

1. Company details

Name of entity

CYCLOPHARM LIMITED

ABN or equivalent company
reference

74 116 931 250

Financial year ended
(‘current period’)

31 December 2011

Financial year ended
(‘previous period’)

31 December 2010

2. Results for announcement to the market

2.1 Revenues from ordinary activates	up	9.0%	to	10,314,506
2.2 Loss from ordinary activities after tax attributable to members	N/A	N/A	to	-956,220
2.3 Net Loss for the period attributable to members	N/A	N/A	to	-956,220
2.4 Dividends	Amount per security		Franked amount per security	
Final dividend proposed	Not applicable		Not applicable	
Interim dividend	Not applicable		Not applicable	
2.5 Record date for determining entitlements for the final dividend			Not applicable	
2.6 Brief explanation of any of the figures in 2.1 to 2.4 above necessary to enable the figures to be understood.				
Refer Attachment 1.				



3. Statement of financial performance

Refer Attachment 1.

4. Statement of financial position

Refer Attachment 1.

5. Statement of cash flows

Refer Attachment 1.

6. Dividends

Not applicable

7. Dividend reinvestment plans

Not applicable

8. Statement of retained earnings

Refer Attachment 1.

9. Net tangible assets

Refer Attachment 1.

10. Entities over which control has been gained or lost during the period

Control over entities

Name of entity (or group of entities)

Refer Attachment 1.

Loss of control over entities

Name of entity (or group of entities)

Refer Attachment 1.

11. Details of associates and joint venture entities

Refer Attachment 1.

12. Significant Information

Refer Attachment 1.

13. Foreign Entities

Refer Attachment 1.

14. Commentary on results for the period

Refer Attachment 1.

15. A statement as to whether the report is based on accounts which have been audited or subject to review, are in the

The accounts are in the process of being audited.

16. If the accounts have not yet been audited or subject to review and are likely to be subject to dispute or qualification, details are described below

The accounts are unlikely to be subject to dispute or qualification.

17. If the accounts have been audited or subject to review and are subject to dispute or qualification, details are described below

Not applicable

Contact details:

Mr James McBrayer
Managing Director and Company Secretary
Cyclopharm Limited

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Appendix 4E
Preliminary Final Report
For the year ended 31 December 2011

Cyclopharm Limited and its Controlled Entities
ABN 74 116 931 250

cyclopharm

Managing Director's Report

Continued



Appendix 4E Commentary

Full Year Results of

Cyclopharm Limited and its Controlled Entities ("Company")

For the 12 months ended 31 December 2011

Features

As a result of the substantial milestones that we delivered at the close of 2010, I am pleased to inform shareholders that Cyclopharm Limited ("Cyclopharm" or "the Company") can no longer be considered a one product company. Firstly, our cyclotron facility at Macquarie University Hospital ("MUH") has just completed its first full year of operations since receiving Australian Therapeutic Goods Authority licensing in December 2010. Secondly, Macquarie Medical Imaging ("MMI"), our joint venture diagnostic imaging service located at Macquarie University Hospital continues to expand. Despite a slower than expected ramp up, we are now encouraged by the growth in patient volumes seen through the department.

While we have expanded our overall offering, Technegas remains the financial foundation of the group, recording 92% of sales for the year. Although these new business ventures deliver diversity to our product and service offering, as expected both CycloPet and MMI as start-up ventures have negatively impacted our financial performance. The following table outlines the group's consolidated performance on a comparative year financial basis:

Full Year ended 31 December	2010	2011
	\$'000	\$'000
Net Profit / (Loss) Before Tax	808	(1,192)
Add back: MMI share of loss of associate	(311)	(583)
Add back: Molecular Imaging Division loss	(553)	(2,225)
Technegas Division Net Profit Before Tax	1,672	1,616

The Molecular Imaging business contributed revenues of \$849,051 (2010: \$21,842) and a Loss after tax of \$2,623,072 (2010: \$864,385). We are disappointed with the financial performance of the Molecular Imaging business. The lower than expected profitability is primarily attributed to two factors. Firstly, Cyclopet, our PET radiopharmaceutical production facility has been faced with fierce competition from government owned enterprises at both State and Federal levels.

Secondly, the slower than expected ramp-up of Macquarie University Hospital required additional investment in support of MMI, our joint venture imaging group. MMI provides state of the art imaging facilities including 3T MRI, CT, X-ray, Mammography, Ultrasound and PET imaging as well as interventional radiology for the new hospital located on the campus of Macquarie University and neighbouring suburbs.

During the year, Cyclopharm made an additional investment of \$400,000 into MMI bringing the total investment to \$900,000 (2010: \$500,000). The share of the loss in MMI recognised in the current year was \$583,273 (2010: \$311,372). In December 2011, Macquarie University Hospital became a 30% shareholder in MMI. Cyclopharm has maintained its 20% shareholding with the remaining 50% held by Alfred Health Solutions Pty Ltd.

The combined sales of the Company's key products TechnegasPlus generators (Generators) and Patient Administration Sets (PAS), of \$9.47m was consistent with the prior year amount of \$9.44m. Both Technegas Generator units and revenues were consistent with that of the prior year.

The sale of Patient Administration Sets (PAS) boxes were 4% higher even though revenue was consistent with the prior year. In 2009 and 2010, the global shortage of Molybdenum 99 ("Mo99") had an impact on all nuclear medicine procedures throughout the world. Mo99 is the isotope used to produce Sodium Pertechnetate Tc99m (Tc99m). Tc99m is the radioactive starting material that is used in the production of Technegas. Technegas sales rebounded in 2011 as global production levels of Molybdenum 99 returned to normal.

Managing Director's Report

Continued

Unfavourable foreign currency movements impacted revenue as approximately 72% of sales are denominated in currencies other than the Australian Dollar.

For the reasons mentioned above, the Company reported a loss after tax of \$956,220 (2010: profit after tax of \$450,106).

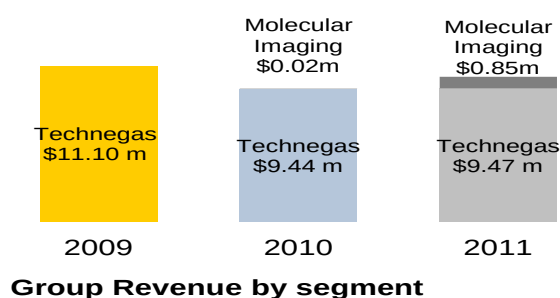
Operating review

Technegas

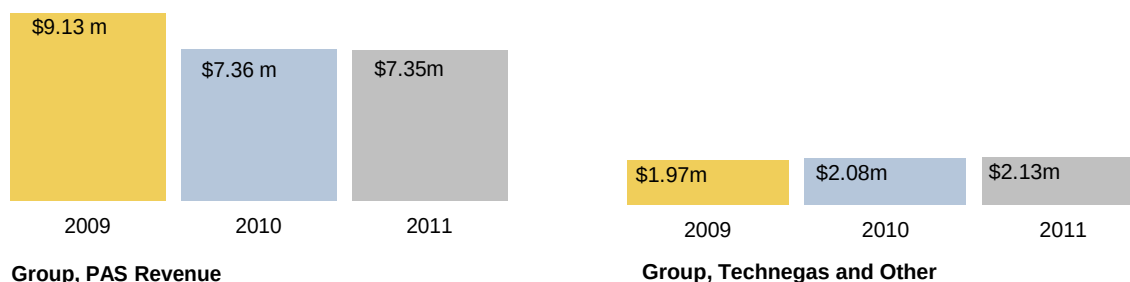
Technegas is a lung imaging device used primarily to diagnose the presence of blood clots in the lungs known as Pulmonary Emboli (PE). For the last 20 years, over 2,500,000 patients have benefited from the Technegas system. The company faced similar challenges as in prior years with continued competition from Computed Tomography Pulmonary Angiogram ("CTPA"). In spite of these hurdles, Technegas has demonstrated its relevance and has once again generated strong sales and cash flows. This was further assisted by global production levels of Molybdenum 99 returning to normal. In 2009 and 2010, global molybdenum shortage had dampened demand for all nuclear medicine products.

Revenue Composition

Sales revenue of \$9.47m from the Company's key products, Generators and PAS, were consistent with the preceding year (2010: \$9.44m). Despite a 4% increase in units sold of 169,750 units (2010: 162,800 units), PAS or consumable revenue was consistent at \$7.35 million for the current period compared to that of the previous year (2010: \$7.36 million).



Cyclopharm recorded 55 Technegas Plus Generator sales in 2011, which is consistent with the prior year (2010: 54). Sales into Asia were disappointing with 3 generators sold during the year (2010: 13 generators). Technegas generator and other sales revenues of \$2.13m were consistent with the prior year (2010: \$2.08m). 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. Furthermore, the weighted average of revenue generated in Europe was consistent at 61% as compared to 60% in 2010.



Managing Director's Report

Continued

New Drug Application to sell Technegas in the USA

As previously advised in an announcement to the ASX on 13 December 2011, the much awaited entry into the United States Market was tangibly advanced by receiving approval from the United States Food and Drug Administration (FDA) on our proposed clinical trial protocol parameters. The significance of attaining Special Protocol Assessment approval is equivalent to achieving a contract with the FDA on the most critical element of any New Drug Application.

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

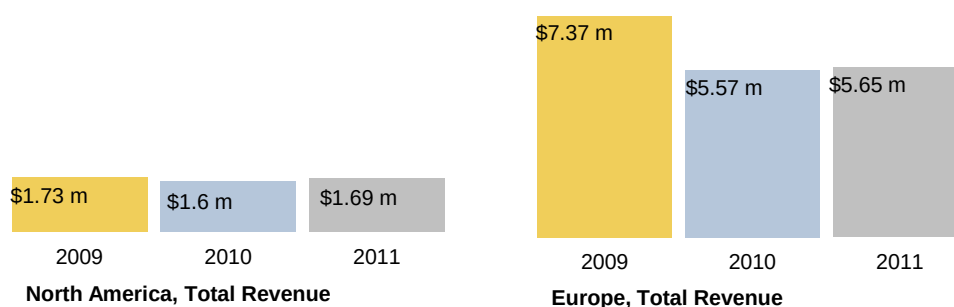
Approximately 61% of sales revenue is derived in Europe (2010: 60%). Overall sales revenue was consistent at \$5.65m (2010: \$5.57m). Pleasingly, generator sales were higher with 31 sold in 2011 compared with 25 in the prior year while 1,981 PAS boxes were sold, 9% higher than the 1,811 boxes sold in 2010. Sales revenue was however impacted by an approximate 8% movement in the Australian dollar relative to the European Euro.

North America

North America recorded sales of 8 generators, double the number of generators sold in the previous year (2010: 4). We are very pleased to report PAS sales continue to grow in this region with the 8th consecutive year of growth being recorded. 688 PAS boxes were sold in 2011 as compared to the previous year (2010: 658 PAS boxes). With a total revenue of \$1.69m recorded in 2011, Canada has surpassed Australia and is now our second single largest market behind France. The Directors have been extremely pleased with the success of Technegas in Canada. We see this success as a strong indicator to the potential growth for Technegas in the United States once marketing approval is achieved.

Asia Pacific

Revenues in the Asia Pacific region were consistent with 2010. In Australia, where Technegas enjoys a very high market share, total revenues fell marginally by 4% despite consistent generator sales of 10 units and a 7% growth in the number of PAS boxes sold. In Asia, sales revenue dropped by 72%. In 2010, sales to Hong Kong and China drove the increase in revenues of 101% over the prior year. As noted in 2010 Annual Report, this trend was not expected to continue at such a rapid rate. The substantial decrease was also due to the delay in receiving new regulatory approval following the natural disasters in Japan during 2011 and the introduction of a new regulatory approval process. We expect strong sales growth in Japan once approval is received.



Managing Director's Report

Continued



Molecular Imaging

CycloPet moved from a development to an operational phase in 2011. During its first full year of operations, sales generated from the cyclotron facility located at Macquarie University Hospital was \$0.85m (2010: \$0.02m). An overall loss before tax of \$2,807,782 was recorded for the period (2010: loss of \$864,385). While it is pleasing to see the facility commercially operational, the revenue growth has been lower than originally expected.

The underperformance is predominantly linked to competition from government funded enterprises operating in the NSW market. To address this market imbalance in August 2011, Cyclopharm lodged a formal complaint with the Australian Government Competitive Neutrality Complaints Office, a division within the Productivity Commission specifically charged with investigating complaints against Government owned enterprises. The outcome of this investigation is anticipated to be released at the end of March 2012.

Despite the current competitive irregularities in the marketplace, Positron Emission Tomography continues to represent an area of growth within the field of diagnostic imaging. In July 2011, the Federal Government announced the expansion of items reimbursed by the Medicare Benefit Scheme. Furthermore, the July announcement relaxed some of the restrictions imposed on service providers. As a result, we expect to see a growth in Private Sector providers involved in this cutting edge technology.

Macquarie Medical Imaging

Cyclopharm's medical imaging joint venture has now been in operation for 18 months. MMI is the most technologically advanced imaging centre in Australia and with its close ties with the Australian School of Advanced Medicine represents a fully aligned and integrated diagnostic, therapeutic and research platform.

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) diagnostic imaging as well as interventional radiology services.

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. The group's shared losses of MMI amounted to \$583,273 (2010: loss of \$311,372). Losses are the direct result of the slower than expected ramp-up of Macquarie University Hospital. No further losses will be recorded in Cyclopharm's financial results as the investment in MMI has been fully written down as at 31 December 2011.

OUTLOOK

In 2012, your Directors expect continued growth in Technegas revenues from both targeted marketing in Europe 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.

Managing Director's Report

Continued



We look forward to introducing Technegas to the United States market through our Phase 3 clinical trial scheduled to commence by Q2 2012. Investigational sites will be progressively added throughout 2012 and 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.

While the market for PET radiopharmaceuticals manufactured by Cyclopet is growing, the market has not reached our initial expectations. 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 2011 will be used to fund the operations of the Molecular Imaging Division. The lagging market combined with competition from government owned enterprises requires additional capital to support this new venture.

We forecast that 2012's profitability will continue to be adversely impacted by the issues faced by Cyclopet.

James McBrayer
Managing Director and CEO

Statement of Comprehensive Income

for the year ended 31 December 2011



Cyclopharm Limited
UNAUDITED

		Consolidated	
		2011	2010
	Notes	\$	\$
CONTINUING OPERATIONS			
Sales revenue	4	10,314,506	9,464,605
Finance revenue		17,302	68,972
Total revenue		10,331,808	9,533,577
Cost of materials and manufacturing	4a	(3,127,650)	(2,308,992)
Employee benefits expense	4e	(3,454,450)	(2,957,231)
Advertising and promotion expense		(240,716)	(238,646)
Depreciation and amortisation expense	4c	(669,608)	(350,546)
Freight and duty expense		(343,330)	(342,666)
Research and development expense	4d	(37,324)	(16,847)
Administration expense	4f	(2,023,861)	(1,663,503)
Other expenses	4g	(688,328)	(337,067)
Share of loss of associate	11	(583,273)	(311,372)
(Loss) / Profit before tax and finance costs		(836,732)	1,006,707
Finance costs	4b	(355,237)	(198,299)
(Loss) / Profit before income tax		(1,191,969)	808,408
Income tax benefit / (expense)	5	235,749	(358,302)
Net (Loss) / Profit for the year		(956,220)	450,106
Other comprehensive income after income tax			
Exchange differences on translating foreign controlled entities		(189,469)	(708,770)
Total comprehensive (loss) / income for the year		(1,145,689)	(258,664)
Earnings per share (cents per share)	6	cents	cents
-basic earnings per share for continuing operations		(0.55)	0.26
-basic earnings per share		(0.55)	0.26
-diluted earnings per share		(0.55)	0.26

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 2011

cyclopharm
Nuclear Medicine



Cyclopharm Limited
UNAUDITED

		Consolidated	
	Notes	2011	2010
		\$	\$
Assets			
Current Assets			
Cash and cash equivalents	7	2,043,814	1,541,644
Trade and other receivables	8	4,139,147	4,295,487
Inventories	9	2,487,081	2,546,867
Other assets		17,282	25,490
Total Current Assets		8,687,324	8,409,488
Non-current Assets			
Inventories	9	-	702,000
Trade and other receivables	8	80,087	161,500
Property, plant and equipment	10	9,717,488	10,059,528
Investments in associate	11	-	188,231
Intangible assets	12	2,808,314	2,621,152
Total Non-current Assets		12,605,889	13,732,411
Total Assets		21,293,213	22,141,899
Liabilities			
Current Liabilities			
Trade and other payables	13	1,110,406	1,082,492
Interest bearing loans and borrowings	14	1,203,156	6,078,300
Provisions	15	645,716	499,283
Tax liabilities	5	16,090	318,850
Total Current Liabilities		2,975,368	7,978,925
Non-current Liabilities			
Interest bearing loans and borrowings	14	3,621,297	24,453
Provisions	15	64,410	27,710
Deferred tax liabilities	5	27,339	344,657
Total Non-current Liabilities		3,713,046	396,820
Total Liabilities		6,688,414	8,375,745
Net Assets		14,604,799	13,766,154
Equity			
Contributed equity	16	13,065,192	11,088,908
Employee equity benefits reserve		322,199	314,149
Foreign currency translation reserve		(1,732,693)	(1,543,224)
Retained Profits		2,950,101	3,906,321
Total Equity		14,604,799	13,766,154

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 2011



Cyclopharm Limited
UNAUDITED

		Consolidated	
	Notes	2011	2010
		\$	\$
Operating activities			
Receipts from customers		10,278,837	9,458,224
Payments to suppliers and employees		(8,992,946)	(9,183,719)
Interest received		17,302	68,972
Borrowing costs paid		(355,237)	(198,299)
Income tax paid		(384,329)	(236,138)
Net cash flows from / (used in) operating activities	7	563,627	(90,960)
Investing activities			
Investment in associate		(400,000)	(500,000)
Purchase of property, plant and equipment		(276,040)	(5,470,211)
Receipts from deposit refunded		161,500	-
Payments for deferred expenditure		(238,690)	(247,897)
Net cash flows (used in) investing activities		(753,230)	(6,218,108)
Financing activities			
Proceeds from issue of shares		2,102,672	-
Costs of raising capital		(126,388)	-
Proceeds from borrowings		-	3,743,603
Repayment of borrowings		(1,278,300)	(374,100)
Loans from related entities		400,000	-
Loans to / (repaid) related entities		(400,000)	-
Net cash flows from financing activities		697,984	3,369,503
Net increase / (decrease) in cash and cash equivalents		508,381	(2,939,565)
Cash and cash equivalents			
- at beginning of the period		1,541,644	4,612,205
- net foreign exchange differences from translation of cash and cash equivalents		(6,211)	(130,996)
- at end of the year	7	2,043,814	1,541,644

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 2011

Cyclopharm Limited
UNAUDITED

	Contributed Equity \$	Other Contributed Equity \$	Total Contributed Equity \$	Retained Earnings \$	Foreign Currency Translation Reserve \$	Employee Equity Benefits Reserve \$	Total \$
CONSOLIDATED							
Balance at 1 January 2010	16,422,066	(5,333,158)	11,088,908	3,456,215	(834,454)	217,972	13,928,641
Profit for the year	-	-	-	450,106	-	-	450,106
Other comprehensive expense	-	-	-	-	(708,770)	-	(708,770)
Total comprehensive loss for the year	-	-	-	450,106	(708,770)	-	(258,664)
Cost of share based payments	-	-	-	-	-	96,177	96,177
Total transactions with owners and other transfers	-	-	-	-	-	96,177	96,177
Balance at 31 December 2010	16,422,066	(5,333,158)	11,088,908	3,906,321	(1,543,224)	314,149	13,766,154
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 expense	-	-	-	-	(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

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

Notes

for the year ended 31 December 2011



1. CORPORATE INFORMATION

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

The financial report is presented in Australian dollars.

There are no changes to accounting policies applicable for the financial year ended 31 December 2011 for the consolidated entity.

b) Going Concern

The consolidated entity incurred loss after tax of \$956,220 for the year ended 31 December 2011. Further trading losses are expected for the financial year ending 2012 due to the impact of the Molecular Imaging Division.

This gives 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 the consolidated entity achieving cash flow positive trading operations from its existing business.

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 significant increases in sales from the Molecular Imaging business.

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) Statement of compliance

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

The following standards and amendments were available for early adoption but have not been applied by the consolidated entity in these financial statements:



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 of 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 9: Financial Instruments (December 2010) and AASB 2010–7: Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127] (applicable for annual reporting periods commencing on or after 1 January 2013).

These Standards are applicable retrospectively and include revised requirements for the classification and measurement of financial instruments, as well as recognition and derecognition requirements for financial instruments.

The key changes made to accounting requirements include:

- simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;
- simplifying the requirements for embedded derivatives;
- removing the tainting rules associated with held-to-maturity assets;
- removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
- allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument;
- requiring financial assets to be reclassified where there is a change in an entity's business model as they are initially classified based on: (a) the objective of the entity's business model for managing the financial assets; and (b) the characteristics of the contractual cash flows; and
- requiring an entity that chooses to measure a financial liability at fair value to present the portion of the change in its fair value due to changes in the entity's own credit risk in other comprehensive income, except when that would create an accounting mismatch. If such a mismatch would be created or enlarged, the entity is required to present all changes in fair value (including the effects of changes in the credit risk of the liability) in profit or loss.

The Group has not yet been able to reasonably estimate the impact of these pronouncements on its financial statements.

- AASB 2010–6: Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets [AASB 1 & AASB 7] (applicable for annual reporting periods beginning on or after 1 July 2011).

This Standard adds and amends disclosure requirements about transfers of financial assets, especially those in respect of the nature of the financial assets involved and the risks associated with them. Accordingly, this Standard makes amendments to AASB 1: First-time Adoption of Australian Accounting Standards, and AASB 7: Financial Instruments: Disclosures, establishing additional disclosure requirements in relation to transfers of financial assets.

This Standard will only affect certain disclosures relating to financial instruments and is not expected to significantly impact the Group.



- AASB 2010–8: Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets [AASB 112] (applies to periods beginning on or after 1 January 2012).

This Standard makes amendments to AASB 112: Income Taxes and incorporates Interpretation 121 into AASB 112.

Under the current AASB 112, the measurement of deferred tax liabilities and deferred tax assets depends on whether an entity expects to recover an asset by using it or by selling it. The amendments introduce a presumption that an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

The amendments are not expected to significantly impact the Group.

- AASB 1054: Australian Additional Disclosures and AASB 2011–1: Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project [AASB 1, AASB 5, AASB 101, AASB 107, AASB 108, AASB 121, AASB 128, AASB 132 & AASB 134 and Interpretations 2, 112 & 113] (applicable for annual reporting periods commencing on or after 1 July 2011).

AASB 1054 sets out the Australian-specific disclosures that are additional to IFRS disclosure requirements.

The disclosure requirements in AASB 1054 were previously located in other Australian Accounting Standards.

These Standards are not expected to significantly impact the Group.

- AASB 10: Consolidated Financial Statements, AASB 11: Joint Arrangements, AASB 12: Disclosure of Interests in Other Entities, AASB 127: Separate Financial Statements (August 2011), AASB 128: Investments in Associates and Joint Ventures (August 2011) and AASB 2011–7: Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards [AASB 1, 2, 3, 5, 7, 9, 2009–11, 101, 107, 112, 118, 121, 124, 132, 133, 136, 138, 139, 1023 & 1038 and Interpretations 5, 9, 16 & 17] (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 a single 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 operations” (whereby 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). Joint ventures are required to adopt the equity method of accounting (proportionate consolidation is no longer allowed).

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 only affect disclosures 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 AASB 128 have also been issued. 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 [AASB 1, 2, 3, 4, 5, 7, 9, 2009–11, 2010–7, 101, 102, 108, 110, 116, 117, 118, 119, 120, 121, 128, 131, 132, 133, 134, 136, 138, 139, 140, 141, 1004, 1023 & 1038 and Interpretations 2, 4, 12, 13, 14, 17, 19, 131 & 132] (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 measurements.

AASB 13 requires:

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

These Standards are not expected to significantly impact the Group.

- AASB 2011–9: Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income [AASB 1, 5, 7, 101, 112, 120, 121, 132, 133, 134, 1039 & 1049] (applicable for annual reporting periods commencing on or after 1 July 2012).

The main change arising from this Standard is the requirement 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 not expected to significantly impact the Group.

- AASB 119: Employee Benefits (September 2011) and AASB 2011–10: Amendments to Australian Accounting Standards arising from AASB 119 [AASB 1, AASB 8, AASB 101, AASB 124, AASB 134, AASB 1049 & AASB 2011–8 and Interpretation 14] (applicable for annual reporting periods commencing on or after 1 January 2013).

These Standards introduce a number of changes to the presentation and disclosure of defined benefit plans, including:

- removal of the “corridor” approach from AASB 119, thereby requiring entities to recognise all changes in a net defined benefit liability (asset) when they occur;
- disaggregation of changes in a net defined benefit liability (asset) into service cost (including past service cost and gains and losses on non-routine settlements and curtailments), net interest expense (interest based on the net defined benefit liability (asset) using the discount rate applicable to post-employment benefits) and remeasurements (comprising actuarial gains and losses, return on plan assets less the “revenue” component of the net interest expense, and any change in the limit on a defined benefit asset). In addition, AASB 119 (September 2011) requires recognition of:
 - service cost and net interest expense in profit or loss; and
 - remeasurements in OCI; and
- introduction of enhanced disclosure requirements to facilitate the provision of more useful information in relation to an entity's defined benefit plans.

AASB 119 (September 2011) also includes changes to the accounting for termination benefits that require an entity to recognise an obligation for such benefits at the earlier of:

- (i) for an offer that may be withdrawn – when the employee accepts;
- (ii) for an offer that cannot be withdrawn – when the offer is communicated to affected employees; and
- (iii) where the termination is associated with a restructuring of activities under AASB 137: Provisions, Contingent Liabilities and Contingent Assets, and if earlier than the first two conditions – when the related restructuring costs are recognised.

The Group has not yet been able to reasonably estimate the impact of these changes on its financial statements.

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.

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.

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 up to 31 December 2010. No impairment provision has been deemed appropriate.

The Directors are satisfied that the future economic benefits will eventuate to justify the capitalisation of the expenditure incurred.

Impairment

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

Depreciation

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

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

	Basis	Method
Plant and equipment	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) 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, however capitalisation has ceased in December 2010 being when the Cyclopet asset was operational.

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.

i) 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.

Expenditure on costs incurred in the application to the Food & Drug Administration authority have been capitalised. A useful life has not been determined as Cyclopharm have not yet received approval from the Food & Drug Administration authority. 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.

j) 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.

k) 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.

l) 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.

m) 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.

n) 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.

o) 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.

p) 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.

q) 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.

r) 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.

s) 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").

t) 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.

u) Financial instruments

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

Financial assets at fair value through profit and loss

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

Loans and receivables

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

De-recognition of financial instruments

Financial assets

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

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

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

Financial liabilities

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

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised

in profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Financial assets carried at cost

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

v) 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*.

w) Earnings per share

Basic earnings per share

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

Diluted earnings per share

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

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 2011 and 31 December 2010.

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 2011 and 31 December 2010.

Notes

Continued

3. SEGMENT REPORTING (continued)

Business Segments

For the year ended 31 December 2011	Consolidated		Total
	Technegas	Molecular Imaging	
	\$	\$	\$
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			
(Loss) / Profit 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 benefit / (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 liabilities	(1,621,025)	(5,067,389)	(6,688,414)
Other segment information			
Depreciation and amortisation	(248,835)	(420,773)	(669,608)

Notes

Continued

3. SEGMENT REPORTING (continued)

Business Segments

For the year ended	Consolidated		
	Technegas	Molecular Imaging	Total
31 December 2010	\$	\$	\$
Revenue			
Sales to external customers	9,442,763	21,842	9,464,605
Finance revenue	63,802	5,170	68,972
Total revenue	9,506,565	27,012	9,533,577
Result			
Profit / (Loss) before tax and finance costs	1,845,650	(838,943)	1,006,707
Finance costs	(172,857)	(25,442)	(198,299)
Profit / (Loss) before income tax	1,672,793	(864,385)	808,408
Income tax expense	(358,302)	-	(358,302)
Profit / (Loss) after income tax	1,314,491	(864,385)	450,106
Assets and liabilities			
Segment assets	10,603,331	11,538,568	22,141,899
Segment liabilities	(3,152,832)	(5,222,913)	(8,375,745)
Other segment information			
Depreciation and amortisation	(317,072)	(33,474)	(350,546)

Notes

Continued

Geographical Segments

For the year ended	Consolidated				Total
	Asia Pacific	Europe	Canada	Other	
31 December 2011	\$	\$	\$	\$	\$
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 and liabilities					
Segment assets	16,178,810	4,232,612	881,791	-	21,293,213
Segment liabilities	(7,352,245)	786,413	(122,582)	-	(6,688,414)

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

Notes

Continued



4. REVENUES AND EXPENSES

		Consolidated	
		2011	2010
	Notes	\$	\$
Revenue			
Sales revenue		10,314,506	9,464,605
Finance revenue		17,302	68,972
Expenses			
a) Cost of materials and manufacturing			
Cost of materials and manufacturing		3,127,650	2,308,992
b) Finance costs			
Interest paid on loans from external parties		355,237	198,299
c) Depreciation and amortisation			
Depreciation of plant and equipment		541,377	291,220
Depreciation of leasehold improvements		76,703	10,914
Amortisation of intangibles		51,528	48,412
		669,608	350,546
d) Research & development			
Research and development expense		37,324	16,847
		37,324	16,847
e) Employee benefits expense			
Salaries and wages		3,285,801	2,698,471
Non-Executive Director fees and consultant costs		160,599	162,583
Share-based payments expense	22a	8,050	96,177
		3,454,450	2,957,231
f) Administration expense			
Legal and professional costs		540,397	543,391
Office and facility costs		917,189	662,997
Travel and motor vehicle costs		566,275	457,115
		2,023,861	1,663,503
g) Other expenses			
Other		688,328	337,067
		688,328	337,067

Notes

Continued

5. INCOME TAX

	Consolidated	
	2011 \$	2010 \$
The components of income tax expense comprise:		
(a) Included in the income statement:		
Current income tax (expense) / benefit	(81,569)	(242,522)
Deferred tax benefit / (expense)	317,318	(115,780)
	235,749	(358,302)
(b) Taken directly to equity		
Current income tax (expense) / benefit	-	-
Deferred tax benefit / (expense)	54,167	-
	54,167	-
A reconciliation of income tax benefit / (expense) applicable to accounting profit before income tax at the statutory income tax rate to income tax expense at the Group's effective income tax rate is as follows:		
Accounting (loss) / profit before income tax	(1,191,969)	808,408
Statutory income tax rate of 30%	357,591	(242,522)
Expenditure not allowable for income tax purposes	(1,728)	(1,208)
Share based payments for which no deduction is obtained	(2,415)	(28,853)
Deferred expenditure	76,034	(146,089)
Effects of lower rates on overseas income	3,930	39,254
Tax losses not recognised in Australian tax group	(197,663)	-
Tax losses not recognised in foreign subsidiaries	-	21,116
	235,749	(358,302)
Total income tax benefit / (expense)	(19.8%)	(44.3%)
Effective income tax rate		
Current tax liabilities		
Current income tax liability	16,090	318,850
Deferred tax assets/liabilities		
Deferred tax assets and liabilities relate to the following:		
Deferred tax assets from temporary differences on:		
Provisions	551,350	223,418
Share issue expenses (charged to equity)	54,167	-
Tax losses applied in current year	-	(475,955)
Tax losses of parent entity brought to account	-	413,273
Tax losses / (payable) transferred from Australian subsidiaries	-	62,682
Adjustment to recognise deferred tax asset arising from share issue costs	-	48,389
Investment accounted for using equity method	268,394	93,412
Transfer to deferred tax liability	(873,911)	(365,219)
	-	-
Total deferred tax assets	-	-
Deferred tax liabilities from temporary differences on:		
Capitalised expenditure	901,250	709,876
Transfer from deferred tax assets	(873,911)	(365,219)
	27,339	344,657
Total deferred tax liabilities	27,339	344,657
Unused tax losses for which no benefit has been recognised as a deferred tax asset	1,187,030	-
Tax effect		
Potential income tax benefit - at 30%	197,663	-
- at 28.25%	194,204	-
	391,867	-

6. NET TANGIBLE ASSETS AND EARNINGS PER SHARE

Net Tangible Assets per share

	Consolidated	
	2011	2010
	\$	\$
Net assets per share	0.08	0.08
Net tangible assets per share	0.07	0.07
	Number	Number
Weighted average number of ordinary shares for net assets per share	174,469,063	171,012,616
	2011	2010
	\$	\$
Net assets	14,604,799	13,766,154
Net tangible assets	11,796,485	11,145,002

The weighted average number of ordinary shares includes the 52,566,802 shares issued in December 2011 in connection with the capital raising exercise.

Earnings per share

	Consolidated	
	2011	2010
	cents	cents
Basic earnings per share for continuing operations	(0.55)	0.26
Basic earnings per share	(0.55)	0.26
Diluted earnings per share	(0.55)	0.26
	Number	Number
Weighted average number of ordinary shares for basic and diluted earnings per share	174,469,063	171,012,616
	2011	2010
	\$	\$
Earnings used to calculate basic earnings per share	(956,220)	450,106
Earnings used to calculate diluted earnings per share	(956,220)	450,106

The weighted average number of ordinary shares includes the 52,566,802 shares issued in December 2011 in connection with the capital raising exercise.

7. CASH AND CASH EQUIVALENTS

	Consolidated	
	2011	2010
	\$	\$
Cash at bank and in hand	2,043,814	1,541,644
Total cash and cash equivalents	2,043,814	1,541,644

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

The fair value of cash equivalents is \$2,043,814 (2010: \$1,541,644).

Reconciliation of Cash Flow Statement

For the purpose of the Cash Flow Statement, cash and cash equivalents comprise the following:

	2011	2010
Cash at bank and in hand	2,043,814	1,541,644
	2,043,814	1,541,644

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

Net (loss) / profit after tax	(956,220)	450,106
--------------------------------------	------------------	----------------

Adjustments for non-cash income and expense items:

Depreciation	618,080	302,134
Amortisation	51,528	48,412
Share of loss in investment in associate	588,231	311,769
Movement provision for employee benefits	183,133	64,078
Movement in foreign exchange	(183,258)	(577,774)
Movement in employee benefits reserve	8,050	96,177
Movement in other provisions	120,130	(78,109)
	429,674	616,793

Increase/decrease in assets and liabilities:

(Increase) / decrease in receivables	(171,777)	71,626
(Increase) / decrease in inventories	761,787	(5,875)
(Increase) / decrease in other receivables	136,108	(78,007)
Increase / (decrease) in creditors	27,913	(817,661)
Increase / (decrease) in current tax liabilities	(302,760)	144,811
Increase / (decrease) in deferred tax liabilities	(317,318)	(22,647)

Net cash from operating activities	563,627	(90,960)
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8. TRADE AND OTHER RECEIVABLES

		Consolidated	
		2011	2010
		\$	\$
Current			
Trade receivables, third parties	(i)	3,852,356	3,680,579
Other receivables	(ii)	264,223	522,595
Current income tax receivable		22,568	92,313
Total Current trade and other receivables		4,139,147	4,295,487
Non-current			
Other receivables		80,087	161,500
Total Non-current other receivables		80,087	161,500

Terms and conditions

Terms and conditions relating to the above financial instruments

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

9. INVENTORIES

		Consolidated	
		2011	2010
		\$	\$
Current			
Raw materials at cost		705,537	625,955
Finished goods at low er of cost or net realisable value		1,781,544	1,920,912
Total current inventory		2,487,081	2,546,867
Non-current			
Finished goods at low er of cost or net realisable value		-	702,000
Total non-current inventory		-	702,000
Total inventory		2,487,081	3,248,867

10. PROPERTY, PLANT AND EQUIPMENT

Year ended

31 December 2011

	Leasehold Land and buildings	Leasehold improvements	Plant and equipment	Leased Plant and Equipment	Capital Work in Progress	Total
Consolidated	\$	\$	\$	\$	\$	\$
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

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).

Year ended

31 December 2010

	Land and buildings	Leasehold improvements	Plant and equipment	Leased Plant and Equipment	Capital Work in Progress	Total
Consolidated		\$	\$	\$	\$	\$
1 January 2010						
at written down value	161,500	19,631	726,433	-	4,145,387	5,052,951
Additions / Transfers	1,983,729	2,825,047	5,091,490	26,962	-	9,927,228
Disposals / Transfers	(161,500)	-	(324,667)	-	(4,132,350)	(4,618,517)
Depreciation for the year	(3,261)	(10,914)	(287,960)	-	-	(302,134)
31 December 2010						
at written down value	1,980,468	2,833,764	5,205,297	26,962	13,037	10,059,528
1 January 2010						
Cost value	161,500	208,116	2,527,570	114,049	4,145,387	7,156,622
Accumulated depreciation	-	(188,485)	(1,801,137)	(114,049)	-	(2,103,671)
Net carrying amount	161,500	19,631	726,433	-	4,145,387	5,052,951
31 December 2010						
Cost value	1,983,729	3,033,163	7,053,894	141,011	13,037	12,224,834
Accumulated depreciation	(3,261)	(199,400)	(1,848,598)	(114,049)	-	(2,165,307)
Net carrying amount	1,980,468	2,833,764	5,205,297	26,962	13,037	10,059,528

11. INVESTMENTS IN ASSOCIATE

					Consolidated	
					2011	2010
					\$	\$
Associated companies					-	188,231
Name	Principal Activities	Country of Incorporation	Shares	Ownership Interest		
				2011	2010	
Macquarie Medical Imaging Pty Ltd	Imaging centre	Australia	Preference	20%	20%	
					Consolidated	
					2011	2010
					\$	\$
Macquarie Medical Imaging Pty Ltd					188,231	-
At 1 January						
Investment in associate					400,000	500,000
Sales to associate					(4,958)	(397)
Share of losses after income tax					(583,273)	(311,372)
At 31 December					-	188,231
					Consolidated	
					2011	2010
					\$	\$
Extract from the associate's statement of financial position:						
Current Assets					1,827,090	2,100,522
Non-current Assets					3,738,057	4,108,207
Current Liabilities					(3,380,120)	(1,413,137)
Non-current Liabilities					(3,603,380)	(3,652,567)
Net assets					(1,418,353)	1,143,025
Share of associate's net assets					(283,671)	228,605
					Consolidated	
					2011	2010
					\$	\$
Extract from the associate's statement of comprehensive income:						
Revenue					4,164,353	1,313,215
Net Loss					(3,521,642)	(1,556,857)

Cyclopharm's wholly owned subsidiary Cyclopet Pty Ltd has invested \$400,000 (2010: \$500,000) in Macquarie Medical Imaging Pty Ltd, an imaging joint venture at Macquarie University Hospital. Cyclopet Pty Ltd has a 20% (2010: 20%) interest in Macquarie Medical Imaging Pty Ltd. The share of the associate's loss as at 31 December 2011 was \$583,273 (31 December 2010: \$311,372).

The fair value of the Group's investment in Macquarie Medical Imaging Pty Ltd is \$nil (2010: \$188,231).

11. INVESTMENTS IN ASSOCIATE (continued)

Contingent liabilities relating to the associate:

Share of contingent liabilities incurred jointly with other investors to guarantee the associate's financing facilities for which the Group is severally liable

Consolidated	
2011	2010
\$	\$
3,200,000	3,200,000

The guarantee by Cyclopharm Limited and Cyclopet Pty Limited jointly given with other investors is security for the whole Macquarie Medical Imaging Pty Ltd financing facility provided by the Commonwealth Bank of Australia. Cyclopharm Group's liability is limited to the amount that Cyclopharm Limited and Cyclopet Pty Ltd are obliged to fund under a Subscription Agreement which at the date of this report is 20% of the liability. This has also been disclosed as a Contingent Liability in Note 18 (e).

12. INTANGIBLE ASSETS

Consolidated	Intellectual property \$	Technegas Development \$	FDA Development \$	Total \$
Balance at				
1 January 2011	129,702	131,196	2,360,254	2,621,152
Additions	18,407	-	220,283	238,690
Amortisation	(20,808)	(30,720)	-	(51,528)
Balance at				
31 December 2011	127,301	100,476	2,580,537	2,808,314
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
31 December 2010				
Non-Current	129,702	131,196	2,360,254	2,621,152
Total	129,702	131,196	2,360,254	2,621,152

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:

- 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.
- The discount factor used was 7.2% in 2011 (2010: 15%).
- The Directors have concluded that the recoverable amount of the FDA development costs and other intangibles exceed their carrying value.
- 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.

13. TRADE AND OTHER PAYABLES

		Consolidated	
		2011	2010
Notes		\$	\$
Trade payables, third parties	(i)	639,053	688,933
Other payables and accruals	(ii)	471,353	393,559
Total trade and other payables		1,110,406	1,082,492

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, controlled entities.

14. INTEREST BEARING LOANS AND BORROWINGS

		Consolidated	
		2011	2010
		\$	\$
Current			
Lease liability - secured		3,156	2,400
Bank loan - secured		1,200,000	6,075,900
Interest bearing loans and borrowings (current)		1,203,156	6,078,300
Non-current			
Lease liability - secured		21,297	24,453
Bank loan - secured		3,600,000	-
Interest bearing loans and borrowings (non-current)		3,621,297	24,453

14. INTEREST BEARING LOANS AND BORROWINGS (continued)

(a) Financing facilities available:

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

		Consolidated	
		2011	2010
Notes		\$	\$
Total facilities available:			
- secured bank loans, third party		4,800,000	6,075,900
		4,800,000	6,075,900
Facilities used at reporting date:			
- secured bank loans, third party	14	4,800,000	6,075,900
		4,800,000	6,075,900
Total facilities		4,800,000	6,075,900
Facilities used at reporting date:		(4,800,000)	(6,075,900)
Facilities unused at reporting date:		-	-

(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.

Notes

Continued

15. PROVISIONS

	Consolidated
	Employee Entitlements
	\$
Consolidated	
Balance at	
1 January 2011	526,993
Arising during the year	269,508
Utilised	(86,375)
Balance at	
31 December 2011	710,126
31 December 2011	
Current	645,716
Non-Current	64,410
Total	710,126
Number of employees	
Number of employees at year end	33
31 December 2010	
Current	499,283
Non-Current	27,710
Total	526,993
Number of employees	
Number of employees at year end	38

Notes

Continued

16. CONTRIBUTED EQUITY

		Consolidated			
	Notes	2011 Number	2010 Number	2011 \$	2010 \$
Issued and paid up capital					
Ordinary shares	(a)	223,579,418	171,012,616	18,398,350	16,422,066
Other contributed equity	(b)	-	-	(5,333,158)	(5,333,158)
Total issued and paid up capital		223,579,418	171,012,616	13,065,192	11,088,908
Ordinary shares					
(a) Issued and paid up capital					
Balance at the beinning of the period		171,012,616	171,012,616	16,422,066	16,422,066
Issue of renounceable rights shares	(i)	52,566,802	-	1,976,284	-
Balance at end of period		223,579,418	171,012,616	18,398,350	16,422,066
(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 8 December 2011, the Company completed a capital raising exercise comprising a pro-rata renounceable entitlement offer to eligible shareholders of 1 share for every 3.2 shares held by eligible shareholders at an issue price of \$0.04 per rights share resulting in the issue of 52,566,802 shares, raising \$2,102,672 before share issue costs of \$126,388.

16. CONTRIBUTED EQUITY (continued)

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

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

The Directors did not declare a dividend during the financial year ended 31 December 2011.

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

	Notes	Consolidated	
		2011 \$	2010 \$
Total interest bearing loans and borrowings		4,824,453	6,102,753
Less cash and cash equivalents	7	(2,043,814)	(1,541,644)
Net debt		2,780,639	4,561,109
Total equity		14,604,799	13,766,154
Gearing ratio		19.0%	33.1%

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.

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.

Notes

Continued

(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 2011, 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	
	2011 \$	2010 \$
Judgements of reasonably possible movements:		
Profit / (Loss) before income tax		
+1.0% (100 basis points)	(54,379)	(44,046)
-0.5% (50 basis points)	27,190	22,023

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

Notes

Continued

17. FINANCIAL RISK MANAGEMENT OBJECTIVES (continued)

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

(a) Cash flow interest rate risk (continued)

Consolidated		Weighted	Non interest	Floating	Floating interest maturing in		Total
Year ended	Note	average interest rate %	bearing	interest rate	1 year or less	1 to 5 years	
31 December 2011							
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%	-	-	1,200,000	3,600,000	4,800,000
Employee entitlements	15	n/a	710,126	-	-	-	710,126
Total financial liabilities			1,820,532	-	1,203,156	3,621,297	6,644,985
Net exposure			2,318,615	2,043,814	(1,203,156)	(3,621,297)	(462,024)
31 December 2010							
FINANCIAL ASSETS							
Cash and cash equivalents	7	4.70%	-	1,541,644	-	-	1,541,644
Trade and other receivables	8	n/a	4,295,487	-	-	-	4,295,487
Total financial assets			4,295,487	1,541,644	-	-	5,837,131
FINANCIAL LIABILITIES							
Trade payables, third parties	13	n/a	1,082,492	-	-	-	1,082,492
Leases, third party	14	16.76%	-	-	2,400	24,453	26,853
Secured bank loans, third party	14	7.01%	-	-	6,075,900	-	6,075,900
Employee entitlements	15	n/a	526,993	-	-	-	526,993
Total financial liabilities			1,609,485	-	6,078,300	24,453	7,712,238
Net exposure			2,686,002	1,541,644	(6,078,300)	(24,453)	(1,875,107)

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 2011, 25% of the Group's debt will mature in less than one year (2010: 100%).

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 (2010: \$nil).

Consolidated		Less than 6	6 months to 1	1 year to 5	Greater than	Total
Year ended	Note	months	year	years	5 years	
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	-	1,200,000	3,600,000	-	4,800,000
31 December 2010						
Trade payables, third parties	13	1,082,492	-	-	-	1,082,492
Leases, third party	14	-	2,400	24,453	-	26,853
Secured bank loans, third party	14	-	6,075,900	-	-	6,075,900

(d) Commodity price risk

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

17. FINANCIAL RISK MANAGEMENT OBJECTIVES (continued)

(e) Foreign currency risk

As a result of significant 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 72% (2010: 80%) of the Group's sales are denominated in currencies other than the functional currency of the operating unit making the sale, whilst approximately 71% (2010: 69%) of costs are denominated in the unit's functional currency.

At 31 December 2011, the Group had the following financial instrument exposure to foreign currency fluctuations:

	Consolidated	
	2011	2010
	\$	\$
United States dollars		
Amounts payable	8,872	79,456
Amounts receivable	17,051	115,787
Euros		
Amounts payable	188,607	317,164
Amounts receivable	2,663,781	2,695,532
Canadian dollars		
Amounts payable	1,876	4,729
Amounts receivable	362,549	356,688
Net exposure	(2,844,026)	(2,766,658)

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 2011		
Net loss	(1,181,236)	(708,703)
Equity (decrease)	(1,181,236)	(708,703)
31 December 2010		
Net (loss) / profit	(162,471)	198,574
Equity (decrease) / increase	(162,471)	198,574

18. COMMITMENTS & CONTINGENCIES

(a) Operating lease commitments

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

	Consolidated	
	2011	2010
	\$	\$
Operating Lease Commitments		
Minimum lease payments		
Due not later than one year	491,537	432,441
Due later than 1 year & not later than 5 years	1,155,100	1,123,854
More than 5 years	1,066,176	1,332,720
Total operating lease commitments	2,712,813	2,889,015
Operating lease expenses recognised as an expense during the year	487,506	165,897

- 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

	Notes	Consolidated	
		2011	2010
		\$	\$
Finance Lease Commitments			
Minimum lease payments			
Due not later than one year	(i)	3,156	2,400
Due later than 1 year & not later than 5 years	(i)	21,297	24,453
Total finance lease commitments		24,453	26,853

- (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.

(c) Other commitments

		Consolidated	
		2011	2010
		\$	\$
The company has the following other commitments:			
Not later than one year	(i) & (ii)	1,200,000	6,075,900
Due later than 1 year & not later than 5 years		3,600,000	-
Total		4,800,000	6,075,900

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.

(d) Capital commitments

There were no capital commitments as at the date of this report (2010: \$nil).

(e) Contingent liabilities

		Consolidated	
		2011	2010
		\$	\$
Contingent liabilities relating to the associate:			
Share of contingent liabilities incurred jointly with other investors to guarantee the associate's financing facilities for which the Group is severally liable		3,200,000	3,200,000

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

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):

		Sales to related parties \$	Purchases from related parties \$	Transactions with related parties \$	Amounts owed by related parties \$	Amounts owed to related parties \$
CONSOLIDATED						
CVC Venture Managers Pty Ltd	2011	-	-	7,274	-	-
	2010	-	-	16,189	-	2,963
VA Consulting Pty Ltd	2011	-	-	15,450	-	-
	2010	-	-	15,450	-	-
Macquarie Medical Imaging	2011	76,526	-	400,000	44,051	-
	2010	21,842	-	500,000	2,508	-
CVC Managers Pty Ltd	2011	-	-	118,057	-	-
	2010	-	-	-	-	-

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 \$7,274 (2010: \$16,189) 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 \$15,450 (2010: \$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 \$400,000 (2010: \$500,000) in Macquarie Medical Imaging during the year.
- During the year, payments of \$118,057 (2010: \$nil) were made to CVC Managers Pty Ltd (an entity of which Mr Gould is a Non-Executive Director). The amount comprised of \$115,646 underwriting fees pertaining to the Company's capital raising exercise and \$2,411 interest expense in respect of a \$400,000 short term loan. The short term loan was fully repaid at the end of the financial year. Mr Gould does not receive any benefits from CVC Managers Pty Ltd.

Notes

Continued

Controlled Entities

Name	Note	Country of Incorporation	Percentage of equity interest held	
			2011	2010
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 Bilzanza GmbH Wirtschaftsprüfungsgesellschaft, 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	
	2011 \$	2010 \$
Amounts received or due and receivable by Russell Bedford NSW and associated entities for:		
Audit and review of the financial statements	92,636	89,181
Other services:		
- tax compliance	10,000	11,030
- share registry	25,526	12,077
	128,162	112,288
Amounts received or due and receivable by auditors other than Russell Bedford NSW for:		
Audit of the financial statements	41,230	41,539
Other services	20,122	21,810
	61,352	63,349

22. 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	
	2011 \$	2010 \$
Expense arising from equity-settled share-based payment transactions (note 4)	8,050	96,177

The share based payment reserve to 31 December 2011 was \$322,199 (2010: \$314,149).

22. SHARE BASED PAYMENT PLANS (continued)

(b) Type of share based payment plans

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

Shares

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

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

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

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

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

LTIP Shares issued

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

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 share options. Consequently the value of the discount which has been determined using a binomial pricing model will be charged to the Statement of Comprehensive Income over the vesting period. Other increments to share capital will be recognized as the share loans are settled by the relevant employees.

22. SHARE BASED PAYMENT PLANS (continued)

(c) Summary of shares granted

The following table illustrates the number of movements in share options during the current year:

	Consolidated 2011 Number	Consolidated 2010 Number
Balance at the beginning of the year	700,000	2,400,000
Granted during the year	-	-
Exercised during the year	-	-
Lapsed during the year	-	(1,700,000)
Balance at the end of the year	700,000	700,000

(d) Option pricing models

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

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

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

23. PARENT ENTITY DISCLOSURE

		Consolidated	
		2011	2010
		\$	\$
Financial Position			
Assets			
Current Assets		1,223,462	591,924
Non-current Assets		18,560,373	18,094,243
Total Assets		19,783,835	18,686,167
Liabilities			
Current Liabilities		4,928,886	5,505,951
Non-current Liabilities		1,063,611	1,264,500
Total Liabilities		5,992,497	6,770,451
Net assets		13,791,338	11,915,716
Equity			
Contributed equity		13,265,722	11,289,438
Employee equity benefits reserve		322,199	314,149
Retained Profits		203,417	312,129
Total Equity		13,791,338	11,915,716
Financial Performance			
Loss for the year		108,712	(213,679)
Other comprehensive income		-	-
Total loss for the year		108,712	(213,679)

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