence of blood clots in the lungs known as Pulmonary Emboli, with highly prospective applications for other disease indications such as Chronic Obstructive Pulmonary Disease (COPD) and small airways disease. The Company is funding COPD early detection trials in China as well as diagnostic trials for small airways disease in Australia.

Our record revenue performance in 2016 reflected sales volume growth in Australasia, Europe and Latin America, bolstered by a \$1.38 million order from Cyclopharm's Chinese distributor, the largest Technegas order ever received by the Company. This seeding order by our Chinese distributor is expected to provide a platform for higher PAS kit sales to China from 2018.

Directors are confident that steady growth in the sales of Technegas devices, especially in Asian countries, will continue through 2017 and beyond.

The development of further opportunities for additional Technegas indications, particularly for COPD, remains a key business objective. If these opportunities are realised, there is significant potential to expand Technegas' revenue and profitability over the medium to longer term.

The USA market offers material opportunities for growth in Technegas sales. In 2016 we invested \$1.1 million to advance our program to conduct clinical trials for Technegas in that vast market, with the objective of securing US Food and Drug Administration (USFDA) approval for the sale of Technegas devices in the US as expediently as possible.

Last November the Company was delighted to receive USFDA approval for its Technegas trial design. This approval significantly de-risked the USFDA trial program and brought forward its estimated completion date. The Board is increasingly confident of a successful outcome by mid-2018.

Cyclopharm's balance sheet remains healthy and debt free. At year-end, the Company held a cash balance of approximately \$4.6 million, reflecting the growth in underlying earnings for the year, offset by USFDA trial expenses and relocation costs in relation to the Company's new Kingsgrove (NSW) facility.

The Board reviews future cash requirements and capital management initiatives constantly and, as a result of that process, Directors were pleased to declare a Final Dividend of 0.5 cents per share, taking the Full Year 2016 dividends to 1.0 cent per share.

Chairman's Letter

Continued

The steady dividend flow strikes, in the Board's view, an appropriate balance between the retention of sufficient cash to fund growth opportunities and the delivery of increased returns to shareholders over time.

Cyclopharm's 2016 record results provide clear evidence of the successful implementation of our strategic priorities, which are steadily building a larger, more profitable lung health company. We are well-placed to realise the growth potential within the business through the deployment of our proprietary valuable technologies.

Our business is generating healthy cash flows while management undertakes strategic investments to grow shareholder value. Investment in the USFDA trial is our key priority, but the Company is simultaneously pursuing regulatory approval to commence sales in other promising new markets such as Russia.

We will also continue to focus on moving towards commercial production of the exciting Ultralute™ technology while simultaneously entering into discussions with potential commercial partners. Ultralute™ has the potential to be a major driver of the next stage of the Company's growth. We expect initial sales of Ultralute™ in the first half of 2017.

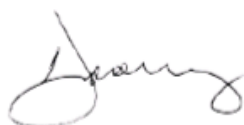
Cyclopharm's management team, led by James McBrayer, has worked tirelessly to achieve record results in 2016 and remains committed to achieving the full potential of the Company's growth strategy.

The Board expects 2017 to be another consistent year of underlying operational and financial performance, with the global COPD, asthma and lung cancer markets offering significant opportunities for further material increases in sales of Technegas devices.

Additional Technegas sales and margin expansion, combined with initial sales of Ultralute™, will be the primary drivers of additional profit growth in the year ahead and beyond.

In 2017, the Board expects Cyclopharm to deliver additional sales and earnings growth, to maintain its healthy capital position and to continue to reward investors with solid returns.

On behalf of the Board, I thank staff and shareholders for their ongoing support of the Company. We remain confident that Cyclopharm is in a strong position to build on the successes of 2016 and achieve long-term, sustainable growth in profits and shareholder value.



David Heaney
Acting Chairman

MANAGING DIRECTOR'S REVIEW



Dear Shareholders,

Cyclopharm's record financial results in 2016 highlight the benefits of the clear strategy and proven execution track record. Further growth and profitability is expected as we continue to successfully implement of our strategic priorities. Cyclopharm is building a larger, more profitable health care company, with growing sales in new markets, wider therapeutic applications and the profitable development of complementary technologies.

Key highlights of Cyclopharm's financial results for the 2016 year included:

- Record sales revenue of \$14.39 million;
- Record Technegas division Operating EBITDA of \$3.44 million;
- NPAT of \$0.89 million;
- Cash flow from operations of \$0.65 million;
- Net cash at year-end of \$4.6 million; and
- Final dividend of 0.5 cents per share (Full year totaling 1.0 cent per share [partially franked])

Following our strategic decision in 2014 to focus our business on leveraging our patented technologies, Cyclopharm is now a more targeted, profitable, cash-generative business supported by a healthy balance sheet and an active research and development pipeline. Strength in R&D and a positive reputation in the global nuclear medicine market are key factors in delivering the benefits of Cyclopharm's business strategy for shareholders.

The successful implementation of our strategy saw the Company generate record sales revenue of \$14.39 million during the year (2015: \$12.6 million), and Underlying EBITDA¹ of \$3.4 million (2015:\$2.98 million).

We continue to remain a fiscally disciplined company, generating healthy cash flows whilst investing in the business to grow shareholder value.

Cyclopharm achieved significant success during 2016 from implementing its strategic priorities, which are to:

1. Simplify the business strategy so the Company's full focus is delivering on our well-advanced transformational opportunities;
2. Accelerate the path to regulatory approval to sell Technegas into the US, the world's largest and highly prospective healthcare market;
3. Pursue sales of Technegas in new applications, principally Chronic Obstructive Pulmonary Disease ('COPD'), which is a significantly larger market than the Pulmonary Emboli (PE) market where Cyclopharm traditionally operates;
4. Grow the established business, based on expanding Technegas sales in existing markets; and
5. Position the Company to commence sales in 2017 of Ultralute™ nuclear medicine complementary technology.

Our relentless focus on these priorities delivered solid financial results for the year, supporting further investment in growth opportunities and dividend payments to shareholders.

¹ Underlying EBITDA represents results from the Technegas division excluding one off items (Insurance/Litigation settlement and costs/lease termination and double rent period costs), and FDA Expenses

Managing Director's Review

Continued

GROUP FINANCIAL PERFORMANCE

During 2016 our Technegas Patient Administration Sets (PAS) and TechnegasPlus Generators (Generator) businesses experienced steady organic growth. We made excellent progress in pursuing opportunities for new markets and new applications of Technegas.

Our record revenue of \$14.39 million was 14% higher than in 2015, driven by higher unit sales of Technegas generators, up 95%, and a 10% growth in unit sales of PAS kits.

This result was assisted by an order from our Chinese distributor consisting of 50 Technegas Generators and 250 boxes of PAS, valued at \$1.38 million. PAS sales increased by \$0.64 million, driven by volume growth in Australasia, Europe and Latin America. Revenue from Generator sales grew 76% over the year to \$2.97 million, while service revenue in markets where we distribute our products directly fell by 7% to \$0.64 million.

Reflecting the change in sales mix towards Technegas generators in the second half of the year, the group's gross margins declined marginally versus the prior year from 80% to 78%.

An ongoing focus on managing operating expenses enabled Cyclopharm to expand its underlying EBITDA margins, which improved slightly to 23.9% in 2016 from 23.7% in the prior year, and underlying EBITDA of \$3.4 million, \$458,000 higher than 2015.

Reported NPAT for the year was \$891,368 (2015: \$4,793,047), representing basic earnings per share of 1.55 cents.

The movement in NPAT from 2015 includes a reversal to income tax expense (2016: \$529,975 expense vs 2015: \$702,705 benefit), a one-off insurance receipt in 2015 of \$2.1 million and increased USFDA clinical trial costs (\$1.1 million in 2016 vs \$0.7 million in 2015) as the company ramped up its pursuit of this key market for the next phase of its growth strategy.

Continued strong growth in underlying EBITDA supported the Board's decision to declare a full year dividend of 0.5 cent per share, bringing total dividends for 2016 to 1.0 cent per share, which it expects to grow over time.

Cyclopharm's Underlying Results²

YEAR ENDED 31 DECEMBER	2016 \$'000	2015 \$'000	INC/(DEC) \$'000	CHANGE %
SALES REVENUE	14,386	12,583	1,803	14%
GROSS MARGIN	11,182	10,108	1,074	11%
GROSS MARGIN % SALES	77.70%	80.30%	-2.60%	
CONSOLIDATED EBITDA	1,546	4,260	-2,714	-64%
ADD BACK:				
CPET / ULTRALUTE™ DIVISION	366	139	227	163%
PROCEEDS FROM INSURANCE CLAIM	0	-2,105	-2,105	-100%
RELOCATION EXPENSES*	428	0	428	100%
FDA EXPENSES	1,098	686	412	60%
UNDERLYING EBITDA	3,438	2,980	458	15%

* Includes make good, moving costs and double rent associated with facility relocation from Lucas Heights to Kingsgrove NSW

Cyclopharm continues to maintain a strong cash position to support investments in research and development and product trials which are expected to form the basis of ongoing growth in shareholder value.

² Underlying Results represent results from the Technegas Division excluding one off items (Insurance/Litigation settlement and costs/lease termination and double rent period costs), and FDA Expenses.

Managing Director's Review

Continued

Cashflow from operations of \$0.65 million was predominantly driven by operating cash generated by the Technegas division of \$2.01 million. This positive operating cashflow was negatively impacted by approximately \$0.43 million of one-off relocation expenses.

Our strong and growing cashflow supported our investment in ongoing USFDA trials, \$1.5 million in capex for the new Kingsgrove factory and the payment of dividends. It also enabled the Company to finish the year with a net cash balance of \$4.59 million.

GROUP OPERATING PERFORMANCE

During 2016, Cyclopharm's core operations continued to perform strongly and further significant progress was made in implementing our strategy of growing shareholder value through entering new markets and developing new therapeutic applications for Technegas, as well as bringing new technologies, such as Ultralute™, to market. Operating highlights for the year included:

- Technegas sales continued to grow in most major markets,
- Positive initial results from Technegas trials in China were achieved - furthering the Company's strategy to expand Technegas beyond the pulmonary embolism (PE) market,
- Significant progress was made in seeking USFDA approval to market and distribute Technegas in the United States, and
- Ultralute™ technology was introduced to the market and is on track for 2017 sales.

Sales volumes from our core Technegas business continued to grow over the year, with strong volume growth experienced in the Australasian, North American and European markets. Revenue from sales of PAS units grew 6% over the prior year, benefiting from a 10% increase in volumes and a continued low Australian dollar.

Revenue from Technegas Generator sales grew by 76% over the prior year. The significantly higher sales of generators included the company's single largest order consisting of 50 Technegas Generators and 250 boxes of PAS, valued at \$1.38 million. As announced to the ASX in June 2016, this order from its Chinese distributor was a seeding initiative. This initial order is expected to provide a platform for significantly greater, higher margin, PAS kit sales in that market from 2018.

In November 2016 Cyclopharm announced that it received agreement from the United States Food and Drug Administration after filing a Special Protocol Assessment (SPA) for its proposed clinical trial design for Technegas. An SPA is an advanced declaration from the Food and Drug Administration that an uncompleted Phase III trial's design, clinical endpoints, and statistical analyses are acceptable for FDA approval. Achieving this approval was a significant milestone on our pathway to achieving approval for Technegas in the largest nuclear medicine market in the world.

During 2016 the company continued to fine tune the design and performance of its Ultralute™ technology. Ultralute™ is a unique device that extends the useful life of Molybdenum-99 (Mo-99) generators, the most commonly used medical isotope in the world, by up to 50 per cent. When Mo-99, which has a half-life of 2.75 days, decays it produces Technetium-99m (Tc-99m) that has a half-life of 6 hours. Global interest in Ultralute™ is strong, with initial revenue from Ultralute™ sales expected to be recorded in 2017 from the European market.

In June 2016 we announced the expansion of our management team with the addition of Dr Michael Guo. As Clinical Program Director, Dr Guo will be executing our strategies of expanding the use of Technegas by developing new indications and expanding the use of our products in China. Additionally, at the end of 2016 Mr Mathew Farag joined Cyclopharm as Chief Operating Officer, with employment commencing January 2017.

SUMMARY

2016 was another outstanding year of achievement for Cyclopharm. Our more focused business, leveraging our existing proven technologies, continued to deliver on its potential. This allowed

Managing Director's Review

Continued

shareholders to directly benefit from a profitable, growing business through ongoing dividend payments and an appreciating share price.

The Company's core Technegas business reported record sales and growth in underlying EBITDA for the third consecutive year. We recorded healthy organic growth from Technegas products and made significant progress on our strategy of entering new markets, such as Russia, China, Japan, and the USA as well as expanding the use of Technegas in new diagnostic applications.

We delivered on our promise to introduce the new and complementary Ultralute™ product to the market and look forward to recording the first revenues from this technology in the first half of 2017.

Our strong operational cash flows supported our ongoing FDA trials, further investment in R&D and the opening of our new facility in Kingsgrove, NSW.

Excluding the China market, the Board expects Cyclopharm's underlying profitability and cash flow to record consistent underlying growth in 2017 as a result of additional sales volumes growth in our established markets and supported by a growing awareness and uptake of our core products internationally. Growth from China is expected to occur from late 2018 following the deployment of the 50 Technegas Generators and 250 PAS delivered in December 2016.

OUTLOOK

The Directors maintain their view that FDA approval to sell Technegas into the US market will provide Cyclopharm with the opportunity to significantly expand Cyclopharm's sales and profitability.

As a result of simplifying its business strategy, Cyclopharm's operating model has become more focused and our profitability and growth prospects have been greatly enhanced, as evidenced by our encouraging 2016 operating results. We are now in a significantly stronger position to realise the potential of the highly profitable and cash-generating Technegas business in international markets and to finalise the development of Ultralute™.

In November 2016, we were pleased to announce that Cyclopharm had received USFDA approval for its Technegas trial design. The approval means that the USFDA trial and approval process are on track for completion by mid-2018.

We also continue to actively pursue the regulatory approvals to commence sales in other promising new markets such as Russia and other countries within the European Union.

The opportunities for developing additional Technegas indications, particularly for COPD, will continue to be a key priority. If successful, there is significant potential to expand Technegas' revenue and profitability over the medium to longer term.

We continue to focus on moving towards commercial production of the exciting Ultralute™ technology while simultaneously entering into discussions with potential commercial partners. We remain excited about the potential for Ultralute™ to significantly contribute to the next stage of Cyclopharm's growth.

As a team, we are continually reviewing our organisational readiness to ensure that we have the appropriate level of managerial and governance expertise to deliver on our objectives. An example of our preparedness can be seen in our recently-opened new manufacturing facility and the new clinical expertise recently brought into the company to assist in the delivery of our growth objectives.

Whilst the precise timing of achieving milestones, such as generating Technegas sales for new indications such as COPD and asthma are necessarily uncertain, the prospects for your Company are outstanding.

Managing Director's Review

Continued

cyclopharm
Nuclear Medicine



In summary, I expect Cyclopharm to achieve further underlying modest sales growth in 2017 in our established markets. I look forward to continuing to report to our shareholders as we gain momentum in realising our profitable growth objectives and delivering rewards to our investors.

I thank all of my colleagues who have contributed to the growth of the Company over recent years and assure you that the Cyclopharm management team, with the ongoing support of the Board, remains absolutely committed to delivering growing financial rewards to our shareholders.



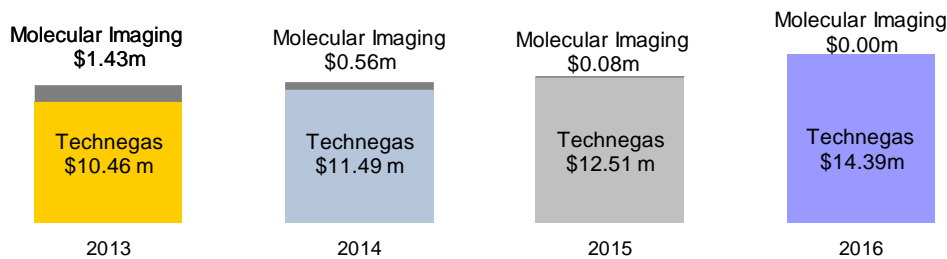
James McBrayer
Managing Director

Managing Director's Review

Continued

REVIEW OF OPERATIONS

Group Revenue by Segment

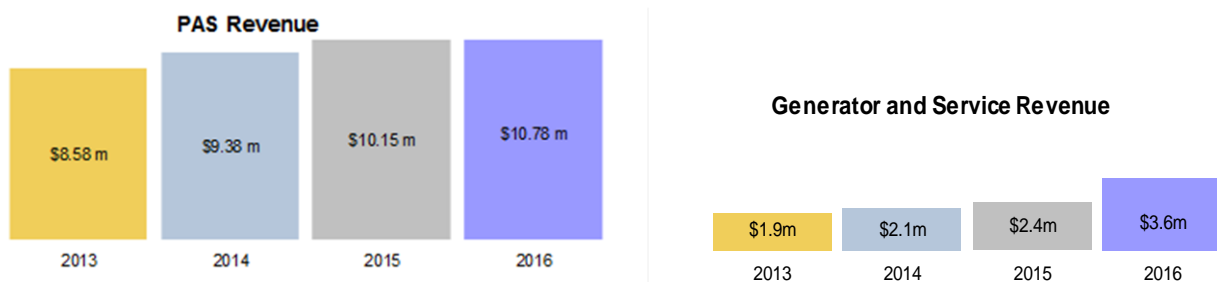


TECHNEGAS

Technegas is a lung imaging agent used primarily to diagnose the presence of blood clots in the lungs known as Pulmonary Emboli (PE). For the last 29 years, over three million patients have benefited from the Technegas system. Technegas, an Australian invented technology, is recognised globally as the nuclear medicine agent of choice for functional lung imaging.

Technegas' continued growth in sales demonstrates its ongoing relevance to the medical industry and provides the Company with secure and growing sales and cash flows.

Revenue Composition



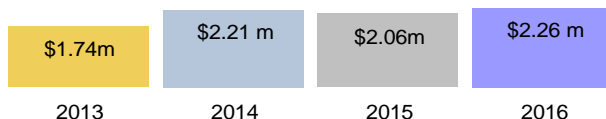
Sales revenue of \$14.39 million from the segment's key products, PAS and Generators, grew by 14.3% over the preceding year (2015: \$12.51 million). Underlying EBITDA margins as a percentage of sales increased from 23.7% to 23.9% in 2016.

Revenue from PAS and its consumables represented 75% of the segment's revenue in 2016 and was 6% higher at \$10.78 million in 2016 compared to 2015 (\$10.14 million) due to a 10% increase in volumes and a continued low Australian dollar.

Technegas Generator sales and other service revenue was \$3.6 million for the year, up 52.5% on the prior year (2015: \$2.4 million). The increase was a result of a 95% increase in Generator sales volume. This was partly offset by a small decline in service revenue to \$0.64 million (2015: \$0.68 million).

REGIONAL REVIEW

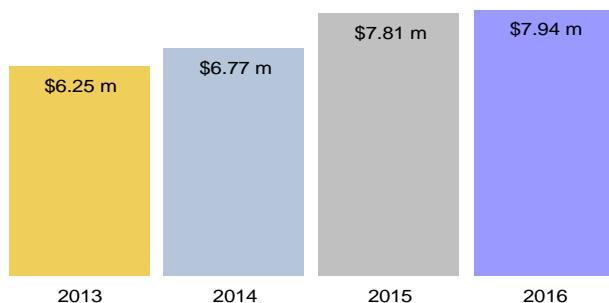
North America - Canada



North America – Canada

Canada is the largest Technegas country market globally with 11 generators (2015: 4) and 882 PAS boxes (2015: 854) sold in 2016. The continued improvement in PAS sales in this region represents the 13th consecutive year of sales volume growth. Canada recorded total revenue of \$2.26 million in 2016 (2015: \$2.06 million). The Canadian market represents a strong indicator for anticipated take up rates in the United States following approval to sell Technegas in that market.

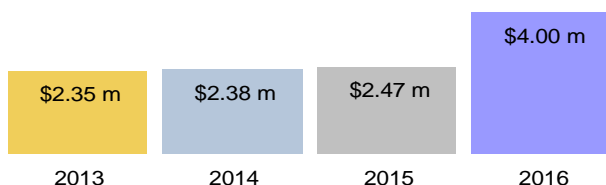
Europe



Europe

Approximately 56% of sales revenue is derived in Europe (2015: 64%). Overall sales revenue was 2% higher at \$7.94m (2015: \$7.81m). Improvement in sales revenue was driven by 2,194 PAS boxes sold in Europe in 2016, up 3% on 2015 (2,136 PAS boxes) offset by marginally lower Generator sales, with 43 sold in 2016 compared with 44 in the prior year.

Asia Pacific



Asia Pacific

Revenues in the Asia Pacific region grew by 62% in 2016. In Australia, revenue was higher with an increase in generator sales in 2016 (9 units) compared to 2015 (4 units) offset by a 1% decrease in PAS boxes sold in 2016 (656 PAS boxes) compared to 2015 (665 PAS boxes). In Asia, sales revenue grew phenomenally, up 138%, driven by a 700% increase in Generators sold in 2016 (56 units) compared to 2015 (7 units) in addition to an 148% increase in PAS boxes sold in 2016 (409 PAS boxes) compared to 2015 (165 PAS boxes). The significantly higher sales of Technegas generators included the company's single largest Technegas order consisting of 50 Technegas Generators and 250 boxes of PAS, valued at \$1.38 million. This order from its Chinese distributor was a seeding initiative, which is expected to provide a platform for significantly higher PAS kit sales in that market from 2018.

Managing Director's Review

Continued

North America – USA

Gaining USFDA approval to sell Technegas in the United States market is a major priority for the Company. Cyclopharm believes the US market has the potential to be the largest market for Technegas globally, and could therefore drive a substantial increase in shareholder value. To facilitate this, Cyclopharm has been undertaking USFDA trials of Technegas in the US in order to gain those regulatory approvals.

In November 2016, Cyclopharm announced it had received USFDA approval for its Technegas trial design through a Special Protocol Assessment process. The approval means that the USFDA trial and approval process are on track for completion by mid-2018.

The clinical trial program is designed to compare Technegas against Xe-133, the only approved nuclear medicine ventilation imaging agent in the USA. Cyclopharm is seeking a structural indication in a non-inferiority protocol including 240 patients across a number of respiratory disease states. The first phase of the trial, already submitted and reviewed by the USFDA, was a desk-top study designed to determine both the inter and intra reader variability of Xe-133 as well as determining the number of patients required for the Phase III study.

It is expected that the trial will be conducted at 10-15 clinical sites with final recruitment targeted for the second half of calendar 2017 and USFDA approval expected in the middle of next year. We remain confident that the application for market entry into the United States will ultimately be successful, due to Technegas' existing global footprint and long-standing successful safe and efficacious track record of use. The United States represents a major growth opportunity and has the potential to become the largest single market for Technegas. The Directors are therefore determined to continue to actively pursue USFDA approval but will ensure we cautiously and prudently manage the costs of doing so. In 2016 \$1.1 million was expended on the USFDA clinical trial program (2015: \$686,410).

In late 2015, Cyclopharm announced its intention to enter into a licensing agreement with Jubilant Draximage (JDI) for the registration and distribution of Technegas in the United States. Despite several months of negotiations, the two companies were not able to reach agreement on the final terms. As a result, the Company notified JDI in May 2016 of its decision to move forward independently with its USFDA clinical trial program. The two companies have agreed to continue to discuss potential commercial opportunities once USFDA approval for Technegas is achieved.

Notwithstanding this, the Company will consider alternatives such as partnerships or licensing arrangements which may assist in accelerating commercialisation in the United States market. However, at this point, Cyclopharm is progressing expansion into this market independently.

As the USFDA approval process moves forward, the Directors advise that additional expenditure on the USFDA trials will continue to be expended until approval is achieved. This is a prudent and conservative approach, notwithstanding the confidence of the Directors that such approval will ultimately be given.

The total cost of the USFDA trial and registration program is expected to be less than US\$7 million. For the full year 2016, these expenses totalled \$1,098,505 compared to \$686,410 in 2015.

NEW INDICATION DEVELOPMENT

Cyclopharm continues to make progress in developing new indications for Technegas. Other disease states beyond PE, which include COPD, asthma, CTEPH, lung transplants and lung cancer, offer significant market opportunities for Technegas. These are currently being targeted through clinical studies, such as the recently completed Chinese COPD trials. We estimate that the global COPD market alone is 30 times the size of the PE market. Technegas has the potential to be used not only for early diagnosis of COPD but also on a recurrent basis for COPD management.

In January 2016, we were delighted to announce positive preliminary trial results from our ongoing clinical trial in China, targeting the use of Technegas for the diagnosis of COPD. Specifically, the preliminary results of the trials showed Technegas was effective at diagnosing the extent of emphysema in trial patients and at an earlier stage of the disease than standard diagnostic methods. Technegas was also more accurate at measuring impairment in lung function and therefore better able to monitor the effectiveness of treatment.

While these positive preliminary trial results were anticipated, they provide a platform for the Company to present the findings to clinicians globally at medical conferences and through peer-reviewed published papers, in order to encourage the usage of Technegas in not only the diagnosis and treatment monitoring of COPD but also the expansion of the traditional market of diagnosing PE.

Confirmation of the efficacy of Technegas for treating COPD may lead to a significant expansion of the sales of Technegas globally. COPD is currently the fourth leading cause of death worldwide, and the World Health Organisation (WHO) predicts it will rise to the third leading cause by 2030. The Lung Foundation Australia estimates that approximately over 1.45 million Australians have some form of COPD. This represents approximately one in seven Australians over age 40. In China it has been estimated that there will be 65 million deaths from COPD and 18 million deaths from lung cancer between 2003 and 2033.

The commencement of the pilot clinical trial in China coincided with the results of a study published in the North American Journal of Nuclear Medicine by Canadian researchers from McMaster University and the Firestone Institute for Respiratory Health, which demonstrated that Technegas detected changes in lung ventilation and perfusion before structural changes in the lungs were detected by CT scans.

Preliminary results of the trials early in 2016 showed Technegas was effective at diagnosing the extent of emphysema in trial patients and at an earlier stage of the disease than standard diagnostic methods.

Preliminary results from the trial in several Chinese hospitals are the subject of three abstracts, which were submitted for display at the European Respiratory Society's conference in London in September 2016 with peer-reviewed publications expected to be published in early 2017.

Our participation at the European Respiratory Society's conference and at the Chinese Thoracic Society meeting (also in September) and the Asian Pacific Society of Respiratory conference in November 2016, were important initiatives to actively engage with referring physicians. We believe this engagement will assist both the promotion of additional indications for Technegas and support the existing use of our product in the detection of PE.

In 2017, Cyclopharm intends to present at a number of respiratory focused conferences to educate clinicians on the benefits of Technegas in the treatment and monitoring of their patients. Additionally, the Company plans to make a number of small targeted investments to partner with other researchers and organisations, with the aim of expanding the number and types of trials and published results verifying the benefits of Technegas to relevant referring physicians and clinicians.

The Cyclopharm Board believes that the global COPD, asthma and lung cancer markets represent significant opportunities for the company to expand sales of Technegas materially, and that these markets have the potential to be a significant driver of shareholder value over the medium term.

Managing Director's Review

Continued

Based on the success of our work in China, the Company has commenced discussions with leading respiratory and nuclear medicine physicians in some of our more established markets with a view to initiating additional pilot clinical trials targeting applications in chronic respiratory disease states.

The next of these initiatives to commence, announced in October 2016, will be a combined collaboration with the University of Newcastle, Hunter Regional Medical Institute and John Hunter Hospital.

The study will seek to test two specific hypotheses:

1. There is ventilation heterogeneity among patients with severe obstructive airway diseases that can be assessed using Technegas functional lung ventilation imaging with quantification; and
2. Technegas functional lung ventilation imaging with quantification is responsive to change following intervention in patients with severe obstructive airway diseases.

The implication in advancing these hypotheses further could expand the use of Technegas by improving the diagnosis and management of patients with Chronic Obstructive Pulmonary Disease (COPD) and other small airways diseases.

Recruitment will commence during the first half of 2017. The trial is expected to be conducted throughout 2017 with results expected in early 2018. The cost of the trial is estimated to be approximately \$600,000.

ULTRALUTE™

Cyclopharm's patented nuclear medicine technology Ultralute™ extends the useful life of Molybdenum-99 (Mo-99) generators by up to 50%. This technology potentially gives nuclear medicine departments the ability to dramatically improve operating efficiencies and health outcomes for patients.

Mo-99 generators are used in diagnostic imaging to harvest Technetium-99m, or Tc-99m, which is the primary isotope used in diagnostic imaging throughout the world. This isotope accounts for approximately 80% of all nuclear medicine diagnostic imaging procedures.

Mo-99 has a half-life of 2.75 days. It then decays to Tc-99m, which has a 6-hour half-life. As Mo-99 decays there comes a time when the amount of Tc-99m eluted from the generator is so diluted that it becomes virtually unusable.

Initial testing and prototype designs of the Ultralute™ technology have provided exceptional results. Global industry interest in our Ultralute™ technology is strong and continues to accelerate.

In early 2016 the International Atomic Energy Agency (IAEA) held a scientific summit to review emerging technologies in the production and supply of Molybdenum-99 (Mo99). During the IAEA sponsored review, Cyclopharm's new technology Ultralute™ was recognised for its optimisation of the isotope Tc99m.

Following a recommendation from summit participants, the IAEA has formally invited Cyclopharm to collaborate in launching a multi-country, multi-centre evaluation of Ultralute™ in 2017.

The invitation from the IAEA represents significant recognition for the technology's potential. In particular, Cyclopharm notes that in its invitation the IAEA referred to Ultralute™ as a "new innovation...that has significant global potential in the nuclear medicine supply chain".

First commercial sales of Ultralute™ are expected in the first half of 2017.

Managing Director's Review

Continued

JOINT VENTURE - MACQUARIE MEDICAL IMAGING

Cyclopharm's medical imaging joint venture, MMI, provides patients at Macquarie University Hospital (MUH) and neighbouring suburbs with access to state-of-the-art imaging facilities, including 3T MRI, CT, X-ray, Ultrasound and Positron Emission Tomography (PET) scanning.

Growth in MMI is tied closely to the Hospital's ramp-up. Sales revenue increased 8% in 2016 as result of initiatives being implemented at MUH, including a new breast cancer clinic and expanded specialties such as cardiothoracic services, cancer care services and expanded PET indications.

In November 2016 MMI opened a satellite practice located at the nearby Macquarie Shopping Centre. Services at the Macquarie Shopping Centre are limited to high volume procedures to include x-ray, ultrasound and CT. Initial trading results are encouraging with the location drawing patients, shoppers, employees and the numerous businesses in the immediate business district.

The joint venture is accounted for on an equity basis due to Cyclopharm's minority shareholding. As a result, MMI's full accounts are not consolidated into our accounts.

MOLECULAR IMAGING TRADING AS CYCLOPET

Cyclopharm continues to consider the long-term status of its Cyclotron facility, for which the Company received a net \$2.1 million in insurance proceeds in December 2015 following substantial water damage from attempts by the authorities to extinguish a fire in the carpark on the floor above the facility in June 2014.

Our goal is to achieve ongoing use of the Cyclotron facility and active negotiations are continuing.

NEW CORPORATE HEADQUARTERS

Cyclopharm has established new corporate headquarters and an operational facility at Kingsgrove NSW, a suburb of Sydney.

The new production facility will provide the necessary operational capacity required to support Technegas' organic growth in existing markets and ultimate expansion of Technegas into the sizable and lucrative United States market.

The fit-out process and relocation did not impact Cyclopharm's ongoing R&D, operational performance or ability to fund growth initiatives or USFDA trials. Total cash costs of the fit-out were approximately \$1.4 million, which have been capitalised and will be amortised as leasehold improvement costs over the ten-year lease period, in accordance with accounting principles.

Directors' Report

The Directors of Cyclopharm submit their report for the year ended 31 December 2016.

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 D J Heaney – Non Executive Chairman (Independent)

Mr Heaney was appointed to the Cyclopharm Board on 20 November 2007 and is currently the Acting Chairman of Cyclopharm and of the Audit and Risk, Remuneration and Board Nomination Committees.

Mr Heaney served as a non-executive director of Colorpak Limited from February 2004 until May 2016.

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 72 years old.

Mr V R Gould – Non Executive Director

M Com, FCA, FCPA, B Com

Mr Gould has been a member of the Board since 21 November 2005. He was the Group Non-Executive Chairman and Chairman of the Audit and Risk, Board Nominations, and Remuneration Committees of the Group until his voluntary redesignation as a Non-Executive Director on 7 October 2016. Mr Gould remained as a member of the Audit and Risk, Board Nomination, and Remuneration Committees as from that date.

Mr Gould has broad business experience having practiced as a chartered accountant for more than 30 years. He is also a director of Vita Life Sciences Limited (listed on the ASX) and a director of several other private companies and educational establishments.

Mr Gould lives in Sydney and is 68 years old.

Mr J S McBrayer – Managing Director and Company Secretary

BSP Pharm, 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 29 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 51 years old.

Directors' Report

Continued

DIRECTORS (CONTINUED)

Mr H G Townsing – Non Executive Director (Independent)

Dip Val

Mr Townsing was reappointed to the Board on 16 September 2013. He had previously served as a member of the Board from 22 November 2005 to 27 February 2009. Mr Townsing did not seek re-election as a Director at the Company's Annual General Meeting held on 11 May 2016.

Mr Townsing has over 20 years experience in company finance and private equity. Mr Townsing is also an Executive Director of Vita Life Sciences Limited (listed on the ASX).

Mr Townsing lives in Melbourne and is 61 years old.

Mr J S McBrayer – Company Secretary

Mr McBrayer was appointed as Company Secretary on 25 March 2011.

Interests in the shares of the Company and related bodies corporate

The number of ordinary Cyclopharm shares (no options are on issue) held directly, indirectly or beneficially, by Directors, including their personally-related entities as at the date of this report is as follows:

	Interest	As at report date
		No. of shares
<hr/>		
Directors		
Mr VR Gould	NBI	11,271,299
Mr DJ Heaney	BI	150,000
Mr JS McBrayer	BI	3,536,828
Mr H Townsing*	NBI	-
		<hr/>
		14,958,127
		<hr/>

* Mr Townsing did not seek re-election as a Director at the Company's Annual General Meeting held on 11 May 2016.

On 19 December 2014, Justice Perram delivered his judgement in the case of Hua Wang Bank Berhad v Commissioner of Taxation [2014] FCA 1392 in which he said that Director Vanda Gould controlled certain companies that are shareholders of the Company, which would in turn, increase Mr Gould's interests in the Company. Mr Gould acknowledges he acted as advisor to those companies and their principals, however does not believe he had the requisite control to constitute relevant interests in those companies. Neither the Company nor Mr Gould were listed parties in the subject proceedings nor was Mr Gould a witness in the case. Mr Gould has advised that he may contest the assertion that he controls certain companies that are shareholders in the Company in the appropriate forums. In order to avoid a possible breach of the Corporations Act 2001 it has been considered appropriate at this stage to increase the number of shares in which Mr Gould is recorded as having a relevant interest from 2,341,299 to 11,271,299.

Directors' Report

Continued

DIVIDENDS

On 22 February 2017, the Directors declared a final unfranked dividend of 0.5 cents per share in respect of the financial year ended 31 December 2016, to be paid on 10 April 2017 to those shareholders registered on 3 April 2017. An interim partially franked dividend of 0.5 cents per share was paid on 12 October 2016.

A final fully franked dividend of 0.5 cents per share in respect of the financial year ended 31 December 2015 was paid on 19 April 2016.

The balance of franking credits available for future dividend payments is \$1,039.

PRINCIPAL ACTIVITIES

During the year, the principal activities of the consolidated entity consisted of the manufacture and sale of medical equipment and radiopharmaceuticals, including associated research and development. There were no significant changes in the nature of the consolidated entity's principal activities during the financial year.

OPERATING AND FINANCIAL REVIEW

Operating Results for the Year

For the financial year, Cyclopharm recorded a consolidated profit after tax of \$891,368. Profit from the operations of the Technegas division was \$1,707,229.

The Technegas business's profit after tax of \$1,707,229 was consistent with 2015's profit of \$1,704,623 with divisional revenue of \$14,385,507 being 15.0% higher than the previous year (2015: \$12,507,919). The significantly higher revenue was assisted by the Group's single largest order consisting of 50 Technegas Generators and 250 boxes of PAS, valued at \$1.38 million.

Technegas division EBIT of \$1,805,799 decreased by 16.3%, impacted by higher USFDA clinical trial costs of \$1,098,505 (2015: \$686,410) and approximately \$0.43 million incurred in one-off relocation costs.

Cyclopet recorded a loss after tax of \$815,861 to the group (2015: profit after tax of \$3,088,424). In 2015, an insurance settlement of \$2,104,689 net of costs was received relating to water damage to the cyclotron facility resulting from a car park fire at Macquarie University Hospital in 2014.

Financial Position

Net assets decreased to \$12,461,803 at 31 December 2016 (2015: \$13,102,243) due primarily to an adverse movement of \$1,082,967 in the foreign currency translation reserve and \$891,368 net profit.

Cashflow from operations of \$654,794 partly supported ongoing investment in USFDA trials, capital expenditure for the new Kingsgrove factory and the payment of dividends. Net cash balance was \$4,590,760 at 31 December 2016.

Further details of Cyclopharm's Operating and Financial Review are set out on pages 5 to 15 of the Managing Director's Review.

Directors' Report

Continued

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

Shares Cancelled and Issued during the Year

The Company issued 138,000 Long Term Incentive Plan shares on 25 July 2016. There were no other shares cancelled or issued during the year.

Other than as set out above, there were no significant changes in the state of affairs of the Cyclopharm Group during the year.

SIGNIFICANT EVENTS AFTER BALANCE DATE

FINAL DIVIDEND

On 22 February 2017, the Directors declared a final unfranked dividend of 0.5 cents per share in respect of the financial year ended 31 December 2016, payable on 10 April 2017.

Other than the above, no matters or circumstances have arisen since the end of the financial year, not otherwise dealt with in the financial report, which significantly affected or may significantly affect the operations of the Group, financial position or the state of affairs of the Group in future financial periods.

LIKELY DEVELOPMENTS AND FUTURE RESULTS

Technegas

In 2017 we expect Technegas revenues to grow modestly across our existing markets. We also continue to actively pursue the regulatory approvals to commence sales in other promising new markets such as Russia and other countries within the European Union.

The opportunities for developing additional Technegas indications, particularly for COPD, will continue to be a key priority. If successful, there is significant potential to expand Technegas' revenue and profitability over the medium to longer term.

The Directors maintain their view that FDA approval to sell Technegas into the USA market provides Cyclopharm with the opportunity to significantly expand its sales and profitability. However, it should be highlighted that as expenditure incurred in relation to the FDA trials is expensed rather than capitalised, Cyclopharm's results will be adversely impacted when clinical trials ramp up. The Directors are currently determining alternatives to fund the FDA trials in the USA including partnership.

Molecular Imaging

It was announced on 20 June 2014 that substantial water damage occurred to the cyclotron facility following attempts by the authorities to extinguish a fire in the carpark on the floor above the facility. In December 2015, Cyclopharm announced that a settlement had been reached with our insurers. Under the settlement, Cyclopharm received a net \$2.10 million, after costs.

The Company is currently in discussions regarding the long term status of the facility which it is hopeful will result in a positive outcome for the ongoing use of the cyclotron facility and the realisation of further value to the Company.

Directors' Report

Continued

Ultralute™

Modest revenues from the Ultralute™ technology are expected to commence in the first half of 2017. However, Ultralute™ is not expected to contribute to 2017 earnings due to the impact of ramp-up costs as production and sales capabilities are developed.

MATERIAL BUSINESS RISKS

The Directors have identified the following material business risks which may, if they eventuate, substantially impact on the future performance of the Cyclopharm Group, along with its approach to managing these risks. The risk factors listed below are not exhaustive. Additional risks may also adversely affect the financial performance of Cyclopharm.

Competition

To date, Cyclopharm has demonstrated that it can compete effectively in the medical equipment / drug market in Australia and many other parts of the world.

The medical equipment / drug industry is very competitive and characterised by large international companies supplying much of the global market requirements. The emergence of new and/or unauthorised generic technologies could in certain circumstances make the Technegas System redundant or negatively impact on the Cyclopharm Group's plans to develop its Ultralute™ business.

Accordingly, there is a business risk in that Cyclopharm's key revenue source from the Technegas System could be severely disrupted or reduced. There are products that do compete with Technegas, in particular Computed Tomography and DTPA. These products could replace Technegas and therefore negatively impact Cyclopharm Group's revenue and profitability. The Directors note that the lengthy periods it takes to achieve regulatory approval and gain medical practitioners' approval and acceptance of new or generic products, Cyclopharm Group's reputation for timely and quality service, the safety record of Technegas and its competitive pricing, mitigate these risks.

In addition, the Cyclopharm Group's business plan and stated strategy is to continue to develop sales in new and existing international markets and to develop new diagnostic purposes for Technegas.

Reputation

The performance of the Cyclopharm Group's products is critical to its reputation and to its ability to achieve market acceptance of these products. Any product failure could have a material adverse effect on the Cyclopharm Group's reputation as a supplier of these products. Technegas has had no contraindications or adverse patient events since the commencement of sales.

Disruption of Business Operations

As a manufacturer, the Cyclopharm Group is exposed to a range of operational risks relating to both current and future operations. Such operational risks include equipment failures, IT system failures, external services failure (including energy supply), industrial action or disputes and natural disasters. If one or more such operational risks materialize, they may have an adverse impact on the operating and financial performance of Cyclopharm.

Reliance on Distributors / Loss of key customers

The Cyclopharm Group operates through a series of contractual relationships with customers, suppliers, distributors and independent contractors. To date, the Cyclopharm Group has generally provided products and services on the basis of tenders submitted to customers, followed by purchase orders incorporating the customer's standard terms and conditions of trade as a condition of the acceptance.

Cyclopharm Group maintains a spread of customers through direct and indirect sales channels. The loss of a major distributor could have a significant, adverse impact on Cyclopharm's projected earnings. The majority of sales through distributors or agents are managed through contractual arrangements. Whilst the Cyclopharm Group has distribution agreements in place, some may be terminated by the distributor with up to six months' notice prior to the expiration of the current terms (which vary). Other sales arrangements are not in writing and depend on the ongoing goodwill of the parties. The Directors are concerned to ensure that all such relationships are formalised.

Directors' Report

Continued

All contracts, including those entered into by the Cyclopharm Group, carry a risk that the respective parties will not adequately or fully comply with their respective contractual rights and obligations or that these contractual relationships may be terminated.

Cyclopharm's financial result could be adversely affected by the loss of large customers, a change in the terms of business with a large customer, or by such customers not adequately or fully complying with their respective contractual rights and obligations. However, the risks are mitigated by the existence of numerous alternatives available given that Technegas is a highly sought after product.

Funding

The Directors are currently determining alternatives to fund the FDA trials in the USA including partnership. Any additional equity financing may be dilutive to shareholders and debt financing, if available, may involve restrictions on financing and operating activities. There can be no assurance that Cyclopharm will be able to raise such financing on favourable terms or at all.

Currency and Exchange Rate Fluctuations

The financial contribution to the Cyclopharm Group of the Technegas System will depend on the movement in exchange rates between the Australian dollar and a number of foreign currencies, particularly the Euro.

The exchange rate between various currencies may fluctuate substantially and the result of these fluctuations may have a material adverse impact on Cyclopharm's operating results and financial position. In the long term, Cyclopharm's ability to compete against imported products may be adversely affected by an expectation of a sustained period of a high Australian dollar that would reduce the Cyclopharm Group's price competitiveness.

The majority of the Cyclopharm Group's expenses are currently payable in Australian dollars. The Cyclopharm Group also supplies its product to overseas markets and hence is exposed to movements in the A\$ exchange rate. The Cyclopharm Group does not enter into forward exchange contracts to hedge its anticipated purchase and sale commitments denominated in foreign currencies. Therefore, Cyclopharm is exposed to exchange rate fluctuations.

Doing Business Internationally

As the Cyclopharm Group is and will continue operating in numerous countries, the Cyclopharm Group will be exposed to risks such as unexpected changes in regulatory requirements (including taxation), longer payment cycles, problems in collecting debts, fluctuation in currency exchange rates, foreign exchange controls which restrict or prohibit repatriation of funds and potentially adverse tax consequences, all of which could adversely impact on Cyclopharm.

The Cyclopharm Group currently requires, and in the future may require further, licenses to operate in foreign countries which may be difficult to obtain and retain depending on government policies and political circumstances.

Regulatory

Future expansion of Cyclopharm's range of products and services may be governed by regulatory controls in each target market and it is not possible for Cyclopharm to guarantee that approvals in all target markets will be obtained and maintained in the future.

The Technegas System is required to be registered with the relevant regulatory bodies in each country or relevant jurisdiction. If for any reason such product registrations are withdrawn, cancelled (or otherwise lose their registered status) or are not renewed, it would have a significant effect on the sales of products which rely on them in the relevant country or countries.

Technegas' manufacturing does not involve the emission of any environmentally sensitive materials and the Cyclopharm Group is not required to hold any environmental licence or consent under the *Environmental Protection Act* (Cth). It is possible that this could change with the development of new products and any additional regulatory requirements could impact upon the profitability of the group.

Directors' Report

Continued

The Cyclopharm Group has obtained:

- a Certificate of Device listing on the Australian Register of Therapeutic Goods Register for the Technegas System;
 - a CE Mark approval for the device elements of the Technegas System in EU;
 - a marketing authorization for the drug aspect of Technegas in EU; and
- must retain these approvals while it continues to produce and sell the Technegas System.

A successful audit of the new manufacturing premises by the Therapeutic Goods Administration along with other regulatory agencies where Technegas is sold will be required.

Cyclopet Pty Limited, which is involved in the operations of the cyclotron, is subject to significant environmental regulations under the Radiation Control Act, 1990 by the Department of Environment, Climate Change and Water.

Intellectual Property Rights

The Cyclopharm Group's success may be affected by its ability to maintain patent protection for products and processes, to preserve its trade secrets and to operate without infringing the proprietary rights of third parties.

Patents

Unless challenged, the validity of a patent or trademark may be assumed. Any patent or trademark may be challenged on a number of grounds but the onus is on the party seeking revocation to establish those grounds.

All patents and trademarks require renewal at regular dates and if not renewed will expire. It is the Cyclopharm Group's practice to renew its patents and trademarks as required. The Directors note that whilst some patents have expired or have not been renewed, or remain to be transferred or licensed to Cyclopharm Group companies, there remains sufficient protection in these countries through other patent arrangements in place or being put in place.

The validity and breadth of claims covered in patents involve complex legal and factual questions and therefore may be highly uncertain. No assurance can be given that the pending applications will result in patents being issued, that such patents or the current patents will provide a competitive advantage or that competitors of the Cyclopharm Group will not design around any patents issued. Further, any information contained in the patent applications will become part of the public domain, so that it will not be protected as confidential information. As legal regulations and standards relating to the validity and scope of patents evolve, the degree of future protection of the Cyclopharm Group's proprietary rights is uncertain. However, those regulations and standards in the field of nuclear medicine (in which the Cyclopharm Group's technology resides) are relatively well established and non-controversial.

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.

Directors' Report

Continued

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 2017 is \$16,744 (for the year ended 31 December 2016: \$15,144).

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 35.

Fees of \$23,760 (2015: \$20,662) have been paid for share registry services and fees of \$27,802 (2015: \$15,000) for taxation services to an associate of Nexia Sydney Audit Pty Ltd for the year ended 31 December 2016 for non-audit related services. The Board of Directors is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of each type of non-audit service does not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

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 (AUDITED)

The Remuneration Report outlines the director and executive remuneration arrangements of the Company and the group and the remuneration disclosures required in accordance with the requirements of the Corporations Act 2001 and its Regulations. 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.

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.

Directors' Report

Continued



Director and Executive Remuneration Table

	Short-term employee benefits			Post employment benefits	Other Long-term benefits	Termination benefits	Share-based payment	Total	Performance related
	Salary & Fees	Cash Bonus	Non-monetary benefits	Superannuation					
Consolidated	\$	\$	\$	\$	\$	\$	\$	\$	%
2016									
Directors									
Vanda Gould Non-Executive Director	46,966	-	-	-	-	-	-	46,966	0%
David Heaney Non-Executive Director	46,309	-	-	-	-	-	-	46,309	0%
Henry Townsing Non-Executive Director	11,888	-	-	-	-	-	-	11,888	0%
Executive Director									
James McBrayer * Managing Director	321,126	50,000	-	34,178	6,317	-	70,584	482,205	25%
Total Directors' Compensation	426,289	50,000	-	34,178	6,317	-	70,584	587,368	21%

* Mr McBrayer is employed on a rolling contract and his bonus, up to a maximum of \$50,000, is based on achieving certain benchmarks and targets, which in the absence of any formal agreement will default to achieving the budgeted Profit After Tax approved by the Board of Directors.

Directors' Report

Continued

Director and Executive Remuneration Table

Consolidated	Short-term employee benefits			Post employment benefits	Other Long-term benefits	Termination benefits	Share-based payment	Total	Performance related
	Salary & Fees \$	Cash Bonus \$	Non-monetary benefits \$	Superannuation \$	\$	\$	\$	\$	%
2016									
Key Management Personnel									
Nabil Morcos* Chief Operating Officer & Director of Science	186,739	-	-	22,850	4,087	265,223	21,631	500,530	4%
Gary Somerville Quality and Regulatory Manager	135,187	-	-	12,843	3,930	-	-	151,960	0%
Caryn Cheah Financial Controller	53,462	-	-	5,079	5,190	-	706	64,437	1%
Graham Phillips Finance Manager	133,652	-	-	12,697	5,672	-	706	152,727	0%
Charles Buttigieg ** Sales and Marketing Manager - Australia	168,826	16,000	-	17,458	3,720	-	1,412	207,416	8%
Bjorn Altmann General Manager – Europe	156,064	-	-	-	-	-	719	156,783	0%
Lynn McLauchlin ** General Manager – Canada	149,436	20,331	-	2,236	-	-	1,412	173,415	13%
Total Key Management Personnel's Compensation	983,366	36,331	-	73,163	22,599	265,223	26,586	1,407,268	4%
Total Compensation	1,409,655	86,331	-	107,341	28,916	265,223	97,170	1,994,636	9%

* Professor Morcos' position was made redundant in November 2016.

** Employed on rolling contracts. Bonuses are based on achieving sales targets combined with a discretionary portion based on general management performance.

Directors' Report

Continued

Director and Executive Remuneration Table

	Short-term employee benefits			Post employment benefits	Other Long-term benefits	Share-based payment	Total	Performance related
	Salary & Fees	Cash Bonus	Non-monetary benefits	Superannuation				
Consolidated	\$	\$	\$	\$	\$	\$	\$	%
2015								
Directors								
Vanda Gould Non-Executive Director	31,827	-	-	-	-	-	31,827	0%
David Heaney Non-Executive Director	31,827	-	-	-	-	-	31,827	0%
Henry Townsing Non-Executive Director	31,827	-	-	-	-	-	31,827	0%
Executive Director								
James McBrayer * Managing Director	307,142	50,000	-	32,905	13,757	121,342	525,146	33%
Total Directors' Compensation	402,623	50,000	-	32,905	13,757	121,342	620,627	28%

* Mr McBrayer is employed on a rolling contract and his bonus, up to a maximum of \$50,000, is based on achieving certain benchmarks and targets, which in the absence of any formal agreement will default to achieving the budgeted Profit After Tax approved by the Board of Directors.

Directors' Report

Continued

Director and Executive Remuneration Table

	Short-term employee benefits			Post employment benefits	Other Long-term benefits	Share-based payment	Total	Performance related
	Salary & Fees	Cash Bonus	Non-monetary benefits	Superannuation				
Consolidated	\$	\$	\$	\$	\$	\$	\$	%
2015								
Key Management Personnel								
Nabil Morcos Chief Operating Officer & Director of Science	205,841	-	-	19,555	12,917	7,514	245,827	3%
Gary Somerville Quality and Regulatory Manager	129,339	-	-	12,287	4,382	-	146,008	0%
Caryn Cheah Financial Controller	48,565	-	-	4,614	1,057	376	54,612	1%
Graham Phillips Finance Manager	123,085	-	-	11,693	3,403	376	138,557	0%
Charles Buttigieg * Sales and Marketing Manager - Australia	161,522	15,750	-	16,841	4,129	751	198,993	8%
Bjorn Altmann General Manager – Europe	154,753	-	-	-	-	-	154,753	0%
Lynn McLauchlin * General Manager – Canada	154,693	20,764	-	-	-	751	176,208	12%
Total Key Management Personnel's Compensation	977,798	36,514	-	64,990	25,888	9,768	1,114,958	4%
Total Compensation	1,380,421	86,514	-	97,895	39,645	131,110	1,735,585	13%

* Employed on rolling contracts. Bonuses are based on achieving sales targets combined with a discretionary portion based on general management performance.

Directors' Report

Continued

Cyclopharm Limited

Details of Managing Director and Key Management Personnel's Share-based payments 2016

Name	Number of LTIP shares granted	Fair Value at grant date	Exercise price per LTIP share scheme	Amount payable	Term	Expiry date	Performance Hurdle
James McBrayer	1,721,554	\$0.082	\$0.900	\$1,549,399	2 years	12/7/2017	* Employment as Managing Director for 2 years commencing on 26 May 2015.
Nabil Morcos	344,311	\$0.082	\$0.900	\$309,880	2 years	12/7/2017	**33% on approval of a business case by the Board, 33% when revenues are produced and 33% when a positive return on investment is achieved
Charles Buttigieg	34,431	\$0.082	\$0.900	\$30,988	2 years	12/7/2017	50% on achievement of 2015 revenue and gross margin budget and 50% on achievement of 2016 revenue and gross margin budget
Charles Buttigieg	10,000	\$0.330	\$1.200	\$12,000	2 years	25/7/2018	50% on achievement of revenue and gross margin budget for 2016 and 2017 and 50% on achievement of strategic objectives as agreed with the Managing Director
Bjorn Altmann	10,000	\$0.330	\$1.200	\$12,000	2 years	25/7/2018	50% on achievement of revenue and gross margin budget for 2016 and 2017 and 50% on achievement of strategic objectives as agreed with the Managing Director
Lynn McLauchlin	34,431	\$0.082	\$0.900	\$30,988	2 years	12/7/2017	50% on achievement of 2015 revenue and gross margin budget and 50% on achievement of 2016 revenue and gross margin budget
Lynn McLauchlin	20,000	\$0.330	\$1.200	\$24,000	2 years	25/7/2018	50% on achievement of revenue and gross margin budget for 2016 and 2017 and 50% on achievement of strategic objectives as agreed with the Managing Director
Caryn Cheah	17,216	\$0.082	\$0.900	\$15,494	2 years	12/7/2017	50% on lodgement of 2015 Annual and Half Year Report and 50% on lodgement of 2016 Annual and Half Year Report
Caryn Cheah	10,000	\$0.330	\$1.200	\$12,000	2 years	25/7/2018	50% on lodgment of 2016 Annual and Half Year Report and 50% on lodgment of 2017 Annual and Half Year Report
Graham Phillips	17,216	\$0.082	\$0.900	\$15,494	2 years	12/7/2017	50% on lodgement of 2015 Annual and Half Year Report and 50% on lodgement of 2016 Annual and Half Year Report
Graham Phillips	10,000	\$0.330	\$1.200	\$12,000	2 years	25/7/2018	50% on lodgment of 2016 Annual and Half Year Report and 50% on lodgment of 2017 Annual and Half Year Report
Other non-Key Management Personnel	34,431	\$0.082	\$0.900	\$30,988	2 years	12/7/2017	
Other non-Key Management Personnel	78,000	\$0.330	\$1.200	\$93,600	2 years	25/7/2018	
	2,341,590			\$2,148,831			

* On 26 May 2015, the date of the 2015 Annual General Meeting, shareholders approved Mr McBrayer's Performance Hurdle to be "Employment as Managing Director for 2 years commencing on 26 May 2015."

** Performance Hurdle will be deemed to be satisfied upon repayment of the LTIP share loan in accordance with the terms of a Deed of Settlement and Release executed by the Company and Professor Morcos on 14 November 2016.

Directors' Report

Continued

Cyclopharm Limited

Details of Managing Director and Key Management Personnel's Share-based payments 2015

Name	Number of LTIP shares granted	Fair Value at grant date	Exercise price per LTIP share scheme	Amount payable	Term	Expiry date	Performance Hurdle
James McBrayer	1,721,554	\$0.082	\$0.90	\$189,580	2 years	12/7/2017	* Employment as Managing Director for 2 years commencing on 26 May 2015.
Nabil Morcos	344,311	\$0.082	\$0.90	\$309,880	2 years	12/7/2017	33% on approval of a business case by the Board, 33% when revenues are produced and 33% when a positive return on investment is achieved
Charles Buttigieg	34,431	\$0.082	\$0.90	\$30,988	2 years	12/7/2017	50% on achievement of 2015 revenue and gross margin budget and 50% on achievement of 2016 revenue and gross margin budget
Lynn McLauchlin	34,431	\$0.082	\$0.90	\$30,988	2 years	12/7/2017	50% on achievement of 2015 revenue and gross margin budget and 50% on achievement of 2016 revenue and gross margin budget
Caryn Cheah	17,216	\$0.082	\$0.90	\$15,494	2 years	12/7/2017	50% on lodgement of 2015 Annual and Half Year Report and 50% on lodgement of 2016 Annual and Half Year Report
Graham Phillips	17,216	\$0.082	\$0.90	\$15,494	2 years	12/7/2017	50% on lodgement of 2015 Annual and Half Year Report and 50% on lodgement of 2016 Annual and Half Year Report
Other non-Key Management Personnel	34,431	\$0.082	\$0.900	\$30,988	2 years	12/7/2017	
	2,203,590			\$623,412			

* On 26 May 2015, the date of the 2015 Annual General Meeting, shareholders approved Mr McBrayer's Performance Hurdle to be "Employment as Managing Director for 2 years commencing on 26 May 2015."

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 2015	Granted under long term incentive schemes	Included as a result of litigation *	Transferred to family superfund account	On market sales	31 December 2016
		No. of shares	No. of shares	No. of shares	No. of shares	No. of shares	No. of shares
Directors							
Mr VR Gould	NBI	2,341,299	-	8,930,000	-	-	11,271,299
Mr DJ Heaney	BI	150,000	-	-	-	-	150,000
Mr JS McBrayer	BI	3,476,828	-	-	60,000	-	3,536,828
Mr JS McBrayer	NBI	60,000	-	-	(60,000)	-	-
Mr H Townsing**	NBI	-	-	-	-	-	-
		6,028,127	-	8,930,000	-	-	14,958,127
Key Management Personnel							
Prof N Morcos***	BI	555,970	-	-	-	(6,861)	549,109
Mr C Buttigieg	BI	34,431	10,000	-	-	-	44,431
Mr B Altmann	BI	-	10,000	-	-	-	10,000
Ms L McLauchlin	BI	34,431	20,000	-	-	-	54,431
Ms C Cheah	BI	17,216	10,000	-	-	-	27,216
Mr G Phillips	BI	17,216	10,000	-	-	-	27,216
		659,264	60,000	-	-	(6,861)	712,403

NBI: Non beneficial interests

BI: Beneficial interest

* Refer to explanation in the paragraph below.

** Mr Townsing did not seek re-election as a Director at the Company's Annual General Meeting held on 11 May 2016.

*** Professor Morcos' position was made redundant in November 2016.

On 19 December 2014, Justice Perram delivered his judgement in the case of Hua Wang Bank Berhad v Commissioner of Taxation [2014] FCA 1392 in which he said that Director Vanda Gould controlled certain companies that are shareholders of the Company, which would in turn, increase Mr Gould's interests in the Company. Mr Gould acknowledges he acted as advisor to those companies and their principals, however does not believe he had the requisite control to constitute relevant interests in those companies. Neither the Company nor Mr Gould were listed parties in the subject proceedings nor was Mr Gould a witness in the case. Mr Gould has advised that he may contest the assertion that he controls certain companies that are shareholders in the Company in the appropriate forums. In order to avoid a possible breach of the Corporations Act 2001 it has been considered appropriate at this stage to increase the number of shares in which Mr Gould is recorded as having a relevant interest from 2,341,299 to 11,271,299.

Remuneration Committee

The Remuneration Committee currently comprises of Mr Heaney, who is the Acting Chairman of the Remuneration Committee and Mr Gould.

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.

Directors' Report

Continued



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 May 2015 when Shareholders approved an aggregate remuneration increase from \$100,000 to \$200,000 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.

Directors' Report

Continued



Remuneration consists of the following key elements:

- Fixed remuneration (base salary, superannuation and non-monetary benefits); and
- 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 (STI)

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 (LTI)

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 periods (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.

Directors' Report

Continued



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. Mr McBrayer's remuneration for 2016 and 2015 is disclosed in the tables on pages 24 and 26. Under the terms of the present contract:

- 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, which in the absence of any formal agreement will default to achieving the budgeted Profit After Tax approved by the Board of Directors. This amount is entirely performance based and seeks to strengthen the alignment of the Managing Director's interests with those of the Company's shareholders.
- 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 is only entitled to that portion of remuneration that is fixed, and only up to the date of termination.
- Mr McBrayer is entitled to receive strictly limited recourse loans under the Company's LTIP to purchase shares.
- On 1 September 2014, two strictly limited recourse loans were made to Mr McBrayer under the Company's LTIP to purchase shares for a period of 2 years. The first loan was to enable the purchase of 861,728 shares at the price of 22 cents per share and the second loan was to enable the purchase of 861,728 shares at the price of 25 cents per share. On 26 May 2015, shareholders approved the performance hurdles to be "Employment as Managing Director for 2 years commencing on 15 May 2013." The LTIP shares vested on 26 May 2015, the date of the 2015 Annual General Meeting ("AGM") given that it was more than 2 years since the 2013 AGM which was held on 15 May 2013.
- On 13 July 2015, a strictly limited recourse loan was made to Mr McBrayer under the Company's LTIP to purchase shares for a period of 2 years. The loan was to enable the purchase of 1,721,554 shares at the price of 90 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 individual's 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.

Related Parties

The Directors disclose any conflict of interests in Directors' meetings as per the requirements under the Corporations Act (2001). Any disclosures that are considered to fall under the definition of related parties as per AASB 124 'Related Party Disclosures' are made in the Directors' meetings and minuted.

End of Remuneration Report

Directors' Report

Continued

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 & Risk Committee Meetings		Board Nomination Committee		Remuneration Committee Meetings	
	No. of Meetings Eligible to Attend	No. of Meetings Attended	No. of Meetings Eligible to Attend	No. of Meetings Attended	No. of Meetings Eligible to Attend	No. of Meetings Attended	No. of Meetings Eligible to Attend	No. of Meetings Attended
Mr V R Gould	10	10	3	3	-	-	2	2
Mr D J Heaney	10	10	3	3	-	-	2	2
Mr J M McBrayer	10	10	-	-	-	-	-	-
Mr H Townsing*	5	1	-	-	-	-	-	-

* Mr Townsing did not seek re-election as a Director at the Company's Annual General Meeting held on 11 May 2016.

SHARE OPTIONS

There were no share options on issue as at year end.

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 McBrayer
Managing Director and CEO

Sydney, 28 March 2017

Auditor's Independence Declaration

The Board of Directors
Cyclopharm Limited
Unit 4, 1 The Crescent
Kingsgrove NSW 2208

To the Board of Directors of Cyclopharm Limited

Auditor's Independence Declaration under section 307C of the *Corporations Act 2001*

As lead audit director for the audit of the financial statements of Cyclopharm Limited for the financial year ended 31 December 2016, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (a) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Nexia Sydney Audit Pty Limited



Stephen Fisher
Director

Dated: 28 March 2017

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 Corporate Governance Council best practice recommendations

The ASX Listing Rules require listed companies to include in their Annual Report a statement which discloses the extent to which they have followed the 29 best practice recommendations set by the ASX Corporate Governance Council (“ASX Recommendations”) during the reporting period. As a listed company, Cyclopharm must identify those recommendations which have not been followed for any part of the reporting period, the period during which they were not followed and provide reasons for non-compliance.

This Statement sets out in detail the Company’s compliance with the ASX Recommendations.

The Company considers that it has complied with all of the ASX Recommendations throughout the reporting period ended 31 December 2016, other than ASX Recommendation 2.1(a)(1) and 2.4 as from 17 November 2016 and ASX Recommendations 4.1(a)(1) and (2), 7.1(a)(1) and 8.1(a)(1) throughout the reporting period. Explanations for these departures are provided in this Statement in sections 2(d) and 3(a), (b) and (c). Where there is non-compliance, this is primarily due to the current size, scale and nature of Cyclopharm’s operations as it is uneconomic for smaller companies such as Cyclopharm to follow the same rules as Australia’s largest listed companies. A checklist summarising this is set out in section 9 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 2.34 (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 2016, there were two non-executive Directors and one executive director. The Acting Chairman, Mr Heaney, 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.

The Board has delegated to the Managing Director all of the necessary power and authority to manage the business of the Company on a day-to-day basis with the assistance of senior management. This includes execution of the strategy approved by the Board, managing performance and risk management.

Directors are encouraged to undertake professional development to enable them to develop and maintain the skills and knowledge needed to effectively perform their roles as Directors.

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

(c) Chairman

The Acting Chairman, Mr Heaney, satisfies the requirements for an independent director under *ASX Recommendation 2.3* as he is a non-executive director, and has a relevant interest in approximately 0.25% of the Shares (Recommendations permit 5%).

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 2.5 (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.

As Managing Director, Mr McBrayer is not considered to be an independent director.

As noted in section 2(c), Mr Heaney is considered to be an independent director. On 25 November 2016, Mr Gould notified the Company and the ASX of an increase in the number of Shares in which he had an indirect interest from 2,341,299 Shares to 11,271,299 Shares (with effect from 17

November 2016). As this represents a substantial shareholding (being approximately 18.9% of the total Shares on issue as at 31 December 2016), the Board considers that Mr Gould ceased to be an independent director with effect from 17 November 2016. Accordingly, as from the date the structure of the Board ceased to comply with ASX Recommendation 2.4 that a majority of the Board be independent directors.

ASX Recommendations 2.3, 2.4 (refer to best practice summary)

(e) Avoidance of conflicts of interest by a director

In accordance with the Corporations Act 2001 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 2001.

(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. Commencing January 2015, the Board has resolved to hold 8 scheduled meetings per year.

(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 1.6 (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 Heaney is Acting 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 Recommendation 2.1 (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 1.6 (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 Heaney, Acting Chairman of the Audit and Risk Committee and Mr Gould. The qualifications of the Committee members are located in the Directors' Report on page 16. The Audit and Risk 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 ASX Recommendation that it be chaired by an independent director who is not the chairperson of the Board. The Board believes that Mr Heaney (an independent director) is the most appropriate person to be elected Acting Chairman of the Committee. The Committee does not comply with the ASX Recommendation that it has at least 3 members. As noted in section 2(d), the Board considers that Mr Gould ceased to be an independent Director as from 17 November 2016. Accordingly, as from that date the Committee did not comply with the ASX Recommendation that a majority of its members be independent directors. The Board believes that the experience that Mr Heaney and Mr Gould 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 and 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; and
- Action plans to address control improvement areas.

The Company's Auditor, is required 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 4.1, 4.3, 7.1, 7.2 (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. All current Directors are members of the Committee and Mr Heaney (who is an independent Director) is the Acting Chairman of the Committee. The qualifications of the Committee members are located in the Directors' Report on page 16.

The primary function of the 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.

As noted in section 2(d), the Board considers that Mr Gould ceased to be an independent Director as from 17 November 2016. Accordingly, as from that date the Committee did not comply with the ASX Recommendation that a majority of its members be independent directors.

The Board has considered the competencies and experience of each of the Directors and believes that the current structure operates effectively and efficiently without the need for the appointment of additional independent directors or the creation of further sub-committees. 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 1.3, 2.1, 2.2 (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 comprises two non-executive Directors, namely Mr Heaney and Mr Gould. Mr Heaney (who is an independent Director) is the Acting Chairman of the Committee. The qualifications of the Committee members are located in the Directors' Report on page 16.

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 Committee does not comply with the ASX Recommendation that it has at least 3 members. As noted in section 2(d), the Board considers that Mr Gould ceased to be an independent Director as from 17 November 2016. Accordingly, as from that date the Committee did not comply with the ASX Recommendation that a majority of its members be independent directors. The Board believes that the experience that Mr Heaney and Mr Gould have in the finance industry adequately mitigates this non-compliance.

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

ASX Recommendations 1.3, 1.7, 8.1 (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, 7.2 (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 and manage risks in all of the Company's activities.

ASX recommendation 7.2 (refer to best practice summary)

(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 recommendation 4.2 (refer to best practice summary)

(d) Internal audit, review and risk evaluation

Due to its size, Cyclopharm does not have an internal audit function. Assurance is provided to the Board by senior management on the adequacy and effectiveness of management controls for risk. The external auditors will provide a report communicating significant deficiencies identified in internal controls during the audit to the board and management.

ASX recommendation 7.3 (refer to best practice summary)

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 pages 23 to 33. 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.

ASX recommendations 8.1, 8.3 (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 Shareholder 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.

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.

ASX Recommendation 5.1 (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 6.1, 6.2, 6.3, 6.4 (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 Recommendation 3.1 (refer to best practice summary)

8 Diversity

The Company publishes its Diversity Policy within the Corporate Governance section on Cyclopharm's website at www.cyclopharm.com.au.

The proportion of women employees within the following three levels as at 31 December 2016 are:

- | | |
|------------------------------|-----|
| • Whole organisation | 27% |
| • Senior executive positions | 15% |
| • 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; and
- Establish a senior mentoring program overseen by the Managing Director for all female senior managers.

ASX Recommendation 1.5 (refer to best practice summary)

9 Checklist for summarising the best practice recommendations and compliance

ASX Principle	Reference	Compliance
Principle 1: Lay solid foundations for management and oversight		
1.1 A listed entity should disclose:	2b	comply
(a) the respective roles and responsibilities of its board and management; and		
(b) those matters expressly reserved to the board and those delegated to management.		
1.2 A listed entity should:		comply
(a) undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a director; and		
(b) provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.		
1.3 A listed entity should have a written agreement with each director and senior executive setting out the terms of their appointment.	3b,3c	comply
1.4 The company secretary of a listed entity should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board.		comply
1.5 A listed entity should:	8	comply
(a) have a diversity policy which includes requirements for the board or a relevant committee of the board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the entity's progress in achieving them;		
(b) disclose that policy or a summary of it; and		
(c) disclose as at the end of each reporting period the measurable objectives for achieving gender diversity set by the board or a relevant committee of the board in accordance with the entity's diversity policy and its progress towards achieving them and either:		
(i) the respective proportions of men and women on the board, in senior executive positions and across the whole organisation (including how the entity has defined "senior executive" for these purposes); or		
(ii) if the entity is a "relevant employer" under the Workplace Gender Equality Act, the entity's most recent "Gender Equality Indicators", as defined in and published under that Act.		
1.6 A listed entity should:	2g, 2i	comply
(a) have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors; and		
(b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.		
1.7 A listed entity should:	3c	comply
(a) have and disclose a process for periodically evaluating the performance of its senior executives; and		
(b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.		
Principle 2: Structure the board to add value		
2.1 The board of a listed entity should:	2h, 3b	do not comply
(a) have a nomination committee which:		
(i) has at least three members, a majority of whom are independent directors; and		
(ii) is chaired by an independent director,		
and disclose:		
(iii) the charter of the committee;		
(iv) the members of the committee; and		
(v) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or		
(b) if it does not have a nomination committee, disclose that fact and the processes it employs to address board succession issues and to ensure that the board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively.		
2.2 A listed entity should have and disclose a board skills matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership.	3b	comply
2.3 A listed entity should disclose:	2c, 2d, Directors' Report	comply
(a) the names of the directors considered by the board to be independent directors;		
(b) if a director has an interest, position, association or relationship of the type described in Box 2.3 but the board is of the opinion that it does not compromise the independence of the director, the nature of the interest, position, association or relationship in question and an explanation of why the board is of that opinion; and		
(c) the length of service of each director.		
2.4 A majority of the board of a listed entity should be independent directors.	2a, 2d	do not comply
2.5 The chair of the board of a listed entity should be an independent director and, in particular, should not be the same person as the CEO of the entity.	2c	comply
2.6 A listed entity should have a program for inducting new directors and provide appropriate professional development opportunities for directors to develop and maintain the skills and knowledge needed to perform their role as directors effectively.	2b	comply

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

ASX Principle	Reference	Compliance
Principle 3: Act ethically and responsibly		
3.1 A listed entity should:	7a	comply
(a) have a code of conduct for its directors, senior executives and employees; and		
(b) disclose that code or a summary of it.		
Principle 4: Safeguard integrity in financial reporting		
4.1 The board of a listed entity should:		
(a) have an audit committee which:	3a	do not comply
(i) has at least three members, all of whom are non-executive directors and a majority of whom are independent directors; and		
(ii) is chaired by an independent director, who is not the chair of the board, and disclose:		
(iii) the charter of the committee;		
(iv) the relevant qualifications and experience of the members of the committee; and		
(v) in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or		
(b) if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner.		
4.2 The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.	4c	comply
4.3 A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.	3a	comply
Principle 5: Make timely and balanced disclosure		
5.1 A listed entity should:	6a	comply
(a) have a written policy for complying with its continuous disclosure obligations under the Listing Rules; and		
(b) disclose that policy or a summary of it.		
Principle 6: Respect the rights of security holders		
6.1 A listed entity should provide information about itself and its governance to investors via its website.	6b	comply
6.2 A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors.	6b	comply
6.3 A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.	6b	comply
6.4 A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.	6b	comply

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

ASX Principle	Reference	Compliance
Principle 7: Recognise and manage risk		
7.1 The board of a listed entity should:	3a, 4a	do not comply
<ul style="list-style-type: none"> (a) have a committee or committees to oversee risk, each of which: <ul style="list-style-type: none"> (i) has at least three members, a majority of whom are independent directors; and (ii) is chaired by an independent director, and disclose: <ul style="list-style-type: none"> (iii) the charter of the committee; (iv) the members of the committee; and (v) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or (b) if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the processes it employs for overseeing the entity's risk management framework. 		
7.2 The board or a committee of the board should:	3a, 4a, 4b	comply
<ul style="list-style-type: none"> (a) review the entity's risk management framework at least annually to satisfy itself that it continues to be sound; and (b) disclose, in relation to each reporting period, whether such a review has taken place. 		
7.3 A listed entity should disclose:	4d	comply
<ul style="list-style-type: none"> (a) if it has an internal audit function, how the function is structured and what role it performs; or (b) if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes. 		
7.4 A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.	Directors' Report	comply
Principle 8: Remunerate fairly and responsibly		
8.1 The board of a listed entity should:	3c, 5a	do not comply
<ul style="list-style-type: none"> (a) have a remuneration committee which: <ul style="list-style-type: none"> (i) has at least three members, a majority of whom are independent directors; and (ii) is chaired by an independent director, and disclose: <ul style="list-style-type: none"> (iii) the charter of the committee; (iv) the members of the committee; and (v) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or (b) if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive. 		
8.2 A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives.	Directors' Report (Remuneration Report)	comply
8.3 A listed entity which has an equity-based remuneration scheme should:	5b	comply
<ul style="list-style-type: none"> (a) have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and (b) disclose that policy or a summary of it. 		

Statement of Comprehensive Income

for the year ended 31 December 2016



	Notes	Consolidated	
		2016 \$	2015 \$
CONTINUING OPERATIONS			
Sales revenue	4	14,385,507	12,582,519
Finance revenue	4	47,308	46,210
Other revenue	4	-	2,104,689
Total revenue		14,432,815	14,733,418
Cost of materials and manufacturing	4a	(3,519,127)	(2,671,671)
Employee benefits expense	4e	(3,718,776)	(3,305,078)
Advertising and promotion expense		(281,302)	(340,945)
Depreciation and amortisation expense	4c	(106,392)	(144,176)
Freight and duty expense		(469,068)	(450,840)
Research and development expense	4d	(1,157,422)	(726,992)
Administration expense	4f	(3,110,536)	(2,365,849)
Other expenses	4g	(630,897)	(612,108)
Profit before tax and finance costs		1,439,295	4,115,759
Finance costs	4b	(17,952)	(25,417)
Profit before income tax		1,421,343	4,090,342
Income tax (expense) / benefit	5	(529,975)	702,705
Net Profit for the year		891,368	4,793,047
Other comprehensive income after income tax			
<i>Items that will be re-classified subsequently to profit and loss when specific conditions are met:</i>			
Exchange differences on translating foreign controlled entities (net of tax)		(1,082,967)	700,759
Total comprehensive (loss) / income for the year		(191,599)	5,493,806
Earnings per share (cents per share)	6	cents	cents
-basic earnings per share for continuing operations		1.55	8.61
-basic earnings per share		1.55	8.61
-diluted earnings per share		1.63	8.35

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 2016

cyclopharm
Nuclear Medicine



		Consolidated	
		2016	2015
		\$	\$
	Notes		
Assets			
Current Assets			
Cash and cash equivalents	7	4,590,760	6,444,995
Trade and other receivables	8	3,738,193	4,420,505
Inventories	9	2,633,104	2,208,613
Other assets		98,881	23,956
Total Current Assets		11,060,938	13,098,069
Non-current Assets			
Property, plant and equipment	10	2,340,655	631,706
Investments	11	-	-
Intangible assets	12	1,717,386	1,311,719
Deferred tax assets	5	1,296,015	1,499,423
Total Non-current Assets		5,354,056	3,442,848
Total Assets		16,414,994	16,540,917
Liabilities			
Current Liabilities			
Trade and other payables	13	2,804,632	1,754,383
Interest bearing loans and borrowings	14	-	45,877
Provisions	15	923,242	945,129
Tax liabilities	5	27,839	475,428
Deferred income liabilities	16	140,113	-
Total Current Liabilities		3,895,826	3,220,817
Non-current Liabilities			
Interest bearing loans and borrowings	14	-	151,499
Provisions	15	53,510	58,544
Deferred tax liabilities	5	3,855	7,814
Total Non-current Liabilities		57,365	217,857
Total Liabilities		3,953,191	3,438,674
Net Assets		12,461,803	13,102,243
Equity			
Contributed equity	17	14,962,967	14,962,967
Employee equity benefits reserve		603,622	495,845
Foreign currency translation reserve		(905,307)	177,660
Accumulated losses		(2,199,479)	(2,534,229)
Total Equity		12,461,803	13,102,243

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 2016

		Consolidated	
	Notes	2016 \$	2015 \$
Operating activities			
Receipts from customers		14,980,856	11,393,495
Insurance settlement proceeds		-	2,104,689
Payments to suppliers and employees		(13,717,416)	(9,504,625)
Interest received		47,308	46,210
Borrowing costs paid		(17,952)	(25,417)
Income tax (paid) / received		(638,002)	140,482
Net cash flows from operating activities	7	654,794	4,154,834
Investing activities			
Purchase of property, plant and equipment		(1,795,214)	(12,412)
Payments for deferred expenditure		(425,794)	(639,242)
Net cash flows used in investing activities		(2,221,008)	(651,654)
Financing activities			
Dividends paid		(556,618)	(278,309)
Repayment of bank borrowings		(197,376)	(48,355)
Net cash flows used in financing activities		(753,994)	(326,664)
Net (decrease) / increase in cash and cash equivalents		(2,320,208)	3,176,516
Cash and cash equivalents			
- at beginning of the period		6,444,995	3,268,425
- net foreign exchange differences from translation of cash and cash equivalents		465,973	54
- at end of the year	7	4,590,760	6,444,995

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 2016



	Contributed Equity	Other Contributed Equity	Total Contributed Equity	Retained Earnings / (Accumulated Losses)	Foreign Currency Translation Reserve (Note 26(b))	Employee Equity Benefits Reserve (Note 26(a))	Total
	\$	\$	\$	\$	\$	\$	\$
CONSOLIDATED							
Balance at							
1 January 2015	20,296,125	(5,333,158)	14,962,967	(7,048,967)	(523,099)	365,259	7,756,160
Profit for the year	-	-	-	4,793,047	-	-	4,793,047
Other comprehensive income	-	-	-	-	700,759	-	700,759
Total comprehensive income for the year	-	-	-	4,793,047	700,759	-	5,493,806
Dividends paid	-	-	-	(278,309)	-	-	(278,309)
Cost of share based payments	-	-	-	-	-	130,586	130,586
Total transactions with owners and other transfers	-	-	-	(278,309)	-	130,586	(147,723)
Balance at							
31 December 2015	20,296,125	(5,333,158)	14,962,967	(2,534,229)	177,660	495,845	13,102,243
Balance at							
1 January 2016	20,296,125	(5,333,158)	14,962,967	(2,534,229)	177,660	495,845	13,102,243
Profit for the year	-	-	-	891,368	-	-	891,368
Other comprehensive loss	-	-	-	-	(1,082,967)	-	(1,082,967)
Total comprehensive loss for the year	-	-	-	891,368	(1,082,967)	-	(191,599)
Dividends paid	-	-	-	(556,618)	-	-	(556,618)
Cost of share based payments	-	-	-	-	-	107,777	107,777
Total transactions with owners and other transfers	-	-	-	(556,618)	-	107,777	(448,841)
Balance at							
31 December 2016	20,296,125	(5,333,158)	14,962,967	(2,199,479)	(905,307)	603,622	12,461,803

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

Notes

for the year ended 31 December 2016



1. CORPORATE INFORMATION

The financial report of Cyclopharm Limited (“Cyclopharm” or “the Company”) for the year ended 31 December 2016 was authorised for issue by a resolution of the Directors as at the date of this report.

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

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 statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards as issued by the IASB. Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless stated otherwise.

Except for cash flow information, the financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

The financial report is presented in Australian dollars.

b) New and Amended Accounting Policies Adopted by the Group

Consolidated financial statements

The Group adopted the following Australian Accounting Standards (new and amended) from the mandatory application date of 1 January 2016. The new and amended Standards are not expected to have a significant impact on the Group’s financial statements.

- AASB 1057: Application of Australian Accounting Standards

This Standard deletes the application paragraphs previously contained in each Australian Accounting Standard (or interpretation) and moves them into this Standard. The application requirements of each other Australian Accounting Standard have not been amended.

- AASB 2014-3: Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations (applicable to annual reporting periods beginning on or after 1 January 2016)

This Standard amends AASB 11: Joint Arrangements to require the acquirer of an interest (both initial and additional) in a joint operation in which the activity constitutes a business, as defined in AASB 3: Business Combinations, to apply all of the principles on business combinations accounting in AASB 3 and other Australian Accounting Standards except for those principles that conflict with the guidance in AASB 11; and disclose the information required by AASB 3 and other Australian Accounting Standards for business combinations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) New and Amended Accounting Policies Adopted by the Group (continued)

The application of AASB 2014-3 will result in a change in accounting policies for the above described transactions, which were previously accounted for as acquisitions of assets rather than applying the acquisition method as per AASB 3.

The transitional provisions require that the Standard should be applied prospectively to acquisitions of interests in joint operations occurring on or after 1 January 2016. As at 31 December 2016, management is not aware of the existence of any such arrangements that would impact the financial statements of the entity upon initial application of the Standard.

- **AASB 2014-4: Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to AASB 116 and AASB 138)**

These amendments to AASB 116 and AASB 138 clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.

The standard also clarified that revenue is generally presumed to be an appropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset.

- **AASB 2014-6: Agriculture: Bearer Plants (Amendments to AASB 116 and AASB 141)**

AASB 2014-6 Amendments to Australian Accounting Standards – Agriculture: Bearer Plants amends AASB 116 and AASB 141 to add a definition of bearer plant and includes bearer plants within the scope of AASB 116 instead of AASB 141.

- **AASB 2014-9: Equity Method in Separate Financial Statements (Amendments to AASB 127)**

Amends IAS 27 to permit entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

- **AASB 2015-1: Annual Improvements to Australian Accounting Standards 2012-2014**

This Standard makes amendments to various Accounting Standards arising from the IASB's Annual Improvements process, namely:

AASB 5 – changes in methods of disposal from sale to distribution

AASB 7 – applicability of disclosures to servicing contracts and interim financial statements

AASB 119 – clarifies that the government bond rate used in measuring employee benefits should be those denominated in the same currency

AASB 134 – permits the cross referencing of disclosures elsewhere in the financial report

- **AASB 2015-2: Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101**

The Standard makes amendments to AASB 101 Presentation of Financial Statements arising from the IASB's Disclosure Initiative project.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) New and Amended Accounting Policies Adopted by the Group (continued)

- **AASB 2015-5: Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception**

The Standard amends AASB 10, AASB 12 and AASB 128:

- a) to confirm that the exemption from preparing consolidated financial statements set out in paragraph 4(a) of AASB 10 is available to a parent entity that is a subsidiary of an investment entity;
- b) to clarify the applicability of AASB 12 to the financial statements of an investment entity; and
- c) to introduce relief in AASB 128 to permit a non-investment entity investor in an associate or joint venture that is an investment entity to retain the fair value through profit or loss measurement applied by the associate or joint venture to its subsidiaries.

- **AASB 2015-9: Amendments to Australian Accounting Standards – Scope And Application Paragraphs**

These amendments correct previous drafting errors resulting from the introduction of AASB 1057 and reintroduce the scope paragraphs of AASB 8 and AASB 133 into those Standards.

There is no change to the requirements or the applicability of AASB 8 and AASB 133.

c) New Accounting Standards for Application in Future Periods

Accounting Standards and Interpretations issued by the AASB that are not yet mandatorily applicable to the Group, together with an assessment of the potential impact of such pronouncements on the Group when adopted in future periods, are discussed below:

Applicable to annual reporting periods beginning on or after 1 July 2016:

- **AASB 2014-1: Amendments to Australian Accounting Standards (Part D)**

Part D of this Standard makes amendments to AASB 1: First-time Adoption of Australian Accounting Standards, which arise from the issuance of AASB 14: Regulatory Deferral Accounts in June 2014. AASB 14 permits first-time adopters to continue to account for amounts related to rate regulation in accordance with their previous GAAP when they adopt Australian Accounting Standards. In line with management's assessment of AASB 14, this part is not expected to have a significant impact on the Group's financial statements.

Applicable to annual reporting periods beginning on or after 1 January 2017, these amendments to Standards are not expected to have a significant impact on the Group's financial statements:

- **AASB 2016-1: Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses (AASB 112)**

This Standard amends AASB 112 Income Taxes to clarify the circumstances in which the recognition of deferred tax assets may arise in respect of unrealised losses on debt instruments measured at fair value.

- **AASB 2016-2: Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107**

This Standard amends AASB 107 Statement of Cash Flows to include additional disclosures and reconciliation relating to changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) New Accounting Standards for Application in Future Periods (continued)

Applicable to annual reporting periods beginning on or after 1 January 2018:

- **AASB 2016-3: Amendments to Australian Accounting Standards – Clarification to AASB 15**

This Standard amends AASB 15 Revenue from Contracts with Customers to clarify the requirements on identifying performance obligations, principal versus agent considerations and the timing of recognising revenue from granting a licence. In addition, it provides further practical expedients on transition to AASB 15. This amended Standard is not expected to have a significant impact on the Group's financial statements.

- **AASB 2014-10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to AASB 10 and AASB 128)**

Amends AASB 10 and AASB 128 to remove the inconsistency in dealing with the sale or contribution of assets between an investor and its associate or joint venture. A full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

The mandatory application date of AASB 2014-10 has been amended and deferred to annual reporting periods beginning on or after 1 January 2018 by AASB 2015-10. These amended Standards are not expected to have a significant impact on the Group's financial statements.

- **AASB 9: Financial Instruments and associated Amending Standards**

The Standard will be applicable retrospectively (subject to the provisions on hedge accounting outlined below) and includes revised requirements for the classification and measurement of financial instruments, revised recognition and derecognition requirements for financial instruments and simplified requirements for hedge accounting.

The key changes made to the Standard that may affect the Group on initial application include certain simplifications to the classification of financial assets, simplifications to the accounting of embedded derivatives, and the irrevocable election to recognise gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. AASB 9 also introduces a new model for hedge accounting that will allow greater flexibility in the ability to hedge risk, particularly with respect to hedges of non-financial items. Should the entity elect to change its hedge policies in line with the new hedge accounting requirements of AASB 9, the application of such accounting would be largely prospective.

Although the Directors anticipate that the adoption of AASB 9 may have an impact on the Group's financial instruments, including hedging activity, it is impracticable at this stage to provide a reasonable estimate of such impact.

- **AASB 2016-5: Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions**

This Standard amends AASB 2 Share-based Payment to address:

- (a) the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- (b) the classification of share-based payment transactions with a net settlement feature for withholding tax obligations; and
- (c) the accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

Although the Directors anticipate that the adoption of this amended Standard may have an impact on the Group's Share-based Payment Transactions, it is impracticable at this stage to provide a reasonable estimate of such impact.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) New Accounting Standards for Application in Future Periods (continued)

- AASB 15: Revenue from Contracts with Customers

When effective, this Standard will replace the current accounting requirements applicable to revenue with a single, principles-based model. Except for a limited number of exceptions, including leases, the new revenue model in AASB 15 will apply to all contracts with customers as well as non-monetary exchanges between entities in the same line of business to facilitate sales to customers and potential customers. The core principle of the Standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. To achieve this objective, AASB 15 provides the following five-step process:

- Identify the contract(s) with a customer;
- Identify the performance obligations in the contract(s);
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract(s); and
- Recognise revenue when (or as) the performance obligations are satisfied.

The transitional provisions of this Standard permit an entity to either: restate the contracts that existed in each prior period presented as per AASB 108: Accounting Policies, Changes in Accounting Estimates and Errors (subject to certain practical expedients in AASB 15); or recognise the cumulative effect of retrospective application to incomplete contracts on the date of initial application. There are also enhanced disclosure requirements regarding revenue.

Although the Directors anticipate that the adoption of AASB 15 may have an impact on the Group's financial statements, it is impracticable at this stage to provide a reasonable estimate of such impact.

Applicable to annual reporting periods beginning on or after 1 January 2019:

- AASB 16: Leases

AASB 16 replaces AASB 117 Leases and set out the principles for the recognition, measurement, presentation and disclosure of leases.

AASB 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligations to make lease payments.

A lessee measures right-of-use assets similarly to other non-financial assets (such as property, plant and equipment) and lease liabilities similarly to other financial liabilities. As a consequence, a lessee recognises depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows applying AASB 107 Statement of Cash Flows.

AASB 16 substantially carries forward the lessor accounting requirements in AASB 117 Leases. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

This Standard applies to annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted provided the entity also applies AASB 15 Revenue from Contracts with Customers at or before the same date.

Although the Directors anticipate that the adoption of AASB 16 may have an impact on the Group's financial statements, it is impracticable at this stage to provide a reasonable estimate of such impact.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d) 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 are entities the parent controls. The parent controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

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.

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.

e) 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 hedge 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 \$).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 weighted average exchange rates for the period.
- Retained profits/equity are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on the translation of foreign operations are recognised in other comprehensive income and 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.

f) 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 at the Statement of Financial Position 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 at the Statement of Financial Position 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

g) 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 measured reliably. All other repairs and maintenance are charged to the Statement of Comprehensive Income during the financial period in which they are 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	5 - 33%	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 Licenses - Infinite	Finite
Method used	8 - 10 years - Straight line	9 years - Straight line
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 impairment

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Investments Accounted For Using The Equity Method

Associates are entities over which the Group has significant influence and that are neither subsidiaries nor joint ventures. The Group generally deems significant influence over an entity to exist if the Group has the power to participate in the financial and operating decisions of the entity but is not in control or joint control. Investments in associates are accounted for in the financial statements by applying the equity method of accounting, whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the associate company. In addition, the Group's share of the profit or loss of the associate company is included in the Group's profit or loss.

The carrying amount of the investment includes goodwill relating to the associate. Any discount on acquisition whereby the Group's share of the net fair value of the associate exceeds the cost of investment is recognised in profit or loss in the period in which the investment is acquired. The carrying amount of the investment also includes loans made to the associate which are not expected to be repaid in the short term.

Profit and losses resulting from transactions between the Group and the associate are eliminated to the extent of the Group's interest in the associate.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group discontinues recognising its share of further losses unless it has incurred legal or constructive obligations or made payments on behalf of the associate. When the associate subsequently makes profits, the Group will resume recognising its share of those profits once its share of the profits equals the share of the losses not recognised.

Details of the Group's investments in associates are provided in Note 11.

i) 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.

j) 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, at each reporting date, 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 9 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.

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.

k) 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 condition 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.

l) 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.

m) 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. For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

n) Trade and other payables

Trade payables and other payables are carried at amortised cost 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

o) 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 rate 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.

p) 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.

q) 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 (after applying probability) 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.

r) 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 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

s) 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.

t) 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.

Provision of services

Revenue is recognised with reference to the stage of completion of the transaction at the end of the reporting period, where the outcome of the contract can be estimated reliably.

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.

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

u) 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.

v) Financial instruments

Financial assets and liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

De-recognition of financial instruments

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.

w) 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 *AASB112 Income Taxes*, 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 non-controlling 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*.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

x) 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 there is 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 there is 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.

y) Fair Value

The Group subsequently measures some of its assets at fair value on a non-recurring basis. Fair value is the price the Group would receive to sell an asset in an orderly (ie unforced) transaction between independent, knowledgeable and willing market participants at the measurement date.

As fair value is a market-based measure, the closest equivalent observable market pricing information is used to determine fair value. Adjustments to market values may be made having regard to the characteristics of the specific asset. The fair values of assets that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data.

To the extent possible, market information is extracted from either the principal market for the asset (ie the market with the greatest volume and level of activity for the asset) or, in the absence of such a market, the most advantageous market available to the entity at the end of the reporting period (ie the market that maximises the receipts from the sale of the asset after taking into account transaction costs and transport costs). For non-financial assets, the fair value measurement also takes into account a market participant's ability to use the asset in its highest and best use or to sell it to another market participant that would use the asset in its highest and best use.

z) Significant Accounting Judgements and Estimates

The preparation of financial statements requires management to make judgements, estimates and assumptions that effect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

The following are the critical judgements and estimates that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Key Estimates

Impairment – general

The Group assesses 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.

The Group's property, plant and equipment relating to the Cyclotron facility have been fully impaired, based on management's assessment that the fair value of those assets is nil in the current industry circumstances and the condition of the damaged assets. Subsequent extensive damage to the cyclotron caused by substantial water damage in June 2014 has delayed any decisions about the future use of the cyclotron until it is restored to its former operational status. Accordingly, the suspended cyclotron business is not considered to be a discontinued operation pending that decision and its outcome. Refer to Note 10.

The assumptions used in the estimation of recoverable amount and the carrying amount of intangible assets are discussed in Note 12. No impairment has been recognised in respect of intangible assets at the end of the reporting period.

Useful lives of property, plant and equipment

The estimation of the useful lives of assets has been based on historical experience as well as lease terms and turnover policies. In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful lives are made when considered necessary.

Share based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

The Group measures the cost of share-based payments at fair value at the grant date using the Black-Scholes formula, taking into account the terms and conditions upon which the instruments were granted. Refer to Note 24 for details of the Company's Share Based Payment Plan.

Key Judgements

Taxation

The Group's accounting policy for taxation requires management's judgement as to the types of arrangements considered to be a tax on income in contrast to an operating cost. Judgement is also required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the statement of financial position. Deferred tax assets, including those arising from unrecouped tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Judgements are also required about the application of income tax legislation. These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the statement of financial position and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amounts of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the consolidated statement of comprehensive income.

3. OPERATING SEGMENTS

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources. The Group is managed primarily on the basis of product category as the Group's risks and returns are affected predominantly by differences in the products and services produced. The Group also monitors the performance of the business on a geographical basis.

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 2016 and 31 December 2015.

Geographical segments

The tables under the heading geographical segment present revenue and asset information regarding geographical segments for the years ended 31 December 2016 and 31 December 2015.

Notes

Continued

3. SEGMENT REPORTING (continued)

Business Segments

For the year ended 31 December 2016	Consolidated		Total
	Technegas	Molecular Imaging	
	\$	\$	\$
Revenue			
Sales to external customers	14,385,507	-	14,385,507
Finance revenue	47,273	35	47,308
Other revenue	-	-	-
Total revenue	14,432,780	35	14,432,815
Result			
Profit / (loss) before tax and finance costs	1,805,799	(366,504)	1,439,295
Finance costs	(16,920)	(1,032)	(17,952)
Profit / (loss) before income tax	1,788,879	(367,536)	1,421,343
Income tax expense	(81,650)	(448,325)	(529,975)
Profit / (loss) after income tax	1,707,229	(815,861)	891,368
Assets and liabilities			
Segment assets	14,011,599	2,403,395	16,414,994
Segment asset increases for the period :			
- capital expenditure	1,862,181	-	1,862,181
Segment liabilities	(3,327,172)	(626,019)	(3,953,191)
Other segment information			
Depreciation and amortisation	(106,208)	(184)	(106,392)

Notes

Continued

3. SEGMENT REPORTING (continued)

Business Segments (continued)

For the year ended	Consolidated		
	Technegas	Molecular Imaging	Total
31 December 2015	\$	\$	\$
Revenue			
Sales to external customers	12,507,919	74,600	12,582,519
Finance revenue	46,158	52	46,210
Other revenue	-	2,104,689	2,104,689
Total revenue	12,554,077	2,179,341	14,733,418
Result			
Profit before tax and finance costs	2,156,838	1,958,921	4,115,759
Finance costs	(24,213)	(1,204)	(25,417)
Profit before income tax	2,132,625	1,957,717	4,090,342
Income tax (expense) / benefit	(428,002)	1,130,707	702,705
Profit after income tax	1,704,623	3,088,424	4,793,047
Assets and liabilities			
Segment assets	14,040,939	2,499,978	16,540,917
Segment asset increases for the period :			
- capital expenditure	26,097	-	26,097
Segment liabilities	(3,070,913)	(367,761)	(3,438,674)
Other segment information			
Depreciation and amortisation	(136,761)	(7,415)	(144,176)

Notes

Continued

3. SEGMENT REPORTING (continued)

Geographical Segments

For the year ended	Consolidated				Total
	Asia Pacific	Europe	Canada	Other	
31 December 2016	\$	\$	\$	\$	\$
Revenue					
Sales to external customers	3,999,146	7,936,076	2,258,320	191,965	14,385,507
Finance revenue	47,308	-	-	-	47,308
Other revenue	-	-	-	-	-
Total segment revenue	4,046,454	7,936,076	2,258,320	191,965	14,432,815
Assets					
Segment assets	11,412,679	4,352,617	649,698	-	16,414,994

For the year ended	Consolidated				Total
	Asia Pacific	Europe	Canada	Other	
31 December 2015	\$	\$	\$	\$	\$
Revenue					
Sales to external customers	2,544,362	7,811,516	2,061,950	164,691	12,582,519
Finance revenue	46,210	-	-	-	46,210
Other revenue	2,104,689	-	-	-	2,104,689
Total segment revenue	4,695,261	7,811,516	2,061,950	164,691	14,733,418
Assets					
Segment assets	11,538,026	4,130,569	872,322	-	16,540,917

4. REVENUES AND EXPENSES

		Consolidated	
		2016	2015
Notes		\$	\$
Revenue			
	Sales revenue	14,385,507	12,582,519
	Finance revenue - Interest received from other parties	47,308	46,210
Other Revenue			
	Insurance settlement	-	2,104,689
	Total other revenue	-	2,104,689
Expenses			
a) Cost of materials and manufacturing			
	Cost of materials and manufacturing	3,519,127	2,671,671
b) Finance costs			
	Interest paid on loans from external parties	17,952	25,417
c) Depreciation and amortisation			
	Depreciation of plant and equipment	83,412	109,041
	Depreciation of leasehold improvements	2,853	728
	Amortisation of intangibles	20,127	34,407
		106,392	144,176
d) Research & development expense			
	FDA expenses	1,098,505	686,410
	Research expenses	58,917	40,582
		1,157,422	726,992
e) Employee benefits expense			
	Salaries and wages	3,206,362	2,826,861
	Defined contribution superannuation expense	299,474	252,150
	Non-Executive Director fees	105,163	95,481
	Share-based payments expense	107,777	130,586
24a		3,718,776	3,305,078
f) Administration expense			
	Legal and professional costs	1,099,628	1,000,331
	Office and facility costs	730,700	493,711
	Operating lease expenses	649,512	194,749
	Travel and motor vehicle costs	630,696	677,058
19a		3,110,536	2,365,849
g) Other expenses			
	Realised Foreign exchange losses	33,046	158,785
	Unrealised Foreign exchange gains	(15,494)	(28,191)
	Other	613,345	481,514
		630,897	612,108

Notes

Continued

5. INCOME TAX

	Consolidated	
	2016	2015
	\$	\$
The components of income tax (expense) / benefit comprise:		
Current income tax expense	(330,526)	(126,460)
Deferred tax (expense) / benefit	(199,449)	829,165
	(529,975)	702,705
A reconciliation of income tax (expense) / benefit 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:		
Accounting profit before income tax	1,421,343	4,090,342
Statutory income tax rate of 30%	(426,403)	(1,227,103)
Effects of lower rates on overseas income	407,723	364,841
Expenditure not allowable for income tax purposes	(270,174)	(78,388)
Tax expense offset against carry forward tax losses		
Non-assessable recovery	-	691,407
Underprovision of previous years	-	(240,492)
Tax losses brought to account overseas	62,857	(18,828)
Temporary differences (reversed) / recognised in Australian group		
Molecular imaging plant and equipment	-	1,052,860
Other	(203,408)	(228,764)
Temporary differences recognised (reversed) / recognised overseas	(3,955)	19,536
Tax losses not recognised in Australian group	(95,430)	-
Tax losses not recognised overseas	(1,185)	-
Research and development tax offset	-	367,636
Total income tax (expense) / benefit	(529,975)	702,705
Effective income tax rate	(37.3%)	17.2%
Current income tax asset (liability)	(27,839)	(475,428)
Deferred tax assets		
Deferred tax assets from temporary differences on:		
Investments	709,012	1,130,608
Provisions and accruals	492,652	329,083
Other	94,351	39,732
Total deferred tax assets	1,296,015	1,499,423
Movements in deferred tax assets		
Opening balance	1,499,423	675,327
Deferred tax assets attributable to temporary differences brought to account	(203,408)	824,096
Closing balance	1,296,015	1,499,423
Deferred tax liabilities		
Deferred tax liabilities from temporary differences on:		
Provisions and accruals	3,855	7,814
Total deferred tax liabilities	3,855	7,814
Movements in deferred tax liabilities		
Opening balance	7,814	12,883
Reversal of temporary differences	(3,959)	(5,069)
Closing balance	3,855	7,814
Deferred tax assets for which no benefit has been recognised:		
- arising from temporary differences - at 30%	913,782	913,782
- arising from revenue tax losses - at 26.5%	40,542	27,983
- arising from revenue tax losses - at 30%	95,430	-
- arising from capital tax losses - at 30%	23,657	23,657

Notes

Continued

6. NET TANGIBLE ASSETS AND LOSS PER SHARE

Net Tangible Assets per share

	Consolidated	
	2016	2015
	\$	\$
Net assets per share	0.21	0.22
Net tangible assets per share	0.18	0.20
	Number	Number
Number of ordinary shares for net assets per share	59,726,733	59,588,733
	2016	2015
	\$	\$
Net assets	12,461,803	13,102,243
Net tangible assets	10,744,417	11,790,524

The number of ordinary shares includes the effects of 138,000 Long Term Incentive Performance shares issued on 25 July 2016 (2015: 2,203,590 Long Term Incentive Performance shares issued on 13 July 2015) as set out in Note 17.

Earnings per share

	Consolidated	
	2016	2015
	cents	cents
Basic earnings per share for continuing operations	1.55	8.61
Basic earnings per share	1.55	8.61
Diluted earnings per share	1.63	8.35
	Number	Number
Weighted average number of ordinary shares for basic earnings per share	57,385,143	55,698,356
Weighted average number of ordinary shares for diluted earnings per share	59,106,697	57,385,143
	2016	2015
	\$	\$
Earnings used to calculate basic earnings per share	891,368	4,793,047
Earnings used to calculate diluted earnings per share	961,952	4,793,047

The weighted average number of ordinary shares for basic earnings per share excludes the effects of 138,000 Long Term Incentive Performance shares issued on 25 July 2016 and 2,203,590 Long Term Incentive Performance shares issued on 13 July 2015 set out in Note 17 as they are contingently returnable.

7. CASH AND CASH EQUIVALENTS

	Consolidated	
	2016	2015
	\$	\$
Cash at bank and in hand	4,590,760	6,444,995
Total cash and cash equivalents	4,590,760	6,444,995

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

The fair value of cash equivalents is \$4,590,760 (2015: \$6,444,995).

Reconciliation of Statement of Cash Flows

	2016	2015
	\$	\$
For the purpose of the Statement of Cash Flows, cash and cash equivalents comprise the following:		
Cash at bank and in hand	4,590,760	6,444,995
	4,590,760	6,444,995

(a) Reconciliation of net profit after tax to net cash flows from operations

Net profit after tax	891,368	4,793,047
Adjustments for non-cash income and expense items:		
Depreciation	86,265	109,769
Amortisation	20,127	34,407
Movement provision for employee benefits	(26,921)	135,091
Movement in foreign exchange	(1,548,940)	700,705
Movement in employee benefits reserve	107,777	130,586
Movement in other provisions	12,038	41,528
	(458,286)	5,945,133
Increase/decrease in assets and liabilities:		
Decrease / (increase) in receivables	880,618	(1,280,994)
(Increase) / decrease in inventories	(424,491)	76,040
(Increase) / decrease in other receivables	(285,269)	91,970
Decrease / (Increase) in deferred tax assets	203,408	(824,096)
Increase / (decrease) in creditors	1,050,249	(115,092)
(Decrease) / Increase in current tax liabilities	(447,589)	266,942
Decrease in deferred tax liabilities	(3,959)	(5,069)
Increase in deferred income liability	140,113	-
Net cash flow from operating activities	654,794	4,154,834

7. CASH AND CASH EQUIVALENTS (continued)

(b) Non-cash financing and investing activities

On 25 July 2016, 138,000 Long Term Incentive Plan shares were issued by way of loans. On 13 July 2015, 2,203,590 Long Term Incentive Plan shares were issued by way of loans. Refer to Note 17 Contributed Equity and Note 24 Share Based Payment Plans.

8. TRADE AND OTHER RECEIVABLES

		Consolidated	
		2016	2015
Notes		\$	\$
Current			
	Trade receivables, third parties	3,422,209	4,335,581
	Provision for doubtful debts	(7,512)	(40,266)
	Net Trade receivables, third parties	3,414,697	4,295,315
	Other receivables	323,496	125,190
	Total Current trade and other receivables	3,738,193	4,420,505

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 20 Related party disclosures, controlled entities.

The following table details the Group's trade and other current receivables exposed to credit risk (prior to collateral and other credit enhancements) with ageing analysis and impairment provided for thereon. Amounts are considered as "past due" when the debt has not been settled, with the terms and conditions agreed between the Group and the customer or counterparty to the transaction. Receivables that are past due are assessed for impairment by ascertaining solvency of the debtors and are provided for where there are specific circumstances indicating that the debt may not be fully repaid to the Group.

The balances of receivables that remain within initial trade terms (as detailed in the table) are considered to be of high credit quality.

Notes

Continued

8. TRADE AND OTHER RECEIVABLES (continued)

	Gross Amount	Past Due and Impaired	Past Due but Not Impaired				Within Initial Trade Terms
			(Days Overdue)				
			< 30	31 - 60	61 - 90	> 90	
\$	\$	\$	\$	\$	\$	\$	
2016							
Trade receivables, third parties	3,422,209	-	277,302	-	-	-	3,144,907
Other receivables - current	323,496	-	-	-	-	-	323,496
Total trade and other current receivables	3,745,705	-	277,302	-	-	-	3,468,403
2015							
Trade receivables, third parties	4,335,581	-	123,902	-	-	-	4,211,679
Other receivables - current	125,190	-	-	-	-	-	125,190
Total trade and other current receivables	4,460,771	-	123,902	-	-	-	4,336,869

9. INVENTORIES

	Consolidated	
	2016	2015
Notes	\$	\$
Current		
Raw materials at cost	1,257,819	840,671
Finished goods at lower of cost or net realisable value	1,375,285	1,367,942
Total inventory	2,633,104	2,208,613

Notes

Continued

10. PROPERTY, PLANT AND EQUIPMENT

Year ended					
31 December 2016	Leasehold Land and buildings	Leasehold improvements	Plant and equipment	Leased Plant and Equipment	Total
Consolidated	\$	\$	\$	\$	\$
1 January 2016					
at written down value	363,193	6,728	261,785	-	631,706
Additions / Transfers	-	1,706,485	155,696	-	1,862,181
Disposals / Transfers	-	(749)	(45,149)	-	(45,898)
Foreign exchange translation	(14,817)	-	(6,252)	-	(21,069)
Depreciation for the year	(9,475)	(2,853)	(73,937)	-	(86,265)
31 December 2016					
at written down value	338,901	1,709,611	292,143	-	2,340,655
1 January 2016					
Cost value	2,415,837	3,039,243	7,758,964	120,901	13,334,945
Impairment - Molecular Imaging	(1,881,960)	(2,608,912)	(4,369,291)	-	(8,860,163)
Accumulated depreciation	(170,684)	(423,603)	(3,127,888)	(120,901)	(3,843,076)
Net carrying amount	363,193	6,728	261,785	-	631,706
31 December 2016					
Cost value	2,400,108	4,744,979	7,785,879	120,901	15,051,867
Impairment - Molecular Imaging	(1,881,960)	(2,608,912)	(4,369,291)	-	(8,860,163)
Accumulated depreciation	(179,247)	(426,456)	(3,124,445)	(120,901)	(3,851,049)
Net carrying amount	338,901	1,709,611	292,143	-	2,340,655

10. PROPERTY, PLANT AND EQUIPMENT (continued)

Year ended

31 December 2015

	Leasehold Land and buildings	Leasehold improvements	Plant and equipment	Leased Plant and Equipment	Total
Consolidated	\$	\$	\$	\$	\$
1 January 2015					
at written down value	371,248	10,689	347,070	56	729,063
Additions / Transfers	1,341	(3,233)	27,989	-	26,097
Disposals / Transfers	-	-	(2,991)	-	(2,991)
Foreign exchange translation	-	-	(10,694)	-	(10,694)
Depreciation for the year	(9,396)	(728)	(99,589)	(56)	(109,769)
31 December 2015					
at written down value	363,193	6,728	261,785	-	631,706
1 January 2015					
Cost value	2,414,496	3,042,476	7,753,898	120,901	13,331,771
Impairment - Molecular Imaging*	(1,881,960)	(2,608,912)	(4,369,291)	-	(8,860,163)
Accumulated depreciation	(161,288)	(422,875)	(3,037,537)	(120,845)	(3,742,545)
Net carrying amount	371,248	10,689	347,070	56	729,063
31 December 2015					
Cost value	2,415,837	3,039,243	7,758,964	120,901	13,334,945
Impairment - Molecular Imaging*	(1,881,960)	(2,608,912)	(4,369,291)	-	(8,860,163)
Accumulated depreciation	(170,684)	(423,603)	(3,127,888)	(120,901)	(3,843,076)
Net carrying amount	363,193	6,728	261,785	-	631,706

* Impairment arising from the Group's decision to cease commercial production at its cyclotron facility at the end of April 2014. Extensive damage to the cyclotron facility caused by substantial water damage in June 2014 has delayed any decisions about the future use of the cyclotron facility until it is restored to its former operational status. Accordingly, the suspended cyclotron business is not considered to be a discontinued operation pending that decision and its outcome. The Group initially recognises and measures its Land and Buildings, Plant and Equipment and Leasehold Improvements at cost. The Group subsequently measures some of its Buildings, Plant and Equipment and its Leasehold Improvements at fair value on a non-recurring basis in accordance with AASB 136: *Impairment of Assets*. Refer Note 2 (y).

The Fixed and Floating charge held by Allied Irish Banks plc. secured against the leasehold land and buildings in Ireland has been discharged as the loan was fully repaid on 7 March 2016 as set out in Note 14 (b).

Fair Value Measurement

AASB 13 Fair Value Measurement requires the disclosure of fair value information by level of the fair value hierarchy, which categorises fair value measurements into one of three possible levels based on the lowest level that an input that is significant to the measurement can be categorised into, as follows:

- Level 1: Measurements based on quoted prices in active markets for identical assets that the entity can access at the measurement date;
- Level 2: Measurements based on inputs other than the quoted prices included in Level 1, but that are observable for the asset, either directly or indirectly; and
- Level 3: Measurements based on unobservable inputs for the asset or liability.

Cyclopharm's management considers that the inputs used for the fair value measurement are Level 2 inputs.

10. PROPERTY, PLANT AND EQUIPMENT (continued)

Valuation techniques

AASB 13 requires the valuation technique used to be consistent with one of the following valuation approaches:

- Market approach: techniques that use prices and other information generated by market transactions for identical or similar assets.
- Income approach: techniques that convert future cash flows or income and expenses into a single discounted present value.
- Cost approach: techniques that reflect the current replacement cost of an asset at its current service capacity.

The Cyclopharm Board decided to cease commercial production at its Cyclotron facility at the end of April 2014 due to the impact on the Group's profits of the government-owned competition from PetNet, a subsidiary of Federal Government owned ANSTO. In making that decision, the Board valued the Cyclotron facility, comprised of buildings, leasehold improvements and plant and equipment at a fair value of nil, using the market approach and income approach techniques. The market technique predominantly used recent observable market data for similar new equipment in Australia, adjusted for loss in value caused by physical deterioration, functional obsolescence, economic obsolescence and the particular industry specific aspects affecting this highly specialised asset i.e. the government-owned competition which had rendered further participation in the molecular imaging industry uneconomic and its future use uncertain. The same industry specific factors were applied to the income approach technique. Both techniques resulted in a fair value of nil being recognised for the Cyclotron facility as at 31 December 2014. Cyclopharm considers that the same conditions still apply at 31 December 2016. Furthermore, the damage caused to the Cyclotron facility in June 2014 has delayed any decisions about the future use of the Cyclotron facility until it is restored to its former functionality. Accordingly, Cyclopharm has concluded that as a result of this uncertainty, the fair value of the Cyclotron remains at nil as at 31 December 2016.

Inputs used in the market approach technique to measure Level 2 fair values were:

- current replacement cost of the property being appraised less the loss in value caused by physical deterioration, functional obsolescence and economic obsolescence, and industry specific factors set out above.
- historical cost and relevant market data and industry expertise,
- sales comparison for assets where available.

The assessments of the physical condition, functional obsolescence and economic obsolescence are considered Level 3 inputs.

Non-Recurring fair value measurements:

	Level 2 2016 \$	Level 2 2015 \$
Buildings	-	-
Plant and equipment	-	-
Leasehold improvements	-	-
Total non-financial assets recognised at fair value	<u>-</u>	<u>-</u>

The highest and best use of the assets in normal circumstances is the value in continued use, using the income approach technique. However, in the current unusual circumstances as set out above, the fair value using this approach is nil.

11. INVESTMENTS

				Consolidated	
				2016	2015
				\$	\$
Equity accounted investments					
Associated companies				-	-
Name	Principal Activities	Principal place of business	Measurement Method	Ownership Interest	
				2016	2015
Macquarie Medical Imaging Pty Ltd	Imaging centre	Sydney, Australia	Equity method	20%	20%

Macquarie Medical Imaging Pty Ltd is a private entity that provides medical imaging facilities for Macquarie University Hospital. The Group's interest in the company represents a strategic investment which provides synergies towards the provision of a fully aligned and integrated diagnostic, therapeutic and research platform.

				Consolidated	
				2016	2015
				\$	\$
Extract from the associate's statement of financial position:				Notes	
Current Assets				1,877,768	1,890,859
Non-current Assets				8,237,485	9,710,471
Current Liabilities				(11,399,729)	(10,645,215)
Non-current Liabilities				(8,013,364)	(8,354,138)
Net assets				(9,297,840)	(7,398,023)
Share of associate's net assets			(a)	(1,859,568)	(1,479,605)

				Consolidated	
				2016	2015
				\$	\$
Extract from the associate's statement of comprehensive income:				Notes	
Revenue				11,718,626	10,866,159
Net Loss			(a)	(2,461,137)	(2,196,830)

- (a) The share of the associate's loss not recognised during the year was \$492,227 (2015: loss of \$327,102) and the cumulative share of the associate's loss not recognised as at 31 December 2016 was \$2,799,600 (31 December 2015: \$2,307,373). The comparative amounts have been revised after the receipt of the audited financial report of the associate subsequent to the last financial report of the Group.

The share of loss of associate not recognised as at 31 December 2016 is extracted from the unaudited financial report of the associate, and it may be revised when that financial report has been audited.

The fair value of the Group's investment in Macquarie Medical Imaging Pty Ltd was \$nil (2015: \$nil).

11. INVESTMENTS (continued)

Contingent liabilities

- (i) Macquarie Medical Imaging Pty Ltd's ("MMI") financing facility provided by the Commonwealth Bank of Australia ("CBA") was refinanced in June 2015 by De Lage Landen Pty Limited ("DLL"), part of the Rabobank Group. DLL does not require corporate guarantees from MMI's shareholders. Previously, Cyclopharm Limited and CycloPet Pty Ltd had jointly guaranteed with other investors to provide security for the whole MMI financing facility provided by the CBA.
- (ii) Pursuant to a Shareholders' Agreement, CycloPet Pty Limited (a wholly owned subsidiary of Cyclopharm Limited) has undertaken to provide a put option to a 50% shareholder of Macquarie Medical Imaging Pty Limited ("MMI") such that if this option was exercised, CycloPet would be required to purchase all Redeemable Preference Shares and Ordinary Shares held by the 50% joint venturer for the value of the Redeemable Preference Shares plus any accumulated interest plus \$1 for the Ordinary Shares. The cost to CycloPet had the put option been issued and exercised at balance date is estimated not to exceed \$1,986,650 (2015: \$1,614,724). If the put option was issued and exercised, control of MMI would be transferred to the Group and MMI's financial statements would be consolidated from that date.

12. INTANGIBLE ASSETS

	Intellectual Property \$	Technegas Development \$	Target \$	Ultralute \$	Total \$
Consolidated					
Balance at					
1 January 2016	71,558	175,030	27,419	1,037,712	1,311,719
Additions	7,317	73,840	-	344,637	425,794
Amortisation	(20,127)	-	-	-	(20,127)
Balance at					
31 December 2016	58,748	248,870	27,419	1,382,349	1,717,386
31 December 2016					
Non-Current	58,748	248,870	27,419	1,382,349	1,717,386
Total	58,748	248,870	27,419	1,382,349	1,717,386
31 December 2015					
Non-Current	71,558	175,030	27,419	1,037,712	1,311,719
Total	71,558	175,030	27,419	1,037,712	1,311,719

The recoverable amount of Technegas development and Ultralute costs have been assessed using a discounted cash flow methodology forecasting five years of pre-tax cash flows.

12. INTANGIBLE ASSETS (continued)

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

- (a) Five 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 18.78% in 2016 (2015: 7.44%).
- (c) The Directors have concluded that the recoverable amount of the Ultralute costs and other intangibles exceed their carrying value.

13. TRADE AND OTHER PAYABLES

		Consolidated	
		2016	2015
Notes		\$	\$
Trade payables, third parties	(i)	1,796,889	1,049,315
Other payables and accruals	(ii)	1,007,743	705,068
Total trade and other payables		2,804,632	1,754,383

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.
- (iii) The non-interest bearing loan, related party loan is payable when called upon. Related party details are set out in the Note 20 Related party disclosures.

14. INTEREST BEARING LOANS AND BORROWINGS

	Consolidated	
	2016	2015
	\$	\$
Current		
Bank loan - secured (b)	-	45,877
Interest bearing loans and borrowings (current)	-	45,877
Non-current		
Bank loan - secured (b)	-	151,499
Interest bearing loans and borrowings (non-current)	-	151,499
Total interest bearing loans and borrowings	-	197,376

(a) Financing facilities available:

At reporting date, the following financing facilities had been negotiated and were available:

	Notes	Consolidated	
		2016	2015
		\$	\$
Total facilities available:			
- secured bank loans, third party		-	197,376
		-	197,376
Facilities used at reporting date:			
- secured bank loans, third party	14	-	197,376
		-	197,376
Total facilities		-	197,376
Facilities used at reporting date:		-	(197,376)
Facilities unused at reporting date:		-	-

(b) Secured Bank Loans

Cyclopharm's wholly owned subsidiary, Cyclomedica Ireland Limited, had a flexible rate loan provided by the Allied Irish Banks, plc. with a repayment period of 7 years. The facility was secured by a registered Fixed and Floating Charge and First Registered Debenture over Cyclomedica Ireland Limited and a guarantee from Cyclomedica Europe Limited. The charge and debenture have been discharged as the loan was fully repaid on 7 March 2016.

Notes

Continued

15. PROVISIONS

Consolidated	Consolidated Employee Entitlements
Balance at	\$
1 January 2016	1,003,673
Arising during the year	239,640
Utilised	(266,561)
Balance at	
31 December 2016	976,752
31 December 2016	
Current	923,242
Non-Current	53,510
Total	976,752
Number of employees	
Number of employees at year end	33
31 December 2015	
Current	945,129
Non-Current	58,544
Total	1,003,673
Number of employees	
Number of employees at year end	32

A provision has been recognised for employee entitlements relating to long service and annual leave. The measurement and recognition criteria relating to employee benefits have been disclosed in Note 2.

16. DEFERRED INCOME LIABILITIES

	Consolidated	
	2016	2015
	\$	\$
Deferred income liabilities	140,113	-

A portion of the Research & Development Grant refund received during the year has been recognised as deferred income liabilities and will be amortised over the same period as the amortisation of the related intangible development asset.

Notes

Continued

17. CONTRIBUTED EQUITY

	Notes	Consolidated			
		2016 Number	2015 Number	2016 \$	2015 \$
Issued and paid up capital					
Ordinary shares	(a)	59,726,733	59,588,733	20,296,125	20,296,125
Other contributed equity	(b)	-	-	(5,333,158)	(5,333,158)
Total issued and paid up capital		59,726,733	59,588,733	14,962,967	14,962,967
(a) Ordinary shares					
Balance at the beginning of the period		59,588,733	57,385,143	20,296,125	20,296,125
Issue of Long Term Incentive Plan shares	(i)	138,000	2,203,590	-	-
Balance at end of period		59,726,733	59,588,733	20,296,125	20,296,125
(b) Other contributed equity					
Balance at the beginning and end of the 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.

- (i) 138,000 Long Term Incentive Plan shares were issued on 25 July 2016 and 2,203,590 Long Term Incentive Plan shares were issued on 13 July 2015 as set out in Note 24.

17. 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.

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

Management monitor capital through the gearing ratio (net debt/total capital). Management aims to ensure that the Group's gearing ratio does not exceed 45%. There are no banking covenants as the bank loan was fully repaid on 7 March 2016.

	Notes	Consolidated	
		2016 \$	2015 \$
Total interest bearing loans and borrowings		-	197,376
Less: cash and cash equivalents	7	(4,590,760)	(6,444,995)
Net cash		(4,590,760)	(6,247,619)
Total equity		12,461,803	13,102,243
Gearing ratio		0.0%	0.0%

Dividends

During the current financial year, the Directors declared a partially franked interim dividend of 0.5 cent per share in respect of the financial year ended 31 December 2016 and a fully franked final dividend of 0.5 cent per share in respect of the financial year ended 31 December 2015. During the 2015 financial year, the Directors declared a fully franked final dividend of 0.5 cent per share in respect of the financial year ended 31 December 2014.

The final unfranked dividend of 0.5 cent per share has not been recognised in these consolidated financial statements as it was declared subsequent to 31 December 2016.

	Consolidated			
	2016 Cents per share	2015 Cents per share	2016 \$	2015 \$
Fully paid ordinary shares				
Final dividend in respect of the previous financial year				
- Fully franked at 30% corporate tax rate	0.50	0.50	278,309	278,309
Interim dividend in respect of the current financial year				
- No franking credits attached	0.27	-	150,287	-
- Partially franked at 30% corporate tax rate	0.23	-	128,022	-
	1.00	1.00	556,618	278,309

18. FINANCIAL RISK MANAGEMENT OBJECTIVES

The Group's principal financial instruments comprise receivables, payables, bank loans, 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 year 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

As the Group has moved into a no debt, strong cash position, the main interest rate risk is now in cash assets exposure.

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

At 31 December 2016, 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	
	2016	2015
	\$	\$
Judgements of reasonably possible movements:		
Profit before income tax		
+1.0% (100 basis points)	45,908	62,476
-0.5% (50 basis points)	(22,954)	(31,238)

The movements in profit are due to possible higher or lower interest income from cash balances.

Notes

Continued

18. 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) Interest rate risk (continued)

Consolidated		Weighted average interest rate %	Non interest bearing	Floating interest rate	Floating interest maturing in		Total	
Year ended 31 December 2016					1 year or less	1 to 5 years		
			\$	\$	\$	\$	\$	
FINANCIAL ASSETS								
	Cash and cash equivalents	7	1.03%	-	4,590,760	-	-	4,590,760
	Trade and other receivables	8	n/a	3,738,193	-	-	-	3,738,193
Total financial assets				3,738,193	4,590,760	-	-	8,328,953
FINANCIAL LIABILITIES								
	Trade payables, third parties	13	n/a	2,804,632	-	-	-	2,804,632
	Secured bank loans, third party	14	n/a	-	-	-	-	-
Total financial liabilities				2,804,632	-	-	-	2,804,632
Net exposure				933,561	4,590,760	-	-	5,524,321
<hr/>								
Consolidated		Weighted average interest rate %	Non interest bearing	Floating interest rate	Floating interest maturing in		Total	
Year ended 31 December 2015					1 year or less	1 to 5 years		
			\$	\$	\$	\$	\$	
FINANCIAL ASSETS								
	Cash and cash equivalents	7	1.46%	-	6,444,995	-	-	6,444,995
	Trade and other receivables	8	n/a	4,420,505	-	-	-	4,420,505
Total financial assets				4,420,505	6,444,995	-	-	10,865,500
FINANCIAL LIABILITIES								
	Trade payables, third parties	13	n/a	1,754,383	-	-	-	1,754,383
	Secured bank loans, third party	14	7.85%	-	-	45,877	151,499	197,376
Total financial liabilities				1,754,383	-	45,877	151,499	1,951,759
Net exposure				2,666,122	6,444,995	(45,877)	(151,499)	8,913,741

18. 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. As at 31 December 2016, there are no bank loans as the loan was fully repaid on 7 March 2016. At 31 December 2015, 23% of the Group's debt was due to mature in less than one year.

Refer to the table above with the heading 18 (a) 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 e.g. 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, the Board and management monitor the Group's expected settlement of financial assets and liabilities on an ongoing basis.

The Group monitors the rolling forecast of liquidity reserves on the basis of expected cash flow. At balance date the Group has no unused credit facilities (2015: \$nil).

Consolidated Year ended		Less than 6 months	6 months to 1 year	1 year to 5 years	Greater than 5 years	Total
31 December 2016	Note	\$	\$	\$	\$	\$
Trade payables, third parties	13	2,804,632	-	-	-	2,804,632
Secured bank loans, third party	14	-	-	-	-	-
		2,804,632	-	-	-	2,804,632
31 December 2015						
Trade payables, third parties	13	1,754,383	-	-	-	1,754,383
Secured bank loans, third party	14	22,939	22,938	151,499	-	197,376
		1,777,322	22,938	151,499	-	1,951,759

18. FINANCIAL RISK MANAGEMENT OBJECTIVES (continued)

(d) Commodity price risk

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

(e) Foreign currency risk

As a result of significant investment 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 71% (2015: 76%) of the Group's sales are denominated in currencies other than the functional currency of the operating unit making the sale, whilst approximately 63% (2015: 76%) of costs are denominated in the unit's functional currency.

At 31 December 2016, the Group had the following financial instrument exposure to foreign currency fluctuations:

	Consolidated	
	2016	2015
	\$	\$
United States dollars		
Amounts payable	213,972	114,342
Amounts receivable	9,816	176,752
Euros		
Amounts payable	203,549	157,615
Amounts receivable	1,740,813	2,217,023
Canadian dollars		
Amounts payable	50,919	(137)
Amounts receivable	315,224	481,584
Japanese Yen		
Amounts payable	14,778	19,387
Amounts receivable	3,463	3,635
Chinese Renminbi		
Amounts payable	80,584	106,596
Amounts receivable	-	-
Net exposure	(1,505,514)	(2,481,191)

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 their fair values.

18. 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 European Euro (Euro), Canadian Dollar (CAD) and US Dollar (USD) 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 2016		
Net (loss) / profit	(139,751)	153,726
Equity (decrease) / increase	(139,751)	153,726
31 December 2015		
Net (loss) / profit	(187,219)	205,941
Equity (decrease) / increase	(187,219)	205,941
CAD		
31 December 2016		
Net (loss) / profit	(24,028)	26,431
Equity (decrease) / increase	(24,028)	26,431
31 December 2015		
Net (loss) / profit	(43,793)	48,172
Equity (decrease) / increase	(43,793)	48,172
USD		
31 December 2016		
Net profit / (loss)	18,560	(20,416)
Equity increase / (decrease)	18,560	(20,416)
31 December 2015		
Net (loss) / profit	(5,674)	6,241
Equity (decrease) / increase	(5,674)	6,241

19. COMMITMENTS & CONTINGENCIES

(a) Operating lease commitments

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

	Consolidated	
	2016	2015
	\$	\$
Operating Lease Commitments		
Minimum lease payments		
Due not later than one year	589,966	321,469
Due later than 1 year & not later than 5 years	1,597,259	956,257
Total operating lease commitments	2,187,225	1,277,726
Operating lease expenses recognised as an expense during the year	649,512	194,749

- Cyclomedica Australia Pty Ltd.'s ("CMAPL") has entered into a commercial lease on office and manufacturing space at Kingsgrove, New South Wales, for 5 years with renewal options included in the contract. The landlord has agreed in principle to extend the lease from 5 years to 10 years. The proposed lease term extension is not reflected in the lease commitments disclosed above.
- 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 4 years.

(b) Finance lease commitments

The Group has no finance lease commitments as at 31 December 2016.

19. COMMITMENTS & CONTINGENCIES (continued)

(c) Other commitments

	Notes	Consolidated	
		2016 \$	2015 \$
The company has the following other commitments:			
Not later than one year		-	45,877
Due later than 1 year & not later than 5 years		-	151,499
Total	(i)	-	197,376

- (i) Cyclopharm's wholly owned subsidiary, Cyclomedica Ireland Limited, had a flexible rate loan provided by the Allied Irish Banks, plc. with a repayment period of 7 years. The facility was secured by a registered Fixed and Floating Charge and First Registered Debenture over Cyclomedica Ireland Limited and a guarantee from Cyclomedica Europe Limited. The charge and debenture have been discharged as the loan was fully repaid on 7 March 2016.

(d) Capital commitments

There were no capital commitments as at the date of this report (2015: \$nil).

(e) Contingent liabilities

- (i) Macquarie Medical Imaging Pty Ltd's ("MMI") financing facility provided by the Commonwealth Bank of Australia ("CBA") was refinanced in June 2015 by De Lage Landen Pty Limited ("DLL"), part of the Rabobank Group. DLL does not require corporate guarantees from MMI's shareholders. Previously, Cyclopharm Limited and CycloPet Pty Ltd had jointly guaranteed with other investors to provide security for the whole MMI financing facility provided by the CBA.
- (ii) Pursuant to a Shareholders' Agreement, CycloPet Pty Limited (a wholly owned subsidiary of Cyclopharm Limited) has undertaken to provide a put option to a 50% shareholder of Macquarie Medical Imaging Pty Limited ("MMI") such that if this option was exercised, CycloPet would be required to purchase all Redeemable Preference Shares and Ordinary Shares held by the 50% joint venturer for the value of the Redeemable Preference Shares plus any accumulated interest plus \$1 for the Ordinary Shares. The cost to CycloPet had the put option been issued and exercised at balance date is estimated not to exceed \$1,986,650 (2015: \$1,614,724). If the put option was issued and exercised, control of MMI would be transferred to the Group and MMI's financial statements would be consolidated from that date.

20. RELATED PARTY DISCLOSURES

The consolidated financial statements include the financial statements of Cyclopharm and its subsidiaries as listed below. Balances and transactions between the Company and its subsidiaries, which are related parties of the Company have been eliminated on consolidation and are not disclosed in this note.

The following table provides the total amount of transactions that were entered into with related parties that are not members of the Group 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):

		Sales to related parties	Purchases from related parties	Amounts owed by/ (to) related parties	Provision for doubtful debts on Amounts owed by related parties
		\$	\$	\$	\$
CONSOLIDATED					
Pilmora Pty Ltd	2016	-	11,888	-	-
	2015	-	31,827	-	-
Macquarie Medical Imaging	2016	-	-	230,782	230,782
	2015	-	-	230,782	230,782
Almedis Altmann GmbH	2016	590,481	-	86,207	-
	2015	527,266	-	104,948	-

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 \$11,888 (2015: \$31,827) were made to Pilmora Pty Ltd (an entity controlled by Director, Mr. Henry Townsing). All payments related to Mr. Townsing's role as a non-executive director.
- Cyclopet Pty Ltd, a wholly owned subsidiary of Cyclopharm has a 20% interest in Macquarie Medical Imaging. Prior to ceasing commercial operations at the end of April 2014, Cyclopet manufactured products that were sold to Macquarie Medical Imaging. As the trade debtor balance of \$230,782 (2015: \$230,782) is not expected to be repaid in the short term, it is included as an interest in the associate and a share of the associate's losses has been recognised under the equity method in the 2014 financial year. Refer to Note 11 for details of the investment in the associate.
- During the year, sales of large crucibles amounting to \$590,481 (2015: \$527,266) were made to Almedis Altmann GmbH (an entity controlled by General Manager - Europe, Mr. Bjorn Altmann).

Transactions between related parties are at normal commercial prices and on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

20. RELATED PARTY DISCLOSURES (continued)

Controlled Entities

Name	Note	Country of Incorporation	Percentage of equity interest held	
			2016	2015
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 Nexia Sydney Audit Pty Ltd (formerly Russell Bedford NSW), Australia.
3. Audited by Moore Stephens, Republic of Ireland.
4. Audited by Schwartz Levitsky & Feldman LLP, Toronto, Canada.
5. Audited by Bilzanzia GmbH Wirtschaftsprüfungsgesellschaft, Germany

21. EVENTS AFTER THE BALANCE DATE

FINAL DIVIDEND

On 22 February 2017, the Directors declared a final unfranked dividend of 0.5 cent per share in respect of the financial year ended 31 December 2016, payable on 10 April 2017.

No other matters or circumstances have arisen since the end of the financial year, not otherwise dealt with in the financial report, which significantly affected or may significantly affect the operations of the economic entity, the results of those operations, or the state of affairs of the economic entity in future financial periods.

22. AUDITORS' REMUNERATION

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

	Consolidated	
	2016	2015
	\$	\$
Amounts received or due and receivable by the auditor of the parent entity and associated entities for:		
Audit and review of the financial statements	89,376	119,298
Other services:		
- tax compliance	27,802	15,000
- share registry	23,760	20,662
	140,938	154,960
Amounts received or due and receivable by other audit firms for:		
Audit of the financial statements of controlled entities	100,120	86,779
Other services	30,306	12,429
	130,426	99,208

23. DIRECTOR AND KEY MANAGEMENT PERSONNEL DISCLOSURE

Individual Directors and executives compensation disclosures

Information regarding individual Directors and executives' compensation and some equity instruments disclosures as required by Corporations Regulation 2M.3.03 are provided in the Remuneration Report Section of the Directors' report.

Summary of remuneration of Directors & Key Management Personnel:

	Short-term employee benefits		Post employment benefits	Other Long-term benefits	Termination benefits	Share-based payment	Total
	Salary & Fees	Cash Bonus	Superannuation				
Consolidated	\$	\$	\$	\$	\$	\$	\$
2016	1,409,655	86,331	107,341	28,916	265,223	97,170	1,994,636
2015	1,380,421	86,514	97,895	39,645	-	131,110	1,735,585

Short-term salary, bonus, fees and leave

These amounts include fees and benefits paid to the non-executive Chair and non-executive directors as well as salary, paid leave benefits, fringe benefits and cash bonuses awarded to executive directors and other Key Management Personnel.

Post-employment benefits

These amounts are the current-year's estimated cost of providing for superannuation contributions made during the year.

Other long term benefits

These amounts represent long service leave benefits accruing during the year.

Termination benefits

These amounts represent termination benefits paid out during the year.

Share based payment expense

These amounts represent the expense related to the participation of Key Management Personnel in equity-settled benefit schemes as measured by the fair value of the Implied Options granted on grant date.

Further information in relation to Key Management Personnel remuneration can be found in the Directors' Report.

24. 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	
	2016	2015
	\$	\$
Expense arising from equity-settled share-based payment transactions (note 4)	107,777	130,586

The share based payment reserve at 31 December 2016 was \$603,622 (2015: \$495,845).

(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.

24. SHARE BASED PAYMENT PLANS (continued)

LTIP Shares issued

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

Implied Options

AASB 2 *Share Based Payments* 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 over the vesting period. All of the issues of Plan shares have been treated as Plan Share Options ("Implied Options") in accordance with AASB 2. The employee benefit is deemed to be the Implied Option arising from the Plan. Consequently the value of the discount which has been determined using the Black Scholes option pricing model will be charged to the Statement of Comprehensive Income and credited to the Employee Equity Benefits Reserve over the vesting period.

Where employee shares are issued under a non-recourse loan payment plan, the loan assets and the increments to Contributed Equity are not recognised at grant date but rather the increments to Contributed Equity are recognised when 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 2016 Number	Consolidated 2015 Number	Weighted Average Exercise Price 2016 \$	Weighted Average Exercise Price 2015 \$
Balance at the beginning of the year	2,203,590	1,723,456	0.90	0.24
Granted during the year	138,000	2,203,590	1.20	0.90
Exercised during the year	-	(1,723,456)	-	0.24
Balance at the end of the year	2,341,590	2,203,590	0.92	0.90

(d) Range of exercise price, weighted average remaining contractual life and weighted average fair value

The exercise price for Implied Options at the end of the year was \$0.92 (2015: \$0.90). The weighted average remaining contractual life for the Implied Options outstanding as at 31 December 2016 is 0.59 years (2015: 1.54 years). The weighted average fair value of Implied Options granted during the year was \$0.073 (2015: \$0.061).

24. SHARE BASED PAYMENT PLANS (continued)

(e) 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	\$1.20	\$0.90
Number of recipients	15	12
Number of Implied Options	138,000	2,203,590
Grant Date	25/07/2016	13/07/2015
Dividend yield	-	-
Expected annual volatility	41%	43%
Risk-free interest rate	1.62%	2.00%
Expected life of Implied Option (years)	2 years	2 years
Fair value per Implied Option	\$0.270	\$0.061
Share price at grant date	\$1.17	\$0.57
Model used	Black Scholes	Black Scholes

Expected volatility percentages used for the Option pricing calculations were determined using historic data over 24 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.

25. PARENT ENTITY DISCLOSURE

	2016	2015
	\$	\$
(i) Financial Position		
Assets		
Current Assets	3,069,205	4,997,377
Non-current Assets	8,751,989	7,667,033
Total Assets	11,821,194	12,664,410
Liabilities		
Current Liabilities	139,146	-
Non-current Liabilities	6,933,130	6,092,680
Total Liabilities	7,072,276	6,092,680
Net assets	4,748,918	6,571,730
Equity		
Contributed equity	15,163,497	15,163,497
Employee equity benefits reserve	603,622	495,845
Accumulated Losses	(11,018,201)	(9,087,612)
Total Equity	4,748,918	6,571,730
(ii) Financial Performance		
(Loss) / Profit for the year	(1,373,971)	1,696,162
Other comprehensive income	-	-
Total (Loss) / Profit for the year	(1,373,971)	1,696,162

Contingent liabilities

Macquarie Medical Imaging Pty Ltd's ("MMI") financing facility provided by the Commonwealth Bank of Australia ("CBA") was refinanced in June 2015 by De Lage Landen Pty Limited ("DLL"), part of the Rabobank Group. DLL does not require corporate guarantees from MMI's shareholders. Previously, Cyclopharm Limited and CycloPet Pty Ltd had jointly guaranteed with other investors to provide security for the whole MMI financing facility provided by the CBA.

Notes

Continued

26. 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 of the consolidated entity as set out on pages 48 to 102 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 2016 and of its performance for the year ended on that date; and
 - (ii) complying with Accounting Standards which, as stated in accounting policy Note 2(a) to the financial statements, constitutes explicit and unreserved compliance with International Financial Reporting Standards (IFRS); and
 - (b) 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 2016.

Signed in accordance with a resolution of the Directors:

James McBrayer
Managing Director and CEO

Sydney, 28 March 2017

Independent Audit Report

Independent Auditor's Report to the Members of Cyclopharm Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Cyclopharm Limited (the Company and its subsidiaries (the Group)), which comprises the consolidated statement of financial position as at 31 December 2016, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

- i) giving a true and fair view of the Group's financial position as at 31 December 2016 and of its financial performance for the year then ended; and
- ii) complying with Australian Accounting Standards and *the Corporations Regulations 2001*.

Basis for opinion

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

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

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Nexia Sydney Audit Pty Ltd

Level 16, 1 Market Street
Sydney NSW 2000
PO Box H195
Australia Square NSW 1215
p +61 2 9251 4600
f +61 2 9251 7138
e info@nexiasydney.com.au
w nexia.com.au

Liability limited by a scheme approved under Professional Standards Legislation.

Nexia Sydney Audit Pty Ltd (ABN 77 606 785 399) is an independent firm of Chartered Accountants. It is affiliated with, but independent from Nexia Australia Pty Ltd, which is a member of Nexia International, a worldwide network of independent accounting and consulting firms. Neither Nexia International nor Nexia Australia Pty Ltd, deliver services in its own name or otherwise. Nexia International Limited and the member firms of the Nexia International network (including those members which trade under a name which includes NEXIA) are not part of a worldwide partnership.

The trademarks NEXIA INTERNATIONAL, NEXIA and the NEXIA logo are owned by Nexia International Limited and used under licence.

Independent Auditor's Report to the Members of Cyclopharm Limited (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p>Capitalised Development Costs for Ultralute (\$1,382,349)</p> <p><i>Refer to note 12 to the financial report.</i></p> <p>Included in the Group's intangible assets are capitalised development costs \$1,382,349 in respect of the Ultralute product. Capitalised Ultralute development costs are considered to be a key audit matter due to the quantum of the asset; the degree of management judgement and assumptions applied in measuring the carrying value of the asset; and assessing the presence of impairment of a development phase asset.</p> <p>The most significant and sensitive judgments incorporated into the assessment for impairment of capitalised development costs include projections of cash flows, discount rates applied and assumptions regarding the Group's ability to exploit new markets.</p> <p>Other considerations and judgments include whether the capitalised costs qualify for capitalisation as development phase costs in accordance with AASB 138 <i>Intangible Assets</i>. This includes an understanding of the Group's process for recording and measuring internally developed assets and the Group's ability to complete the development and demonstrate its ability to generate future cash flows from that asset.</p>	<p>Our audit procedures on the Ultralute development costs included, amongst others:</p> <ul style="list-style-type: none"> ▪ We assessed the project against the requirements for capitalisation contained in AASB 138 <i>Intangible Assets</i>. ▪ We tested material costs incurred during the year and checked that they were appropriately allocated to the Ultralute development asset. ▪ We assessed management's determination of the Group's cash generating units based on our understanding of the nature of the Group's business and how earnings streams are monitored and reported. ▪ We tested the Group's assumptions and estimates used to determine the recoverable value of its assets, including those relating to forecast revenue, cost, capital expenditure, and discount rates by corroborating the key market related assumptions to external data and by reference to our understanding of the business. ▪ We performed sensitivity analysis in two main areas to assess whether the carrying value of the capitalised development costs exceeded its recoverable amount. These were the discount rate and growth assumptions.

Other information

The directors are responsible for the other information. The other information comprises the information in Cyclopharm Limited's annual report for the year ended 31 December 2016, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of the other information we are required to report that fact. We have nothing to report in this regard.

Independent Auditor's Report to the Members of Cyclopharm Limited (continued)

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 gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

Auditor's responsibility for the audit of the financial report

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

A further description of our responsibilities for the audit of the financial report is located at The Australian Auditing and Assurance Standards Board website at: <http://www.auasb.gov.au/Home.aspx>. This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 23 to 33 of the directors' Report for the year ended 31 December 2016.

In our opinion, the Remuneration Report of Cyclopharm Limited for the year ended 31 December 2016, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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.

Nexia Sydney Audit Pty Limited



Stephen Fisher

Director

Dated: 28 March 2017
Sydney

ASX Additional Information



The following information is current at 28 February 2017

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
Anglo Australian Christian and Charitable Fund	11,517,600	19.28%
Barings Acceptance Limited	9,967,601	16.69%
Stinoc Pty Limited	8,133,242	13.62%
Chemical Trustee Limited	8,000,000	13.39%
National Nominees Limited	3,463,575	5.80%

B. DISTRIBUTION OF EQUITY SECURITY HOLDERS

(i) Analysis of numbers of equity security holders by size of holding as at 28 February 2017

Category	Ordinary Shareholders
1 - 1,000	97
1,001 - 5,000	253
5,001 - 10,000	124
10,001 - 100,000	176
100,001 and over	34
Total	<u>684</u>

(ii) There were 45 holders of less than a marketable parcel of ordinary shares.

C. EQUITY SECURITY HOLDERS

Twenty largest quoted equity security holders	Ordinary shares	
	Number held	Percentage of issued shares
1 Anglo Australian Christian and Charitable Fund	11,517,600	19.28%
2 Barings Acceptance Limited	9,967,601	16.69%
3 Stinoc Pty Limited	8,133,242	13.62%
4 Chemical Trustee Limited	8,000,000	13.39%
5 National Nominees Limited	3,463,575	5.80%
6 Mr James McBrayer <LTIP Account Holding 6>	1,721,554	2.88%
7 Derrin Brothers Properties Limited	930,000	1.56%
8 Mr James McBrayer	861,728	1.44%
9 Mr James McBrayer	861,728	1.44%
10 Lloyds & Casanove Investment Partners Limited	850,870	1.42%
11 Honne Investments Pty Limited	575,000	0.96%
12 South Seas Holdings Pty Ltd	575,000	0.96%
13 Melbourne Corporation Of Australia Pty Ltd (Super Fund A/c)	565,469	0.95%
14 Normandy Finance & Investments Limited	433,025	0.73%
15 City & Westminster Limited	420,000	0.70%
16 Malackey Holdings Pty Ltd	350,000	0.59%
17 Nabil Morcos <LTIP Account Holding 4>	344,311	0.58%
18 Melbourne Corp Of Australia Pty Limited	340,000	0.57%
19 Mr Anthony Rex Morgan & Mrs Elena Morgan <ZIKLAG Super Fund A/c>	304,000	0.51%
20 Melbourne Corporation Of Australia Pty Ltd (Super Fund A/c)	300,000	0.50%
	<u>50,514,703</u>	<u>84.58%</u>
Other equity security holders	9,212,030	15.42%
Total	<u>59,726,733</u>	<u>100.00%</u>

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

David Heaney
Non-Executive Acting Chairman

James McBrayer
Managing Director & CEO

Vanda Gould
Non-Executive Director

Company Secretary
James McBrayer

Registered Office

Cyclopharm Limited
Unit 4, 1 The Crescent
Kingsgrove NSW 2208
T: 02 9541 0411
F: 02 9543 0960

Cyclomedica Australia

Unit 4, 1 The Crescent
Kingsgrove NSW 2208
T: 02 9541 0411
F: 02 9543 0960

Cyclopet

Basement 2
Macquarie University Hospital
3 Technology Place
Macquarie University NSW 2109

Cyclomedica Canada

615 Old York Road,
Burlington,
Ontario L7P 4Y6
Canada

Cyclomedica Germany

Museumstrasse 69
D-38229 Salzgitter
Germany

Cyclomedica Europe

Unit A5,
Calmount Business Park
Ballymount
Dublin 12
Ireland

Auditors

Nexia Sydney Audit Pty Ltd
Level 16, 1 Market Street
Sydney NSW 2000

Share Registry

NextRegistries
Level 16, 1 Market Street
Sydney NSW 2000
T: 02 9276 1700
F: 02 9251 7138

Bankers

National Australia Bank
Level 21
255 George Street
Sydney NSW 2000

Solicitors

HWL Ebsworth
Level 19, 480 Queen Street
Brisbane QLD 4001

Securities Exchange Listing

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

This page has been intentionally left blank.