

Cyclopharm Limited

Notice of Annual General Meeting and Explanatory Statement

**to be held at Ground Floor, Interactive Zone of
the Australian School of Advanced Medicine,
#2 Technology Place Drive, Macquarie
University Hospital, North Ryde, NSW 2109,
at 11.00am, (Sydney time) on
Wednesday, 15 May 2013**

This document is important.

Please read the information it contains carefully. It is important that you vote on these resolutions either by attending the meeting or by completing and lodging the enclosed proxy form. If you are in doubt as to its contents, you should consult your professional advisor(s).

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cyclopharm

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IMPORTANT DATES

Close for receipt of written questions to Auditor	5.00 pm	Wednesday, 8 May 2013
Close for receipt of Proxy Forms	11.00 am	Monday, 13 May 2013
Determination of Entitlement to Vote	7.00 pm	Monday, 13 May 2013
Meeting	11.00 am	Wednesday, 15 May 2013

NOTICE OF ANNUAL GENERAL MEETING OF CYCLOPHARM LIMITED

Notice is given that the Annual General Meeting of members of Cyclopharm Limited ACN 116 931 250 (**Company**) will be held at Ground Floor, Interactive Zone of the Australian School of Advanced Medicine, #2 Technology Place Drive, Macquarie University Hospital, North Ryde, NSW, 2109, Australia on **Wednesday, 15 May 2013** at **11.00am** Sydney time.

1. ORDINARY BUSINESS

1.1 Financial Statements and Reports

- (a) *To receive and consider the financial statements and the reports of the Directors and the Auditors of the Company for the year ended 31 December 2012.*

An explanation of this item is to be found in the notes to this notice and paragraph 2.1 of the Explanatory Statement.

(b) Resolution 1 – Remuneration Report

Shareholders will be asked to consider and, if thought fit, pass the following resolution as an **ordinary resolution**:

"That the Remuneration Report as set out in the Annual Report of the Company for the financial year ended 31 December 2012 be adopted. "

An explanation of this item is to be found in paragraph 2.2 of the Explanatory Statement.

Notes:

- (1) *The vote on this resolution is advisory only and does not bind the Directors or the Company.*
- (2) *If 25% or more of the votes that are cast are voted against the remuneration report at two consecutive AGMs, shareholders will be required to vote at the second of those AGMs on a resolution (a 'spill' resolution) that another meeting be held within 90 days at which all of the Company's directors (other than the Managing Director) must stand for re-election.*
- (3) *Except as set out below, a vote must not be cast (in any capacity) on Resolution 1 by or on behalf of the Company's key management personnel (KMP), details of whose remuneration are included in the Remuneration Report, and their closely related parties, whether as shareholder or as a KMP's proxy. However, a vote may be cast on Resolution 1 by a KMP, or a closely related party of a KMP, if:*
 - *the vote is cast as a proxy;*
 - *the appointment is in writing and specifies how the proxy is to vote on Resolution 1; and*
 - *the vote is not cast on behalf of a KMP or closely related party of a KMP.*

1.2 Resolution 2 – Re-election of Director

Shareholders will be asked to consider and, if thought fit, pass the following resolution as an **ordinary resolution** with effect from the close of the meeting:

"That David James Heaney, a director retiring by rotation in accordance with rule 5.1 of the Constitution, being eligible and having consented to act, be re-elected as a Director of the Company."

An explanation of this item, and more information on Mr Heaney, is to be found in paragraph 3 of the Explanatory Statement.

1.3 Resolution 3 - Share Buy-back

Shareholders will be asked to consider and, if thought fit, pass the following resolution as an **ordinary resolution**:

"That pursuant to and in accordance with section 257C of the Corporations Act 2001 (C'wlth), as amended, and for all other purposes, the shareholders approve, with effect from when the Directors make the relevant announcement to the ASX, the on-market buy-back of up to 25% of the fully paid ordinary shares in the Company expiring on whichever is the earlier of the anniversary of the passage of this resolution or the 2014 Annual General Meeting and otherwise on the terms and conditions set out in the Explanatory Statement."

1.4 Resolution 4 – Issue of shares to the Managing Director

Shareholders will be asked to consider and, if thought fit, pass the following resolution as an **ordinary resolution**:

"That pursuant to ASX Listing Rules 10.14 and 10.15 and in accordance with Cyclopharm Limited's "Long Term Incentive Plan" tabled by the Chairman and initialed by him for purposes of identification, approval is given for the Directors to issue and allot 1,723,456 ordinary shares to Mr James McBrayer, acting in his capacity as the Managing Director of the Company, and to provide him financial assistance of \$405,012, to subscribe for those shares in the Company, on the terms summarised in the Explanatory Statement accompanying the Notice of 2013 Annual General Meeting."

An explanation of this item and a summary of the Plan and Loan are found in paragraph 5 of the Explanatory Statement.

Voting exclusion

The Company will disregard any votes cast on this resolution by the Directors and any of their associates. However, the Company will not disregard a vote if:

- if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- if it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

2 OTHER BUSINESS

To consider any other business that may be properly brought forward at the meeting in accordance with the Constitution and the law.

By Order of the Board

James McBrayer
Company Secretary

Dated: 15 April 2013

PLEASE NOTE:

The Notes to, and the Explanatory Statement and Proxy Form following this Notice of Meeting should be read in conjunction with, and form part of, this Notice.

Capitalised words have the meaning ascribed to them in the Glossary in the attached Explanatory Statement.

NOTES TO NOTICE OF MEETING:

1. Explanatory Statement

An explanation of each resolution is included in the accompanying Explanatory Statement.

2. Voting Entitlement

- 2.1 The Board, as the convenor of the meeting, has determined that the shareholding of each member for the purpose of ascertaining voting entitlements at the Annual General Meeting will be as it appears on the register of Shareholders at **7.00pm** (Sydney time) on **Monday, 13 May 2013**.
- 2.2 On a show of hands, every person present and qualified to vote shall have one vote. If a Shareholder appoints one proxy, then that proxy may vote on a show of hands. However, if the Shareholder appoints 2 proxies, neither may vote on a show of hands.

If a Shareholder appoints a proxy who is also a Shareholder or also a proxy for another Shareholder, their directions may not be effective on a show of hands. However, upon a poll and upon the proxy voting on the poll then their voting direction will be fully counted. Should a poll be taken, then the Auditors, Russell Bedford NSW, will act as scrutineer.

3. Questions and Comments by Shareholders at the Meeting

- 3.1 In accordance with the Corporations Act and rule 104.3 of the Constitution, a reasonable opportunity will be given to Shareholders at the meeting to ask questions about, or make comments on, the management of the Company.
- 3.2 Similarly, in accordance with the Corporations Act and rule 104.4 of the Constitution, a reasonable opportunity will be given to Shareholders to ask the Auditors, Russell Bedford NSW, questions relevant to:
- (1) the conduct of the audit;
 - (2) the preparation and content of the Auditor's Report;
 - (3) the accounting policies adopted by the Company in relation to the preparation of its financial statements; and
 - (4) the independence of the Auditor in relation to the conduct of the audit.
- 3.3 Shareholders may also submit written questions to Russell Bedford NSW, via the Company, no later than 5 business days before the Annual General Meeting. Any question must be relevant to the content of Russell Bedford NSW's Audit Report or the conduct of its audit of the Company's financial report for the year ended 31 December 2012.
- 3.4 Relevant written questions for Russell Bedford NSW must be received no later than **5.00pm** (Sydney time) on **Wednesday, 8 May 2013**. A list of those relevant written questions will be made available to Shareholders attending the Annual General Meeting. Russell Bedford NSW will either answer the questions at the Annual General Meeting or table written answers to them at the Meeting. If written answers are tabled at the Meeting, they will be made available to Shareholders as soon as practicable after the Annual General Meeting.

4. Proxies

- 4.1 A Shareholder entitled to attend and vote at this Meeting is entitled to appoint not more than 2 proxies. If 2 proxies are appointed, each proxy must be appointed to represent a specific proportion or number of the Shareholders' voting rights. If the appointment does not specify the proportion or number of the Shareholders' votes each proxy may exercise, each proxy may exercise one half of the Shareholders' votes.
- 4.2 If Shareholders wish to appoint one proxy, please use the form provided. If you want to appoint 2 proxies, please contact the Company for an additional form and follow the instructions set out on the reverse side of the proxy form.
- 4.3 A Shareholder may appoint an individual or a body corporate as their proxy. A body corporate appointed as a proxy may then nominate an individual to exercise its powers at meetings. A proxy need not be a Shareholder of the Company.
- 4.4 To be effective a proxy form and an original or certified copy of the authority (if any) under which it is signed (such as a power of attorney or, in the case of a body corporate Shareholder, a certificate of appointment of personal representative) must be:
- delivered (by hand, mail, courier or fax) to the Company at PO Box 350 Menai Central NSW 2234 Australia or Building 75, Business & Technology Park, New Illawarra Road, Lucas Heights, NSW 2234 Australia;
 - sent by facsimile to (+612) 9543 0960 or the registered office of the Company; or
 - delivered to the registered office of the Company,
- to arrive (in each case) no later than **11.00am** (Sydney time) on **Monday, 13 May 2013**. If it is not received by that time, the appointment of proxy will not be treated as effective.
- 4.5 If a Shareholder is a body corporate, the proxy form may be signed by:
- 2 Directors;
 - a Director and either a company secretary or other authorised signatory;
 - in the case of a proprietary company that has a sole Director that is also the sole company secretary, by that Director, or
 - the body corporate's appointed attorney under power of attorney.
- 4.6 In the case of joint holdings a proxy may be signed by any one of the joint holders. However, if the Company receives more than one appointment for the same Share:
- an appointment signed by all joint holders will be accepted in preference to an appointment signed by the Shareholder whose name appears first in the register of Shareholders or by any other Shareholder holding the share jointly; and
 - subject to the preceding paragraph, an appointment signed by the Shareholder whose name appears first in the register of Shareholders will be accepted in preference to an appointment signed by any other Shareholder or Shareholders holding the share jointly.

- 4.7 Completion of a proxy form will not prevent individual Shareholders from attending the Meeting if they wish. Where a Shareholder completes and delivers a valid proxy form and attends in person, the authority of the proxy to speak and vote for that Shareholder is suspended while the Shareholder is present at the Meeting.
- 4.8 Except in relation to resolutions connected directly or indirectly with the remuneration of the key management personnel of the Company, unless shareholder specifically directs a proxy how to vote, the proxy may vote as he or she thinks fit, or abstain from voting.
- 4.9 If a shareholder appoints the Chairman as the shareholder's proxy in relation to resolutions 1 and 4 but does not complete any of the boxes "For", "Against" or "Abstain" opposite any of those items on the proxy form, the shareholder will be directing the Chairman to vote in favour of that item.
- 4.10 If a shareholder appoints the Chairman of the meeting as the shareholder's proxy but does not specify how the Chairman is to vote on an item of business, the Chairman will vote, as proxy for that shareholder, in favour of that item on a poll.
- 4.11 If you wish to appoint the Chairman as your proxy holder but you do not want to put him in the position to cast your votes in favour of any of resolutions 1 and 4 you must complete the appropriate box on the proxy form, directing him to vote against or abstain from voting on that resolution.
- 4.12 Any undirected proxies held by other directors or any other key management personnel or their closely related parties will not be voted on resolutions connected directly or indirectly with the remuneration of a member of key management personnel of the Company.
- 4.13 **Key management personnel** of the Company are the Directors of the Company and those other persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. The Remuneration Report identifies the Company's key management personnel for the financial year to 31 December 2012. Their closely related parties are defined in the Corporations Act 2001, and include certain members of their family, dependents and companies they control.

EXPLANATORY STATEMENT

1. IMPORTANT NOTICE

- 1.1** This Explanatory Statement is given to Shareholders to explain the resolutions to be considered at the Annual General Meeting (**Resolutions**) and to allow Shareholders to determine how they wish to vote on the Resolutions. The Explanatory Statement should be read in conjunction with, and forms part of, the Notice of Annual General Meeting which this Explanatory Statement accompanies.
- 1.2** *Capitalised words in this Explanatory Statement have a defined meaning which appears in it or in the Glossary.*
- 1.3** This Explanatory Statement is dated 15 April 2013.

2. REPORTS

- 2.1** The Corporations Act requires the financial statements and reports of the Directors and Auditors to be laid before the Meeting. These are all incorporated into the Annual Report. Neither the Act nor the Constitution requires Shareholders to vote on such statements and reports. However, Shareholders will be given ample opportunity to raise questions on the Annual Report at the Meeting. For further information see **note 3 on page 5**. The Annual Report is available on the Company's website at www.cyclopharm.com.au.

2.2 EXPLANATION OF RESOLUTION 1 - REMUNERATION REPORT

The Directors' Report - "Remuneration Report" (**Remuneration Report**) is contained in the Company's 2012 Annual Report.

The Corporations Act requires a resolution be put to the shareholders of a listed company to adopt the Remuneration Report as disclosed in the Directors' report component of the 2012 Annual Report (see pages **15 to 23** of the 2012 Annual Report inclusive). This Resolution is being put so as to give Shareholders a reasonable opportunity to ask questions or make comments concerning the Remuneration Report during the Meeting.

The Remuneration Report:

- explains the Board's policies in relation to the nature and level of remuneration paid to Directors, secretaries and senior managers with the Company;
- discusses the link between the Board's policies and the Company's performance;
- provides a summary of performance conditions, explaining why they were chosen and how performance is measured against them;
- sets out remuneration details for each Director and for each member of the Company's senior executive management team; and
- makes clear that the basis for remunerating non-executive Directors is distinct from the basis for remunerating executives, including executive Directors.

The vote on this resolution is advisory only and does not bind the company or its directors.

No member of the key management personnel or closely related party of the key management personnel may vote on resolution 1.

The Company encourages all other shareholders to cast their vote on resolution 1.

If you choose to appoint a proxy you are encouraged to direct your proxy how to vote on resolution 1 (Adoption of Remuneration Report) by marking either "For", "Against" or "Abstain" on the voting form for that item of business.

Under the Corporations Act 2001, if 25% or more of the votes that are cast are voted against the adoption of the Remuneration Report at two consecutive AGMs, shareholders will be required to vote at the second of those AGMs on a resolution (a 'spill' resolution) that another meeting be held within 90 days at which all of the Company's directors (other than the Managing Director) must go up for re-election.

2.3 Directors' Recommendation

As the directors have a personal interest in this proposed Resolution 1, they make no recommendations as to how shareholders should vote on the resolution.

3. EXPLANATION OF RESOLUTION 2 – RE-ELECTION OF DIRECTOR

3.1 Shareholders will be asked to consider and, if thought fit, pass the following Resolution as an ordinary resolution:

"That David James Heaney, a director retiring by rotation in accordance with rule 5.1 of the Constitution, being eligible and having consented to act, be re-elected as a Director of the Company."

Mr Heaney, being eligible, offers himself for re – election as a Director of the Company and his consent to act will be tabled at the Meeting prior to the resolution to reappoint him being put to the Meeting.

3.2 The Constitution and the ASX Listing Rules require that, at each annual general meeting, one-third of the Directors must retire from office. Since Mr Heaney has been longest in office since election he has offered himself for re-election.

3.3 The Nominations Committee (excluding Mr Heaney) of the Board has conducted an assessment of Mr Heaney, and has reviewed the skills, knowledge, experience and diversity represented on the Board. Having conducted those assessments and that review, the Board recommends to Shareholders the re-election of Mr Heaney.

3.4 The following is a profile of Mr David Heaney:

Board position: Elected by Shareholders to the Board of the Company on 8 May 2007.

Committees: Member of the Remuneration, Board Nominations and Audit Committees.

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

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

3.5 Directors' Recommendation

The Board, other than Mr Heaney (who abstains), recommends that Shareholders vote in favour of Resolution 2.

4. EXPLANATION AND SUMMARY OF RESOLUTION 3 – SHARE BUY BACK

4.1 Shareholders will be asked to consider and, if thought fit, pass the following resolution as an **ordinary resolution:**

“That pursuant to and in accordance with section 257C of the Corporations Act 2001 (C’wlth), as amended, and for all other purposes, the shareholders approve, with effect from when the Directors make the relevant announcement to the ASX, the on-market buy-back of up to 25% of the fully paid ordinary shares in the Company expiring on whichever is the earlier of the anniversary of the passage of this resolution or the 2014 Annual General Meeting and otherwise on the terms and conditions set out in the Explanatory Statement accompanying the 2013 Annual General Notice of Meeting.”

4.2 Background

The Board believes that a buy-back of shares in combination with other strategies, is an efficient way to enhance long term shareholder value and considers that it is the most expedient, effective and cost efficient way for the Company to enhance shareholder value.

In particular, it gives shareholders the choice whether to hold or sell their shares over the buy-back period, whereas under other alternatives (such as an equal capital reduction or an off-market equal access buy-back) shareholder may not be given such a choice.

If, in the next 12 months, the Company is in a financial position to do so, then it will consider implementing a buy-back on the terms and conditions set out in this resolution, accordingly shareholder 'pre-approval' is sought to implement and conduct the buy-back.

4.3 Regulatory Requirements

Section 257C(1) of the Corporations Act authorises a listed company to buy-back its own shares on market if the buy-back does not materially prejudice its ability to pay its creditors and it follows the procedures set out in the Corporations Act.

The implementation of the buy-back is conditional on the approval by a resolution passed at a general meeting of the Company. This resolution is an ordinary resolution and will be passed if a majority of votes cast, in person or by proxy, attorney or representative by Shareholders at the meeting is cast in favour of the resolution.

Shareholder approval is required if the Company proposes to buy-back more than 10% of the smallest number of shares on issue at any time during the last 12 months. This limit after which a company requires shareholder approval for an on-market buy-back is called the "10/12 limit".

As the Company is proposing to buy-back up to a maximum of 25% of its issued capital, shareholder approval is sought.

If approved, it is intended that the on-market buy-back will continue until the earlier of 12 months, the day that the maximum number of shares have been bought back, or at an earlier date as determined by the Directors.

The Constitution does not, at the relevant time, preclude the buy-back of Shares or restrict the Company's power to do so. The Company will stand in the market to buy-back not more than 25% of its ordinary share capital and this can be done on a continuous basis.

If this resolution is passed, the buy-back may be implemented by the Board at any time by making the announcement to the ASX required by the ASX Listing Rules. Nevertheless, the Board may choose not to proceed, or to proceed at a later date.

4.4 Number of share subject to the buy-back

The maximum percentage of Shares to be bought back is 25%. Based on the number of ordinary shares on issue as at the date of this notice being 57,448,536 shares, the maximum number of Shares to be bought back would be 14,362,134.

The Company will offer to buy-back shares on-market through transactions on Australian Securities Exchange (**ASX**). It is not required to buy-back a specific number of shares or a minimum specified value of shares over any period. The Company will cancel all shares which are bought back.

4.5 Price

The shares will be bought back at the quoted selling price of the Company's shares on the ASX. In accordance with ASX Listing Rule 7.33, the price payable by the Company to buy-back shares cannot be more than 5% above the average market price per share calculated over the last 5 days on which sales were recorded before the day of the buy-back. Market price means the closing price on a trading platform, excluding special crossings, overnight sales and exchange traded option exercises.

Historical share price information is below:

Information	Price*	Date
Close Price	\$0.120	5 April 2013
High for 12 Months	\$0.220	24 May 2012
Low for 12 Months	\$0.110	21 March 2013
30 day Volume Weighted Average	\$0.120	7 March 2013 to 5 April 2013
60 Day Volume Weighted Average	\$0.134	5 February 2013 to 5 April 2013

** Price adjusted for the consolidation of issued capital completed on 4 June 2012 on the basis that every 5 fully paid ordinary shares were consolidated into 1 fully paid ordinary share.*

4.6 Funding

The cost to the Company of the buy-back is dependent on the number and price of shares bought back.

By way of example, an on-market buyback offer at \$0.12 per Share would require maximum funding of approximately \$1,723,456 (assuming full acceptance of the buy-back offer 25%).

The financial effect of the proposed buy-back will be to deplete the Company's cash reserves and/or to increase its borrowings depending upon the appropriate funding mix utilised by the Directors at the time the offer proceeds.

Against this, the share capital of the Company will be reduced with a likely beneficial increase of net tangible asset backing per share.

The offer will not proceed if the buy-back would materially prejudice the Company's ability to pay its creditors.

The Company intends to utilise its cash reserves to pay for the Shares it buys-back when making the on-market offer and to supplement some with borrowings. The break-up between one and the other will depend on the circumstances of the Company at the time the offer is made and will be detailed in the relevant announcement to the ASX.

No decision has been made in relation to the proposed funding, as noted earlier, this approval is sought in anticipation of the Company being in a financial position to implement and fund the buy-back without materially prejudicing its ability to repay creditors.

4.7 Discussion and analysis

Advantages of Introducing a Share Buy-back

The key advantages of the buy-back being allowed to proceed are as follows:

1. increase the liquidity of the Shares;
2. an efficient use of any surplus capital that becomes available to the Company in a market where finding suitable investments proves difficult;

3. the buy-back is structured as an on-market buy-back which gives shareholders the choice whether to hold or sell their shares over the buy-back period;
4. increasing price competition for the Shares; and
5. the promotion of a more efficient capital structure.

Disadvantages of Introducing a Share Buy-back

The key disadvantages of the buy-back being allowed to proceed are as follows:

1. it reduces the cash reserves of the Company. The use of those funds for the buy-back means that they will not be available for use in the Company's ordinary course of business;
2. it is structured as an on-market buy-back which means not all shareholders will participate; and
3. there is uncertainty about the funding strategy of the buy-back , this means the debt/equity mix has not yet been determined and the Company is unable to advise shareholders what the precise financial effect of the on-market buy-back will be.

4.8 Other considerations

Accepting the on-market Share buy-back may have financial, taxation, or other ramifications for Shareholders depending upon each such Shareholders' personal circumstances and the Board recommends that before accepting any on-market offer, Shareholders should obtain their own professional advice.

The Company is satisfied that this notice of meeting and explanatory statement set out all the information known to the Company that is material to the decision how to vote on the resolution.

If approval of Resolution 3 is not given, the Company is still able to buy-back on market the maximum number of Shares permitted under the 10/12 limit without Shareholder approval.

4.9 Directors' Intentions

At the date of this explanatory statement, no Director had determined whether he will accept a buy-back offer in respect of shares in which he has an interest.

4.10 Directors' Recommendation

The Board unanimously recommends that Shareholders vote in favour of Resolution 3.

5. EXPLANATION AND SUMMARY OF RESOLUTION 4 – ISSUE OF SHARES TO THE MANAGING DIRECTOR

- 5.1** Shareholders will be asked to consider and, if thought fit, to pass the following Resolution as an ordinary resolution:

"That pursuant to ASX Listing Rules 10.14 and 10.15 and in accordance with Cyclopharm Limited's "Long Term Incentive Plan" tabled by the Chairman and initialed by him for purposes of identification, approval is given for the Directors to issue and allot 1,723,456 ordinary shares to Mr James McBrayer, acting in his capacity as the Managing Director of the Company, and to provide him financial assistance of \$405,012, to purchase those shares in the Company, on the terms summarised in the Explanatory Statement accompanying the Notice of 2013 Annual General Meeting."

- 5.2** In accordance with its remuneration policy and subject to member approval, the Company proposes to grant Shares and provide financial assistance to the Managing Director on the general terms and conditions set out in the Company's Long Term Incentive Plan (**Plan**) and the specific terms as set out in paragraph 5.5. The Plan was approved by Shareholders at the meeting held on 8 May 2007.
- 5.3** The purpose of the Plan is to encourage Directors, officers and employees to share in the ownership of the Company and therefore to retain and motivate those benefiting to drive performance at both the individual and corporate levels. Accordingly the Board, other than Mr McBrayer, believes that the Shares should be issued and financial assistance provided to Mr McBrayer, to more closely align his interests with those of the Company. A summary of the Plan, as approved, is included as Appendix 1 to this document. The necessary resolution thus having been passed, the Corporations Act now permits, without separate shareholder approval, financial assistance to be given to Mr James McBrayer, the Managing Director of the Company, to acquire Shares under the Plan.
- 5.4** The Corporations Act also regulates in Chapter 2E the giving of a financial benefit to a related party of a public company. Cyclopharm is such a company and, as a Director, Mr McBrayer is regarded as a related party. The issue of shares and provision of the loan could both be considered financial benefits. The Board considers that no separate shareholder approval is required for the giving of the financial benefits in the form of the financial assistance and shares because the benefit is remuneration to Mr McBrayer as Managing Director of the Company and the remuneration is reasonable given the circumstances of the Company and Mr McBrayer's circumstances (including the responsibilities involved in his office and employment).
- 5.5** If approved, the Plan Shares and financial assistance will be provided on the following terms:

LTIP Shares

Number of Plan Shares offered	<u>Tranche 1 – 861,728 ordinary shares in the Company; and</u> <u>Tranche 2 – 861,728 ordinary shares in the Company; and</u> <u>(collectively the Plan Shares).</u>
Subscription Price	<u>Tranche 1 - \$0.22 per Plan Share</u> <u>Tranche 2 - \$0.25 per Plan Share</u>
Financial Assistance	<u>The Company will provide the Managing Director with a Loan of \$189,580 for the acquisition of the Plan Shares under Tranche 1.</u> <u>The Company will provide the Managing Director with a Loan of \$215,432 for the acquisition of the Plan Shares under Tranche 2.</u> <u>The term of each loan will be for 2 years from the date of the allotment of the Plan Shares (around 1 June 2014).</u> <u>Security for each loan will be limited to the Plan Shares.</u> <u>Interest on each loan will be limited to dividends on the Plan Shares in accordance with the terms of the Plan.</u> <u>The Company will have no other recourse to the Managing Director for repayment of each loan other than the security provided by the Plan Shares.</u>
Performance Hurdle	<u>The Managing Director has been employed as Managing Director for 2 years (Performance Hurdle).</u>
Holding Lock	<u>Each tranche of the Plan Shares will be held in a holding lock until:</u> (a) <u>the Performance Hurdle has been met; and</u> (b) <u>the Financial Assistance for the loan has been repaid.</u>

Shareholders should be aware that Mr McBrayer will only benefit from this loan in the event that the sale price of the Shares is in excess of \$0.22 per Share for Tranche 1 and \$0.25 per share for Tranche 2. This is because when he sells the Shares, the proceeds are directed first to retire the loan principal and he then only gets to keep any excess over \$0.22 per Share for Tranche 1 and \$0.25 per share for Tranche 2.

- 5.6** The Board, other than Mr McBrayer who absented himself during the deliberations and from voting at the relevant meeting on this matter, considers that to give the remuneration outlined above, in the form proposed, would be reasonable given the Company's current circumstances and those of Mr McBrayer, vis-à-vis the Company, including the responsibilities involved in, and obligations required as a result of, his office or employment. There are no obvious disadvantages to the Company of Resolution 4 being passed.
- 5.7** An ordinary resolution is required for Resolution 4 which means the Resolution requires an affirming vote by 50% of those present at the Meeting in person, by proxy, attorney or representative and entitled to vote.

5.8 Copy of Plan

A copy of the Company's Long Term Incentive Plan is available for inspection at the Sydney office referred to on the Proxy Form at the end of this Notice of Meeting by any member of the Company during normal hours on any business day prior to, or on, the date of the Meeting.

5.9 Cost of the Plan Shares to the Company

As set out in Note 23(b) of the 2012 Annual Report, the International Financial Reporting Council have determined that where employee shares are issued under a non-recourse loan payment plan, the loan assets and the increment to share capital should not be recognised at grant date but rather, the transactions be treated as implied options. Consequently the value of the discount which has been determined using a binomial pricing model will be charged to the Statement of Comprehensive Income over the vesting period.

The Plan Shares have been valued for accounting purposes by the Directors using the Black-Scholes Pricing Model (BSP Model). Based on this model, the directors anticipate that the accounting cost of the issue of the Plan Shares to the Managing Director will be \$27,575.

Other increments to share capital will be recognised as the share loans are settled by the relevant employees.

5.10 Remuneration

The Managing Director's remuneration for the year ended 31 December 2012 (as detailed in the Remuneration Report included in the Directors' Report) comprised:

Salary	Superannuation	Bonus	Non-Cash	Options (amortised cost)	Shares (amortised cost)	Total
\$292,476	\$25,514	-	-	-	\$3,354	\$321,344

5.11 Relevant interest in shares

The Managing Director currently has an interest in 1,433,294 shares as at the date of this notice beyond the Shares that are the subject of this resolution.

The issue of 1,723,456 shares to Mr McBrayer will increase his holding to 3,156,750 shares, representing 5.49% of the Company's current issued shares.

5.12 Impact on capital structure

As at the date of this notice of meeting, there are a total of 57,448,536 shares on issue.

If approved, the issue of 1,723,456 shares to Mr McBrayer will increase the number of ordinary shares on issue from 57,448,536 to 59,171,992 (assuming that no other shares issued), with the effect that the shareholding of existing shareholders would be diluted by approximately 2.84%.

The Directors believe that any potential dilutionary impact is not material and is more than offset by the advantages accruing to the Company from the services of the Managing Director.

5.13 Technical Information Required by Listing Rule 10.15A

A notice of meeting to obtain approval under Listing Rule 10.14 must comply with Listing Rule 10.15A. The information required by Listing Rule 10.14 is set out below:

Maximum number of Shares that may be acquired by Mr McBrayer	1,723,456 Shares to be acquired in two tranches: Tranche 1 – 861,728 Tranche 2 – 861,728
Price for each Share to be acquired under the LTIP	Tranche 1 - \$0.22 per Share Tranche 2 - \$0.25 per Share The price of both tranches of shares is above market value.
Names of persons referred to in rule 10.14 who received securities under the scheme since the last approval, number of securities received and acquisition price for each security	At the 2012 Annual General Meeting, the issue of 6,707,383 shares (pre-consolidation) to Mr James McBrayer was approved by members and 1,341,476 shares (post-consolidation) were issued on 31 October 2012 in two tranches: Tranche 1 – 447,159 shares at \$0.35 per share Tranche 2 – 894,317 shares at \$0.50 per share
Names of all persons referred to in Listing Rule 10.14 entitled to participate in the scheme	Directors - Messrs Gould, Heaney and McBrayer. [Note – although each director is eligible to participate, approval is sought for the grant of Shares to Mr McBrayer only].
Terms of loan in relation to the grant of Shares	The general terms of the financial assistance to be provided to Mr McBrayer are contained in the Plan Rules which are included at Appendix 1 to this document. Specific terms are contained in paragraph 5.5 of this notice of meeting.
Required Statements	Details of any securities issued under the employee incentive scheme will be published in each annual report relating to a period in which securities have been issued and approval for the issue of securities obtained under listing rule 10.14. Any additional persons who become entitled to participate in the employee incentive scheme after the resolution is approved and who are not named in this notice of meeting will not participate until approval is obtained under listing rule 10.14.
Date by which Shares will be granted	The Company will not issue the securities any later than 3 years after the meeting

5.14 Voting Exclusion

A voting exclusion applies in relation to Resolution 4 (see notes to Resolution 4).

5.15 Directors' Recommendation

The Board, other than Mr McBrayer (who abstains), recommends that Shareholders vote in favour of Resolution 4.

6. GLOSSARY OF TERMS

In this explanatory statement, the following expressions have the following meanings:

Annual Report means the report to Shareholders containing, amongst other things, the financial statements, report of the Directors, the remuneration report and the report of the Auditors to which reference is made in this explanatory statement;

ASIC means the Australian Securities and Investments Commission;

ASX means ASX Ltd trading as Australian Securities Exchange;

Auditors means Russell Bedford NSW, Chartered Accountants, the Company's external auditors;

Board means the Directors of the Company from time to time;

Company means Cyclopharm Limited ACN 116 931 250 the registered office of which is located at Building 75, Business & Technology Park, New Illawarra Road, Lucas Heights, NSW 2234 Australia;

Constitution means the Constitution of the Company adopted by the Shareholders dated 31 October 2005 and the amendments approved at the annual general meeting convened on 26 May 2011;

Corporations Act means the *Corporations Act 2001* (Cth), as amended;

Directors means the Directors of the Company from time to time sitting as the Board or individually as the case requires;

Meeting or Annual General Meeting means the annual general meeting of Shareholders convened by the Notice of Meeting;

Notice of Meeting means the notice of annual general meeting dated 15 April 2013 which accompanies this explanatory statement;

Participant means a Shareholder who for the time being participates in the Plan in respect of all the Shares registered in their name and means a person who is the holder of **Participating Shares**;

Resolution means an ordinary resolution referred to in the Notice of Meeting;

Share means a fully paid ordinary share in the capital of the Company;

Shareholders means the holders of Shares in the Company as recorded in the register at 7.00 pm (Sydney time) on 13 May 2013; and

Share Registry means Gould Ralph Pty Ltd of Level 42, Suncorp Place, 259 George Street, Sydney, NSW, 2000.

7. SHAREHOLDER ENQUIRIES

Shareholders with questions regarding this Notice of Meeting and Explanatory Statement should contact the Company Secretary on +61 2 9541 0411 during normal office hours. He will attempt to answer your questions or refer you to someone who can do so, but no person is authorised by the Company to give any information, or make any representation, in connection with the Notice or Explanatory Statement not contained in them.

Appendix 1 (Resolution 4) - Summary Of Cyclopharm's Long Term Incentive Plan

A summary of the main details of the Plan are as follows:

Introduction to the Plan

- (a) The purpose of the Plan is to encourage employees, Directors and officers to share in the ownership of the Company. Those employees, Directors and officers who do participate are defined as “participating employees or officers”. Shares in the Company that are purchased pursuant to the Plan are referred to as “Plan shares”.

Invitation to Participate and acquisition of Plan shares

- (b) The maximum Plan shares to be purchased pursuant to this Plan shall be not more than 7.5% of the Company's issued shares. As at the date of this Explanatory Statement approximately 3.11% of the Company's issued capital comprises Plan shares of which 2.34% are issued to Directors.
- (c) There may be risks associated with participation in the Plan in that in certain circumstances the Plan shares may lose value and participating employees or officers may not benefit from the investment. The issue of shares may have a dilutionary effect on the share price but the number in question here is regarded by the Directors as too few to be likely to have that effect.
- (d) Participation in the Plan is by invitation of the Directors. Such invitation to participate is at the absolute discretion of the Directors.
- (e) There are rules covering the form of invitation and a minimum parcel of 100 shares must be applied for by participating employees or officers.
- (f) There are rules covering the acceptance and allotment of Plan shares. Under no circumstances will shares be allotted if to do so would be in breach of the Corporations Act.

Financial assistance

- (g) A participating employee or officer may apply to the Company for financial assistance to finance the subscription for Plan shares.
- (h) The Company may accept the application for financial assistance by making an interest limited (limited to dividends on the underlying shares) loan to the participating employee or officer (“borrower”). In any event the Company will not accept an application for financial assistance under the Plan if to do so would be in breach of the Corporations Act.
- (i) Financial assistance is repayable:
 - (i) at the end of 5 years (or a longer period which the Company may determine); or
 - (ii) immediately upon the dismissal or resignation of the borrower; or
 - (iii) immediately upon failure to satisfy the performance hurdle (if any) within the time period determined by the Company or upon the death or retirement of the participating employee or officer or upon the termination of the employment of the participating employee or officer otherwise than by way of dismissal or resignation.
- (j) A participating employee or officer who received financial assistance shall:
 - (i) authorise the Company to sell any bonus shares, rights or further shares issued in respect of the Plan shares and to apply all or any of the

proceeds thereof in reduction of the amount of the borrower's indebtedness to the Company; and

- (ii) give an irrevocable direction to the Company to pay to itself on behalf of the borrower and for the purposes of reducing the amount of the borrower's indebtedness to the Company or to meet any interest charge on the financial assistance, all or any moneys that may from time to time become payable in respect of the Plan shares or other shares, including dividends.
- (k) A participating employee or officer who received financial assistance will be required to transfer the Plan shares to the Company for their original subscription price:
 - (i) upon dismissal or acceptance of resignation; or
 - (ii) upon failure to satisfy performance hurdles within the time period (if any); or
 - (iii) at the end of 5 years, unless the borrower lodges a written request to retain the Plan shares with the Directors before the fifth anniversary of the issue of the Plan shares and the Directors, at its absolute discretion, decides to waive the transfer requirement.
- (l) Where the financial assistance provided to a participating employee or officer is required to be repaid, the financial assistance provided must be repaid in full. Payment may be undertaken by offsetting any monies which the Company owes the borrower against the outstanding balance of the borrowings.
- (m) The Board may at its absolute discretion provide financial assistance to a participating employee or officer, which financial assistance is secured by and strictly limited in all circumstance to the value of the Plan shares. Where the Board has provided financial assistance in these circumstances, the Company will not in any circumstances be able to make any claim against the participating employee or officer in excess of the value realised for the Plan shares.
- (n) If the Company is authorised to sell any Plan shares in order to pay any money owing by the participating employee or officer and the proceeds of sale exceed the total amount owing to the Company, the surplus shall be paid by the Company to the participating employee or officer.

Security for Financial assistance

- (o) As security for financial assistance, a participating employee or officer must grant to the Company:
 - (i) a pledge of the Plan shares acquired by the borrower at the time the financial assistance is provided to the borrower;
 - (ii) a charge over:
 - all the bonus shares, rights and further shares issued in respect of those Plan shares; and
 - all the dividends paid or payable on those Plan shares or other shares the subject of the charge.
- (p) The participating employee or officer must not create any other security interest over the Plan shares whilst they are subject to the Plan. Where a participating employee or officer does create a security interest over the Plan shares, that participating employee or officer must transfer the Plan shares to the Company for their original subscription price and fully repay any outstanding loan related the Plan shares and have no further entitlement under the Plan.

Alteration of the terms and provisions of the Plan

- (q) Subject to the law, the Company may make such alterations, variations, additions, deletions or modifications to all or any of the provisions of the Plan or to all or any of the rights or obligations of the participants or any of them as may be determined by the Directors, provided however that no such alteration, variation, addition, deletion or modification shall be made if it would have the effect of depriving the holders of issued Plan shares of any rights to which they are then entitled unless approved by 75% of the holders of Plan shares affected by such a change or unless the amendments are required by law.

Period of Plan

- (r) The Plan shall commence upon its approval by members of the Company in general meeting and shall continue until terminated by resolution of the Directors at any stage.

Expenses

- (s) The Company will meet the ongoing administration expenses of the Plan. The participating employee or officer will meet all outgoings and expenses in selling or otherwise dealing with his or her shares.

Cyclopharm Limited

ABN 74 116 931 250

PROXY FORM

TO: The Company Secretary
Cyclopharm Limited (Company)
Building 75, Business & Technology Park, New Illawarra Road, Lucas Heights, NSW, 2234

FAX: (+612 9543 0960)

Appointment of Proxy	
I/We, _____	[Name of member(s)]
of _____	[Address]
being a member(s) of the Company and entitled to attend and vote appoint as my/our proxy	
_____	[Name of Proxy]
of _____	[Address of Proxy]
or, failing the individual or body corporate named, or if left blank, the Chairman of the Annual General Meeting of the Company to be held on Wednesday, 15 May 2013 at 11.00am (Sydney time) at Ground Floor, Interactive Zone, of the Australian School of Advanced Medicine, #2 Technology Place Drive, Macquarie University Hospital, North Ryde, NSW 2109 Australia to act generally at the meeting on my/our behalf and to vote for me/us at that meeting and at any adjournment of it.	
Appointing a Second Proxy - If you wish to appoint two proxies, see overleaf, item 4.	

Voting directions to your proxy – please mark ☒ to indicate your directions				
Chairman's voting intentions The Chairman of the Meeting intends to vote all available undirected proxies in favour of each resolution.				
If you direct the Chairman as your proxy and you do not wish the Chairman to vote in favour of resolutions 1 and 4, or any other item, you may direct the Chairman to vote against that item or abstain from voting on that item by marking the appropriate box opposite that item below.				
No.	Resolutions	For	Against	Abstain *
1	Adoption of the Remuneration Report	☐	☐	☐
2	Re-election of director (Mr D J Heaney)	☐	☐	☐
3	Share Buy-back	☐	☐	☐
4	Issue of shares to the Managing Director	☐	☐	☐
* If you mark the Abstain box for an item of business, you are directing your Proxy <u>not</u> to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll. Accordingly, the Directors urge Shareholders to lodge only "directed" proxy forms.				

IMPORTANT FOR RESOLUTIONS 1 AND 4

☐ Chairman's Voting Authority

If the Chairman is appointed as your proxy, or may be appointed by default and you do not wish to direct your proxy on how to vote in respect of a resolution, please place a mark in the box.

By marking this box, you hereby direct the Chairman to vote in favour of resolutions 1 and 4 and you expressly authorise the Chairman to exercise your proxy in respect of resolutions 1 and 4, even though the Chairman is a member of the Company's key management personnel and resolutions 1 and 4 are connected directly or indirectly with the remuneration of the Company's key management personnel.

If you do not mark the box, and you have not directed your proxy how to vote, the Chair will not cast your votes on the resolution and your votes will not be counted in calculating the required majority if a poll is called on the resolution.

Authorised signature/s

This section **must** be signed in accordance with the instructions below to enable your directions to be implemented.

Individual or Securityholder 1

Individual/Sole Director and
Sole Company Secretary

.....
Contact Name

Securityholder 2

Director

.....
Contact Daytime Telephone

Securityholder 3

Director/Company Secretary

...../...../.....
Date

SHAREHOLDERS ARE URGED TO COMPLETE ANY ONE OF THE "FOR", "AGAINST" OR "ABSTAIN" BOXES ON THE PROXY FORM THEREBY GIVING A DIRECTED PROXY WHICH THEN CAN BE COUNTED IN ACCORDANCE WITH YOUR WISHES.

How to complete this Proxy Form

1 Your Name and Address

The Annual Report and Notice of Meeting documents have been sent to your name and address as it appears on the share register of Cyclopharm Limited. If this information is incorrect, please advise the Company of your new details. Shareholders sponsored by a broker should advise their broker of any changes. **Please note you cannot change ownership of your Shares using this form.**

2 Appointment of a Proxy

If the person you wish to appoint as your proxy is someone other than the Chairman of the Meeting please write the name of that person. If you leave this section blank, or your named proxy does not attend the meeting, the Chairman of the Meeting will be your proxy and vote on your behalf. A proxy need not be a Shareholder of Cyclopharm Limited.

3 Votes on items of Business

You may direct your proxy how to vote by placing a mark in one of the three boxes opposite each item of business. All your shares will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of shares you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on a given resolution, your proxy will vote as they choose. If you mark more than one box on a resolution your vote on that resolution will be invalid.

4 Appointment of a Second Proxy

If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the Company on (+612 9541 0411) or you may copy this form.

To appoint a second proxy you must:

- (a) on each of the first Proxy Form and the second Proxy Form state the percentage of your voting rights or number of shares applicable to that form. If two Proxy Forms are received but no percentage or number of votes is indicated, each proxy may exercise half your votes. Fractions of votes will be disregarded; and
- (b) return both forms together in the facsimile transmission or in the same envelope.

5 Authorised Signature(s)

You must sign this form as follows in the spaces provided:

Joint Holding : where the holding is in more than one name all of the holders must sign.

Power of Attorney : to sign under a power of attorney, you must have already lodged the power of attorney with the share registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the power of attorney to this form when you return it.

Companies : a Director can sign jointly with another Director or a Company Secretary. A sole Director who is also a sole Company Secretary (or where there is no Company Secretary) can also sign. Please indicate the office held by signing in the appropriate space.

If a representative of corporate shareholder or proxy is to attend the meeting the appropriate "Certificate of Appointment of Corporate Representative" should be produced prior to admission. A form of the certificate may be obtained from the Company or share registry.

6 Lodgement of Proxy

To be valid the form appointing the proxy and the power of attorney or other authority (if any) under which it is signed (or an attested copy of it) must be lodged with the Company:

- (a) at PO Box 350 Menai Central, NSW 2234;
- (b) at the registered office at Building 75, Business & Technology Park, New Illawarra Road, Lucas Heights, NSW 2234; or
- (c) by faxing it to fax number (+612) 9543 0960 or the registered office,

not later than **11.00am** (Sydney time) on **Monday, 13 May 2013**, being 48 hours before the holding of the Meeting.

Documents may be lodged by posting, delivery or facsimile to Cyclopharm Limited at the address opposite:

PO Box 350 Menai Central, NSW 2234
Building 75, Business & Technology Park, New
Illawarra Road, Lucas Heights, NSW 2234
Facsimile: (+612) 9543 0960