

1. Company details

Name of entity

CYCLOPHARM LIMITED

ABN or equivalent company
reference

74 116 931 250

Financial year ended
(‘current period’)

31 December 2012

Financial year ended
(‘previous period’)

31 December 2011

2. Results for announcement to the market

2.1 Revenues from ordinary activities	up	4.2%	to	10,743,824
2.2 Loss from ordinary activities after tax attributable to members	up	9.2%	to	-1,044,127
2.3 Net Loss for the period attributable to members	up	9.2%	to	-1,044,127
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

Phone: 02 9541 0411

Email: jmcbrayer@cyclopharm.com.au

Appendix 4E
Preliminary Final Report
For the year ended 31 December 2012

Cyclopharm Limited and its Controlled Entities
ABN 74 116 931 250

cyclopharm

Managing Director's Report



Appendix 4E Commentary

Full Year Results of

Cyclopharm Limited and its Controlled Entities ("Company")

For the 12 months ended 31 December 2012

Features

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

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

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

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

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

The combined sales of the Company's key products, TechnegasPlus generators (Generators) and Patient Administration Sets (PAS), of \$9.37m was consistent with the prior year amount of \$9.47m despite unfavourable foreign exchange impacts. Technegas Generator sales revenue increased by 4% in spite of unit sales falling by 4% as a result of price increases in Australia, Latin America and Canada.

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

Unfavourable foreign currency movements impacted revenue as approximately 69% (2011: 72%) of sales are denominated in currencies other than the Australian Dollar. Realised foreign exchange losses amounted to \$209,411 (2011: \$213,175).

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

Managing Director's Report

Continued

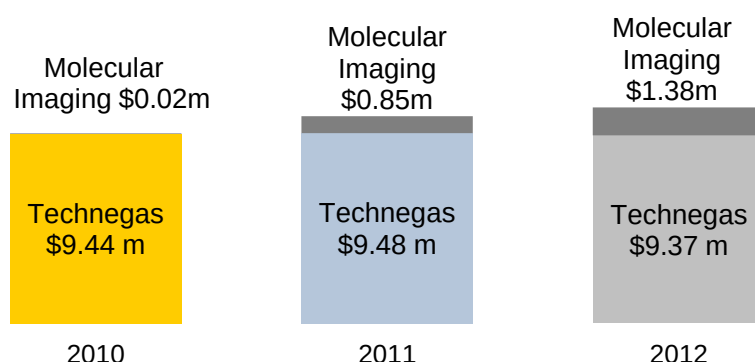
Operating review

Technegas

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

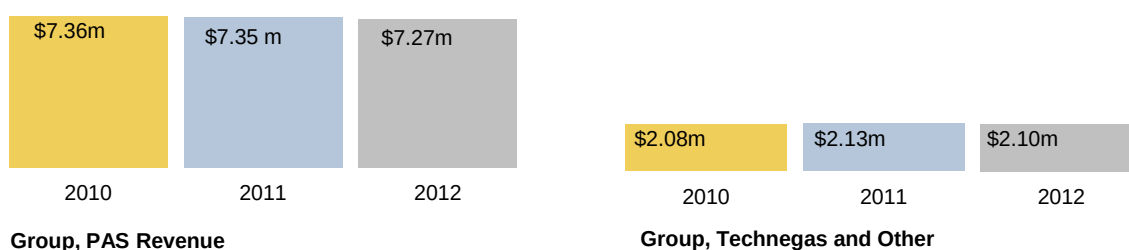
Revenue Composition

Sales revenue of \$9.37m from the Company's key products, Generators and PAS, were consistent with the preceding year (2011: \$9.47m). Despite a 6% increase in units sold of 179,450 units (2011: 169,750 units), PAS or consumable revenue was 1% lower at \$7.27 million for the current period compared to that of the previous year (2011: \$7.35 million).



Group Revenue by segment

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



Managing Director's Report

Continued



New Drug Application to sell Technegas in the USA

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

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

Regional Review

Europe

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

North America

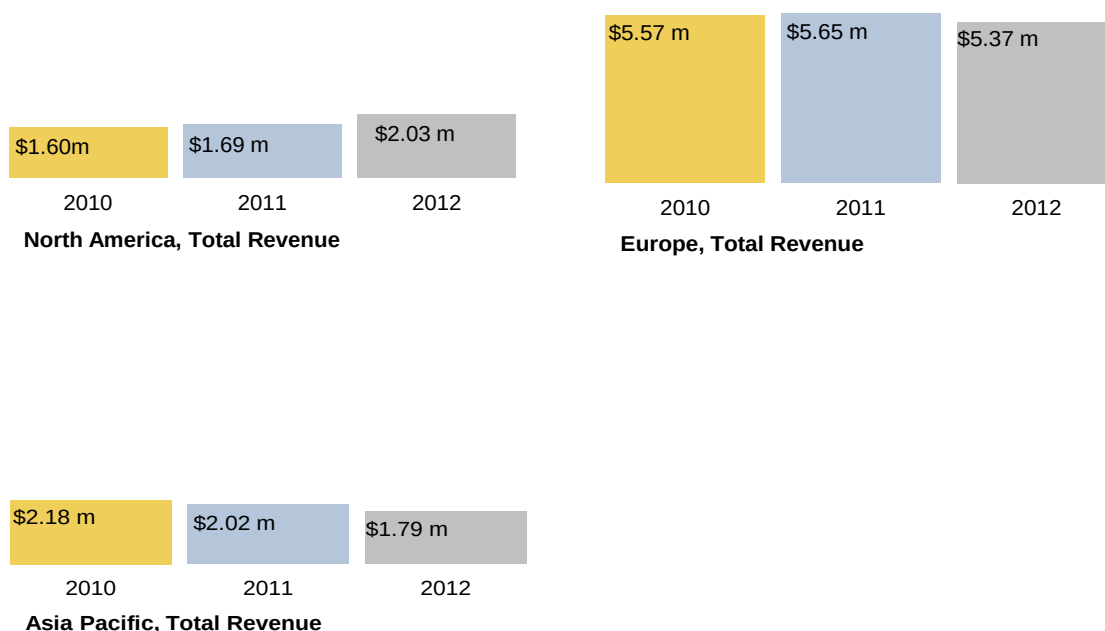
North America consisting of exclusively Canada recorded sales of 15 generators, nearly double the number of generators sold in the previous year (2011: 8). We are very pleased to report PAS sales continue to grow in this region with the 9th consecutive year of growth being recorded. 757 PAS boxes were sold in 2012 as compared to the previous year (2011: 688 PAS boxes). With a total revenue of \$2.03m (2011: \$1.69m) recorded in 2012, more PAS was sold into the Canadian market than any other single market in the world. The Directors have been extremely pleased with the success of Technegas in Canada and we are confident this is a strong indicator of the potential growth for Technegas in the United States once marketing approval is achieved.

Asia Pacific

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

Managing Director's Report

Continued



Molecular Imaging trading as Cyclopet

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

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

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

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

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

Managing Director's Report

Continued



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

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

I look forward to updating shareholders as the case progresses.

Macquarie Medical Imaging

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

Growth in MMI is tied closely to the hospital's ramp-up. In December 2011 Macquarie University Hospital took a 30% share in the joint venture. Patient volumes continue to gradually increase as initiatives being implemented at MUH including a new breast clinic, expanded specialties such as cardiothoracic services, cancer care services and expanded PET indications take effect.

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

OUTLOOK

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

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

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

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

Managing Director's Report

Continued



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

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

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

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



James McBrayer
Managing Director and CEO

Statement of Comprehensive Income

for the year ended 31 December 2012



Cyclopharm Limited
UNAUDITED

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

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

Statement of Financial Position

as at 31 December 2012

cyclopharm
Nuclear Medicine



Cyclopharm Limited UNAUDITED

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

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

Statement of Cash Flows

for the year ended 31 December 2012

Cyclopharm Limited
UNAUDITED

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

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

Statement of Changes in Equity

for the year ended 31 December 2012

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

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

Notes

for the year ended 31 December 2012



1. CORPORATE INFORMATION

Cyclopharm Limited 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 (the "Group") consisted of the manufacture and sale of medical equipment and radiopharmaceuticals, including associated research and development.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Preparation

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

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

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

The financial report is presented in Australian dollars.

b) Going Concern

The consolidated entity incurred loss after tax of \$1,044,127 for the year ended 31 December 2012. Further trading losses are expected for the financial year ending 2013 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) New Accounting Standards for Application in Future Periods

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

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

AASB 10 replaces parts of AASB 127: Consolidated and Separate Financial Statements (March 2008, as amended) and Interpretation 112: Consolidation – Special Purpose Entities. AASB 10 provides a revised definition of control and additional application guidance so that 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 operation (where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities)" or "joint ventures" (where the parties that have joint control of the arrangement have rights to the net assets of the arrangement).
- AASB 12 contains the disclosure requirements applicable to entities that hold an interest in a subsidiary, joint venture, joint operation or associate. AASB 12 also introduces the concept of a "structured entity", replacing the "special purpose entity" concept currently used in Interpretation 112, and requires specific disclosures in respect of any investments in unconsolidated structured entities. This Standard will affect disclosures only and is not expected to significantly impact the Group.

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

These Standards are not expected to significantly impact the Group.

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

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

AASB 13 requires:

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

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

- AASB 2011-4: Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements (applicable for annual reporting periods beginning on or after 1 July 2013).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

This Standard makes amendments to AASB 124: Related Party Disclosures to remove the individual key management personnel disclosure requirements (including paras Aus29.1 to Aus29.9.3). These amendments serve a number of purposes, including furthering trans-Tasman convergence, removing differences from IFRSs, and avoiding any potential confusion with the equivalent Corporation Act 2001 disclosure requirements.

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

- some of the disclosures removed from AASB 124 will continue to be required under s 300A of the Corporations Act, which is applicable to the Group; and
- AASB 2011-4 does not affect the related party disclosure requirements in AASB124 applicable to all reporting entities, and some of these requirements require similar disclosure to those removed by AASB 2011-4.
- AASB 2011-9: Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income (applicable for annual reporting periods commencing on or after July 2012).

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

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

d) Basis of consolidation

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

Subsidiaries

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

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

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Tax consolidation

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

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

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

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

g) Property, plant and equipment

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

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

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

Impairment

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

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.



2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

u) Financial instruments

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

Loans and receivables

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

De-recognition of financial instruments

Financial liabilities

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

Impairment of financial assets

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

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 there is a change in the number of ordinary shares on issue without a corresponding change in recognised resources during the year, the number of ordinary shares for all periods presented are correspondingly adjusted as if the event had occurred at the beginning of the earliest period presented.

Diluted earnings per share

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

3. SEGMENT REPORTING

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

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

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

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

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

Business segments

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

Geographical segments

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

Notes

Continued

3. SEGMENT REPORTING (continued)

Business Segments

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

Notes

Continued

3. SEGMENT REPORTING (continued)

Business Segments

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

3. SEGMENT REPORTING (continued)

Geographical Segments

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

For the year ended	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					
Segment assets	16,178,810	4,232,612	881,791	-	21,293,213

Notes

Continued

4. REVENUES AND EXPENSES

		Consolidated	
		2012	2011
Notes		\$	\$
Revenue			
	Sales revenue	10,743,824	10,314,506
	Finance revenue	23,941	17,302
Expenses			
a) Cost of materials and manufacturing			
	Cost of materials and manufacturing	3,348,575	3,127,650
b) Finance costs			
	Interest paid on loans from external parties	383,788	355,237
c) Depreciation and amortisation			
	Depreciation of plant and equipment	523,143	541,377
	Depreciation of leasehold improvements	74,865	76,703
	Amortisation of intangibles	53,975	51,528
		651,983	669,608
d) Research & development expense			
	Research expenses	22,736	37,324
e) Employee benefits expense			
	Salaries and wages	3,259,437	3,285,801
	Non-Executive Director fees and consultant costs	155,769	160,599
	Share-based payments expense	3,354	8,050
22a		3,418,560	3,454,450
f) Administration expense			
	Legal and professional costs	671,295	540,397
	Office and facility costs	1,017,383	917,189
	Travel and motor vehicle costs	565,948	566,275
		2,254,626	2,023,861
g) Other expenses			
	Realised Foreign exchange losses	209,411	213,174
	Unrealised Foreign exchange gains	(6,054)	(6,072)
	Other	564,118	481,226
		767,475	688,328



5. INCOME TAX

	Consolidated	
	2012	2011
	\$	\$
The components of income tax expense comprise:		
(a) included in the income statement:		
Current income tax (expense) / benefit	(42,161)	(81,569)
Deferred tax (expense) / benefit	8,895	317,318
	(33,266)	235,749
(b) Taken directly to equity:		
Current income tax (expense) / benefit	-	-
Deferred tax (expense) / benefit	-	54,167
	-	54,167
A reconciliation of income tax benefit / (expense) applicable to accounting (loss) / profit before income tax at the statutory income tax rate to income tax expense at the Group's effective income tax rate is as follows:		
Accounting profit / (loss) before income tax	(1,010,861)	(1,191,969)
Statutory income tax rate of 30%	303,258	357,591
Expenditure not allowable for income tax purposes	(1,834)	(1,208)
Share based payments for which no deduction is obtained	(1,006)	(28,853)
Deferred expenditure	-	(146,089)
Effects of lower rates on overseas income	25,404	39,254
Tax losses not recognised in Australian group	(359,088)	-
Tax losses not recognised in foreign subsidiaries	-	(4,989)
Total income tax (expense) / benefit	(33,266)	215,706
Effective income tax rate	3.3%	(18.1%)
Current income tax asset (liability)	1,478	(16,090)
Deferred tax assets/liabilities		
Deferred tax assets and liabilities relate to the following:		
Deferred tax assets from temporary differences on:		
Provisions	-	551,350
Share issue expenses (charged to equity)	-	54,167
Investment accounted for using equity method	-	268,394
Transfer to deferred tax liability	-	(873,911)
Total deferred tax assets	-	-
Deferred tax liabilities from temporary differences on:		
Capitalised expenditure	18,444	901,250
Transfer to deferred tax assets	-	(873,911)
Total deferred tax liabilities	18,444	27,339
Deferred tax assets for which no benefit has been recognised:		
- arising from temporary differences - at 30%	292,968	11,438
- arising from tax losses - at 25%	150,941	-
- at 28.5%	-	194,204
- at 30%	366,107	197,663

6. NET TANGIBLE ASSETS AND EARNINGS PER SHARE

Net Tangible Assets per share

	Consolidated	
	2012	2011
	\$	\$
Net assets per share	0.13	0.08
Net tangible assets per share	0.10	0.07
	Number	Number
Weighted average number of ordinary shares for net assets per share	121,338,552	174,469,063
	2012	2011
	\$	\$
Net assets	15,608,433	14,604,799
Net tangible assets	12,511,995	11,796,485

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

Earnings per share

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

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

7. CASH AND CASH EQUIVALENTS

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

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

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

Reconciliation of Statement of Cash Flows

	2012	2011
	\$	\$
For the purpose of the Statement of Cash Flows, cash and cash equivalents comprise the following:		
Cash at bank and in hand	2,346,556	2,043,814
	2,346,556	2,043,814

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

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

8. TRADE AND OTHER RECEIVABLES

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

Terms and conditions

Terms and conditions relating to the above financial instruments

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

9. INVENTORIES

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

10. PROPERTY, PLANT AND EQUIPMENT

Year ended

31 December 2012

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

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

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

11. INVESTMENTS IN ASSOCIATE

				Consolidated	
				2012	2011
				\$	\$
Associated companies				-	-
Name	Principal Activities	Country of Incorporation	Shares	Ownership Interest	
				2012	2011
Macquarie Medical Imaging Pty Ltd	Imaging centre	Australia	Preference	20%	20%
				Consolidated	
				2012	2011
				\$	\$
Macquarie Medical Imaging Pty Ltd				-	188,231
At 1 January				-	400,000
Investment in associate				-	(4,958)
Sales to associate				-	(583,273)
Share of losses after income tax				-	-
At 31 December				-	-
				Consolidated	
				2012	2011
				\$	\$
Extract from the associate's statement of financial position:					
Current Assets				1,028,474	1,827,090
Non-current Assets				4,450,218	3,738,057
Current Liabilities				(4,163,628)	(3,380,120)
Non-current Liabilities				(3,249,904)	(3,603,380)
Net assets				(1,934,840)	(1,418,353)
Share of associate's net assets				(386,968)	(283,671)
				Consolidated	
				2012	2011
				\$	\$
Extract from the associate's statement of comprehensive income:					
Revenue				6,247,380	4,164,353
Net Loss				(1,250,129)	(3,521,642)

During the year, Cyclopharm's wholly owned subsidiary Cyclopet Pty Ltd has invested \$nil (2011: \$400,000) in Macquarie Medical Imaging Pty Ltd, an imaging joint venture at Macquarie University Hospital. Cyclopet Pty Ltd has a 20% (2011: 20%) interest in Macquarie Medical Imaging Pty Ltd. The share of the associate's loss recognised during the year was \$nil (2011: \$583,273).

11. INVESTMENTS IN ASSOCIATE (continued)

The share of the associate's loss not recognised during the year was \$250,026 (2011: loss of \$121,055) and the cumulative share of the associate's loss not recognised as at 31 December 2012 was \$371,081 (31 December 2011: \$121,055).

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

Contingent liabilities

- (i) Cyclopharm Limited and CycloPet Pty Limited have jointly guaranteed with other investors to provide security for the whole Macquarie Medical Imaging Pty Ltd financing facility provided by the Commonwealth Bank of Australia. Cyclopharm Group's liability is limited to the amount that Cyclopharm Limited and CycloPet Pty Ltd are obliged to fund under a Subscription Agreement being 20% of the gross liability amount. The consolidated entities' contingent obligation at balance date was \$2,658,978 (2011: \$2,886,691).
- (ii) Pursuant to a Shareholders' Agreement, CycloPet Pty Limited (a wholly owned subsidiary of Cyclopharm Limited) issued a put option to a 50% shareholder of Macquarie Medical Imaging Pty Limited ("MMI") such that if this option was exercised, CycloPet would be required to purchase all Redeemable Preference Shares and Ordinary Shares held by the 50% joint venturer for the value of the Redeemable Preference Shares plus any accumulated interest plus \$1 for the Ordinary Shares. The estimated cost to CycloPet had the put option been exercised at balance date was \$679,621 (2011: \$419,788). If the put option were exercised, control of MMI would be transferred to the Group and MMI's financial statements would be consolidated from that date.

12. INTANGIBLE ASSETS

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

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.

12. INTANGIBLE ASSETS (continued)

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

- (a) Five year pre- tax cash flow projections, based upon management approved budgets and growth rates covering a one year period, with the subsequent periods based upon management expectations of growth excluding the impact of possible future acquisitions, business improvement capital expenditure and restructuring.
- (b) The discount factor used was 7.2% in 2012 (2011: 7.2%).
- (c) The Directors have concluded that the recoverable amount of the FDA development costs and other intangibles exceed their carrying value.
- (d) In December 2011, the Company received approval from the US FDA to commence Phase III Clinical trials for Technegas indicating that the design of the Phase III development program and clinical trial for Technegas is suitable to support regulatory approval for the United States.
- (e) The FDA clinical trials are expected to cost US\$3.48million over the next 2 years.

13. TRADE AND OTHER PAYABLES

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

Terms and conditions

Terms and conditions relating to the above financial instruments:

- (i) Trade payables are non-interest bearing and are normally settled on 30-60 day terms.
- (ii) Other payables and accruals are non-interest bearing and have an average term of 4 months.
- (iii) The non-interest bearing loan, related party loan is payable when called upon. Related party details are set out in the Note 19 Related party disclosures.

Notes

Continued

14. INTEREST BEARING LOANS AND BORROWINGS

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

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

(b) Secured Bank Loans

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

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

Notes

Continued

15. PROVISIONS

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

Notes

Continued

16. CONTRIBUTED EQUITY

	Notes	Consolidated			
		2012	2011	2012	2011
		Number	Number	\$	\$
Issued and paid up capital					
Ordinary shares	(a)	58,128,536	223,579,418	20,299,673	18,398,350
Other contributed equity	(b)	-	-	(5,333,158)	(5,333,158)
Total issued and paid up capital		58,128,536	223,579,418	14,966,515	13,065,192
Ordinary shares					
(a) Issued and paid up capital					
Balance at the beginning of the period		223,579,418	171,012,616	18,398,350	16,422,066
Cancellation of shares pursuant to share consolidation	(i)	(178,863,536)	-	-	-
Issue of long term incentive plan shares	(ii)	1,786,849	-	-	-
Issue of renounceable rights shares	(iii)	11,625,805	52,566,802	1,901,323	1,976,284
Balance at end of period		58,128,536	223,579,418	20,299,673	18,398,350
(b) Other contributed equity					
Balance at the beginning and end of the period		-	-	(5,333,158)	(5,333,158)

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

- (i) On 4 June 2012, the Company completed a consolidation of its issued capital on a basis that every 5 fully paid ordinary shares was consolidated into 1 fully paid ordinary share as approved by shareholders at the Annual General Meeting held on 24 May 2012.
- (ii) 1,786,849 Long Term Incentive Plan shares were issued on 31 October 2012 as set out on Note 22.
- (iii) On 14 December 2012, the Company completed a capital raising exercise comprising a pro-rata renounceable entitlement offer to eligible shareholders of 1 share for every 4 shares held by eligible shareholders at an issue price of \$0.18 per rights share resulting in the issue of 11,625,805 shares

16. CONTRIBUTED EQUITY (continued)

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 2012.

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

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

17. FINANCIAL RISK MANAGEMENT OBJECTIVES

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

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

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

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

17. FINANCIAL RISK MANAGEMENT OBJECTIVES (continued)

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

(a) Interest rate risk

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

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

At 31 December 2012, if interest rates had moved, as illustrated in the table below, with all other variables held constant, pre-tax profit would have been affected as follows:

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

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

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) 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 2012							
FINANCIAL ASSETS							
Cash and cash equivalents	7	3.20%	-	2,346,556	-	-	2,346,556
Trade and other receivables	8	n/a	3,785,771	-	-	-	3,785,771
Total financial assets			3,785,771	2,346,556	-	-	6,132,327
FINANCIAL LIABILITIES							
Trade payables, third parties	13	n/a	1,642,146	-	-	-	1,642,146
Leases, third party	14	16.76%	-	-	4,310	16,986	21,297
Secured bank loans, third party	14	8.03%	-	-	3,600,000	-	3,600,000
Employee entitlements	15	n/a	766,044	-	-	-	766,044
Total financial liabilities			2,408,190	-	3,604,310	16,986	6,029,487
Net exposure			1,377,581	2,346,556	(3,604,310)	(16,986)	102,840
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%	-	-	4,800,000	-	4,800,000
Employee entitlements	15	n/a	710,126	-	-	-	710,126
Total financial liabilities			1,820,532	-	4,803,156	21,297	6,644,985
Net exposure			2,318,615	2,043,814	(4,803,156)	(21,297)	(462,024)

17. FINANCIAL RISK MANAGEMENT OBJECTIVES (continued)

(b) Credit risk

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

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

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

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

(c) Liquidity risk

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

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

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

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

Consolidated Year ended	Note	Less than 6 months	6 months to 1 year	1 year to 5 years	Greater than 5 years	Total
31 December 2012						
Trade payables, third parties	13	1,642,146	-	-	-	1,642,146
Leases, third party	14	-	4,310	16,986	-	21,297
Secured bank loans, third party	14	600,000	3,000,000	-	-	3,600,000
		2,242,146	3,004,310	16,986	-	5,263,443
31 December 2011						
Trade payables, third parties	13	1,110,406	-	-	-	1,110,406
Leases, third party	14	-	3,156	21,297	-	24,453
Secured bank loans, third party	14	600,000	4,200,000	-	-	4,800,000
		1,710,406	4,203,156	21,297	-	5,934,859

17. FINANCIAL RISK MANAGEMENT OBJECTIVES (continued)

(d) Commodity price risk

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

(e) Foreign currency risk

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

The Group also has transactional currency exposures. Such exposure arises from sales or purchases by an operating unit in currencies other than the unit's functional currency. Approximately 60% (2011: 72%) of the Group's sales are denominated in currencies other than the functional currency of the operating unit making the sale, whilst approximately 55% (2011: 71%) of costs are denominated in the unit's functional currency.

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

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

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

Fair values

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

17. FINANCIAL RISK MANAGEMENT OBJECTIVES (continued)

(e) Foreign currency risk (continued)

Foreign currency sensitivity

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

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

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

	Consolidated	
	Increase in AUD of 10%	Decrease in AUD of 10%
	\$	\$
Euro		
31 December 2012		
Net loss	(1,213,375)	(857,955)
Equity (decrease)	(1,213,375)	(857,955)
31 December 2011		
Net (loss) / profit	(1,181,236)	(708,703)
Equity (decrease) / increase	(1,181,236)	(708,703)

18. COMMITMENTS & CONTINGENCIES

(a) Operating lease commitments

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

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

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

(b) Finance lease commitments

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

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

18. COMMITMENTS & CONTINGENCIES (continued)

(c) Other commitments

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

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

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

(d) Capital commitments

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

(e) Contingent liabilities

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

(ii) Pursuant to a Shareholders' Agreement, CycloPet Pty Limited (a wholly owned subsidiary of Cyclopharm Limited) issued a put option to a 50% shareholder of Macquarie Medical Imaging Pty Limited ("MMI") such that if this option was exercised, Cyclopet would be required to purchase all Redeemable Preference Shares and Ordinary Shares held by the 50% joint venturer for the value of the Redeemable Preference Shares plus any accumulated interest plus \$1 for the Ordinary Shares. The estimated cost to CycloPet had the put option been exercised at balance date was \$679,621 (2011: \$419,788). If the put option were exercised, control of MMI would be transferred to the Group and MMI's financial statements would be consolidated from that date.

18. COMMITMENTS & CONTINGENCIES (continued)

(f) Contingent assets

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

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

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

19. RELATED PARTY DISCLOSURES

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

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

		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	2012	-	-	-	-	-
	2011	-	-	7,274	-	-
VA Consulting Pty Ltd	2012	-	-	2,575	-	-
	2011	-	-	15,450	-	-
Macquarie Medical Imaging	2012	92,715	-	-	82,633	-
	2011	76,526	-	400,000	44,051	-
CVC Managers Pty Ltd	2012	-	-	138,115	-	-
	2011	-	-	118,057	-	-

Ultimate parent entity

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

Terms and conditions of transactions with related parties

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

19. RELATED PARTY DISCLOSURES (continued)

Controlled Entities

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

Notes

1. Cyclopharm Limited is the ultimate parent entity in the wholly owned group.
2. Audited by Russell Bedford NSW, Australia.
3. Audited by Moore Stephens Nathans, Republic of Ireland.
4. Audited by Schwartz Levitsky & Feldman LLP, Toronto, Canada.
5. Audited by 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	
	2012
	2011
	\$
	\$
Amounts received or due and receivable by Russell Bedford NSW and associated entities for:	
Audit and review of the financial statements	99,013
Other services:	
- tax compliance	10,000
- share registry	22,068
	131,081
	128,162
Amounts received or due and receivable by auditors other than Russell Bedford NSW for:	
Audit of the financial statements	61,105
Other services	12,676
	73,781
	61,352

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

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

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 2012 Number	Consolidated 2011 Number
Balance at the beginning of the year	700,000	700,000
Granted during the year	1,786,849	-
Exercised during the year	-	-
Lapsed during the year	(700,000)	-
Balance at the end of the year	1,786,849	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	\$0.50
Number of recipients	1	16
Number of implied options	447,159	1,339,690
Grant Date	31/10/2012	31/10/2012
Dividend yield	-	-
Expected annual volatility	52%	52%
Risk-free interest rate	8.00%	8.00%
Expected life of implied option (years)	2 years	2 years
Fair value per implied option	\$0.02	\$0.01
Share price at grant date	\$0.17	\$0.17
Model used	Black Scholes	Black Scholes

Expected volatility percentages used for the Option pricing calculations were determined using historic data over 24 months and were adjusted to reflect comparable companies in terms of industry and market capitalisation. The Implied Options arising from the Plan are not listed and as such do not have a market value.

23. PARENT ENTITY DISCLOSURE

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

Contingent liabilities

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