Cyclopharm Limited
Annual Report 2012

Cyclopharm Limited and its Controlled Entities
ABN 74 116 931 250

Contents

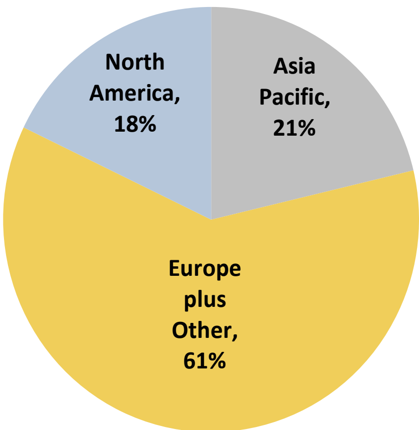
FINANCIAL HIGHLIGHTS

Full Year ending 31 December		2010	2011	2012	% Change
Sales Revenue	$'000	9,465	10,315	10,744	4.2%
Net Profit/(Loss) Before Tax	$'000	808	(1,192)	(1,011)	15.2%
Net Profit/(Loss) After Tax	$'000	450	(956)	(1,044)	(9.2%)
Earnings/(Loss) Per Share	cents	0.26	(0.55)	(0.86)	(56.4%)

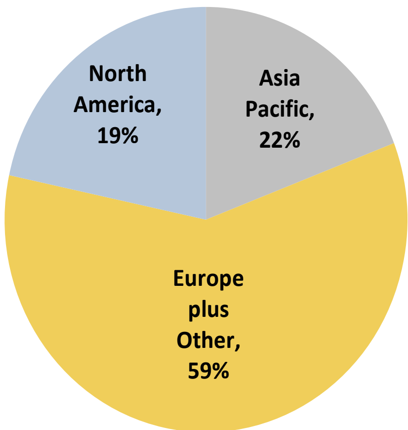
Sales Revenue for the Full Year ending 31 December		2010	2011	2012	% Change
Technegas Division	$'000	9,443	9,466	9,368	(1.0%)
Molecular Imaging Division	$'000	22	849	1,376	62.0%
Total Sales Revenue	$'000	9,465	10,315	10,744	4.2%

Net Profit/(Loss) Before Tax for the Full Year ending 31 December		2010	2011	2012	% Change
Technegas Division	$'000	1,672	1,616	1,106	(31.6%)
Molecular Imaging Division	$'000	(864)	(2,808)	(2,117)	24.6%
Total Net Profit/(Loss) Before Tax	$'000	808	(1,192)	(1,011)	15.2%

Sales by Region - 2011



Sales by Region - 2012



Chairman's Letter

28 March 2013

Dear Shareholder

The 2012 calendar year was an extremely challenging period for your company and whilst some very positive developments took place, the overall result of a loss after tax of $1,044,127 is disappointing. Shareholders will appreciate, however, that the poor result was primarily attributed to the losses suffered by our Molecular Imaging group, Cyclopet. Cyclopet is adversely impacted by aggressive competition from government-owned enterprises. Our Managing Director, Mr James McBrayer, has done an excellent job of highlighting these issues with the appropriate regulatory authorities. Through our efforts in highlighting the market inequity we achieved a rare favourable report from the Productivity Commission supporting our claims against Petnet Australia. Petnet Australia is the wholly owned subsidiary of ANSTO. Unfortunately, the Productivity Commission's lack of enforcement powers has forced Cyclopharm to continue its claims against Petnet Australia in Federal Court. We remain confident that we will end up with a very favourable outcome.

The Technegas division continues to be impacted by unfavourable movements in foreign currencies. The rapid increase in the value of the Australian dollar continued to reduce the profitability of this business as the great majority of our income comes from medical equipment exports. A testament to the strength of Technegas globally is that despite witnessing a fall in profitability, we actually achieved a 6% growth in PAS sales without any price erosion. A profit of $1.106 million before tax, while down on previous years, is a reasonable outcome. With the operational enhancements implemented in Europe and the sales growth we are seeing in Asia, we expect that Technegas volumes from our existing business in 2013 will continue to grow.

It was very gratifying to achieve a major milestone in commencing our Phase 3 Clinical Trial in November 2012 at Columbia Presbyterian in New York City. After nearly two decades of working toward United States approval, we are closing in on our goal. Since 1986 Technegas has helped nearly three million patients suffering from the life-threatening condition, Pulmonary Embolism. Technegas products are used in every major market throughout the globe with the exception of the United States. The United States represents 50% of the nuclear medicine departments in the world. Penetration into this market is expected to more than double our global demand for Technegas. We are hopeful that by 2015 we will have a commercial presence in the United States and be able to replicate the growth of our business that we have achieved in Canada. Last year in Canada we sold more Technegas Patient Administrations Sets than any other single market in the world.

Shareholders will also be aware that we have an involvement in Macquarie Medical Imaging (MMI), a comprehensive imaging facility including PET (Positron Emission Tomography). The imaging practice is housed within Macquarie University Hospital located at North Ryde, NSW. MMI, in line with the positive growth seen at the hospital, is now starting to show the promise that we anticipated when the investment was undertaken. Furthermore, we are involved in important research initiatives to include the only Australian site chosen by the Michael J Fox Foundation to fund research into Parkinson's Disease.

Despite the legal and commercial challenges faced by the Cyclopet Division, we are encouraged by the growth we have been able to achieve, mostly through interstate sales. Furthermore, we are continuing to develop new radiopharmaceutical products leveraged from our cyclotron business.

We expect that our litigation with ANSTO will reach a critical point in late 2013. In reflecting on this taxpayer-funded competitive inequality we are challenged with, I am reminded of the Latin phrase *Abusus non tollit usus*. This translates to "abuses do not destroy uses".

Whilst it is regrettable that our business has been adversely affected by ANSTO using taxpayer grants to fund competition against the private sector, it is not usually a sustainable way to operate a business, as we believe the Federal Court proceedings will demonstrate. Because of ANSTO using what we claim as a non-commercial tender price, one of the major practical consequences has been that we are not as yet an approved supplier to the NSW Department of Health.

Whilst I appreciate the dissatisfaction and disillusionment that many of our shareholders have experienced, I would point out that the real turning point for our sister company, Vita Life Sciences Limited, came as a consequence of that company's success in litigation against the Australian Government. I believe that shareholders will experience a similar turnaround in our fortunes after the litigation is complete. Thus *Abusus non tollit usus* is relevant. Your company is providing a service to the community from the Petnet Division which radically assists in the treatment of cancer which will affect 1-in-3 men and 1-in-4 women in our community. As with Technegas, your company is meeting a real need and ultimately we will be successful despite the current conduct of ANSTO which the Productivity Commission has identified as wrong.

I want to formally thank Mr James McBrayer for his unceasing efforts on behalf of the company. James has proven himself to be a very capable leader of Cyclopharm. I am looking forward to Cyclopharm being able to announce some exciting new products developed by our Director of Science, Professor Nabil Morcos.

On behalf of the Board I would like to thank shareholders for their ongoing support.

Yours faithfully,

Vanda Gould
Chairman

Managing Director's Review

Features

Dear Shareholders, I will look back on 2012 as a turning point in our company's history. It was a year of milestones, challenges opportunities and deliverables. It is with pleasure that I inform you that the implementation of your company's diversification strategy is now based on established business units generating consistent revenues

Firstly, our cyclotron facility at Macquarie University Hospital (MUH) which has been operational since December 2010, has achieved significant sales growth of 62% in 2012 over 2011. Secondly, we continue to be encouraged by the growth in patient volumes seen through Macquarie Medical Imaging (MMI). MMI is our joint venture diagnostic imaging service located at MUH which has been in business for over 2.5 years and continues to demonstrate consistent growth.

While we have expanded our overall offering through diversification, Technegas nevertheless remains the financial foundation of the group, recording 87% (2011: 92%) of the total sales for the year. The following table outlines the group's consolidated performance on a comparative year financial basis:

Full Year ended 31 December	**2011**	**2012**
	$'000	$'000
Net Loss Before Tax	(1,192)	(1,011)
Add back: MMI share of loss of associate	(583)	-
Add back: Molecular Imaging Division loss	(2,225)	(2,117)
Technegas Division Net Profit Before Tax	1,616	1,106

The Molecular Imaging business operating as Cyclopet contributed revenues of $1,375,840 (2011: $849,051) and a Loss before tax of $2,116,645 (2011: $2,807,782) arising solely from the cyclotron operational loss. The financial performance of our Molecular Imaging division continues to grow consistently despite the competitive pressures placed on this unit by government owned enterprises. Cyclopet losses have been reduced as revenue from the cyclotron increases and no further losses are recorded for our share of MMI's losses (2011: $583,273 share of the loss in MMI). The investment in MMI totalling $900,000 has been fully written down as at 31 December 2011. Cyclopet's loss is primarily attributed to the impact of the Australian Nuclear Science and Technology Organisation's (ANSTO's) competitive actions in the NSW market and a slower than expected ramp-up of Macquarie University Hospital. In August 2012, Cyclopharm filed a claim with the Australian Federal Court claiming breaches of the Consumer and Competition Act.

The combined sales of the Company's key products, TechnegasPlus generators (Generators) and Patient Administration Sets (PAS), of $9.37m was consistent with the prior year amount of $9.48m despite unfavourable foreign exchange impacts. Technegas Generator sales revenue increased by 4% in spite of unit sales falling by 4% as a result of price increases in Australia, Latin America and Canada.

The sale of Patient Administration Sets (PAS) boxes were 6% higher even though revenue was consistent with the prior year.

Unfavourable foreign currency movements impacted revenue as approximately 69% (2011: 72%) of sales are denominated in currencies other than the Australian Dollar. Realised foreign exchange losses amounted to $209,411 (2011: $213,174).

For the reasons mentioned above, the Company reported a loss before tax of $1,010,861 (2011: loss after tax of $1,191,969).

Managing Director's Review
Continued

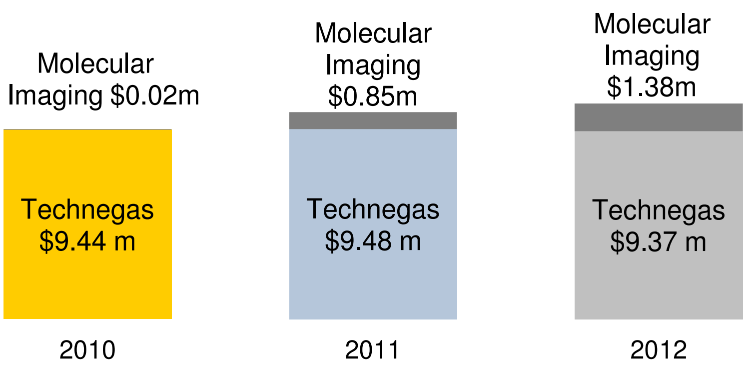
Operating review

Technegas

Technegas is a lung imaging device used primarily to diagnose the presence of blood clots in the lungs known as Pulmonary Emboli (PE). For the last 21 years, over 2,600,000 patients have benefited from the Technegas system. The company faced similar challenges as in prior years with continued competition from Computed Tomography Pulmonary Angiogram ("CTPA"); however, with the numerous contraindications attributed to CTPA along with the concerns relating to the high levels of radiation exposure resulting from a CTPA exam, Technegas continues to demonstrate its relevance and has once again generated strong sales and cash flows.

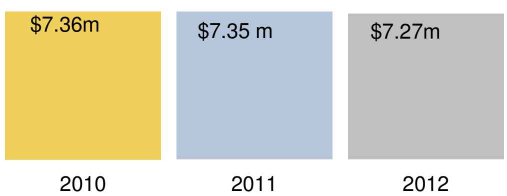
Revenue Composition

Sales revenue of $9.37m from the Company's key products, Generators and PAS, were consistent with the preceding year (2011: $9.48m). Despite a 6% increase in units sold of 179,450 units (2011: 169,750 units), PAS or consumable revenue was 1% lower at $7.27 million for the current period compared to that of the previous year (2011: $7.35 million).



Group Revenue by segment

Cyclopharm recorded 53 Technegas Plus Generator sales in 2012, 2 units less than the prior year (2011: 55). Technegas generator and other sales revenues of $2.10m were consistent with the prior year (2011: $2.13m). The impact of higher volumes and flat sales resulted in lower margins as compared to the prior year. This variation is primarily attributed to foreign exchange movements in the Euro to Australian dollar although the effect has been slightly moderated by the weighted average of revenue generated in Europe decreasing to 59% as compared to 61% in 2011.



Group, PAS Revenue

Group, Technegas and Other

New Drug Application to sell Technegas in the USA

The much awaited entry into the United States Market was significantly advanced when the first patient study to be enrolled and imaged under the United States Food and Drug Administration (USFDA) approved protocol was conducted at the Presbyterian/Columbia University Medical Center located in New York City, New York. The commencement of the patient trial was announced to the ASX on 19 November 2012.

A total of 750 patients are required for the study with the multicenter trial expected to take up to 18 months to complete. As the USA represents such a major growth opportunity, the directors will be prudent in pursuing approval to sell Technegas in the USA.

Regional Review

Europe

Approximately 59% of sales revenue is derived in Europe (2011: 61%). Overall sales revenue was 5% lower at $5.37m (2011: $5.65m). Generator sales were lower with 28 sold in 2012 compared with 31 in the prior year while 1,999 PAS boxes were sold, consistent with the 1,981 boxes sold in 2011. Sales revenue was significantly impacted by an approximate 8% movement in the Australian dollar relative to the European Euro. Pleasingly, unit sales have remained resilient in spite of the prolonged economic turbulence in Europe.

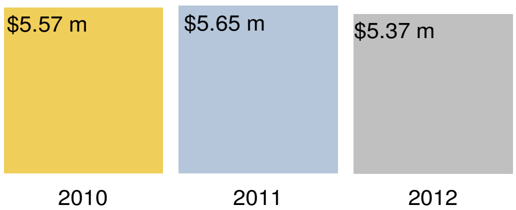
North America

North America consisting of exclusively Canada recorded sales of 15 generators, nearly double the number of generators sold in the previous year (2011: 8). We are very pleased to report PAS sales continue to grow in this region with the 9^{th} consecutive year of growth being recorded. 757 PAS boxes were sold in 2012 as compared to the previous year (2011: 688 PAS boxes). With a total revenue of $2.04m (2011: $1.69m) recorded in 2012, more PAS was sold into the Canadian market than any other single market in the world. The Directors have been extremely pleased with the success of Technegas in Canada and we are confident this is a strong indicator of the potential growth for Technegas in the United States once marketing approval is achieved.

Asia Pacific

Revenues in the Asia Pacific region fell by 11% in 2012. In Australia, where Technegas enjoys a very high market share, total revenues fell by 15% with a 50% decrease in generator sales of 5 (2011: 10) units and a 2% reduction in the number of PAS boxes sold. Pleasingly, in Asia, sales revenue increased by 61%, driven by 108 PAS boxes sold in China as a result of intensified efforts to penetrate the Chinese market. We are still awaiting approval from the Japanese regulatory authorities for the TechnegasPlus Generator and we expect strong sales growth in Japan once approval is received.

North America, Total Revenue



Europe, Total Revenue

Asia Pacific, Total Revenue

Molecular Imaging trading as Cyclopet

Cyclopet completed its second year of operations with a pleasing sales growth of 62% achieved on $1.38m (2011: $0.85m) revenue generated from the cyclotron facility located at MUH despite facing tremendous competitive headwinds in NSW.

Market growth has been significantly impacted as a consequence of the NSW tender to supply PET radiopharmaceuticals to public hospitals in NSW being awarded to Petnet Australia, a wholly owned subsidiary of the Australian Nuclear Science and Technology Organisation (ANSTO). The overall loss before tax for the year incurred was reduced by 25% to $2,116,645 (2011: loss before tax of $2,807,782) due to the absence of the shared losses of MMI incurred in the previous year (2011: loss of $583,273).

Based on a complaint from Cyclopet, Petnet Australia was subject to an investigation by the Australian Government Competitive Neutrality Complaints Office (AGCNCO), an independent division of the Productivity Commission. The AGCNCO handed down a rare finding in favour of Cyclopet complaint finding that Petnet Australia, being a government owned enterprise, was in ex-ante breach of its competitive neutrality requirements.

ANSTO on behalf of Petnet has refuted the finding from the AGCNCO that Petnet is in breach of their competitive neutrality obligations. As a consequence, Cyclopet has commenced proceedings in the Australian Federal Court claiming breaches to not only sections 52 and 45 of the Trade Practices Act 1974 (Commonwealth) but also sections 18, 45 and 46 of the Competition and Consumer Act 2010.

It should be noted that before Cyclopharm commenced to invest in its Molecular Imaging strategy, it shared with ANSTO's then Chief Executive Officer and other Senior ANSTO Managers its business plan to develop cyclotron facilities. At that time ANSTO had already disbanded the commercial supply of FDG to the Australian market and furthermore did not demonstrate an interest to reinvest in the production of FDG. Cyclopharm alleges that subsequent to our discussions when ANSTO did decide to re-enter the FDG market, they did so at non-commercial pricing levels. Cyclopharm further believes that ANSTO continues to take advantage of its government subsidised position by perpetuating a loss-making non-commercial venture rather than directing those tax payer funds towards much needed research and development.

While before the courts, this litigation will undoubtedly be a cash burden to your company. Nevertheless, your Directors are committed to vigorously prosecute what we believe to be not only a serious breach of competition law but also an inappropriate and wasteful use of tax payer funds by a government owned enterprise used to compete against the private sector. We are hopeful that the matter will come before the Federal Court in late 2013.

Unfortunately the losses we have sustained as result of the action of ANSTO has meant that your company will operate at a loss until such time as the various legal action we have taken results in a rectification of this situation.

I look forward to updating shareholders as the case progresses.

Macquarie Medical Imaging

Cyclopharm’s medical imaging joint venture, MMI, provides patients at Macquarie University Hospital and neighbouring suburbs 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. In December 2011 Macquarie University Hospital took a 30% share in the joint venture. Patient volumes continue to gradually increase as initiatives being implemented at MUH including a new breast clinic, expanded specialties such as cardiothoracic services, cancer care services and expanded PET indications take effect.

Due to Cyclopharm’s minority shareholding, profit and losses are recorded as an equity accounted investment. As a result, revenues are not reported in our accounts. No further shared losses of MMI are recorded in Cyclopharm’s financial results (2011: loss of $583,273) as the investment in MMI has been fully written down as at 31 December 2011.

OUTLOOK

In 2013, your Directors expect continued growth in Technegas revenues from targeted marketing in Europe and China as well as growth following regulatory approval in Japan and Russia. We forecast a change in the mix of Technegas products. We anticipate more generators (lower margins) relative to PAS box sales and therefore lower profit margins.

We have taken an enormous step forward to introducing Technegas to the United States market through our Phase 3 clinical trial which commenced in November 2012. Investigational sites will be progressively added throughout 2013 to meet the target of 750 patients. Over half of the world’s nuclear medicine departments are located in the United States and represents the single biggest growth opportunity for Technegas.

We continue to develop new indications for Technegas. Disease states to include Chronic Obstructive Pulmonary Disease (“COPD”) and Lung Cancer have significant market potential for Technegas and are currently being targeted with clinical studies now underway. Our pursuit of an expanded indication is fuelled by the market potential as we estimate that the COPD market is 15 to 20 times the size of that of the pulmonary embolism market we currently occupy.

Your Directors are committed to implementing Cyclopharm’s diversification strategies with the ultimate aim to become Australia's leading provider of FDG and emerging PET radiopharmaceuticals. Cyclopharm announced to the ASX in August 2012 that it had entered into an agreement with Queensland’s Mater Misericordiae Health Services group and Queensland X-ray (a wholly owned subsidiary of Sonic Healthcare Limited) to establish a cyclotron at the Mater Hospital located in South Brisbane by 2014. This new venture will provide us with the platform for expansion into the high growth Queensland market. Over the coming months, we expect to finalise the design and scope of the new cyclotron facility which will determine the cost and financing methods required. At this stage, the cost is tentatively estimated at a range between $5.0m to $7.5m.

Managing Director’s Review
Continued

While the market in NSW for PET radiopharmaceuticals manufactured by Cyclopet is growing, this market has not reached our initial expectations. The lagging market combined with competition from government owned enterprises requires additional capital to support this venture.

The Directors maintain their view that the Cyclotron facility is a major investment that will yield significant long term returns for the Company but recognise that the interim working capital shortfall will require funding from the Technegas business. Part of the proceeds from the capital raising exercise completed in December 2012 will be used to fund the operations of the Molecular Imaging Division.

Leveraged off our diversification strategy, in 2011 management initiated some Research and Development initiatives that represent some exciting commercial potential for your company. I look forward to sharing the details of these initiatives in the coming months once our Intellectual Property rights are secured through patent protection.

However, for the coming year, we forecast that profitability will continue to be adversely impacted by the issues faced by Cyclopet.

Notwithstanding the above, I wish to express my gratitude to my staff and management team, and our trading partners. I also take this opportunity to note my appreciation to the Chairman, Mr Vanda Gould, and my fellow Directors, Mr David Heaney and Mr John Sharman who has resigned on 29 February 2012. Lastly I want to thank you, our Shareholders for your continued support and patience.

James S McBrayer

James McBrayer
Managing Director and CEO

The Directors of Cyclopharm submit their report for the year ended 31 December 2012.

DIRECTORS

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

Names, qualifications, experience and special responsibilities

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

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

Mr Gould lives in Sydney and is 64 years old.

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

Mr McBrayer has more than 26 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 47 years old.

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

Mr Heaney is currently an executive director of Thompson Partners Pty Ltd and a non-executive director of Colorpak Limited (since 24 January 2004). Mr Heaney also served as a director of Mariner Financial Limited between 27 May 2005 and 12 May 2009 and as a director of Dromana Estate Limited between 10 July 2009 and 15 December 2011.

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 68 years old.

cyclopharm Nuclear Medicine

DIRECTORS (CONTINUED)

Mr J S Sharman –Non Executive Director
M.App.Fin, CA, B Ec
Mr Sharman has been a member of the Board since 21 November 2005. Mr Sharman resigned from the Board on 29 February 2012. Mr Sharman has been involved with the Cyclopharm Group since early 2004 and resigned from his role as Managing Director of Cyclopharm on 3 June 2008. Mr Sharman served as a member of the Board Nominations Committees.

Mr Sharman has over 16 years experience in company management, private equity, investment banking and corporate finance. He has extensive experience in capital raisings, negotiation of key agreements, recovery and commercial strategies for performing and non-performing companies in all stages of company development. Mr Sharman is also a Non-Executive Director of Vita Life Sciences Limited (listed on the ASX).

Mr Sharman lives in Melbourne and is 46 years old.

Mr J M McBrayer – Company Secretary
Mr McBrayer was appointed as Company Secretary on 25 March 2011 following the resignation of the previous company secretary, Mr William Richardson.

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 2011	Granted under long term incentive schemes	Lapsed under long term incentive schemes	Shares purchased under renounceable Rights Issue	Shares cancelled pursuant to Share Consolidation Exercise	31 December 2012
		No. of shares	No. of shares	No. of shares	No. of shares	No. of shares	No. of shares
Directors							
Mr VR Gould	NBI	3,995,000	-	-	846,750	(3,196,000)	1,645,750
Mr DJ Heaney	BI	343,487	-	-	17,175	(274,790)	85,872
Mr JS McBrayer	BI	859,090	1,341,476	(700,000)	-	(127,272)	1,373,294
Mr JS McBrayer	NBI	300,000	-	-	-	(240,000)	60,000
Mr JS Sharman*	BI	1,010,000	-	-	-	-	1,010,000
Mr JS Sharman*	NBI	34,977	-	-	-	-	34,977
		6,542,554	1,341,476	(700,000)	863,925	(3,838,062)	4,209,893
Key Management Personnel							
Prof N Morcos	BI	1,058,297	268,295	-	-	(846,638)	479,954
Mr C Buttigieg	BI	-	26,830	-	-	-	26,830
Ms L McLauchlin	BI	-	26,830	-	-	-	26,830
Ms C Cheah	BI	-	13,415	-	-	-	13,415
Mr G Phillips	BI	-	13,415	-	-	-	13,415
		1,058,297	348,785	-	-	(846,638)	560,444

NBI: Non beneficial interests
BI: Beneficial interest
*Mr Sharman resigned on 29 February 2012 and the closing balance of his related interest reflects the Final Director's Interest Notice lodged with the ASX on 5 March 2012.

DIVIDENDS

No dividends were declared or paid during the financial year.

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

PRINCIPAL ACTIVITIES

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

OPERATING AND FINANCIAL REVIEW

Operating Results for the Year

For the financial year, the economic entity incurred a consolidated loss after tax attributable to members of $1,044,127 (2011: loss after tax of $956,220).

Financial Position

Net assets have increased from $14,604,799 as at 31 December 2011 to $15,608,433 as at 31 December 2012 predominantly due to net increase of $1,901,323 in contributed equity arising from the capital raising exercise noted below and an improvement of $143,084 in the foreign currency translation reserve. This was offset by the net loss of $1,044,127 for the year.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

Shares cancelled and issued during the year

(i) On 4 June 2012, the Company completed a consolidation of its issued capital on a basis that every 5 fully paid ordinary shares was consolidated into 1 fully paid ordinary share as approved by shareholders at the Annual General Meeting held on 24 May 2012,
(ii) 1,786,849 Long Term Incentive Plan shares were issued on 31 October 2012, and
(iii) On 14 December 2012, the Company completed a capital raising exercise comprising a pro-rata renounceable entitlement offer to eligible shareholders of 1 share for every 4 shares held by eligible shareholders at an issue price of $0.18 per rights share resulting in the issue of 11,625,805 shares.

Banking Facilities

The National Australia Bank renewed the funding of Cyclopharm's debt facility with a flexible rate loan which expires in December 2015. The facility is secured by a first registered mortgage debenture over Cyclopharm Limited and a guarantee and indemnity from Cyclomedica Australia Pty Ltd, CycloPET Pty Ltd, Allrad No. 28 Pty Ltd and Allrad No. 29 Pty Ltd. The National Australia Bank has a registered Fixed and Floating Charge and First Registered Debenture charges over these companies.

The Group has breached its banking covenants during the year ended 31 December 2012, being an Event of Default triggered by variances greater than 15% of Actual Loss Before Interest and Taxes (LBIT) as compared to Budgeted LBIT and the non-compliance of the interest cover covenant in view of the Loss Before Interest and Taxes incurred. The bank has agreed not to take action at this point in time.

SIGNIFICANT EVENTS AFTER BALANCE DATE

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

As the USA represents such a major growth opportunity, your Directors will continue to sensibly pursue entry into this market. Commencement of the patient trial was announced to the ASX on 19 November 2012 and is expected to take up to 18 months to complete.

Molecular Imaging

Management will focus on securing new customers to purchase the PET radiopharmaceuticals and are committed to implementing Cyclopharm's diversification strategies. The new venture with Queensland's Mater Misericordiae Health Services group and Queensland X-ray (a wholly owned subsidiary of Sonic Healthcare Limited) to establish a cyclotron at the Mater Hospital located in South Brisbane by 2014 will provide us with the platform for expansion into the high growth Queensland market.

The losses we have sustained as result of the action of ANSTO has meant that your company will operate at a loss until such time as the various legal action we have taken results in a rectification of this situation. Your Directors are hopeful that the matter will come before the Federal Court in late 2013.

ENVIRONMENTAL REGULATIONS

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

RETIREMENT, ELECTION AND CONTINUATION IN OFFICE OF DIRECTORS

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

INDEMNIFICATION AND INSURANCE OF OFFICERS

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

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

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

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

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

The total amount of insurance contract premiums paid for the year ending 31 December 2013 are $18,302 (For the year ended 31 December 2012: $15,941).

INDEMNIFICATION AND INSURANCE OF OFFICERS (CONTINUED)

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 24.

Fees of $22,068 (2011: $25,526) have been paid for share registry services and fees of $10,000 (2011: $10,000) for taxation services to an associate of Russell Bedford NSW for the year ended 31 December 2012 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 in accordance with the requirements of the Corporations Act 2001 and its Regulations. It also provides the remuneration disclosures required by paragraphs Aus 25.4 to Aus 25.7.2 of AASB 124 Related Party Disclosures, which have been transferred to the Remuneration Report in accordance with Corporations Regulation 2M.6.04. For the purposes of this report Key Management Personnel of the group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the group, directly or indirectly, including any director (whether executive or otherwise) of the parent Company, and includes the five executives in the parent and the group receiving the highest remuneration.

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

Consolidated	Short-term employee benefits: Salary & Fees $	Cash Bonus $	Non-monetary benefits $	Post employment benefits: Superannuation $	Share-based payment $	Total $	Performance related %
2012							
Directors							
Vanda Gould Non-Executive Director	41,200	-	-	-	-	**41,200**	0%
David Heaney Non-Executive Director	31,827	-	-	-	-	**31,827**	0%
John Sharman * Non-Executive Director	2,340	-	-	-	-	**2,340**	0%
Executive Director							
James McBrayer Managing Director	292,476	-	-	25,514	3,354	**321,344**	1%
Total Directors' Compensation	**367,843**	**-**	**-**	**25,514**	**3,354**	**396,711**	**1%**

* Mr Sharman resigned on 29 February 2012.

Consolidated	Short-term employee benefits Salary & Fees $	Cash Bonus $	Non-monetary benefits $	Post employment benefits Superannuation $	Share-based payment $	Total $	Performance related %
2012							
Key Management Personnel							
Nabil Morcos Chief Operating Officer	194,024	-	-	17,462	-	**211,486**	0%
Gary Somerville Quality and Regulatory Manager	121,914	-	-	10,972	-	**132,886**	0%
Caryn Cheah Financial Controller	50,997	-	-	4,859	-	**55,856**	0%
Graham Phillips Finance Manager	116,019	-	-	10,441	-	**126,460**	0%
Charles Buttigieg Sales and Marketing Manager - Australia	152,250	-	-	13,702	-	**165,952**	0%
Bjorn Altmann General Manager – Europe	131,103	-	-	-	-	**131,103**	0%
Lynn McLauchlin General Manager – Canada	146,396	14,507	-	-	-	**160,903**	9%
Total Key Management Personnel's Compensation	**912,703**	**14,507**	**-**	**57,436**	**-**	**984,646**	**1%**
Total Compensation	**1,280,546**	**14,507**	**-**	**82,950**	**3,354**	**1,381,357**	**1%**

Directors' Report
Continued

Consolidated	Short-term employee benefits Salary & Fees $	Cash Bonus $	Non-monetary benefits $	Post employment benefits Superannuation $	Share-based payment $	Total $	Performance related %
2011							
Directors							
Vanda Gould Non-Executive Director	41,200	-	-	-	-	**41,200**	0%
David Heaney Non-Executive Director	30,900	-	-	-	-	**30,900**	0%
John Sharman * Non-Executive Director	15,450	-	-	-	-	**15,450**	0%
Alexander Beard ** Non-Executive Director	-	-	-	-	-	**-**	0%
Executive Director							
James McBrayer Managing Director	283,486	-	-	25,514	8,050	**317,050**	3%
Total Directors' Compensation	**371,036**	**-**	**-**	**25,514**	**8,050**	**404,600**	**2%**

* Mr Sharman resigned on 29 February 2012.
** Mr Beard was appointed on 28 April 2011 and resigned on 26 July 2011.

Consolidated	Short-term employee benefits: Salary & Fees $	Cash Bonus $	Non-monetary benefits $	Post employment benefits: Superannuation $	Share-based payment $	Total $	Performance related %
2011							
Key Management Personnel							
Nabil Morcos Chief Operating Officer	188,464	-	-	16,962	-	**205,426**	0%
Gary Somerville Quality and Regulatory Manager	118,420	-	-	10,657	-	**129,077**	0%
Caryn Cheah * Financial Controller	36,826	-	-	3,314	-	**40,140**	0%
Graham Phillips Finance Manager	112,694	-	-	10,142	-	**122,836**	0%
Charles Buttigieg Sales and Marketing Manager - Australia	136,279	-	-	10,825	-	**147,104**	0%
Bjorn Altmann General Manager – Europe	141,328	-	-	-	-	**141,328**	0%
Lynn McLauchlin General Manager – Canada	119,212	27,464	-	-	-	**146,676**	19%
Total Key Management Personnel's Compensation	**853,223**	**27,464**	**-**	**51,900**	**-**	**932,587**	**3%**
Total Compensation	**1,224,259**	**27,464**	**-**	**77,414**	**8,050**	**1,337,187**	**3%**

* Ms Cheah joined as Cyclopharm Limited's Financial Controller on 7 March 2011.

Remuneration committee

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

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

Remuneration philosophy

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

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

Remuneration structure

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

Non-executive director remuneration

Objective

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

Structure

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

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

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

Executive remuneration

Objective

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

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

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

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

Remuneration consists of the following key elements:

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

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

Fixed Remuneration

Objective

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

Structure

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

Variable remuneration - Short Term Incentive

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

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

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

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

Variable remuneration – Long Term Incentive

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

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

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

Employment contracts

Managing Director

The Managing Director, Mr McBrayer, is employed under a rolling contract. Mr McBrayer's current contract was executed on 13 May 2008. Mr McBrayer's remuneration for 2012 and 2011 is disclosed in the tables on pages 16 and 18. 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.
- On 3 June 2008, two strictly limited recourse loans were made to Mr McBrayer under the Company's LTIP. The first loan was to enable the purchase of 700,000 shares for a period of 2 years at the price of 25 cents per share. These shares did not vest and lapsed in 2010. The second loan was to enable the purchase of 700,000 shares for a period of 4 years at the price of 35 cents per share. These shares did not vest and lapsed in 2012.
- On 31 October 2012, 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 447,159 shares at the price of 35 cents per share and the second loan was to enable the purchase of 894,317 shares at the price of 50 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.

DIRECTORS' MEETINGS

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

Director	Cyclopharm Board Meetings		Audit Committee Meetings		Board Nomination Committee		Remuneration Committee Meetings	
	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	11	11	3	3	-	-	2	2
Mr J S Sharman*	2	1	-	-	-	-	-	-
Mr D J Heaney	11	11	3	3	-	-	2	2
Mr J M McBrayer	11	11	-	-	-	-	-	-

* Mr Sharman resigned on 29 February 2012.

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 S McBrayer

James McBrayer
Managing Director and CEO

Sydney, 28 March 2013

Auditor’s Independence Declaration

Russell Bedford
New South Wales

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28 March 2013

The Board of Directors
Cyclopharm Limited
Building 75
Business & Technology Park
New Illawarra Road
Lucas Heights NSW 2234

Dear Directors

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

We declare that, to the best of our knowledge and belief, during the year ended 31 December 2012, there have been:

- No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

- No contraventions of any applicable Code of Professional Conduct in relation to the audit.

Yours faithfully

RUSSELL BEDFORD NSW
Chartered Accountants

MALCOLM BEARD, M.Com., FCA
Partner

Corporate Governance

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

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

1 Compliance with ASX best practice recommendations

The ASX Listing Rules require a statement in a listed Company's Annual Report which discloses the extent to which the ASX 28 best practice recommendations have been followed in the reporting period. As a listed Company, Cyclopharm must identify those recommendations which have not been followed and provide reasons for non-compliance.

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

The Company considers that practices comply with 26 of the ASX best practice recommendations as at 31 December 2012. The Company considers that its recommendations comply with the best practice recommendations, other than recommendations 4.2 and 8.3. Explanations for the departure are provided in this statement in section 3(a) and 5(a). 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 2.6 (refer to best practice summary)

The Company's Constitution requires a minimum of 3 Directors and a maximum of 9 Directors. As at 31 December 2012, there were two non-executive Directors and one executive director. The Chairman, Mr Gould, is a non-executive director.

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

(b) Board role and responsibilities

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

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

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

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

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

(c) Chairman

The Chairman, satisfies the requirements for an Independent Chairman under *ASX Recommendations 2.1 and 2.2* as Mr Gould is a non-executive, and has approximately 2.83% of the Shares (Recommendations permit 5%). Mr Gould is the Chairman of CVC Limited, whose subsidiary Stinoc Pty Limited controls 19.13% of the Shares of Cyclopharm. Mr Gould has advised the Board that under the Corporations Act tests he does not control these Shares and therefore has not disclosed them as part of his director's interest. However, given Mr Gould's role as Chairman of CVC Limited and Cyclopharm Limited, Cyclopharm's Board has considered this matter and decided, Mr Gould abstaining from expressing a view, that the Mr Gould's role at CVC Limited does not affect the operation of the Company and that so long as Mr Gould continues to act as he has since his appointment to the Boards of various entities making up the Cyclopharm Group, there is no reason to treat his actions as otherwise than that of an independent, non executive.

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

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

ASX Recommendation 2.3 (refer to best practice summary)

(d) Independent Directors

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

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

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

Mr Heaney, Mr Gould and Mr Sharman (who resigned from the Board on 29 February 2012) meet the Recommendations' various tests of independence. Therefore, there is a majority of independent non-executive Directors on the Board.

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

(e) Avoidance of conflicts of interest by a director

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

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

(f) Board Meetings

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

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

(g) Review of Board Performance

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

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

ASX Recommendation 2.5 (refer to best practice summary)

(h) Nomination and appointment of new Directors

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

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

(i) Retirement and re-election of Directors

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

ASX Recommendation 2.4 (refer to best practice summary)

(j) Board access to information and advice

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

ASX Recommendation 2.5 (refer to best practice summary)

3 Board Committees

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

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

(a) Audit and Risk Committee

The Audit and Risk Committee is governed by its charter, as approved by the Board. The Charter is available within the Corporate Governance section on Cyclopharm's website, at www.cyclopharm.com.au. The Audit and Risk Committee comprises two Directors, both being non-executive Directors. The non-executive Directors are Mr Gould, Chairman of the Audit Committee and Mr Heaney. The qualifications of the committee are located in the Directors' Report on page 11. The Audit Committee's responsibilities include:

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

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

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

The Audit and Risk Committee monitors and reviews:

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

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

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

(b) Board Nominations Committee

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

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

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

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

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

(c) Remuneration Committee

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

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

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

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

ASX Recommendation 9.2 (refer to best practice summary)

4 Recognising and managing risk

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

(a) Board oversight of the risk management system

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

The Company recognises four main types of risk:

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

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

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

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

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

- monthly reporting to the Board in respect of operations and the Company's financial position, with a comparison of actual results against budget; and

- regular reports to the Board by appropriate members of the management team and/or independent advisers, outlining the nature of particular risks and highlighting measures which are either in place or can be adopted to manage or mitigate those risks.

(b) Risk management roles and responsibilities

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

(c) Managing Director and Chief Financial Officer Certification

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

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

ASX recommendations 7.3 (refer to best practice summary)

(d) Internal review and risk evaluation

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

5 Remuneration

(a) Overview

The Remuneration Committee is responsible for reviewing the compensation arrangements for the Managing Director and other key personnel. The Remuneration Committee is also responsible for reviewing management incentive schemes, superannuation, retirement and termination entitlements, fringe benefits policies, and professional indemnity and liability insurance policies. The nature and amount of each element of the fee or salary of each director and each of the highest-paid officers of the Company are set out in the Remuneration Report on pages 16 to 19. Non-executive Directors' fees and payments are reviewed annually by the Board. Executive Directors are, subject to the information above, paid in salary or fees.

Mr Heaney and Mr Gould meet the Recommendation's various tests of independence. Therefore there is a majority of independent non-executive Directors on the Remuneration Committee and is chaired by an independent Director. The Board does not comply with the ASX requirement to have at least 3 members on the Remuneration Committee. The Board believes that the experience that Mr Gould and Mr Heaney have in the finance industry adequately mitigates this non-compliance.

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

(b) Equity-based key management personnel remuneration

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

6 Timely and balanced disclosure

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

(a) Market disclosure policy and practices

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

This policy includes provision for communications by the Company to:

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

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

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

(b) Communication strategy

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

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

7 Ethical and responsible decision-making

(a) Code of Ethics and Conduct

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

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

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

(b) Policy concerning trading in Company securities

On 19 February 2009, the Board resolved to adopt a new Policy concerning trading in Company securities. An executive, director or relevant employees ('employee') must not trade in any securities of the Company at any time when they are in possession of unpublished, price sensitive information in relation to those securities. An employee should not deal in securities of Cyclopharm without receiving clearance from a Committee comprised of the Managing Director and the

Chairman (or in the absence of either of these two directors by any other director) who has ensured that there is no unpublished price sensitive information.

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

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

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

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

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

8 Diversity

The Company publishes on its website its Diversity Policy.

The proportion of women employees within the following three levels as at 31 December 2012 are:

- Whole organisation 31%
- Senior executive positions 18%
- 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;
- Establish a senior mentoring program overseen by the Managing Director for all female senior managers.

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

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

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

ASX Principle	Reference	Compliance
Principle 5: Make timely and balanced disclosure		
5.1 Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance	6a	comply
5.2 Provide the information in the Guide to reporting on this Principle 5	6a	comply
Principle 6: Respect the rights of shareholders		
6.1 Design and disclose a communications strategy to promote effective communication with sharholders and encourage participation at general meetings	6a, 6b	comply
6.2 Provide the information indicated in the Guide to reporting on Principle 6.	3a	comply
Principle 7: Recognise and manage risk		
7.1 The board or appropriate board committee should establish policies on risk oversight and management	4a	comply
7.2 The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being effectively managed and disclose that management has reported to it as to the effectiveness of the company's management of business risks.	4a	comply
7.3 The chief executive officer (or equivalent) and chief financial officer (or equivalent) should state to the board in writing that in accordance with section 295A of the Corporations Act:	4c	comply
7.3.1 the statement given in accordance with best practice recommendation 4.1 (the integrity of financial statements) is founded on a sound system of risk management and internal compliance and controls to implement the policies adopted by the board		
7.3.2 the company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects		
7.4 Provide the information in the Guide to reporting on this Principle 7	4a	comply
Principle 8: Remunerate fairly and responsibly		
8.1 The board should establish a remuneration committee	3c, 5a	comply
8.2 Clearly distinguish the structure of non-executive director's remuneration from that of executives	5a	comply
8.3 The remuneration committee should be structured so that it consists of a majority of independent directors, chaired by an independent director and have at least three members.	5a	do not comply
8.4 Provide the information in the Guide to reporting on this Principle 8	5a	comply

Statement of Comprehensive Income

for the year ended 31 December 2012

	Notes	Consolidated 2012 $	Consolidated 2011 $
CONTINUING OPERATIONS			
Sales revenue	4	10,743,824	10,314,506
Finance revenue		23,941	17,302
Total revenue		**10,767,765**	**10,331,808**
Cost of materials and manufacturing	4a	(3,348,575)	(3,127,650)
Employee benefits expense	4e	(3,418,560)	(3,454,450)
Advertising and promotion expense		(288,309)	(240,716)
Depreciation and amortisation expense	4c	(651,983)	(669,608)
Freight and duty expense		(642,574)	(343,330)
Research and development expense	4d	(22,736)	(37,324)
Administration expense	4f	(2,254,626)	(2,023,861)
Other expenses	4g	(767,475)	(688,328)
Share of loss of associate	11	-	(583,273)
Loss before tax and finance costs		**(627,073)**	**(836,732)**
Finance costs	4b	(383,788)	(355,237)
Loss before income tax		**(1,010,861)**	**(1,191,969)**
Income tax benefit / (expense)	5	(33,266)	235,749
Net Loss for the year		**(1,044,127)**	**(956,220)**
Other comprehensive income after income tax			
Exchange differences on translating foreign controlled entities		143,084	(189,469)
Total comprehensive loss for the year		**(901,043)**	**(1,145,689)**
Loss per share (cents per share)	6	**cents**	**cents**
-basic loss per share for continuing operations		(0.86)	(0.55)
-basic loss per share		(0.86)	(0.55)
-diluted loss per share		(0.86)	(0.55)

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 2012

		Consolidated	
		2012	2011
	Notes	$	$
Assets			
Current Assets			
Cash and cash equivalents	7	2,346,556	2,043,814
Trade and other receivables	8	3,784,293	4,139,147
Inventories	9	2,884,834	2,487,081
Current tax asset	5	1,478	-
Other assets		15,822	17,282
Total Current Assets		**9,032,983**	**8,687,324**
Non-current Assets			
Trade and other receivables	8	-	80,087
Property, plant and equipment	10	9,526,942	9,717,488
Investments accounted for using the equity method	11	-	-
Intangible assets	12	3,096,438	2,808,314
Total Non-current Assets		**12,623,380**	**12,605,889**
Total Assets		**21,656,363**	**21,293,213**
Liabilities			
Current Liabilities			
Trade and other payables	13	1,642,146	1,110,406
Interest bearing loans and borrowings	14	3,604,310	4,803,156
Provisions	15	681,588	645,716
Tax liabilities	5	-	16,090
Total Current Liabilities		**5,928,044**	**6,575,368**
Non-current Liabilities			
Interest bearing loans and borrowings	14	16,986	21,297
Provisions	15	84,456	64,410
Deferred tax liabilities	5	18,444	27,339
Total Non-current Liabilities		**119,886**	**113,046**
Total Liabilities		**6,047,930**	**6,688,414**
Net Assets		**15,608,433**	**14,604,799**
Equity			
Contributed equity	16	14,966,515	13,065,192
Employee equity benefits reserve		325,553	322,199
Foreign currency translation reserve		(1,589,609)	(1,732,693)
Retained profits		1,905,974	2,950,101
Total Equity		**15,608,433**	**14,604,799**

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 2012

	Notes	Consolidated 2012 $	2011 $
Operating activities			
Receipts from customers		11,055,433	10,278,837
Payments to suppliers and employees		(10,266,572)	(8,992,946)
Interest received		23,941	17,302
Borrowing costs paid		(383,788)	(355,237)
Income tax paid		(59,729)	(384,329)
Net cash flows from operating activities	7	**369,285**	**563,627**
Investing activities			
Investment in associate		-	(400,000)
Purchase of property, plant and equipment		(407,462)	(276,040)
Receipts from deposit refunded		-	161,500
Payments for deferred expenditure		(342,099)	(238,690)
Net cash flows used in investing activities		**(749,561)**	**(753,230)**
Financing activities			
Proceeds from issue of shares		2,092,915	2,102,672
Costs of raising capital		(191,592)	(126,388)
Repayment of borrowings		(1,203,157)	(1,278,300)
Loans from related entities		-	400,000
Loans to / (repaid) related entities		-	(400,000)
Net cash flows from financing activities		**698,166**	**697,984**
Net increase in cash and cash equivalents		**317,890**	**508,381**
Cash and cash equivalents			
- at beginning of the period		**2,043,814**	**1,541,644**
- net foreign exchange differences from translation of cash and cash equivalents		(15,148)	(6,211)
- at end of the year	7	**2,346,556**	**2,043,814**

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 2012

CONSOLIDATED	Contributed Equity $	Other Contributed Equity $	Total Contributed Equity $	Retained Earnings $	Foreign Currency Translation Reserve $	Employee Equity Benefits Reserve $	Total $
Balance at 1 January 2011	**16,422,066**	**(5,333,158)**	**11,088,908**	**3,906,321**	**(1,543,224)**	**314,149**	**13,766,154**
Loss for the year	-	-	-	(956,220)	-	-	(956,220)
Other comprehensive income	-	-	-	-	(189,469)	-	(189,469)
Total comprehensive loss for the year	**-**	**-**	**-**	**(956,220)**	**(189,469)**	**-**	**(1,145,689)**
Issue of renounceable rights shares	2,102,672	-	2,102,672	-	-	-	2,102,672
Cost of raising capital	(126,388)	-	(126,388)	-	-	-	(126,388)
Cost of share based payments	-	-	-	-	-	8,050	8,050
Total transactions with owners and other transfers	**1,976,284**	**-**	**1,976,284**	**-**	**-**	**8,050**	**1,984,334**
Balance at 31 December 2011	**18,398,350**	**(5,333,158)**	**13,065,192**	**2,950,101**	**(1,732,693)**	**322,199**	**14,604,799**
Balance at 1 January 2012	**18,398,350**	**(5,333,158)**	**13,065,192**	**2,950,101**	**(1,732,693)**	**322,199**	**14,604,799**
Loss for the year	-	-	-	(1,044,127)	-	-	(1,044,127)
Other comprehensive income	-	-	-	-	143,084	-	143,084
Total comprehensive loss for the year	**-**	**-**	**-**	**(1,044,127)**	**143,084**	**-**	**(901,043)**
Issue of renounceable rights shares	2,092,915	-	2,092,915	-	-	-	2,092,915
Cost of raising capital	(191,592)	-	(191,592)	-	-	-	(191,592)
Cost of share based payments	-	-	-	-	-	3,354	3,354
Total transactions with owners and other transfers	**1,901,323**	**-**	**1,901,323**	**-**	**-**	**3,354**	**1,904,677**
Balance at 31 December 2012	**20,299,673**	**(5,333,158)**	**14,966,515**	**1,905,974**	**(1,589,609)**	**325,553**	**15,608,433**

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

1. CORPORATE INFORMATION

The financial report of Cyclopharm Limited (“Cyclopharm” or the Company”) for the year ended 31 December 2012 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) Going Concern

The consolidated entity incurred a loss after tax of $1,044,127 for the year ended 31 December 2012. During the next 12 months, the consolidated entity expects to expend $0.8m on FDA clinical trials, $1.2m on bank loan repayments and other net outgoings which in aggregate, exceed the current cash facilities. In addition, the consolidated entity had breached two of its banking covenants during the year ended 31 December 2012 as disclosed in Note 14.

Further trading losses are expected for the financial year ending 2013 due to the impact of the Molecular Imaging Division.

These matters give rise to a material uncertainty that casts doubt upon the consolidated entity’s ability to continue as a going concern. The ongoing operation of the consolidated entity is dependent upon:

i) The consolidated entity achieving cash flow positive trading operations from its existing business and

ii) Continued financial support from its financiers.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The directors have prepared cash flow projections that support the ability of the consolidated entity to continue as a going concern. These cash flow projections assume net proceeds of $1.75m from a capital raising exercise and continued financial support from its financiers. On this basis the directors are of the opinion that the consolidated entity can and will continue as a going concern. The directors have obtained a letter of support from the consolidated entity's key shareholder confirming their willingness to underwrite a future capital raising within the next twelve months if considered necessary.

In the event that the consolidated entity does not achieve positive cash flows from trading operations, it may not be able to continue operations as a going concern and therefore the consolidated entity may not be able to realise its assets and extinguish its liabilities in the ordinary course of operations and at the amounts stated in the financial statements.

No adjustments have been made to the recoverability and classification of recorded asset values and the amount and classification of liabilities that might be necessary should the consolidated entity and company not continue as going concerns.

c) New Accounting Standards for Application in Future Periods

The AASB has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods, some which are relevant to the Group. The Group has decided not to early adopt any of the new and amended pronouncements. The Group's assessment of the new and amended pronouncements that are relevant to the Group but applicable in future reporting periods is set out below:

- AASB 10: Consolidated Financial Statement, AASB 11: Joint Arrangements, AASB 12: Disclosure of Interests in Other Entities, AASB 127: Separate Financial Statements (August 2011) and AASB 2011-7: Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards (applicable for annual reporting periods commencing on or after 1 January 2013).

  AASB 10 replaces parts of AASB 127: Consolidated and Separate Financial Statements (March 2008, as amended) and Interpretation 112: Consolidation – Special Purpose Entities. AASB 10 provides a revised definition of control and additional application guidance so that singe control model will apply to all investees. The Group has not yet been able to reasonably estimate the impact of this Standard on its financial statements.

- AASB 11 replaces AASB 131: Interests in Joint Ventures (July 2004, as amended). AASB 11 requires joint arrangements to be classified as either "joint operation (where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities) or "joint ventures" (where the parties that have joint control of the arrangement have rights to the net assets of the arrangement).

- AASB 12 contains the disclosure requirements applicable to entities that hold an interest in a subsidiary, joint venture, joint operation or associate. AASB 12 also introduces the concept of a "structured entity", replacing the "special purpose entity" concept currently used in Interpretation 112, and requires specific disclosures in respect of any investments in unconsolidated structured entities. This Standard will affect disclosures only and is not expected to significantly impact the Group.

  To facilitate the application of AASBs 10, 11 and 12 revised versions of AASB 127 and AASB128 have also been issued.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

These Standards are not expected to significantly impact the Group.

- AASB 13: Fair Value Measurement and AASB 2011-8: Amendments to Australian Accounting Standards arising from AASB 13 (applicable for annual reporting periods commencing on or after 1 January 2013).

  AASB 13 defines fair value, sets out in a single Standard a framework for measuring fair value, and requires disclosures about fair value measurement.

  AASB 13 requires:
  - inputs to all fair value measurements to be categorised in accordance with fair value hierarchy; and
  - enhanced disclosure regarding all assets and liabilities (including, but not limited to, financial assets and financial liabilities) to be measured at fair value.

  These Standards are not expected to significantly impact the Group's financial statements.

- AASB 2011-4: Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements (applicable for annual reporting periods beginning on or after 1 July 2013).
  This Standard makes amendments to AASB 124: Related Party Disclosures to remove the individual key management personnel disclosure requirements (including paras Aus29.1 to Aus29.9.3). These amendments serve a number of purposes, including furthering trans-Tasman convergence, removing differences from IFRSs, and avoiding any potential confusion with the equivalent Corporation Act 2001 disclosure requirements.

  This Standard is not expected to significantly impact the Group's financial report as a whole because:

  - some of the disclosures removed from AASB 124 will continue to be required under s 300A of the Corporations Act, which is applicable to the Group; and

  - AASB 2011-4 does not affect the related party disclosure requirements in AASB124 applicable to all reporting entities, and some of these requirements require similar disclosure to those removed by AASB 2011-4.

- AASB 2011-9: Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income (applicable for annual reporting periods commencing on or after July 2012).

  The main change arising from this Standard is the requirements for entities to group items presented in other comprehensive income (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently.

  This Standard affects presentation only and is therefore not expected to significantly impact on Group.

- AASB 2012-2: Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities (applicable for annual reporting periods commencing on or after 1 January 2013).

  AASB 2012-2 principally amends AASB 7: Financial Instruments: Disclosures to require entities to include information that will enable users of their financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position.

  This Standard is not expected to significantly impact the Group's financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- AASB 2012-3: Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities (applicable for annual reporting periods commencing on or after 1 January 2014).

  This Standard adds application guidance to AASB 132 Financial Instruments: Presentation to address potential inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement.

  This Standard is not expected to significantly impact the Group's financial statements.

- AASB 2012-5: Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle (applicable for annual reporting period commencing on or after 1 January 2013).

  This Standard amends a number of Australian Accounting Standards as a consequence of the issuance of Annual Improvements to IFRSs 2009-2011 Cycle by the International Accounting Standards Board,
  including:

  - AASB 1: First-time Adoption of Australian Accounting Standards to clarify the requirements in respect of the application of AASB 1 when an entity discontinues and then resumes applying Australian Accounting Standards;
  - AASB 101: Presentation of Financial Statements and AASB 134: Interim Financial Reporting to clarify the requirements for presenting comparative information;
  - AASB 116: Property, Plant and Equipment to clarify the accounting treatment of spare parts, stand-by equipment and servicing equipment;
  - AASB 132 and Interpretation 2: Member's Share in Co-operative Entities and Similar Instruments to clarify the accounting treatment of any tax effect of a distribution to holders of equity instruments; and
  - AASB 134 to facilitate consistency between measures of total assets and liabilities an entity reports for segments in its interim and annual financial statements.

  This Standard is not expected to significantly impact the Group's financial statement.

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

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.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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 $).

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 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

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

Impairment

The carrying amount of plant and equipment is reviewed annually by Directors to consider impairment. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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.

h) Investments Accounted For Using The Equity Method

Associates are companies in which the Group has significant influence through holding, directly or indirectly, 20% or more of the voting power of the Group. 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Expenditure on costs incurred in the application to the Food & Drug Administration authority such as the clinical trial process have been capitalised. A useful life has not been determined as Cyclopharm have not yet received approval from the Food & Drug Administration authority. No impairment provision has been deemed necessary at balance date. The Directors are satisfied that the future economic benefits will eventuate to justify the carrying value of the capitalised expenditure.

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

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 conditions are accounted for as follows:

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

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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.

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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) 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.

Key Estimates

Impairment

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.

Intangible Assets

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. Should the projected revenue figures be outside 28% of budgeted figures incorporated in value-in-use calculations, an impairment loss would be recognised up to the maximum carrying amount of FDA development costs amounting to $2.90m.

Property, plant & equipment

The property, plant & equipment relating to the Cyclopet assets has been tested for impairment using the following assumptions:

i) 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.

ii) The terminal growth rate used to extrapolate cashflows beyond the five year forecast period was 3.0% in 2012 (2011: 3.0%).

iii) The discount factor used was 7.3% in 2012 (2011: 7.2%).

No impairment has been recognised in respect of the plant and equipment at the end of the reporting period. Should the projected revenue figures be outside of 17% of budgeted figures incorporated in value-in-use calculations, an impairment loss would be recognised up to the maximum carrying amount of $9.33m.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Going Concern

Note 2(b) above outlines information about the assessment of the going concern position of the consolidated entity.

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 23 for details of the Company's Share Based Payment Plan.

3. SEGMENT REPORTING

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

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

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

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

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

Business segments

The tables under the heading business segments present revenue and profit information and certain asset and liability information regarding business segments for the years ended 31 December 2012 and 31 December 2011.

Geographical segments

The tables under the heading geographical segment present revenue and profit information and certain asset and liability information regarding geographical segments for the years ended 31 December 2012 and 31 December 2011.

3. SEGMENT REPORTING (continued)

Business Segments

For the year ended 31 December 2012	Technegas $	Consolidated Molecular Imaging $	Total $
Revenue			
Sales to external customers	9,367,984	1,375,840	10,743,824
Finance revenue	23,546	395	23,941
Total revenue	**9,391,530**	**1,376,235**	**10,767,765**
Result			
Profit / (Loss) before tax and finance costs	**1,124,977**	**(1,752,050)**	**(627,073)**
Finance costs	(19,193)	(364,595)	(383,788)
Profit / (Loss) before income tax	**1,105,784**	**(2,116,645)**	**(1,010,861)**
Income tax benefit / (expense)	258,807	(292,073)	(33,266)
Profit / (Loss) after income tax	**1,364,591**	**(2,408,718)**	**(1,044,127)**
Assets and liabilities			
Segment assets	10,350,033	11,306,330	21,656,363
Segment asset increases for the period :			
- capital expenditure	515,482	157,765	673,247
Segment liabilities	(2,156,328)	(3,891,602)	(6,047,930)
Other segment information			
Depreciation and amortisation	(229,272)	(422,711)	(651,983)

3. SEGMENT REPORTING (continued)

Business Segments (continued)

For the year ended 31 December 2011	Consolidated Technegas $	Molecular Imaging $	Total $
Revenue			
Sales to external customers	9,465,455	849,051	10,314,506
Finance revenue	11,944	5,358	17,302
Total revenue	**9,477,399**	**854,409**	**10,331,808**
Result			
Profit / (Loss) before tax and finance costs	**1,699,883**	**(2,536,615)**	**(836,732)**
Finance costs	(84,070)	(271,167)	(355,237)
Profit / (Loss) before income tax	**1,615,813**	**(2,807,782)**	**(1,191,969)**
Income tax expense	51,039	184,710	235,749
Profit / (Loss) after income tax	**1,666,852**	**(2,623,072)**	**(956,220)**
Assets and liabilities			
Segment assets	9,507,753	11,785,460	21,293,213
Segment asset increases for the period :			
- capital expenditure	137,927	172,691	310,618
Segment liabilities	(1,621,025)	(5,067,389)	(6,688,414)
Other segment information			
Depreciation and amortisation	(248,835)	(420,773)	(669,608)
Equity accounted (loss) of associate	-	(583,273)	(583,273)

3. SEGMENT REPORTING (continued)

Geographical Segments

For the year ended 31 December 2012	Asia Pacific $	Consolidated Europe $	Canada $	Other $	Total $
Revenue					
Sales to external customers	3,332,610	5,192,341	2,037,156	181,717	10,743,824
Finance revenue	21,016	2,925	-	-	23,941
Total segment revenue	**3,353,626**	**5,195,266**	**2,037,156**	**181,717**	**10,767,765**
Assets					
Segment assets	16,410,617	4,212,822	1,032,924	-	21,656,363

For the year ended 31 December 2011	Asia Pacific $	Consolidated Europe $	Canada $	Other $	Total $
Revenue					
Sales to external customers	3,009,527	5,490,202	1,695,289	119,488	10,314,506
Finance revenue	16,216	1,086	-	-	17,302
Total segment revenue	**3,025,743**	**5,491,288**	**1,695,289**	**119,488**	**10,331,808**
Assets					
Segment assets	16,178,810	4,232,612	881,791	-	21,293,213

4. REVENUES AND EXPENSES

	Notes	Consolidated 2012 $	Consolidated 2011 $
Revenue			
Sales revenue		10,743,824	10,314,506
Finance revenue		23,941	17,302
Expenses			
a) Cost of materials and manufacturing			
Cost of materials and manufacturing		3,348,575	3,127,650
b) Finance costs			
Interest paid on loans from external parties		383,788	355,237
c) Depreciation and amortisation			
Depreciation of plant and equipment		523,143	541,377
Depreciation of leasehold improvements		74,865	76,703
Amortisation of intangibles		53,975	51,528
		651,983	669,608
d) Research & development expense			
Research expenses		22,736	37,324
e) Employee benefits expense			
Salaries and wages		3,259,437	3,285,801
Non-Executive Director fees and consultant costs		155,769	160,599
Share-based payments expense	23a	3,354	8,050
		3,418,560	3,454,450
f) Administration expense			
Legal and professional costs		671,295	540,397
Office and facility costs		535,744	429,683
Operating lease expenses	18a	481,639	487,506
Travel and motor vehicle costs		565,948	566,275
		2,254,626	2,023,861
g) Other expenses			
Realised Foreign exchange losses		209,411	213,174
Unrealised Foreign exchange gains		(6,054)	(6,072)
Other		564,118	481,226
		767,475	688,328

5. INCOME TAX

	Consolidated 2012 $	Consolidated 2011 $
The components of income tax expense comprise:		
(a) Included in the income statement:		
Current income tax expense	(42,161)	(81,569)
Deferred tax benefit	8,895	317,318
	(33,266)	**235,749**
(b) Taken directly to equity:		
Deferred tax (expense) / benefit	-	54,167
	-	**54,167**
A reconciliation of income tax benefit / (expense) applicable to accounting (loss) / 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 loss before income tax	**(1,010,861)**	**(1,191,969)**
Statutory income tax rate of 30%	303,258	357,591
Expenditure not allowable for income tax purposes	(1,834)	(1,728)
Share based payments for which no deduction is obtained	(1,006)	(2,415)
Deferred expenditure	-	76,034
Effects of lower rates on overseas income	25,404	3,930
Tax losses not recognised in Australian group	(359,088)	(197,663)
Total income tax (expense) / benefit	**(33,266)**	**235,749**
Effective income tax rate	(3.3%)	(19.8%)
Current income tax asset / (liability)	**1,478**	**(16,090)**
Deferred tax assets/liabilties		
Deferred tax assets and liabilities relate to the following:		
Deferred tax assets from temporary differences on:		
Provisions	-	551,350
Share issue expenses (charged to equity)	-	54,167
Investment accounted for using equity method	-	268,394
Transfer to deferred tax liability	-	(873,911)
Total deferred tax assets	**-**	**-**
Deferred tax liabilities from temporary differences on:		
Capitalised expenditure	18,444	901,250
Transfer to deferred tax assets	-	(873,911)
Total deferred tax liabilities	**18,444**	**27,339**
Deferred tax assets for which no benefit has been recognised:		
- arising from temporary differences - at 30%	**292,968**	**11,438**
- arising from tax losses - at 25%	**150,941**	**-**
- at 28.5%	**-**	**194,204**
- at 30%	**366,107**	**197,663**

6. NET TANGIBLE ASSETS AND LOSS PER SHARE

Net Tangible Assets per share

	Consolidated	
	2012 $	2011 $
Net assets per share	0.27	0.07
Net tangible assets per share	0.22	0.05
	Number	Number
Number of ordinary shares for net assets per share	58,128,536	223,579,418
	2012 $	2011 $
Net assets	15,608,433	14,604,799
Net tangible assets	12,511,995	11,796,485

The number of ordinary shares includes the effect of 178,863,536 shares cancelled pursuant to the share consolidation exercise, 1,786,849 Long Term Incentive Performance shares issued and 11,625,805 shares issued in connection with the capital raising exercise as set out in Note 16.

Loss per share

	Consolidated	
	2012 cents	2011 cents
Basic loss per share for continuing operations	(0.86)	(0.55)
Basic loss per share	(0.86)	(0.55)
Diluted loss per share	(0.86)	(0.55)
	Number	Number
Weighted average number of ordinary shares for basic and diluted loss per share	121,338,552	174,469,063
	2012 $	2011 $
Loss used to calculate basic earnings per share	(1,044,127)	(956,220)
Loss used to calculate diluted earnings per share	(1,044,127)	(956,220)

The weighted average number of ordinary shares includes the effect of 178,863,536 shares cancelled pursuant to the share consolidation exercise, 1,786,849 Long Term Incentive Performance shares issued and 11,625,805 shares issued in connection with the capital raising exercise as set out in Note 16.

7. CASH AND CASH EQUIVALENTS

	Consolidated 2012 $	2011 $
Cash at bank and in hand	2,346,556	2,043,814
Total cash and cash equivalents	**2,346,556**	**2,043,814**

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

The fair value of cash equivalents is $2,346,556 (2011: $2,043,814).

Reconciliation of Statement of Cash Flows	2012 $	2011 $
For the purpose of the Statement of Cash Flows, cash and cash equivalents comprise the following:		
Cash at bank and in hand	2,346,556	2,043,814
	2,346,556	**2,043,814**
(a) Reconciliation of net loss after tax to net cash flows from operations		
Net loss after tax	**(1,044,127)**	**(956,220)**
Adjustments for non-cash income and expense items:		
Depreciation	598,008	618,080
Amortisation	53,975	51,528
Share of loss in investment in associate	-	588,231
Movement provision for employee benefits	55,918	183,133
Movement in foreign exchange	158,232	(183,258)
Movement in employee benefits reserve	3,354	8,050
Movement in other provisions	124,792	120,130
	(49,848)	**429,674**
Increase/decrease in assets and liabilities:		
(Increase) / decrease in receivables	399,496	(171,777)
(Increase) / decrease in inventories	(397,753)	761,787
(Increase) / decrease in other receivables	(87,887)	136,108
(Increase) / decrease in current tax asset	(1,478)	-
Increase in creditors	531,740	27,913
Decrease in current tax liabilities	(16,090)	(302,760)
Decrease in deferred tax liabilities	(8,895)	(317,318)
Net cash flow from operating activities	**369,285**	**563,627**

8. TRADE AND OTHER RECEIVABLES

	Notes	Consolidated 2012 $	Consolidated 2011 $
Current			
Trade receivables, third parties		3,461,562	3,852,356
Provision for doubtful debts		(8,702)	-
Net Trade receivables, third parties	(i)	3,452,860	3,852,356
Other receivables	(ii)	331,433	264,223
Current income tax receivable		-	22,568
Total Current trade and other receivables		**3,784,293**	**4,139,147**
Non-current			
Other receivables		-	80,087
Total Non-current other receivables		**-**	**80,087**

-

Terms and conditions

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

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 with initial trade terms (as detailed in the table) are considered to be of high credit quality.

	Gross Amount	Past Due and Impaired	Past Due but Not Impaired (Days Overdue)				Within Initial Trade Terms
			< 30	31 - 60	61 - 90	> 90	
	$	$	$	$	$	$	$
2012							
Trade receivables, third parties	3,461,562	8,702	136,321	24,467	26,186	166,518	3,099,367
Other receivables - current	331,433	-	-	-	-	40,043	291,390
Total trade and other current receivables	3,792,995	8,702	136,321	24,467	26,186	206,561	3,390,757
2011							
Trade receivables, third parties	3,852,356	-	70,883	90,704	11,575	13,333	3,665,861
Other receivables - current	264,223	-	-	-	-	40,043	224,180
Total trade and other current receivables	4,116,579	-	70,883	90,704	11,575	53,376	3,890,041

9. INVENTORIES

	Consolidated	
	2012	2011
	$	$
Current		
Raw materials at cost	844,738	705,537
Finished goods at lower of cost or net realisable value	2,040,096	1,781,544
Total inventory	**2,884,834**	**2,487,081**

10. PROPERTY, PLANT AND EQUIPMENT

Year ended 31 December 2012 Consolidated	Leasehold Land and buildings $	Leasehold improvements $	Plant and equipment $	Leased Plant and Equipment $	Capital Work in Progress $	Total $
1 January 2012						
at written down value	1,931,011	2,757,061	4,988,926	20,240	20,250	9,717,488
Additions / Transfers	-	13,683	505,899	-	153,665	673,247
Disposals / Transfers	-	-	(265,785)	-	-	(265,785)
Depreciation for the year	(49,593)	(74,865)	(466,809)	(6,741)	-	(598,008)
31 December 2012						
at written down value	**1,881,418**	**2,695,879**	**4,762,231**	**13,499**	**173,915**	**9,526,942**
1 January 2012						
Cost value	1,983,729	3,033,163	7,336,642	141,011	20,250	12,514,795
Accumulated depreciation	(52,718)	(276,102)	(2,347,716)	(120,771)	-	(2,797,307)
Net carrying amount	**1,931,011**	**2,757,061**	**4,988,926**	**20,240**	**20,250**	**9,717,488**
31 December 2012						
Cost value	1,983,729	3,046,846	7,579,469	120,901	173,915	12,904,860
Accumulated depreciation	(102,311)	(350,967)	(2,817,238)	(107,402)	-	(3,377,918)
Net carrying amount	**1,881,418**	**2,695,879**	**4,762,231**	**13,499**	**173,915**	**9,526,942**

Property, plant and equipment is secured against the Fixed and Floating charge held by the National Australia Bank as set out in Note 14 (b).

10. PROPERTY, PLANT AND EQUIPMENT (continued)

Year ended 31 December 2011 Consolidated	Leasehold Land and buildings $	Leasehold improvements $	Plant and equipment $	Leased Plant and Equipment $	Capital Work in Progress $	Total $
1 January 2011						
at written down value	1,980,468	2,833,764	5,205,297	26,962	13,037	10,059,528
Additions / Transfers	-	-	290,368	-	20,250	310,618
Disposals / Transfers	-	-	(21,541)	-	(13,037)	(34,578)
Depreciation for the year	(49,457)	(76,703)	(485,198)	(6,722)	-	(618,080)
31 December 2011						
at written down value	**1,931,011**	**2,757,061**	**4,988,926**	**20,240**	**20,250**	**9,717,488**
1 January 2011						
Cost value	1,983,729	3,033,163	7,053,894	141,011	13,037	12,224,834
Accumulated depreciation	(3,261)	(199,399)	(1,848,597)	(114,049)	-	(2,165,306)
Net carrying amount	**1,980,468**	**2,833,764**	**5,205,297**	**26,962**	**13,037**	**10,059,528**
31 December 2011						
Cost value	1,983,729	3,033,163	7,336,642	141,011	20,250	12,514,795
Accumulated depreciation	(52,718)	(276,102)	(2,347,716)	(120,771)	-	(2,797,307)
Net carrying amount	**1,931,011**	**2,757,061**	**4,988,926**	**20,240**	**20,250**	**9,717,488**

11. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	Consolidated 2012 $	Consolidated 2011 $
Associated companies	-	-

Name	Principal Activities	Country of Incorporation	Shares	Ownership Interest 2012	Ownership Interest 2011
Macquarie Medical Imaging Pty Ltd	Imaging centre	Australia	Preference	20%	20%

Macquarie Medical Imaging Pty Ltd	Consolidated 2012 $	Consolidated 2011 $
At 1 January	-	188,231
Investment in associate	-	400,000
Sales to associate	-	(4,958)
Share of losses after income tax	-	(583,273)
At 31 December	-	-

Extract from the associate's statement of financial position:	Consolidated 2012 $	Consolidated 2011 $
Current Assets	1,028,474	1,827,090
Non-current Assets	4,450,218	3,738,057
Current Liabilities	(4,163,628)	(3,380,120)
Non-current Liabilities	(3,249,904)	(3,603,380)
Net assets	(1,934,840)	(1,418,353)
Share of associate's net assets	(386,968)	(283,671)

Extract from the associate's statement of comprehensive income:	Consolidated 2012 $	Consolidated 2011 $
Revenue	6,247,380	4,164,353
Net Loss	(1,250,129)	(3,521,642)

11. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (continued)

During the year, Cyclopharm's wholly owned subsidiary Cyclopet Pty Ltd has invested $nil (2011: $400,000) in Macquarie Medical Imaging Pty Ltd, an imaging joint venture at Macquarie University Hospital. Cyclopet Pty Ltd has a 20% (2011: 20%) interest in Macquarie Medical Imaging Pty Ltd.

The share of the associate's loss not recognised during the year was $303,309 (2011: loss of $121,055) and the cumulative share of the associate's loss not recognised as at 31 December 2012 was $432,355 (31 December 2011: $129,046).

The fair value of the Group's investment in Macquarie Medical Imaging Pty Ltd was $nil (2011: $nil).

Contingent liabilities

(i) Cyclopharm Limited and CycloPet Pty Limited have jointly guaranteed with other investors to provide security for the whole Macquarie Medical Imaging Pty Ltd financing facility provided by the Commonwealth Bank of Australia. Cyclopharm Group's liability is limited to the amount that Cyclopharm Limited and CycloPet Pty Ltd are obliged to fund under a Subscription Agreement being 20% of the gross liability amount. The consolidated entities' contingent obligation at balance date was $2,658,978 (2011: $2,886,691).

(ii) Pursuant to a Shareholders' Agreement, CycloPet Pty Limited (a wholly owned subsidiary of Cyclopharm Limited) issued 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 estimated cost to CycloPet had the put option been exercised at balance date was $679,621 (2011: $419,788). If the put option were exercised, control of MMI would be transferred to the Group and MMI's financial statements would be consolidated from that date.

12. INTANGIBLE ASSETS

Consolidated	Intellectual Property $	Technegas Development $	FDA Development $	Total $
Balance at				
1 January 2012	127,301	100,476	2,580,537	2,808,314
Additions	20,653	-	321,446	342,099
Amortisation	(23,172)	(30,803)	-	(53,975)
Balance at				
31 December 2012	**124,782**	**69,673**	**2,901,983**	**3,096,438**
31 December 2012				
Non-Current	124,782	69,673	2,901,983	3,096,438
Total	**124,782**	**69,673**	**2,901,983**	**3,096,438**
31 December 2011				
Non-Current	127,301	100,476	2,580,537	2,808,314
Total	**127,301**	**100,476**	**2,580,537**	**2,808,314**

12. INTANGIBLE ASSETS (continued)

Intangible assets for Intellectual Property and Technegas Development have finite useful lives. The current amortisation charges are included under depreciation and amortisation expense per the Statement of Comprehensive Income. The recoverable amount of FDA and Technegas development costs have been assessed using a discounted cash flow methodology forecasting five years of pre-tax cash flows.

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 7.3% in 2012 (2011: 7.2%).

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

(d) In December 2011, the Company received approval from the US FDA to commence Phase III Clinical trials for Technegas indicating that the design of the Phase III development program and clinical trial for Technegas is suitable to support regulatory approval for the United States.

(e) The FDA clinical trials are expected to cost US$3.48million over the next 2 years.

13. TRADE AND OTHER PAYABLES

		Consolidated	
		2012	2011
	Notes	$	$
Trade payables, third parties	(i)	1,142,804	639,053
Other payables and accruals	(ii)	499,342	471,353
Total trade and other payables		**1,642,146**	**1,110,406**

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 19 Related party disclosures.

14. INTEREST BEARING LOANS AND BORROWINGS

	Consolidated 2012 $	Consolidated 2011 $
Current		
Lease liabilty - secured	4,310	3,156
Bank loan - secured (b)	3,600,000	4,800,000
Interest bearing loans and borrowings (current)	**3,604,310**	**4,803,156**
Non-current		
Lease liabilty - secured	16,986	21,297
Interest bearing loans and borrowings (non-current)	**16,986**	**21,297**

a) Financing facilities available:

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

	Notes	Consolidated 2012 $	Consolidated 2011 $
Total facilities available:			
- secured bank loans, third party		3,600,000	4,800,000
		3,600,000	**4,800,000**
Facilities used at reporting date:			
- secured bank loans, third party	14	3,600,000	4,800,000
		3,600,000	**4,800,000**
Total facilities		3,600,000	4,800,000
Facilities used at reporting date:		(3,600,000)	(4,800,000)
Facilities unused at reporting date:		**-**	**-**

14. INTEREST BEARING LOANS AND BORROWINGS (continued)

(b) Secured Bank Loans

Cyclopharm has a flexible rate loan provided by the National Australia Bank. The facility expires in December 2015. The facility is secured by a first registered mortgage debenture over Cyclopharm Limited and a guarantee and indemnity from Cyclomedica Australia Pty Ltd, CycloPET Pty Ltd, Allrad No. 28 Pty Ltd and Allrad No. 29 Pty Ltd. The National Australia Bank has a registered Fixed and Floating Charge and First Registered Debenture charges over these companies.

The bank has agreed not to take action at this point in time although the Group has breached its banking covenants during the year ended 31 December 2012, being an Event of Default triggered by variances greater than 15% of Actual Loss Before Interest and Taxes (LBIT) as compared to Budgeted LBIT and the non-compliance of the interest cover covenant in view of the Loss Before Interest and Taxes incurred.

15. PROVISIONS

	Consolidated
	Employee Entitlements
Consolidated	$
Balance at	
1 January 2012	**710,126**
Arising during the year	210,415
Utilised	(154,497)
Balance at	
31 December 2012	**766,044**
31 December 2012	
Current	681,588
Non-Current	84,456
Total	**766,044**
Number of employees	
Number of employees at year end	36
31 December 2011	
Current	645,716
Non-Current	64,410
Total	**710,126**
Number of employees	
Number of employees at year end	33

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

16. CONTRIBUTED EQUITY

	Notes	Consolidated 2012 Number	2011 Number	2012 $	2011 $
Issued and paid up capital					
Ordinary shares	(a)	58,128,536	223,579,418	20,299,673	18,398,350
Other contributed equity	(b)	-	-	(5,333,158)	(5,333,158)
Total issued and paid up capital		**58,128,536**	**223,579,418**	**14,966,515**	**13,065,192**
Ordinary shares					
(a) Issued and paid up capital					
Balance at the beginning of the period		223,579,418	171,012,616	18,398,350	16,422,066
Cancellation of shares pursuant to share consolidation	(i)	(178,863,536)	-	-	-
Issue of long term incentive plan shares	(ii)	1,786,849	-	-	-
Issue of renounceable rights shares	(iii)	11,625,805	52,566,802	1,901,323	1,976,284
Balance at end of period		**58,128,536**	**223,579,418**	**20,299,673**	**18,398,350**
(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) On 4 June 2012, the Company completed a consolidation of its issued capital on a basis that every 5 fully paid ordinary shares was consolidated into 1 fully paid ordinary share as approved by shareholders at the Annual General Meeting held on 24 May 2012.
(ii) 1,786,849 Long Term Incentive Plan shares were issued on 31 October 2012 as set out on Note 23.
(iii) On 14 December 2012, the Company completed a capital raising exercise comprising a pro-rata renounceable entitlement offer to eligible shareholders of 1 share for every 4 shares held by eligible shareholders at an issue price of $0.18 per rights share resulting in the issue of 11,625,805 shares.

16. CONTRIBUTED EQUITY (continued)

The Group's debt and capital includes ordinary share capital and financial liabilities supported by financial assets. 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 in continually changing, management may issue dividends to shareholders, issue new shares, increase its short or long term borrowings or sell assets to reduce borrowings.

The Directors did not declare a dividend during the financial year ended 31 December 2012.

Management monitor capital through the gearing ratio (net debt/total capital). Management aim to ensure that the Group's gearing ratio does not exceed 45%. The bank has agreed not to take action at this point in time although the Group has breached its banking covenants during the year ended 31 December 2012, being an Event of Default triggered by variances greater than 15% of Actual Loss Before Interest and Taxes (LBIT) as compared to Budgeted LBIT and the non-compliance of the interest cover covenant in view of the Loss Before Interest and Taxes incurred.

		Consolidated	
		2012	2011
	Notes	$	$
Total interest bearing loans and borrowings		3,621,296	4,824,453
Less cash and cash equivalents	7	(2,346,556)	(2,043,814)
Net debt		**1,274,740**	**2,780,639**
Total equity		15,608,433	14,604,799
Gearing ratio		8.2%	19.0%

17. 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.

17. FINANCIAL RISK MANAGEMENT OBJECTIVES (continued)

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

(a) Interest rate risk

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

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

At 31 December 2012, 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	
	2012	2011
	$	$
Judgements of reasonably possible movements:		
Loss before income tax		
+1.0% (100 basis points)	(42,000)	(54,379)
-0.5% (50 basis points)	21,000	27,190

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

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17. FINANCIAL RISK MANAGEMENT OBJECTIVES (continued)

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

(a) Interest rate risk (continued)

Consolidated Year ended 31 December 2012		Weighted average interest rate %	Non interest bearing	Floating interest rate	Floating interest maturing in 1 year or less	Floating interest maturing in 1 to 5 years	Total
FINANCIAL ASSETS							
Cash and cash equivalents	7	3.20%	-	2,346,556	-	-	2,346,556
Trade and other receivables	8	n/a	3,784,293	-	-	-	3,784,293
Total financial assets			**3,784,293**	**2,346,556**	**-**	**-**	**6,130,849**
FINANCIAL LIABILITIES							
Trade payables, third parties	13	n/a	1,642,146	-	-	-	1,642,146
Leases, third party	14	16.76%	-	-	4,310	16,986	21,296
Secured bank loans, third party	14	8.03%	-	-	3,600,000	-	3,600,000
Employee entitlements	15	n/a	766,044	-	-	-	766,044
Total financial liabilities			**2,408,190**	**-**	**3,604,310**	**16,986**	**6,029,486**
Net exposure			**1,376,103**	**2,346,556**	**(3,604,310)**	**(16,986)**	**101,363**

Consolidated Year ended 31 December 2011		Weighted average interest rate %	Non interest bearing	Floating interest rate	Floating interest maturing in 1 year or less	Floating interest maturing in 1 to 5 years	Total
FINANCIAL ASSETS							
Cash and cash equivalents	7	4.25%	-	2,043,814	-	-	2,043,814
Trade and other receivables	8	n/a	4,139,147	-	-	-	4,139,147
Total financial assets			**4,139,147**	**2,043,814**	**-**	**-**	**6,182,961**
FINANCIAL LIABILITIES							
Trade payables, third parties	13	n/a	1,110,406	-	-	-	1,110,406
Leases, third party	14	16.76%	-	-	3,156	21,297	24,453
Secured bank loans, third party	14	6.34%	-	-	4,800,000	-	4,800,000
Employee entitlements	15	n/a	710,126	-	-	-	710,126
Total financial liabilities			**1,820,532**	**-**	**4,803,156**	**21,297**	**6,644,985**
Net exposure			**2,318,615**	**2,043,814**	**(4,803,156)**	**(21,297)**	**(462,024)**

17. FINANCIAL RISK MANAGEMENT OBJECTIVES (continued)

(b) Credit risk

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

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

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

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

(c) Liquidity risk

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

The Group's policy is to monitor the maturity of borrowings at all times. At 31 December 2012, 33% of the Group's debt will mature in less than one year (2011: 25%).

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

The Group monitors rolling forecast of liquidity reserves on the basis of expected cash flow. At balance date the Group has no unused credit facilities (2011: $nil).

Consolidated Year ended	Note	Less than 6 months	6 months to 1 year	1 year to 5 years	Greater than 5 years	Total
31 December 2012						
Trade payables, third parties	13	1,642,146	-	-	-	1,642,146
Leases, third party	14	-	4,310	16,986	-	21,296
Secured bank loans, third party	14	600,000	3,000,000	-	-	3,600,000
		2,242,146	3,004,310	16,986	-	5,263,442
31 December 2011						
Trade payables, third parties	13	1,110,406	-	-	-	1,110,406
Leases, third party	14	-	3,156	21,297	-	24,453
Secured bank loans, third party	14	600,000	4,200,000	-	-	4,800,000
		1,710,406	4,203,156	21,297	-	5,934,859

17. 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 60% (2011: 72%) of the Group's sales are denominated in currencies other than the functional currency of the operating unit making the sale, whilst approximately 55% (2011: 71%) of costs are denominated in the unit's functional currency.

At 31 December 2012, the Group had the following financial instrument exposure to foreign currency fluctuations:

	Consolidated	
	2012 $	2011 $
United States dollars		
Amounts payable	103,848	8,872
Amounts receivable	12,236	17,051
Euros		
Amounts payable	179,746	188,607
Amounts receivable	2,033,041	2,663,781
Canadian dollars		
Amounts payable	23,218	1,876
Amounts receivable	558,573	362,549
Net exposure	**(2,297,038)**	**(2,844,026)**

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.

17. FINANCIAL RISK MANAGEMENT OBJECTIVES (continued)

(e) Foreign currency risk (continued)

Foreign currency sensitivity

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

Cyclopharm is exposed to 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 2012		
Net loss	(1,213,375)	(857,955)
Equity (decrease)	(1,213,375)	(857,955)
31 December 2011		
Net (loss) / profit	(1,181,236)	(708,703)
Equity (decrease) / increase	(1,181,236)	(708,703)

18. COMMITMENTS & CONTINGENCIES

(a) Operating lease commitments

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

	Consolidated	
	2012	**2011**
	$	**$**
Operating Lease Commitments		
Minimum lease payments		
Due not later than one year	324,413	491,537
Due later than 1 year & not later than 5 years	1,107,884	1,155,100
More than 5 years	620,250	1,066,176
Total operating lease commitments	**2,052,546**	**2,712,813**
Operating lease expenses recognised as an expense during the year	481,639	487,506

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

(b) Finance lease commitments

		Consolidated	
		2012	**2011**
	Notes	**$**	**$**
Finance Lease Commitments			
Minimum lease payments			
Due not later than one year	(i)	4,310	3,156
Due later than 1 year & not later than 5 years	(i)	16,986	21,297
Total finance lease commitments		**21,297**	**24,453**

(i) The Group also has entered into a commercial lease on motor vehicles that have a life of 5 years. This lease is secured against the underlying assets.

18. COMMITMENTS & CONTINGENCIES (continued)

(c) Other commitments

		Consolidated	
		2012	2011
	Notes	$	$
The company has the following other commitments:			
Not later than one year	(i) & (ii)	3,600,000	4,800,000
Total		**3,600,000**	**4,800,000**

(i) Cyclopharm has a flexible rate loan provided by the National Australia Bank. The facility expires in December 2015. The facility is secured by a first registered mortgage debenture over Cyclopharm Limited and a guarantee and indemnity from Cyclomedica Australia Pty Ltd, CycloPET Pty Ltd, Allrad No. 28 Pty Ltd and Allrad No. 29 Pty Ltd. The National Australia Bank has a registered Fixed and Floating Charge and First Registered Debenture charges over these companies.

(ii) The bank has agreed not to take action at this point in time although the Group breached its banking covenants during the year ended 31 December 2012, being an Event of Default triggered by variances greater than 15% of Actual Loss Before Interest and Taxes (LBIT) as compared to Budgeted LBIT and the non-compliance of the interest cover covenant in view of the Loss Before Interest and Taxes incurred.

(d) Capital commitments

There were no capital commitments as at the date of this report (2011: $nil).

(e) Contingent liabilities

(i) Cyclopharm Limited and CycloPet Pty Limited have jointly guaranteed with other investors to provide security for the whole Macquarie Medical Imaging Pty Ltd financing facility provided by the Commonwealth Bank of Australia. Cyclopharm Group's liability is limited to the amount that Cyclopharm Limited and CycloPet Pty Ltd are obliged to fund under a Subscription Agreement being 20% of the gross liability amount. The consolidated entities' contingent obligation at balance date was $2,658,978 (2011: $2,886,691).

(ii) Pursuant to a Shareholders' Agreement, CycloPet Pty Limited (a wholly owned subsidiary of Cyclopharm Limited) issued 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 estimated cost to CycloPet had the put option been exercised at balance date was $679,621 (2011: $419,788). If the put option were exercised, control of MMI would be transferred to the Group and MMI's financial statements would be consolidated from that date.

18. COMMITMENTS & CONTINGENCIES (continued)

(f) Contingent assets

Based on a complaint from CycloPet Pty Ltd, PetNet Australia, a wholly owned subsidiary of the Australian Nuclear Science and Technology Organisation (ANSTO) was subject to an investigation by the Australian Government Competitive Neutrality Complaints Office (AGCNCO), an independent division of the Productivity Commission. The AGCNCO handed down a finding in favour of CycloPet Pty Ltd finding that PetNet Australia, being a government owned enterprise, was in ex ante breach of its competitive neutrality requirements.

ANSTO on behalf of PetNet Australia has refuted this finding and as a consequence CycloPet Pty Ltd has commenced proceedings in the Federal Court claiming breaches to section 52 of the Trade Practices Act 1974 (Commonwealth), and the Competition and Consumer Act 2010.

Based on legal advice, the Directors believe CycloPet Pty Ltd has a strong case. The directors are unable to quantify the damages as at the date of this report.

19. RELATED PARTY DISCLOSURES

The consolidated financial statements include the financial statements of Cyclopharm and its subsidiaries as stated below.

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

CONSOLIDATED		Sales to related parties $	Purchases from related parties $	Transactions with related parties $	Amounts owed by related parties $	Amounts owed to related parties $
CVC Venture Managers Pty Ltd	*2012*	-	-	-	-	-
	2011	-	-	7,274	-	-
VA Consulting Pty Ltd	*2012*	-	-	2,575	-	-
	2011	-	-	15,450	-	-
Macquarie Medical Imaging	*2012*	92,715	-	-	82,633	-
	2011	76,526	-	400,000	44,051	-
CVC Managers Pty Ltd	*2012*	-	-	138,115	-	-
	2011	-	-	118,057	-	-

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 $nil (2011: $7,274) were made to CVC Venture Managers Pty Ltd (an entity of which Mr Sharman and Mr Gould are Non-Executive Directors) in relation to the rental of office space. Mr Gould does not receive any benefits from CVC Venture Managers.
- During the year payments of $2,575 (2011: $15,450) were made to VA Consulting Pty Ltd (an entity controlled by Mr Sharman). All payments relate to Mr Sharman's role as a non-executive director.
- Cyclopet Pty Ltd, a wholly owned subsidiary of Cyclopharm has a 20% interest in Macquarie Medical Imaging. Cyclopet manufactures products that are sold to Macquarie Medical Imaging. Cyclopet Pty Ltd has invested $nil (2011: $400,000) in Macquarie Medical Imaging during the year.
- During the year, payments of $138,115 (2011: $118,057) were made to CVC Managers Pty Limited. The amount comprised of underwriting fees pertaining to the Company's capital raising exercise. Mr Gould receives director's fees, superannuation and other benefits from CVC Limited. CVC Managers Pty Limited is a wholly owned subsidiary of CVC Limited.

19. RELATED PARTY DISCLOSURES (continued)

Controlled Entities

Name	Note	Country of Incorporation	Percentage of equity interest held 2012	2011
Cyclopharm Limited	1,2	Australia		
Controlled entities				
CycloPET Pty Ltd	2	Australia	100%	100%
Cyclomedica Australia Pty Limited	2	Australia	100%	100%
Cyclomedica Ireland Limited	3	Ireland	100%	100%
Cyclomedica Europe Limited	3	Ireland	100%	100%
Cyclomedica Germany GmbH	5	Germany	100%	100%
Cyclomedica Canada Limited	4	Canada	100%	100%
Allrad No 28. Pty Ltd	2	Australia	100%	100%
Allrad No 29. Pty Ltd	2	Australia	100%	100%

Notes

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

20. EVENTS AFTER THE BALANCE DATE

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.

21. AUDITORS' REMUNERATION

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

	Consolidated	
	2012	**2011**
	$	**$**
Amounts received or due and receivable by Russell Bedford NSW and associated entities for:		
Audit and review of the financial statements	99,013	92,636
Other services:		
- tax compliance	10,000	10,000
- share registry	22,068	25,526
	131,081	**128,162**
Amounts received or due and receivable by auditors other than Russell Bedford NSW for:		
Audit of the financial statements	61,105	41,230
Other services	12,676	20,122
	73,781	**61,352**

22. DIRECTOR AND KEY MANAGEMENT PERSONNEL DISCLOSURE

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

23. SHARE BASED PAYMENT PLANS

(a) Recognised share-based payment expenses

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

	Consolidated	
	2012 $	2011 $
Expense arising from equity-settled share-based payment transactions (note 4)	3,354	8,050

The share based payment reserve to 31 December 2012 was $325,553 (2011: $322,199).

(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.

23. 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 in which the benefit is gained. No benefit to the employee arises from the Plan Shares as a corresponding loan applies to the issued Shares (although not required to be accounted for in the Financial Statements) instead the employee benefit is deemed to be the implied option ("Implied Option") arising from the Plan.

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

(c) Summary of Implied Options granted

The following table illustrates movements in Implied Options during the current year:

	Consolidated 2012 Number	Consolidated 2011 Number	Weighted Average Exercise Price 2012 $	Weighted Average Exercise Price 2011 $
Balance at the beginning of the year	700,000	700,000	0.35	0.35
Granted during the year	1,786,849	-	0.46	-
Exercised during the year	-	-	-	-
Lapsed during the year	(700,000)	-	0.35	-
Balance at the end of the year	**1,786,849**	**700,000**	**0.46**	**0.35**

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

The range of exercise prices for Implied Options at the end of the year was $0.35 to $0.50. The weighted average remaining contractual life for the Implied Options outstanding as at 31 December 2012 is 1.83 years (2011: 0.42 years). The weighted average fair value of Implied Options granted during the year was $0.01 (2011: no Implied Options were granted).

23. 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	**$0.35**	**$0.50**
Number of recipients	1	16
Number of Implied Options	447,159	1,339,690
Grant Date	31/10/2012	31/10/2012
Dividend yield	-	-
Expected annual volatility	52%	52%
Risk-free interest rate	8.00%	8.00%
Expected life of Implied Option (years)	2 years	2 years
Fair value per Implied Option	$0.02	$0.01
Share price at grant date	$0.17	$0.17
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.

24. PARENT ENTITY DISCLOSURE

	2012 $	2011 $
(i) **Financial Position**		
Assets		
Current Assets	1,715,870	1,223,462
Non-current Assets	18,607,570	18,560,373
Total Assets	**20,323,440**	**19,783,835**
Liabilities		
Current Liabilities	3,726,756	4,928,886
Non-current Liabilities	1,063,611	1,063,611
Total Liabilities	**4,790,367**	**5,992,497**
Net assets	**15,533,073**	**13,791,338**
Equity		
Contributed equity	15,167,045	13,265,722
Employee equity benefits reserve	325,553	322,199
Retained Profits	40,475	203,417
Total Equity	**15,533,073**	**13,791,338**
(ii) **Financial Performance**		
Loss for the year	(162,942)	(108,712)
Other comprehensive income	-	-
Total Loss for the year	**(162,942)**	**(108,712)**

Contingent liabilities

Cyclopharm Limited and CycloPet Pty Limited have jointly guaranteed with other investors to provide security for the whole Macquarie Medical Imaging Pty Ltd financing facility provided by the Commonwealth Bank of Australia. Cyclopharm Group's liability is limited to the amount that Cyclopharm Limited and CycloPet Pty Ltd are obliged to fund under a Subscription Agreement being 20% of the gross liability amount. The consolidated entities' contingent obligation at balance date was $2,658,978 (2011: $2,886,691).

25. RESERVES

Nature and purpose of reserves:

(a) Employee equity benefits reserve

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

(b) Foreign currency Translation Reserve

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

Director's Declaration

In the opinion of the Directors of Cyclopharm Limited:

1. (a) The financial statements and notes and of the consolidated entity are in accordance with the Corporations Act 2001, including:
   - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and of its performance for the year ended on that date; and
   - (ii) complying with Accounting Standards and Corporations Regulations 2001: and

   (b) The remuneration disclosures that are contained in the Remuneration Report on pages 15 to 23 of the Directors' Report comply with the Australian Accounting Standard AASB 124 Related Party Disclosures; and

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

2. The Directors have been given the declarations required by section 295A of the Corporations Act 2001 from the chief executive officer and chief financial officer for the financial year ended 31 December 2012.

Signed in accordance with a resolution of the Directors:

James S McBrayer

James McBrayer
Managing Director and CEO

Sydney, 28 March 2013

Independent Audit Report

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Independent Auditor's Report to the members of Cyclopharm Limited

Report on the Financial Report

We have audited the accompanying financial report of Cyclopharm Limited, which comprises the consolidated statement of financial position as at 31 December 2012, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the company and the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

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

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

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

Independent Audit Report

Independence

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

Auditor's Opinion

In our opinion:

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

  (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and of its performance for the year ended on that date; and

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

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

Emphasis of Matter

Without modifying our conclusion expressed above, we draw attention to Note 2 (b) 'Going Concern' in the financial statements, which identifies that the consolidated entity has incurred a loss of $1,044,127 for the year ended 31 December 2012. These conditions, along with other matters as set forth in Note 2 (b) 'Going Concern', indicates the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial statements.

Report on the Remuneration Report

We have audited the Remuneration Report included on pages 15 to 23 of the directors' report for the year ended 31 December 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion on the Remuneration Report

In our opinion, the Remuneration Report of Cyclopharm Limited for the year ended 31 December 2012, complies with section 300A of the *Corporations Act 2001*.

RUSSELL BEDFORD NSW
Chartered Accountants

MALCOLM BEARD, M.Com., FCA
Partner

Dated this 28th day of March 2013

ASX Additional Information

The following information is current at 28 February 2013

A. SUBSTANTIAL SHAREHOLDERS

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

Shareholder	No. of ordinary shares held	Percentage held of issued ordinary capital
Stinoc Pty Limited (a subsidiary of CVC Ltd)	11,118,717	19.13%
Barings Acceptance Limited	9,967,701	17.15%
Lloyds & Casanove Investment Partners Limited	9,777,071	16.82%
Chemical Trustee Limited	8,000,000	13.76%

B. DISTRIBUTION OF EQUITY SECURITY HOLDERS

(i) Analysis of numbers of equity security holders by size of holding as at 28 February 2013

Category	Ordinary Shareholders
1 - 1,000	56
1,001 - 5,000	237
5,001 - 10,000	116
10,001 - 100,000	187
100,001 and over	37
Total	633

(ii) There were 200 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	STINOC PTY LIMITED	11,118,717	19.13%
2	BARINGS ACCEPTANCE LIMITED	9,967,701	17.15%
3	LLOYDS & CASANOVE INVESTMENT PARTNERS LIMITED	9,777,071	16.82%
4	CHEMICAL TRUSTEE LIMITED	8,000,000	13.76%
5	EXECUTIVE RECRUITMENT SERVICES LIMITED	1,800,000	3.10%
6	MR JAMES MCBRAYER	1,373,294	2.36%
7	DERRIN BROTHERS PROPERTIES LIMITED	930,000	1.60%
8	MRS TERRI LAMBROS	796,723	1.37%
9	SOUTHGATE INVESTMENTS FUNDS LIMITED	700,000	1.20%
10	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	593,399	1.02%
11	SOUTH SEAS HOLDINGS PTY LTD	575,000	0.99%
12	MR NABIL MORCOS	479,954	0.83%
13	ABASUS INVESTMENTS LIMITED	425,000	0.73%
14	CITY & WESTMINISTER LIMITED	420,000	0.72%
15	J K M SECURITIES PTY LIMITED	400,000	0.69%
16	NEWRIDGE ENGINEERS LIMITED	370,000	0.64%
17	MALACKEY HOLDINGS PTY LTD	350,000	0.60%
18	MELBOURNE CORP OF AUSTRALIA PTY LIMITED	340,000	0.58%
19	MELBOURNE CORP OF AUSTRALIA PTY LIMITED (SUPERANNUATION FUND A/C)	300,000	0.52%
20	OSBORNE AND CHAPPEL INTERNATIONAL LIMITED	281,211	0.48%
		48,998,070	84.29%
	Other equity security holders	9,130,466	15.71%
	Total	**58,128,536**	**100.00%**

D. VOTING RIGHTS

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

General Information

Directors
Vanda Gould
Non-Executive Chairman

James McBrayer
Managing Director & CEO

David Heaney
Non-Executive Director

Company Secretary
James McBrayer

Registered Office
Cyclopharm Limited
Building 75
Business & Technology Park
New Illawarra Road
Lucas Heights NSW 2234
T: 02 9541 0411
F: 02 9543 0960

Cyclomedica Australia
Building 75
Business & Technology Park
New Illawarra Road
Lucas Heights NSW 2234
T: 02 9541 0411
F: 02 9543 0960

Cyclopet
Basement 2
Macquarie University Hospital
3 Technology Place
Macquarie University NSW 2109
T: 02 9878 3869
F: 02 9889 1281

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

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

Bankers
National Australia Bank
Level 21
255 George Street
Sydney NSW 2000

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

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

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