Cyclopharm Limited
Annual Report 2018

cyclopharm

Cyclopharm Limited and its Controlled Entities
ABN 74 116 931 250

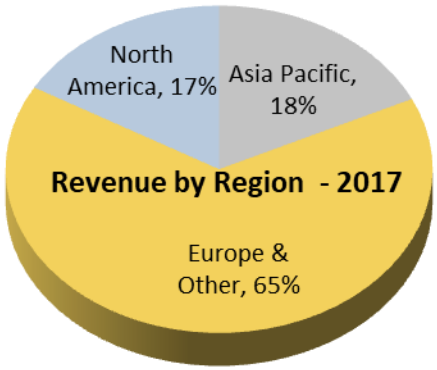
Contents

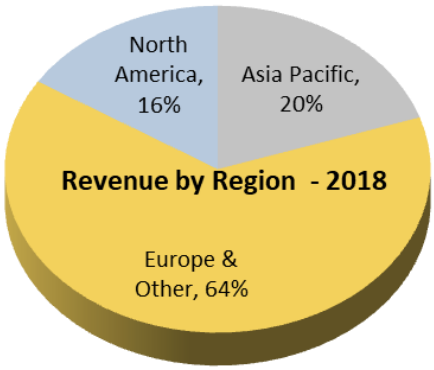
FINANCIAL HIGHLIGHTS

Full Year ending 31 December		2016	2017	2018	% Change
Sales Revenue	$'000	14,386	13,189	13,404	1.6%
Profit Before Tax	$'000	1,916	705	118	(83.2%)
Profit/(Loss) After Tax	$'000	891	(1,525)	(35)	97.7%
Diluted Earnings/(Loss) Per Share	cents	1.55	(2.25)	(0.05)	97.8%

Sales Revenue for the Full Year ending 31 December		2016	2017	2018	% Change
Technegas Division	$'000	14,386	13,189	13,404	1.6%
Molecular Imaging Division	$'000	-	-	-	0.0%
Total Sales Revenue	$'000	14,386	13,189	13,404	1.6%

Net Profit/(Loss) Before Tax for the Full Year ending 31 December		2016	2017	2018	% Change
Technegas Division	$'000	2,284	1,165	455	(60.9%)
Molecular Imaging Division	$'000	(368)	(460)	(337)	26.6%
Total Net Profit/(Loss) Before Tax	$'000	1,916	705	118	(83.2%)





Underlying Results for the Full Year ending 31 December		2017	2018	Inc/(Dec)	% Change
Sales Revenue	**$'000**	**13,189**	**13,404**	215	1.63%
Gross Margin	$'000	10,740	10,855	115	1.07%
Gross Margin % Sales	%	81.4%	81.0%	0.45%	
Consolidated EBITDA	**$'000**	**1,043**	**655**	(388)	(37.2%)
Add back:					
Cpet/Ultralute Division	$'000	457	335	(122)	(26.7%)
R&D Tax Incentive	$'000	(2,391)	(2,122)	269	(11.3%)
Reversal of contingent consideration	$'000	-	(314)	(314)	100.0%
Unrealised gain on forward exchange contract	$'000	-	(275)	(275)	100.0%
FDA expenses	$'000	2,585	2,965	380	14.70%
Pilot Clinical Trials expenses	$'000	270	251	(19)	(100%)
Expenses net of writebacks for Germany	$'000	677	410	(267)	(100%)
Underlying EBITDA	**$'000**	**2,641**	**1,905**	**(736)**	**(27.9%)**

Chairman's Letter

29 March 2019

Dear Shareholders,

2018 proved to be a pivotal year of progressing our most significant business opportunity, approval to sell Technegas products in the US market, while also again delivering a solid financial performance.

During the past year we proposed a streamlined process for gaining approval of Technegas from the US regulators. We were successful; however, the US government shut-down impacted on receiving our official response. Despite this timing setback, we are still confident of submitting our New Drug Application this year, to enable us to be in a position to initiate sales of Technegas in the US in 2020. Our ability to make use of an alternative pathway to approval is also expected to expedite current patient enrolment.

Accessing the US market, which we estimate has a size of US$90 million in sales per annum just for the nuclear medicine diagnosis of Pulmonary Embolism (**PE**), is a transformational opportunity for your company that will create significant additional value. It is pleasing that we have made significant progress towards starting sales of Technegas in the US and, at the same time, we have increased revenues from our continuing operations and maintained our dividend.

Our current global demand for Technegas equates to approximately 200,000 patients per annum. Accessing the US market will significantly expand sales of Technegas into a new PE market, where each year around 600,000 individual procedures to rule out PE are performed. We continue to expect the total costs associated with gaining regulatory approval of Technegas in the US will be approximately US$7.5 million, of which we have to date spent approximately US$5.5 million. The balance will be funded through existing resources.

We are also continuing to pursue regulatory approval to sell Technegas in Russia and other European markets. During the year, we acquired Medicall Analys AB in Sweden, our Scandinavian distributor, allowing us direct customer access and delivering higher margins in the Swedish, Norwegian and Finnish markets.

The Company has remained focussed on our 'Beyond PE' initiative to broaden the use of Technegas in applications such as the diagnosis and monitoring of COPD and asthma. Each of these additional markets are around 30 times larger than our existing Pulmonary Embolism market. Our approach to delivering our Beyond PE ambitions is to demonstrate the superiority of Technegas in these new applications through clinical trials and then raise awareness of the trials amongst referring respiratory medicine clinicians and our nuclear imaging customers.

In 2018, as a result of feedback from potential customers, we pursued validation of Ultralute™ as a medical device, in Europe. We expect having Ultralute™ reclassified as a medical device will better position this technology to drive higher sales post launch in the European market. Ultralute™ has the potential to deliver significant cost savings and efficiencies for nuclear medicine departments.

In summary, the continuing strength of our core Technegas sales creates a strong and stable platform from which to focus on our four levers of future growth and returns for shareholders.

Chairman's Letter

Continued

On behalf of the Board, I thank our Managing Director, all our staff and wider stakeholders for their commitment to the company and I thank you, the shareholders, for your collective support.

David Heaney
Chairman

MANAGING DIRECTOR'S REVIEW

Dear Shareholders,

Cyclopharm's continued delivery of a solid underlying financial performance in 2018 has allowed the company to make progress against each of our strategic growth objectives.

Cyclopharm's strategies have four distinct avenues for growth:

1. Expanding Technegas sales by attaining approval to distribute Technegas in the USA in 2020;
2. Expanding the use of Technegas beyond the traditional diagnosis of Pulmonary Embolism (PE) into significantly larger applications such as Chronic Obstructive Pulmonary Disease (COPD) and Asthma, Lung Cancer, Lung Volume Reduction and Pulmonary Hypertension for both diagnosis and patient management;
3. Identifying, developing and commercialising complementary innovative technology such as Ultralute™; and
4. Leveraging our core global regulatory strengths, fiscal discipline, strong balance sheet and well-developed expertise in nuclear medicine and pulmonary healthcare to seek out complementary technologies and businesses.

Against these objectives, during 2018, Cyclopharm increased sales of our core Technegas products in existing markets, delivering Revenue of $13.40 million; accelerated the approval process to start sales of Technegas in the US market in 2020; invested in further R&D and support of clinicians for the use of Technegas in new diagnostic applications; and progressed the registration of Ultralute™ as a medical device, ahead of targeted sales in Europe; and, completed the acquisition of our Scandinavian distributor.

Key features of Cyclopharm's financial results for the 2018 year included:

- Sales revenue up 1.6% to $13.40 million, compared to the prior year
- Underlying Operating EBITDA[1] of $1.91 million in the Technegas division
- $2.96 million expended on USFDA approval process of Technegas
- Approved R&D tax incentive resulting in Other Income of $2.12 million
- Direct distribution access to key Scandinavian markets achieved through the SEK8.846 million acquisition of Medicall Analys AB
- $0.58 million committed to ongoing clinical trials and patient studies to evaluate Technegas in new diagnostic applications
- Strong net cash position at year-end of $5.85 million ($9.19 million as at 31 January 2019)
- Final dividend maintained at 0.5 cents per share (cps), giving full year unfranked dividends of 1.0 cps.

[1] Underlying Results represent results from the Technegas Division excluding R&D tax incentive, reversal of contingent consideration, unrealised gain on foreign exchange contract, FDA Expenses, Pilot Clinical Trial expenses and net provisions for Germany.

Managing Director's Review
Continued

FINANCIAL PERFORMANCE

The increase in Cyclopharm's revenue to $13.40 million during 2018 was underpinned by improved pricing for TechnegasPlus generator sales in Europe. Revenue from Generator sales increased 13% over the year to $1.79 million. PAS sales decreased by $0.28 million, predominantly due to lower sales volumes in Germany. Excluding the German market, 2018 PAS sales volume increased 8.6% over the prior corresponding period. Service revenue in markets where we distribute our products directly, increased by 41% to $0.99 million. Gross margins remained consistent at 81%.

Cyclopharm delivered underlying EBITDA of approximately $1.91 million, down $0.74 million on the prior year. This EBITDA performance reflects investments in Cyclopharm's preparation for meeting USFDA requirements.

Expenditure on the Technegas US regulatory approval process was $2.96 million, compared to $2.58 million in 2017. In 2019, the Company expects to spend approximately US$2.58 million on the USFDA approval process of Technegas in the US market, bringing total expenditure to gain approval of Technegas in the US in line with the expected US$7.5 million.

Some of Cyclopharm's costs associated with the Group's overseas R&D activity has been approved for inclusion in an R&D tax Incentive program by AusIndustry. This has allowed the company to report Other Income of $2,122,351 for the year compared to $2,390,586 reported in 2017. Cyclopharm expects to receive an R&D tax incentive of an amount similar to that received in FY2018 through to at least FY2020.

Net loss after tax for the year, which includes USFDA expenditure, was $35,456 compared to net loss after tax of $1,524,571 in the prior year, representing Basic Loss per Share of 0.05 cents. The solid Underlying EBITDA supported the Board's decision to maintain a full year final dividend of 0.5 cent per share, bringing total dividends for 2018 to 1.0 cent per share.

CYCLOPHARM'S UNDERLYING RESULTS[2]

YEAR ENDED 31 DECEMBER	2018 $'000	2017 $'000	INC/(DEC) $'000	CHANGE %
SALES REVENUE	**13,404**	**13,189**	**215**	**2%**
GROSS MARGIN	**10,855**	**10,740**	**115**	**1%**
GROSS MARGIN % SALES	81.0%	81.4%	(0.4%)	
CONSOLIDATED EBITDA	**655**	**1,043**	**(388)**	**(37%)**
ADD BACK / (LESS) :				
CPET / ULTRALUTE™ DIVISION	335	457	(122)	(27%)
R&D TAX INCENTIVE	(2,122)	(2,391)	269	11%
REVERSAL OF CONTINGENT CONSIDERATION	(314)	-	(314)	(100%)
UNREALISED GAIN ON FORWARD EXCHANGE CONTRACT	(275)	-	(275)	(100%)
FDA EXPENSES	2,965	2,585	380	15%
PILOT CLINICAL TRIAL EXPENSES	251	270	(19)	(7%)
EXPENSES NET OF WRITEBACKS FOR GERMANY	410	677	(267)	(39%)
UNDERLYING EBITDA	**1,905**	**2,641**	**(736)**	**(28%)**

[2] Underlying Results represent results from the Technegas Division excluding R&D tax incentive, reversal of contingent consideration, unrealised gain on foreign exchange contract, FDA Expenses, Pilot Clinical Trial expenses and net provisions for Germany.

Managing Director's Review
Continued

OPERATIONS AND STRATEGY

During 2018, Cyclopharm's core operations continued to generate healthy positive earnings and cashflows. Significant progress was also made in implementing our strategy to commercialise our IP in new markets whilst developing new applications in all markets to improve respiratory patient healthcare outcomes.

Operating highlights for the year included:

- Significant progress towards attaining USFDA approval to market and distribute Technegas in the United States
- Initiation of further pilot clinical trials targeting new applications for Technegas in chronic respiratory disease states
- Expansion of direct distribution footprint in Europe through acquisition of 100% of our Scandinavian distributor, Medicall Analys AB
- Validation of Cyclopharm's new, patented Ultralute™ technology in the medical device category, reflecting initial feedback from European customers and clinicians

In December 2018, Cyclopharm welcomed the release of new Canadian Association of Nuclear Medicine ("**CANM**") guidelines that strongly recommend Technegas above other ventilating agents in the diagnosis of Pulmonary Embolism, particularly in patients with Chronic Obstructive Pulmonary Disease ("**COPD**"). The company views this recent endorsement of Technegas as a positive indicator of its sales potential in the much larger US market, once approved.

Cyclopharm also made significant progress leveraging our strategic growth objectives.

EXPAND TECHNEGAS REVENUE

Revenue from the core Technegas division, of $13.40 million, rose 1.6% over the prior year, supported by higher average prices for TechnegasPlus generators.

Sales of PAS represented 79% of the total revenue, and were 3% lower than the prior year, which was more than offset by sales of generators and other service revenue, which represented 21% of revenue and were up 22% on the prior year. The increase was a result of pricing increases of Generators in Europe and an increase in service and other revenue to $0.99 million compared to $0.71 million in 2017.

TECHNEGAS SALES COMPOSITION ($MILLIONS)	2015	2016	2017	2018	CHANGE FY17 TO 18
PAS REVENUE	10.15	10.78	10.91	10.62	(3%)
GENERATOR AND SERVICE REVENUE	2.36	3.60	2.28	2.78	22%
TOTAL	**12.51**	**14.38**	**13.19**	**13.40**	**1.6%**

Each box of Patient Administration Sets (PAS) is equal to 50 patient doses of Technegas. Cyclopharm sold 3,893 PAS boxes in 2018 down from 4,238 in 2017. The Group's sales of PAS units included additional sales in France following the 2017 renegotiation of our supply contract in that market and resumed PAS sales in China in the second half of the year. However, a reduction of PAS sales in Germany, following termination of the company's General Manager in that market followed by various legal proceedings impacted overall unit sales in that market. Excluding the German market, 2018 PAS sales volume increased 8.6% over the prior corresponding period.

While the Group sold 50 Technegas generators, down from 56 in the prior year, average prices in the European market improved reflecting capturing distribution margins following acquisition of our Scandinavian distributor Medicall Analys AB ("MA") in May 2018. With this acquisition, Cyclopharm

now has direct access to supply Technegas products to Sweden, Norway and Finland in addition to the Company's existing direct markets located in Belgium, Luxembourg, Netherlands and Germany.

Regional review

Revenue in the Americas comprised sales in Canada and Latin America, with combined revenue down 6% on 2017. Canada contributed 16% of revenue at $2.14 million, down 3% on 2017, which included the sale of 849 PAS boxes, 63 fewer than the prior year. Revenue in Latin America was $116,441 which included a 64% increase in PAS sales from 66 to 108 boxes. 2018 revenue was impacted by 5 fewer Generators being sold in Latin America than in 2017.

Europe contributed approximately 64% of revenue at $8.35 million, in line with 2017 despite PAS sales of 2,003 being down 22% on 2017 and Generator sales, at 31, being down 14% on 2017. Revenue from Europe benefited from improved average prices, with Cyclopharm capturing the distribution margin, following the acquisition of its distributer for our Scandinavian market in May 2018.

The decline in European volumes reflects the absence of sales in Germany while legal action, initiated by Cyclopharm against its former distributor in Germany, continues to run its course. As advised in an ASX announcement of 24 January 2019, Cyclopharm received a successful judgment in its first civil case against its former distributer and was awarded a payment of approximately A$335,000.

Revenue in the Asia Pacific region rose by 12% in 2018 to $2.66 million. In Australia, revenue was 4.1% higher with a 7% increase in PAS boxes sold compared to 2017 while generator sales decreased to 6 units, one less than in 2017. Sales revenue to Asia was up 219% in 2018 representing 5 generators and 219 PAS boxes compared to 3 Generators and 16 PAS boxes in 2017. This was primarily due to sales to China resuming in the second half of 2018.

Revenue within the Rest of the World, predominantly sales in South Africa, were up 43% to $131,024, reflecting the sale of 3 Generators in 2018 compared to no Generator sales in 2017. PAS sales remained steady at 45 units.

TECHNEGAS SALES BY REGION ($MILLIONS)	2015	2016	2017	2018	CHANGE FY17 TO 18
AMERICAS	2.14	2.36	2.39	2.26	(6%)
EUROPE	7.81	7.94	8.34	8.35	-
ASIA PACIFIC	2.47	4.00	2.37	2.66	12%
SOUTH AFRICA	0.09	0.09	0.09	0.13	43%
TOTAL	**12.51**	**14.38**	**13.19**	**13.40**	**1.6%**

Managing Director's Review
Continued

ACCESS USA & OTHER NEW MARKETS

The most significant business opportunity for Cyclopharm is gaining USFDA approval to sell Technegas in the US market. Cyclopharm is currently compiling the necessary elements required for Technegas' USFDA New Drug Application (NDA). The US Government shut-down has impacted some of our progress in developing a critical section of NDA. Due to this unforeseeable delay outside of the Company's control, Cyclopharm will be submitting our NDA during the second half of 2019 with commercial sales expected in 2020.

The US market represents half of the nuclear medicine departments globally. The existing US nuclear medicine ventilation imaging market for Technegas is valued at US$90 million, attributed to 600,000 individual procedures performed in determining the presence of Pulmonary Embolism (PE).

Consistent with its experience in other markets, Cyclopharm is targeting an 80% share of the existing US nuclear medicine ventilation imaging market, representing around 480,000 individual procedures per annum. Based on the Group's experience of the rates of adoption of Technegas following regulatory approval in Canada, Cyclopharm believes that a 50% total market conversion is achievable over 2 to 3 years with the balance of the target market converted within 5 to 7 years.

As at 22 March 2019, Cyclopharm has enrolled 121 patients in its Phase 3 Trial in support of its proposed application to USFDA.

Following the company's submission of its first 40-patient interim study in the first half of 2018, Cyclopharm met with USFDA in October to explore opportunities to refine or alter the clinical trial program. As a result of that meeting, USFDA provided constructive guidance to Cyclopharm, relating to an alternative 505(b)2 New Drug Application Pathway and approved a variation to the existing trial that is expected to expedite patient enrolment.

In parallel with the clinical elements of our USFDA New Drug Application under development in the USA, in 2018 Cyclopharm implemented an updated Quality Management System at our new manufacturing facility located in the Sydney suburb of Kingsgrove. Furthermore, the company has initiated a comprehensive documentation review of our medical devices to ensure compliance to the most recent USFDA guidelines as well as the new International Medical Device Single Audit Program (MDSAP). MDSAP is a regulatory harmonisation initiative between Australia, Brazil, Japan, Canada and the United States. MDSAP compliance will minimise disruptions due to multiple regulatory audits, provide predictable audit schedules and incorporate the ISO 13485 compliance required for our CE mark in Europe. The Company is targeting MDSAP certification during 1H 2019.

In addition to the US market, Cyclopharm continues to pursue regulatory approvals to commence sales of Technegas in Russia and additional European markets.

Managing Director's Review
Continued

BEYOND PE

Cyclopharm believes the extension of Technegas into new applications such as the diagnosis and monitoring of COPD, asthma and other respiratory disease states will create opportunities to exponentially expand the market for Technegas beyond its traditional PE market.

These new markets represent an opportunity to drive significant growth in sales of Technegas in mature and new markets, as more than 500 million patients per annum are treated for asthma and COPD.

Cyclopharm's strategy is to target new applications through clinical studies; education of clinicians; and direct engagement with respiratory medicine referrers.

In August 2017, Cyclopharm funded a 100-patient research study, in collaboration with the Hunter Medical Research Institute and the University of Newcastle, singling out the use of Technegas in severe asthma patients. 100 eligible patients have been recruited to date. A 30-patient subset of these 100 are undergoing further tests to determine response to therapy. It is envisioned that the first articles referencing this trial will be published in the coming months. The cost of the trial is estimated to be approximately $600,000. More information on this trial is available at the hmri.org.au website under the news & article section with the title "Nuclear imaging to clear airway diagnosis".

In May of 2018, Cyclopharm announced funding of a $387,000, three-year, 100-patient study by the Woolcock Institute for Medical Research in collaboration with The University of Sydney and the Northern Sydney Local Health District. The trial is designed to develop better tools to diagnose and manage patients suffering from Asthma and COPD using Technegas. This study is scheduled to commence during H1 2019.

The current Beyond PE trials build on the first, peer reviewed, article published in May 2017, from the Cyclopharm sponsored trial in China targeting the use of Technegas in treating COPD.

Cyclopharm is actively promoting these trials to clinicians globally to encourage the use of Technegas in new applications, such as COPD and asthma, and has received anecdotal feedback that Technegas is already being used in lung volume reduction applications in Australia.

COMMERCIALISE ULTRALUTE™

Following an initial, test sales of Ultralute™, Cyclopharm's patented nuclear medicine technology, in Canada, in 2018, and feedback from potential customers, the decision was taken to register Ultralute™ as a medical device technology within Europe, in order to broaden its overall market acceptance. While this has lengthened the timeframe for full commercialization, categorization of Ultralute™ as a medical device category is expected to optimise the commercial value of this technology.

The initial launch market for Ultralute™ is Europe and a full commercial launch is expected to commence following registration as a medical device targeted in late 2019.

Ultralute™ has generated strong international interest given its potential to bring significant cost savings in the delivery of pharmaceuticals used in nuclear medicine. Ultralute™ extends the useful life of Molybdenum-99 (Mo-99) generators by up to 50%. This technology potentially gives nuclear medicine departments the ability to dramatically improve operating efficiencies and health outcomes for patients.

Meaningful commercial sales of Ultralute™ within the medical device category in Europe are expected in 2020. The company believes the commercial prospects for Ultralute™ are exciting and remains confident it will provide the basis for enhanced shareholder returns over the longer term.

Managing Director's Review
Continued

OTHER BUSINESSES

Joint Venture - Macquarie Medical Imaging

Macquarie Medical Imaging ("MMI") is a joint venture between Cyclopharm, Alfred Imaging and Macquarie University Hospital, which provides a range of radiology, nuclear medicine and imaging services. It is accounted for on an equity basis, due to Cyclopharm's minority shareholding, and as a result, MMI's full accounts are not consolidated into our accounts.

Molecular Imaging Trading as Cyclopet

In September 2017, Cyclopharm announced it had signed a term sheet with Cyclotek (Aust) Pty Ltd, PETTECH Solutions Pty Ltd and Macquarie University to create a new business, Cyclotek NSW, to service the NSW and the broader Australian molecular imaging sector.

The initiative will enable the productive future utilisation of Cyclopharm's legacy asset to enhance health outcomes for the Australian community. Cyclopharm will also receive an income stream from what was a suspended business and that will also, potentially, provide additional commercial opportunities via the international commercial rights to IP developed within the collaboration.

The arrangements are subject to finalisation of agreements and completion of certain conditions, including obtaining the necessary approvals and licenses.

Managing Director's Review
Continued

SUMMARY AND OUTLOOK

2018 was a year of significant investment in the strategic priorities that will drive the next phase of Cyclopharm's growth strategy. During the year, we recorded a solid underlying sales and earnings performance from our continuing operations, supporting our USFDA trials, R&D and ongoing dividends.

The company's core Technegas business recorded consistent underlying sales when adjusted for the reduction of sales in Generators and PAS boxes in Germany. PAS sales volume grew across our other major markets with total PAS sales, ex-Germany, up 8.6% on the prior year.

In 2018, $2.96 million was invested to progress USFDA regulatory approval for the use of Technegas in the US for diagnosing PE, a market valued at US$90 million. USFDA Trials are expected to progress to regulatory approval for use across several indications in 2020, including: lung transplants, Pulmonary Hypertension and acute Pulmonary Embolism. We are also continuing to pursue regulatory approvals to commence sales of Technegas in Russia and additional European markets.

We invested over $0.25 million in a successful clinical trial to expand the use of Technegas into the diagnosis and monitoring of Asthma which represents a much larger market than our current application in the Pulmonary Embolism market. In addition, we completed the acquisition of Medicall Analys AB for a consideration of SEK8.846 million paid over 3 years, to provide supply chain synergies to the Group.

The anticipated underlying solid financial performance will allow the Group to maintain its healthy capital position and dividend policy. I look forward to continuing to report to our shareholders our progress against our next phase growth drivers which are expected to deliver returns for our investors and be support by our strategic priorities, which remain:

1. Expanding Technegas sales by attaining approval to distribute Technegas in the USA in 2020;
2. Expanding the use of Technegas beyond the traditional diagnosis of Pulmonary Embolism (PE) into significantly larger applications such as Chronic Obstructive Pulmonary Disease (COPD) and Asthma, Lung Cancer, Lung Volume Reduction and Pulmonary Hypertension for both diagnosis and patient management;
3. Identifying, developing and commercialising complementary innovative technology such as Ultralute™; and
4. Leveraging our core global regulatory strengths, fiscal discipline, strong balance sheet and well-developed expertise in nuclear medicine and pulmonary healthcare to seek out complementary technologies and businesses.

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

James McBrayer
Managing Director

Directors' Report

The Directors of Cyclopharm submit their report for the year ended 31 December 2018.

DIRECTORS

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

Names, qualifications, experience and special responsibilities

Mr D J Heaney – Non Executive Chairman (Independent)
Mr Heaney was appointed to the Cyclopharm Board on 20 November 2007 and is currently the Chairman of Cyclopharm and Chairman of the Remuneration and Board Nomination Committees. Until recently, he was also Chairman of the Audit and Risk Committee.

Mr Heaney served as a non-executive director of Colorpak Limited from February 2004 until May 2016 and has also previously been a non-executive director of several other listed and non-listed companies.

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

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

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

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

Mr McBrayer has more than 30 years experience in nuclear medicine and is a trained Nuclear Pharmacist. Mr McBrayer held the role of Managing Director at Lipa Pharmaceuticals, Australia's largest contract manufacturer of over-the-counter products and senior management positions with Brambles Cleanaway business and Syncor, the world's largest radioactive diagnostic and therapeutic pharmaceutical provider.

DIRECTORS (CONTINUED)

Mr T A McDonald –Non Executive Director (Independent)
B.Com, FCPA
Mr McDonald was appointed to the Board on 3 April 2017 and has been appointed Chairman of the Audit and Risk Committee effective 1 March 2019. He holds a Bachelor of Commerce from UNSW and is a Post Graduate of University of Technology Sydney in Business Finance. He is a Fellow of CPA Australia, a member of the Australian Institute of Company Directors and an Associate with the Governance Institute Australia.

Mr McDonald served as a non-executive director of ASX-listed FE Investments Group Limited, where he was Chairman of the Audit and Risk Committee and a member of the Remunerations Committee. He has previously held senior positions with ASX-listed Allomak Limited, CK Life Sciences Int'l Inc., ASX-listed LIPA Pharmaceuticals Limited and ASX-listed Keycorp Limited.

Mr McDonald has more than 30 years experience in the technology and pharmaceutical industries and has held global senior executive roles with international biotech Beckman Instruments Inc, with roles based in USA and Asia Pacific.

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

Interests in the shares of the Company and related bodies corporate

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

	Interest	As at report date No. of shares
Directors		
Mr DJ Heaney	BI	200,000
Mr VR Gould[1]	NBI	12,241,314
Mr JS McBrayer	BI	3,554,555
Mr TA McDonald	NBI	19,830
		16,015,699

NBI: Non beneficial interests
BI: Beneficial interest

(1) On 19 December 2014, Justice Perram delivered his judgement in the case of Hua Wang Bank Berhad v Commissioner of Taxation [2014] FCA 1392 in which he said that Director Vanda Gould controlled certain companies that are shareholders of the Company, which would in turn, increase Mr Gould's interests in the Company. Mr Gould acknowledges he acted as advisor to those companies and their principals, however does not believe he had the requisite control to constitute relevant interests in those companies. Neither the Company nor Mr Gould were listed parties in the subject proceedings nor was Mr Gould a witness in the case. Mr Gould has advised that he may contest the assertion that he controls certain companies that are shareholders in the Company in the appropriate forums. In order to avoid a possible breach of the Corporations Act 2001, Mr Gould has notified the ASX as having a relevant interest in 12,241,314 shares as at 31 December 2018.

DIVIDENDS

On 27 February 2019, the Directors declared a final unfranked dividend of 0.5 cents per share in respect of the financial year ended 31 December 2018, to be paid on 15 April 2019 to those shareholders registered on 8 April 2019. An interim unfranked dividend of 0.5 cents per share was paid on 17 September 2018.

A final unfranked dividend of 0.5 cents per share in respect of the financial year ended 31 December 2017 was paid on 16 April 2018.

The balance of franking credits available for future dividend payments is $1,059.

PRINCIPAL ACTIVITIES

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

OPERATING AND FINANCIAL REVIEW

Operating Results for the Year

For the financial year, Cyclopharm recorded a consolidated loss after tax of $35,456. Profit after tax from the operations of the Technegas division was $275,218.

Technegas divisional revenue of $13,404,222 was 1.6% higher than the previous year (2017: $13,188,752).

Technegas division EBIT of $479,301 decreased by 59.5%, impacted by higher legal and professional costs of $2,184,313 (2017:$1,268,746) associated with the legal actions in Germany initiated against a former distributor and consultancy costs incurred to ensure compliance to the most recent USFDA guidelines as well as the new International Medical Device Single Audit Program. Higher USFDA clinical trial costs totalling $2,964,770 (2017: $2,584,716) also contributed to the decrease in the Technegas division EBIT. This was offset by the recognition of $313,922 reversal of contingent consideration in relation to the acquisition of Inter Commerce Medical bvba and an unrealised foreign exchange gain of $274,904 arising from the fair value adjustment of a USD foreign exchange forward contract.

Cyclopet recorded a loss after tax of $310,674 to the group (2017: loss after tax of $711,892).

Financial Position

Net assets decreased to $17,015,969 at 31 December 2018 (2017: $17,249,392) after accounting for a net loss of $35,456.

Cashflow used in operations of $1,107,335 supported ongoing investment in USFDA and pilot clinical trials. The net cash balance of $5,854,959 at 31 December 2018 was arrived at after a payment of $680,967 for the acquisition of Medicall Analys AB.

Further details of Cyclopharm's Operating and Financial Review are set out on pages 5 to 12 of the Managing Director's Review.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

Shares Issued and Cancelled during the Year

(i) 500,000 Long Term Incentive Plan shares were issued on 2 July 2018, and
(ii) 55,443 expired Long Term Incentive Plan shares were cancelled on 8 October 2018.

There were no other shares issued and cancelled during the year.

Acquisition of Wholly Owned Subsidiary

On 1 May 2018, the Group acquired 100% of the ordinary shares of Medicall Analys AB ("MA"), for a consideration of SEK8.846 million. MA is a Swedish private company which specialises in the sales and marketing support of medical supplies in Sweden including the distribution of nuclear medicine imaging products.

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

SIGNIFICANT EVENTS AFTER BALANCE DATE

FINAL DIVIDEND

On 27 February 2019, the Directors declared a final unfranked dividend of 0.5 cents per share in respect of the financial year ended 31 December 2018, payable on 15 April 2019.

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

LIKELY DEVELOPMENTS AND FUTURE RESULTS

Technegas

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

The Directors maintain their view that FDA approval to sell Technegas into the USA market provides Cyclopharm with the opportunity to significantly expand its sales and profitability. We anticipate a successful conclusion to the Phase 3 USFDA clinical trial of Technegas with approval for sales in 2020. As the USFDA approval process moves forward, the Directors advise that additional expenditure on the USFDA trials will continue to be expensed until approval is achieved.

Molecular Imaging

In September 2017, Cyclopharm announced it had signed a term sheet with Cyclotek (Aust) Pty Ltd, PETTECH Solutions Pty Ltd and Macquarie University to create a new business, Cyclotek NSW, to service the NSW and the broader Australian molecular imaging sector.

The arrangements are subject to finalisation of agreements and completion of certain conditions, including obtaining the necessary approvals and licences.

Ultralute™
Meaningful commercial sales of Ultralute™ technology are expected in 2020 following registration as a medical device targeted in late 2019.

MATERIAL BUSINESS RISKS

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

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

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

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

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

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

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

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

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

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

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

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

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

The majority of the Cyclopharm Group's operational expenses are currently payable in Australian dollars. The Cyclopharm Group also supplies its product to overseas markets and hence is exposed to movements in the A$ exchange rate. The Cyclopharm Group does not enter into forward exchange contracts to hedge its anticipated purchase and sale commitments denominated in foreign currencies except for a forward exchange contract entered into on 14 July 2017 and fully settled on 15 January 2019 for anticipated payments in relation to the USFDA trials. Other than the aforementioned US$ contract related to the USFDA trials, Cyclopharm is exposed to exchange rate fluctuations.

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

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

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

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

Technegas' manufacturing does not involve the emission of any environmentally sensitive materials and the Cyclopharm Group is not required to hold any environmental licence or consent under the *Environmental Protection Act* (Cth). However, in order to expand the Company's research and development capabilities, in 2018, Cyclopharm secured a Radiation Management Licence from the NSW EPA to sell, possess or store regulated materials.

It is possible that licensing requirements could change with the development of new products and any additional regulatory requirements could impact upon the profitability of the group.

The Cyclopharm Group has obtained:

- a Certificate of Device listing on the Australian Register of Therapeutic Goods Register for the Technegas System;
- a CE Mark approval for the device elements of the Technegas System in EU;
- a marketing authorisation for the drug aspect of Technegas in EU; and
- a certificate and operates a Quality Management System which complies with the requirements of ISO:2016 for the design, manufacture, installation and repair of the Technegas System.

Ongoing regulatory audits/inspections are necessary for the retention and re-certification of the above-named certificates/licences for continued distribution of the Technegas System.

Audits of the new Kingsgrove manufacturing premises by the Therapeutic Goods Administration along with other regulatory agencies and notified bodies required to market Technegas have been successfully completed.

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

Intellectual Property Rights

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

Patents

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

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

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

ENVIRONMENTAL REGULATIONS

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

RETIREMENT, ELECTION AND CONTINUATION IN OFFICE OF DIRECTORS

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

INDEMNIFICATION AND INSURANCE OF OFFICERS

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

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

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

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

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

The total amount of insurance contract premiums paid for the year ending 31 December 2019 is $25,761 (for the year ended 31 December 2018: $20,661).

The Officers of the Company covered by the insurance policy include the Directors, the Company Secretary and Executive Officers. The indemnification of the Directors and Officers will extend for a period of at least 6 years in relation to events taking place during their tenure (unless the Corporations Act 2001 otherwise precludes this time frame of protection.)

The liabilities insured include costs and expenses that may be brought against the Officers in their capacity as Officers of the Company that may be incurred in defending civil or criminal proceedings that may be brought against the Officers of the Company or a controlled entity.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the Auditor's Independence Declaration as required under section 307C of the Corporations Act 2001 is set out on page 32.

Fees of $28,619 (2017: $25,382) have been paid for share registry services and fees of $10,901 (2017: $3,112) for taxation services to an associate of Nexia Sydney Audit & Assurance for the year ended 31 December 2018 for non-audit related services. The Board of Directors is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of each type of non-audit service does not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

The Company has not otherwise, during or since the financial year, indemnified or agreed to indemnify an auditor of the Company or any related body corporate.

REMUNERATION REPORT (AUDITED)

The Remuneration Report outlines the director and executive remuneration arrangements of the Company and the group and the remuneration disclosures required in accordance with the requirements of the Corporations Act 2001 and its Regulations. For the purposes of this report Key Management Personnel of the group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the group, directly or indirectly, including any Director (whether executive or otherwise) of the parent Company.

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

Director and Executive Remuneration Table

	Short-term employee benefits			Post employment benefits	Other Long-term benefits	Share-based payment	Total	Performance related
Consolidated	Salary & Fees $	Cash Bonus $	Non-monetary benefits $	Superannuation $	$	$	$	%
2018								
Directors								
David Heaney Non-Executive Director	71,400	-	-	-	-	-	**71,400**	0%
Vanda Gould Non-Executive Director	51,000	-	-	-	-	-	**51,000**	0%
Tom McDonald Non-Executive Director	51,000	-	-	-	-	-	**51,000**	0%
Executive Director								
James McBrayer * Managing Director	334,804	50,000	-	35,367	5,371	-	**425,542**	12%
Total Directors' Compensation	**508,204**	**50,000**	**-**	**35,367**	**5,371**	**-**	**598,942**	**8%**

* Mr McBrayer is employed on a rolling contract and his bonus, up to a maximum of $50,000, is based on achieving certain benchmarks and targets, which in the absence of any formal agreement will default to achieving the budgeted underlying operating EBITDA approved by the Board of Directors effective 2017.

Director and Executive Remuneration Table

	Short-term employee benefits			Post employment benefits	Other Long-term benefits	Share-based payment	Total	Performance related
Consolidated	Salary & Fees $	Cash Bonus $	Non-monetary benefits $	Superannuation $	$	$	$	%
2018								
Key Management Personnel								
Mathew Farag Chief Operating Officer	252,300	27,000	-	26,533	-	27,450	**333,283**	16%
Total Key Management Personnel's Compensation	**252,300**	**27,000**	**-**	**26,533**	**-**	**27,450**	**333,283**	**16%**
Total Compensation	**760,504**	**77,000**	**-**	**61,900**	**5,371**	**27,450**	**932,225**	**11%**

Directors' Report
Continued

Director and Executive Remuneration Table

	Short-term employee benefits			Post employment benefits	Other Long-term benefits	Share-based payment	Total	Performance related
Consolidated	**Salary & Fees** $	**Cash Bonus** $	**Non-monetary benefits** $	**Superannuation** $	$	$	$	%
2017								
Directors								
David Heaney Non-Executive Director	70,000	-	-	-	-	-	**70,000**	0%
Vanda Gould Non-Executive Director	50,000	-	-	-	-	-	**50,000**	0%
Tom McDonald * Non-Executive Director	43,380	-	-	-	-	-	**43,380**	0%
Executive Director								
James McBrayer ** Managing Director	327,439	50,000	-	34,767	7,162	1,416	**420,784**	12%
Total Directors' Compensation	**490,818**	**50,000**	**-**	**34,767**	**7,162**	**1,416**	**584,163**	**9%**

* Tom McDonald was appointed to the Board on 3 April 2017.

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

Director and Executive Remuneration Table

	Short-term employee benefits			Post employment benefits	Other Long-term benefits	Share-based payment	Total	Performance related
	Salary & Fees	Cash	Non-monetary	Superannuation				
	$	$	$	$	$	$	$	%
Consolidated								
2017								
Key Management Personnel								
Mathew Farag Chief Operating Officer	198,154	-	-	18,825	-	10,290	**227,269**	5%
Total Key Management Personnel's Compensation	**198,154**	**-**	**-**	**18,825**	**-**	**10,290**	**227,269**	**5%**
Total Compensation	**688,972**	**50,000**	**-**	**53,592**	**7,162**	**11,706**	**811,432**	**8%**

Mathew Farag joined the Cyclopharm Group in January 2017 as Chief Operating Officer.

Cyclopharm Limited

Details of Managing Director and Key Management Personnel's Share-based payments 2018

Name	Number of LTIP shares granted	Fair Value at grant date	Exercise price per LTIP share scheme	Amount payable - limited recourse loan	Term	Expiry date	Performance Hurdle
Mathew Farag	225,000	$0.196	$0.900	$202,500	3 years	18/4/2020	Continuous employment with the Cyclopharm Group until 22 January 2020
Mathew Farag	250,000	$0.153	$1.550	$387,500	3 years	1/7/2021	Approval of Technegas' use and distribution in the United States by the United States Food and Drug Administration
Mathew Farag	250,000	$0.153	$1.550	$387,500	3 years	1/7/2021	Continuous employment with the Cyclopharm Group until 31 March 2021
	725,000			**$977,500**			
Vested but unexercised during the year							
James McBrayer	1,721,554	$0.061	$0.900	$1,549,399	5 years	9/5/2022	
Other non-Key Management Personnel	96,408	$0.061	$0.900	$86,767	5 years	31/8/2022	
Other non-Key Management Personnel*	106,000	$0.270	$1.200	$127,200	5 years	25/7/2023	
	1,923,962			**$1,763,366**			

* Shares vested during the current financial year.

Cyclopharm Limited

Details of Managing Director and Key Management Personnel's Share-based payments 2017

Name	Number of LTIP shares granted	Fair Value at grant date	Exercise price per LTIP share scheme	Amount payable - limited recourse loan	Term	Expiry date	Performance Hurdle
Mathew Farag	225,000	$0.196	$0.900	$202,500	3 years	18/4/2020	Employment with the Cyclopharm Group until 22 January 2020
Other non-Key Management Personnel	138,000	$0.270	$1.200	$165,600	2 years	25/7/2018	
	363,000			**$368,100**			
Vested but unexercised during the year							
James McBrayer	861,728	$0.071	$0.220	$189,580	5 years	18/6/2020	
James McBrayer	861,728	$0.052	$0.250	$215,432	5 years	18/6/2020	
James McBrayer*	1,721,554	$0.061	$0.900	$1,549,399	5 years	9/5/2022	
Other non-Key Management Personnel*	99,851	$0.061	$0.900	$89,866	5 years	31/8/2022	
	3,544,861			**$2,044,277**			

* Shares vested during the current financial year.

Interests in the shares of the Company and related bodies corporate

The movement during the reporting period in the number of ordinary Cyclopharm shares (no options are on issue) held directly, indirectly or beneficially, by Directors and key management personnel, including their personally-related entities is as follows:

	Interest	31 December 2017	Granted under long term incentive schemes	On market purchases	31 December 2018
		No. of shares	No. of shares	No. of shares	No. of shares
Directors					
Mr DJ Heaney	BI	185,000	-	15,000	200,000
Mr VR Gould[1]	NBI	11,931,314	-	310,000	12,241,314
Mr JS McBrayer	BI	3,550,330	-	4,225	3,554,555
Mr TA McDonald	NBI	19,830	-	-	19,830
		15,686,474	-	329,225	16,015,699
Key Management Personnel					
Mr M Farag	BI	225,000	500,000	-	725,000

NBI: Non beneficial interests
BI: Beneficial interest

[1] On 19 December 2014, Justice Perram delivered his judgement in the case of Hua Wang Bank Berhad v Commissioner of Taxation [2014] FCA 1392 in which he said that Director Vanda Gould controlled certain companies that are shareholders of the Company, which would in turn, increase Mr Gould's interests in the Company. Mr Gould acknowledges he acted as advisor to those companies and their principals, however does not believe he had the requisite control to constitute relevant interests in those companies. Neither the Company nor Mr Gould were listed parties in the subject proceedings nor was Mr Gould a witness in the case. Mr Gould has advised that he may contest the assertion that he controls certain companies that are shareholders in the Company in the appropriate forums. In order to avoid a possible breach of the Corporations Act 2001, Mr Gould has notified the ASX as having a relevant interest in 12,241,314 shares as at 31 December 2018.

Remuneration Committee

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

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

Remuneration philosophy

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

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

Remuneration structure

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

Non-executive Director remuneration

Objective

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

Structure

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive Directors shall be determined from time to time by a general meeting. The latest determination was at the Annual General Meeting held in May 2017 when Shareholders approved an aggregate remuneration increase from $200,000 to $225,000 per year.

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

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

Executive remuneration

Objective

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

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

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

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

Remuneration consists of the following key elements:

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

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

Fixed Remuneration

Objective

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

Structure

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

Variable remuneration - Short Term Incentive (STI)

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

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

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

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

Variable remuneration - Long Term Incentive (LTI)

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

At the Annual General Meeting held on 8 May 2007, Shareholders approved the Company's Long Term Incentive Plan ("Plan"). An updated Plan was approved by Shareholders on 29 May 2018.

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

Employment contracts

Managing Director

The Managing Director, Mr McBrayer, is employed under a rolling contract. Mr McBrayer's current contract was executed on 13 May 2008. Mr McBrayer's remuneration for 2018 and 2017 is disclosed in the tables on pages 21 and 23. Under the terms of the present contract:

- Each year from 1 January, on 31 December Mr McBrayer may be entitled to receive additional amounts up to a maximum of $50,000 based on achieving certain benchmarks and targets, which in the absence of any formal agreement will default to achieving the budgeted underlying operating EBITDA approved by the Board of Directors effective 2017 (previously Profit After Tax). This amount is entirely performance based and seeks to strengthen the alignment of the Managing Director's interests with those of the Company's shareholders.
- Mr McBrayer may resign from his position and thus terminate this contract by giving 6 months written notice unless a mutually agreeable date can be agreed upon.
- The Company may terminate this employment agreement by providing 6 months written notice or providing payment in lieu of the notice period.
- The Company may terminate the contract at any time without notice if serious misconduct has occurred. Where termination with cause occurs the Managing Director is only entitled to that portion of remuneration that is fixed, and only up to the date of termination.
- Mr McBrayer is entitled to receive strictly limited recourse loans under the Company's LTIP to purchase shares.
- On 1 September 2014, two strictly limited recourse loans were made to Mr McBrayer under the Company's LTIP to purchase shares for a period of 2 years. The first loan was to enable the purchase of 861,728 shares at the price of 22 cents per share and the second loan was to enable the purchase of 861,728 shares at the price of 25 cents per share. On 26 May 2015, shareholders approved the performance hurdles to be "Employment as Managing Director for 2 years commencing on 15 May 2013." The LTIP shares vested on 26 May 2015, the date of the 2015 Annual General Meeting ("AGM") given that it was more than 2 years since the 2013 AGM which was held on 15 May 2013. The loans amounting to $353,308 were fully repaid by Mr McBrayer in August 2018.
- On 13 July 2015, a strictly limited recourse loan was made to Mr McBrayer under the Company's LTIP to purchase shares for a period of 2 years. The loan was to enable the purchase of 1,721,554 shares at the price of 90 cents per share. The LTIP shares vested on 9 May 2017, the date of the 2017 AGM.
- On 9 May 2017, Mr McBrayer exercised his rights to purchase 1,721,554 LTIP shares and the Company extended a loan totalling $1,549,398.60 for the purchase of the Plan Shares. The loan is repayable in full within 5 years.

Other Executives (standard contracts)

All executives have rolling contracts. The Company may terminate the executive's employment agreement by providing (depending on the individual's contract) between 1 to 3 months' written notice or providing payment in lieu of the notice period. Where termination with cause occurs the executive is only entitled to that portion of remuneration that is fixed, and only up to the date of termination.

Related Parties

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

End of Remuneration Report

Directors' Report
Continued

DIRECTORS' MEETINGS

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

Director	Cyclopharm Board Meetings		Audit & Risk Committee Meetings		Remuneration Committee Meetings	
	No. of Meetings Eligible to Attend	No. of Meetings Attended	No. of Meetings Eligible to Attend	No. of Meetings Attended	No. of Meetings Eligible to Attend	No. of Meetings Attended
Mr D J Heaney	8	8	3	3	2	2
Mr V R Gould	8	7	3	2	2	2
Mr J M McBrayer	8	8	-	-	-	-
Mr T A McDonald	8	8	3	3	2	2

SHARE OPTIONS

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

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the Corporations Act 2001.

This report is made and signed in accordance with a resolution of the Directors:

James McBrayer
Managing Director and CEO

Sydney, 29 March 2019

Auditor's Independence Declaration

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

To the Board of Directors of Cyclopharm Limited

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

As lead audit director for the audit of the financial statements of Cyclopharm Limited for the financial year ended 31 December 2018, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(a) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(b) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Nexia Sydney Audit Pty Limited

Andrew Hoffmann
Director

Dated: 29 March 2019

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

Corporate Governance

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

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

1 Compliance with ASX Corporate Governance Council best practice recommendations

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

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

The Company considers that it has complied with all of the ASX Recommendations throughout the reporting period ended 31 December 2018, other than ASX Recommendation 2.1(a)(i), 2.4 and 4.1(a)(ii) throughout the reporting period. The Company considers that it will comply with ASX recommendations 4.1(a)(ii) from 1 March 2019, upon the appointment of Mr McDonald, an independent non-executive director, as the Chairman of the Audit and Risk Committee. Explanations for departures are provided in this Statement in sections 2(d), 3(a) and (b). Where there is non-compliance, this is primarily due to the current size, scale and nature of Cyclopharm's operations as it is uneconomic for smaller companies such as Cyclopharm to follow the same rules as Australia's largest listed companies. A checklist summarising this is set out in section 9 of this Statement.

2 The Board of Directors

(a) Membership

The Board has a range of relevant financial and other skills, experience and expertise to meet its objectives. The current Board composition, including details of director backgrounds is contained within the Directors' Report.

ASX Recommendation 2.34 (refer to best practice summary)

The Company's Constitution requires a minimum of 3 Directors and a maximum of 9 Directors. As at 31 December 2018, there were three non-executive Directors and one executive director. The Chairman, Mr Heaney, is a non-executive director.

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

(b) Board role and responsibilities

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

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

- Considering and approving the corporate strategies proposed by the Managing Director and monitoring their implementation;
- Approving, overseeing and monitoring financial and other reporting to Shareholders, investors, employees and other stakeholders of the Company;

- Ensuring that the Company has the appropriate human, financial and physical resources to execute its strategies;
- Appointing and monitoring the performance of, and removing the Managing Director;
- Ratifying the appointment, and where appropriate, the removal of the Chief Financial Officer (or equivalent) and / or Company Secretary; Reviewing the effectiveness of the Company's policies and procedures regarding risk management, including internal controls and accounting systems; and
- Ensuring appropriate governance structures are in place including standards of ethical behaviour and a culture of corporate and social responsibility.

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

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

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

(c) Chairman

The Chairman, Mr Heaney, satisfies the requirements for an independent director under *ASX Recommendation 2.3* as he is a non-executive director, and has a relevant interest in approximately 0.29% of the Shares as at 31 December 2018 (Recommendations permit 5%).

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

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

ASX Recommendation 2.5 (refer to best practice summary)

(d) Independent Directors

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

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

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

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

As noted in section 2(c), Mr Heaney is considered to be an independent director. Mr Gould is not considered to be an independent director as he has notified the Company and the ASX that he has an indirect interest in 12,241,314 Shares representing a substantial shareholding (being

approximately 17.8% of the total Shares on issue as at 31 December 2018). Mr McDonald, satisfies the requirements for an independent director under *ASX Recommendation 2.3* as he is a non-executive director, and has a relevant interest in approximately 0.03% of the Shares as at 31 December 2018. The structure of the Board does not comply with ASX Recommendation 2.4 that a majority of the Board be independent directors as only half of the members satisfy the requirements as an independent director.

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

(e) Avoidance of conflicts of interest by a director

In accordance with the Corporations Act 2001 and the Company's Constitution, Directors must keep the Board advised of any interest that could potentially conflict with those of the Company.

In the event that a conflict of interest may arise, involved Directors must withdraw from all deliberations concerning the matter. They are not permitted to exercise any influence over other Board members. Further, when that matter is being considered, the Director may not vote on that matter, in accordance with the Corporations Act 2001.

(f) Board Meetings

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

The number of times the Board has formerly met and the number of meetings attended by Directors during the financial year are reported in the Directors' Report. The Board Charter dictates that the Board will hold 8 scheduled meetings each year and, other meetings may be held at short notice as required.

(g) Review of Board Performance

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

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

ASX Recommendation 1.6 (refer to best practice summary)

(h) Nomination and appointment of new Directors

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

ASX Recommendation 2.1 (refer to best practice summary)

(i) Retirement and re-election of Directors

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

ASX Recommendation 1.6 (refer to best practice summary)

3 Board Committees

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

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

(a) Audit and Risk Committee

The Audit and Risk Committee is governed by its charter, as approved by the Board. The Charter is available within the Corporate Governance section on Cyclopharm's website, at www.cyclopharm.com.au. The Audit and Risk Committee comprises three Directors, all of whom are non-executive Directors. The non-executive Directors are Mr Heaney, Chairman of the Audit and Risk Committee up to 28 February 2019, Mr Gould and Mr McDonald. Mr McDonald has been appointed as the Chairman of the Audit and Risk Committee as of 1 March 2019. The qualifications of the Committee members are located in the Directors' Report on page 13 and 14. The Audit and Risk Committee's responsibilities include:

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

During 2018, the Committee complies with the ASX Recommendation that it has at least 3 members but does not comply with the ASX Recommendation that it be chaired by an independent director who is not the chairperson of the Board. The Committee will comply with the aforementioned ASX Recommendation upon Mr McDonald's appointment as the Chairman of the Audit and Risk Committee on 1 March 2019.

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

The Audit and Risk Committee monitors and reviews:

- The effectiveness and appropriateness of the framework used by the Company for managing operational risk;
- The adequacy of the Company's internal controls including information systems controls an security;
- The adequacy of the process for reporting and responding to significant control and regulatory breaches;

- The effectiveness of the compliance function in ensuring adherence to applicable laws and regulations, including the actioning of legal and regulatory developments which may have a significant impact;
- Operational risk issues; and
- Action plans to address control improvement areas.

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

ASX Recommendations 4.1, 4.3, 7.1, 7.2 (refer to best practice summary)

(b) Board Nominations Committee

The Board Nominations Committee is governed by its charter, as approved by the Board. The Charter is available within the Corporate Governance section on Cyclopharm's website, at www.cyclopharm.com.au. All current Directors are members of the Committee and Mr Heaney (who is an independent Director) is the Chairman of the Committee. The qualifications of the Committee members are located in the Directors' Report on page 13 and 14.

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

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

As noted in section 2(d), Mr Gould is not considered to be an independent Director. Accordingly, the Committee did not comply with the ASX Recommendation that a majority of its members be independent directors.

The Board has considered the competencies and experience of each of the Directors and believes that the current structure operates effectively and efficiently without the need for the appointment of additional independent directors or the creation of further sub-committees. The number of times the Board Nominations Committee has formerly met and the number of meetings attended by Directors during the financial year are reported in the Directors' Report.

ASX Recommendations 1.3, 2.1, 2.2 (refer to best practice summary)

(c) Remuneration Committee

The Remuneration Committee is governed by its charter, as approved by the Board. The Charter is available within the Corporate Governance section on Cyclopharm's website, at www.cyclopharm.com.au. The Remuneration Committee comprises three non-executive Directors, namely Mr Heaney, Mr Gould and Mr McDonald. Mr Heaney (who is an independent Director) is the Chairman of the Committee. The qualifications of the Committee members are located in the Directors' Report on page 13 and 14.

The Remuneration Committee advises the Board on remuneration policies and practices generally, and makes specific recommendations on remuneration packages and other terms of employment for executive Directors, senior executives and non-executive Directors. Each member of the senior executive team signs a formal employment contract at the time of their appointment covering a range of matters including their duties, rights and responsibilities. Executive remuneration and other terms of employment are reviewed annually by the Committee having regard to personal and

corporate performance contribution to long-term growth, relevant comparative information and independent expert advice. As well as base salary, remuneration packages may include superannuation and retirement and termination entitlements.

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

The Committee complies with the ASX Recommendation that it has at least 3 members and that a majority of its members be independent directors.

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

ASX Recommendations 1.3, 1.7, 8.1 (refer to best practice summary)

4 Recognising and managing risk

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

(a) Board oversight of the risk management system

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

The Company recognises four main types of risk:

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

ASX recommendations 7.1, 7.2 (refer to best practice summary)

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

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

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

- monthly reporting to the Board in respect of operations and the Company's financial position, with a comparison of actual results against budget; and
- regular reports to the Board by appropriate members of the management team and/or independent advisers, outlining the nature of particular risks and highlighting measures which are either in place or can be adopted to manage or mitigate those risks.

(b) Risk management roles and responsibilities

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

ASX recommendation 7.2 (refer to best practice summary)

(c) Managing Director and Chief Financial Officer Certification

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

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

ASX recommendation 4.2 (refer to best practice summary)

(d) Internal audit, review and risk evaluation

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

ASX recommendation 7.3 (refer to best practice summary)

5 Remuneration

(a) Overview

The Remuneration Committee is responsible for reviewing the compensation arrangements for the Managing Director and other key personnel. The Remuneration Committee is also responsible for reviewing management incentive schemes, superannuation, retirement and termination entitlements, fringe benefits policies, and professional indemnity and liability insurance policies. The nature and amount of each element of the fee or salary of each director and key management personnel of the Company are set out in the Remuneration Report on pages 20 to 30. Non-executive Directors' fees and payments are reviewed annually by the Board. Executive Directors are, subject to the information above, paid in salary or fees.

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

(b) Equity-based key management personnel remuneration

The Long Term Incentive Plan (LTIP) was approved by Shareholders at the Annual General Meeting held on 8 May 2007 with an updated LTIP approved by Shareholders on 29 May 2018. The purpose of the LTIP is to attract, retain and motivate employees and officers of the Company to drive performance at both the individual and corporate level. Any further participation by Directors in the LTIP will require Shareholder approval in accordance with the ASX Listing Rules.

6 Timely and balanced disclosure

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

(a) Market disclosure policy and practices

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

This policy includes provision for communications by the Company to:

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

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

Policy concerning trading in Company securities

On 19 February 2009, the Board resolved to adopt a Policy concerning trading in Company securities. An executive, director or relevant employees ('employee') must not trade in any securities of the Company at any time when they are in possession of unpublished, price sensitive information in relation to those securities. An employee should not deal in securities of Cyclopharm without receiving clearance from a Committee comprised of the Managing Director and the Chairman (or in the absence of either of these two directors by any other director) who has ensured that there is no unpublished price sensitive information.

Generally, an employee must be given clearance to deal in any securities of Cyclopharm during a prohibited period. A 'prohibited period' means:

(a) The period from year end and preliminary announcement of the full year results (usually 1 February to end February);
(b) The period from half year end and preliminary announcement of the half year results (usually 1 August to end August); and
(c) Any other periods advised to employees by the Board (via the Company Secretary).

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

ASX Recommendation 5.1 (refer to best practice summary)

(b) Communication strategy

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

ASX Recommendations 6.1, 6.2, 6.3, 6.4 (refer to best practice summary)

7 Ethical and responsible decision-making

(a) Code of Ethics and Conduct

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

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

ASX Recommendation 3.1 (refer to best practice summary)

8 Diversity

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

The proportion of women employees within the following three levels as at 31 December 2018 are:

- Whole organisation 34%
- Senior executive positions 22%
- Board 0%

The Board has set the following objectives which are reviewed annually:

- Establish a Diversity Committee to oversee selection of new board members and senior executives;
- For vacancies at the Board and Senior Management level ensure that a diverse candidate pool and input from a diverse selection pool; and
- Establish a senior mentoring program overseen by the Managing Director for all female senior managers.

ASX Recommendation 1.5 (refer to best practice summary)

Corporate Governance
Continued

9 Checklist for summarising the best practice recommendations and compliance

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

Corporate Governance
Continued

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

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

Corporate Governance
Continued

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

ASX Principle	Reference	Compliance
Principle 7: Recognise and manage risk		
7.1 The board of a listed entity should:	3a, 4a	comply
(a) have a committee or committees to oversee risk, each of which:		
(i) has at least three members, a majority of whom are independent directors; and		
(ii) is chaired by an independent director,		
and disclose:		
(iii) the charter of the committee;		
(iv) the members of the committee; and		
(v) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or		
(b) if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the processes it employs for overseeing the entity's risk management framework.		
7.2 The board or a committee of the board should:	3a, 4a, 4b	comply
(a) review the entity's risk management framework at least annually to satisfy itself that it continues to be sound; and		
(b) disclose, in relation to each reporting period, whether such a review has taken place.		
7.3 A listed entity should disclose:	4d	comply
(a) if it has an internal audit function, how the function is structured and what role it performs; or		
(b) if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes.		
7.4 A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.	Directors' Report	comply
Principle 8: Remunerate fairly and responsibly		
8.1 The board of a listed entity should:	3c, 5a	comply
(a) have a remuneration committee which:		
(i) has at least three members, a majority of whom are independent directors; and		
(ii) is chaired by an independent director,		
and disclose:		
(iii) the charter of the committee;		
(iv) the members of the committee; and		
(v) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or		
(b) if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive.		
8.2 A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives.	Directors' Report (Remuneration Report)	comply
8.3 A listed entity which has an equity-based remuneration scheme should:	5b	comply
(a) have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and		
(b) disclose that policy or a summary of it.		

Consolidated Statement of Profit or Loss And Other Comprehensive Income

for the year ended 31 December 2018

		Consolidated	
		2018	2017
	Notes	$	$
CONTINUING OPERATIONS			
Sales revenue	5	13,404,222	13,188,752
Finance revenue	5	103,411	79,529
Other revenue	5	2,122,351	2,390,586
Total revenue		**15,629,984**	**15,658,867**
Cost of materials and manufacturing	5a	(2,965,588)	(2,647,649)
Employee benefits expense	5e	(4,457,135)	(4,027,216)
Advertising and promotion expense		(319,148)	(351,462)
Depreciation and amortisation expense	5c	(510,230)	(318,088)
Freight and duty expense		(436,340)	(450,429)
Research and development expense	5d	(3,219,385)	(2,871,288)
Administration expense	5f	(4,040,894)	(3,900,809)
Reversal of contingent consideration		313,922	-
Other income / (expense)	5g	149,351	(366,708)
Profit before tax and finance costs		**144,537**	**725,218**
Finance costs	5b	(26,129)	(20,079)
Profit before income tax		**118,408**	**705,139**
Income tax	6	(153,864)	(2,229,710)
Loss for the year		**(35,456)**	**(1,524,571)**
Other comprehensive income after income tax			
Items that will be re-classified subsequently to profit and loss when specific conditions are met:			
Exchange differences on translating foreign controlled entities (net of tax)		62,230	302,106
Total comprehensive income / (loss) for the year		**26,774**	**(1,222,465)**
Loss per share (cents per share)	7	**cents**	**cents**
-basic loss per share for continuing operations		(0.05)	(2.25)
-basic loss per share		(0.05)	(2.25)
-diluted loss per share		(0.05)	(2.25)

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

Consolidated Statement of Financial Position

as at 31 December 2018

	Notes	Consolidated 2018 $	Consolidated 2017 $
Assets			
Current Assets			
Cash and cash equivalents	8	5,854,959	8,689,676
Trade and other receivables	9	6,247,065	5,337,824
Inventories	10	2,771,546	2,677,303
Current tax asset	6	78,377	27,778
Derivative - forward exchange contract		274,904	-
Other assets		227,599	96,258
Total Current Assets		**15,454,450**	**16,828,839**
Non-current Assets			
Property, plant and equipment	11	2,468,406	2,682,423
Investments	12	-	-
Intangible assets	13	4,570,344	2,767,030
Deferred tax assets	6	1,043,521	1,098,949
Total Non-current Assets		**8,082,271**	**6,548,402**
Total Assets		**23,536,721**	**23,377,241**
Liabilities			
Current Liabilities			
Trade and other payables	14	3,599,465	2,606,594
Interest bearing loans and borrowings	15	120,577	87,536
Provisions	16	855,517	944,276
Tax liabilities	6	643,644	1,573,059
Total Current Liabilities		**5,219,203**	**5,211,465**
Non-current Liabilities			
Trade and other payables	14	336,864	154,727
Interest bearing loans and borrowings	15	-	87,330
Provisions	16	300,609	212,335
Deferred tax liabilities	6	517	549
Deferred income liabilities	17	663,559	461,443
Total Non-current Liabilities		**1,301,549**	**916,384**
Total Liabilities		**6,520,752**	**6,127,849**
Net Assets		**17,015,969**	**17,249,392**
Equity			
Contributed equity	18	21,905,035	21,551,727
Employee equity benefits reserve	27	663,005	625,038
Foreign currency translation reserve	27	(540,971)	(603,201)
Accumulated losses		(5,011,100)	(4,324,172)
Total Equity		**17,015,969**	**17,249,392**

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

Consolidated Statement of Cash Flows

for the year ended 31 December 2018

	Notes	Consolidated 2018 $	Consolidated 2017 $
Operating activities			
Receipts from customers		14,137,456	14,509,179
Payments to suppliers and employees		(16,437,006)	(15,053,572)
Interest received		103,411	79,529
Borrowing costs paid		(26,129)	(20,079)
Income tax received / (paid)		1,114,933	(197,178)
Net cash flows used in operating activities	8	**(1,107,335)**	**(682,121)**
Investing activities			
Payments for acquisition of subsidiary		(680,967)	(1,003,021)
Cash acquired upon acquisition of subsidiary		86,830	1,175,958
Purchase of property, plant and equipment		(206,098)	(641,101)
Payments for intangible assets		(602,878)	(667,961)
Net cash flows used in investing activities		**(1,403,113)**	**(1,136,125)**
Financing activities			
Proceeds from issue of shares		-	6,947,816
Costs of raising capital		-	(359,056)
Settlement of loan for Long Term Incentive Plan Shares		353,308	-
Dividends paid		(651,472)	(600,122)
Repayment of bank borrowings		(54,289)	(160,172)
Net cash flows (used in) / from financing activities		**(352,453)**	**5,828,466**
Net (decrease) / increase in cash and cash equivalents		**(2,862,901)**	**4,010,220**
Cash and cash equivalents			
- at beginning of the period		**8,689,676**	**4,590,760**
- net foreign exchange differences from translation of cash and cash equivalents		28,184	88,696
- at end of the year	8	**5,854,959**	**8,689,676**

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

Consolidated Statement of Changes in Equity

for the year ended 31 December 2018

CONSOLIDATED	Contributed Equity	Other Contributed Equity	Total Contributed Equity	Retained Earnings / (Accumulated Losses)	Foreign Currency Translation Reserve (Note 27(b))	Employee Equity Benefits Reserve (Note 27(a))	Total
	$	$	$	$	$	$	$
Balance at 1 January 2017	**20,296,125**	**(5,333,158)**	**14,962,967**	**(2,199,479)**	**(905,307)**	**603,622**	**12,461,803**
Loss for the year	-	-	-	(1,524,571)	-	-	(1,524,571)
Other comprehensive loss	-	-	-	-	302,106	-	302,106
Total comprehensive loss for the year	**-**	**-**	**-**	**(1,524,571)**	**302,106**	**-**	**(1,222,465)**
Issue of non-renounceable entitlement offer shares	6,947,816	-	6,947,816	-	-	-	6,947,816
Cost of raising capital	(359,056)	-	(359,056)	-	-	-	(359,056)
Dividends paid	-	-	-	(600,122)	-	-	(600,122)
Cost of share based payments	-	-	-	-	-	21,416	21,416
Total transactions with owners and other transfers	**6,588,760**	**-**	**6,588,760**	**(600,122)**	**-**	**21,416**	**6,010,054**
	-	-	-	-	-	-	-
Balance at 31 December 2017	**26,884,885**	**(5,333,158)**	**21,551,727**	**(4,324,172)**	**(603,201)**	**625,038**	**17,249,392**
Balance at 1 January 2018	**26,884,885**	**(5,333,158)**	**21,551,727**	**(4,324,172)**	**(603,201)**	**625,038**	**17,249,392**
Loss for the year	-	-	-	(35,456)	-	-	(35,456)
Other comprehensive loss	-	-	-	-	62,230	-	62,230
Total comprehensive loss for the year	**-**	**-**	**-**	**(35,456)**	**62,230**	**-**	**26,774**
Issue of non-renounceable entitlement offer shares	-	-	-	-	-	-	-
Cost of raising capital	-	-	-	-	-	-	-
Payment of loan for Long Term Incentive Plan shares	353,308	-	353,308	-	-	-	353,308
Dividends paid	-	-	-	(651,472)	-	-	(651,472)
Cost of share based payments	-	-	-	-	-	37,967	37,967
Total transactions with owners and other transfers	**353,308**	**-**	**353,308**	**(651,472)**	**-**	**37,967**	**(260,197)**
Balance at 31 December 2018	**27,238,193**	**(5,333,158)**	**21,905,035**	**(5,011,100)**	**(540,971)**	**663,005**	**17,015,969**

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

1. CORPORATE INFORMATION

The financial report of Cyclopharm Limited ("Cyclopharm" or "the Company") for the year ended 31 December 2018 was authorised for issue by a resolution of the Directors as at the date of this report.

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

During the year the principal continuing activities of the consolidated entity ("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) New and Amended Accounting Policies Adopted by the Group

Consolidated financial statements

The Group adopted the following Australian Accounting Standards (new and amended) from the mandatory application date of 1 January 2018. The new and amended Standards are not expected to have a significant impact on the Group's financial statements.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) New and Amended Accounting Standards and Interpretations adopted by the Group (continued)

AASB 9: Financial Instruments and associated Amending Standards

The consolidated entity has adopted AASB 9 from 1 January 2018. The standard introduced new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows which arise on specified dates and that are solely principal and interest. A debt investment shall be measured at fair value through other comprehensive income if it is held within a business model whose objective is to both hold assets in order to collect contractual cash flows which arise on specified dates that are solely principal and interest as well as selling the asset on the basis of its fair value. All other financial assets are classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading or contingent consideration recognised in a business combination) in other comprehensive income ('OCI'). Despite these requirements, a financial asset may be irrevocably designated as measured at fair value through profit or loss to reduce the effect of, or eliminate, an accounting mismatch. For financial liabilities designated at fair value through profit or loss, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment is measured using a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. For receivables, a simplified approach to measuring expected credit losses using a lifetime expected loss allowance is available.

There is no material impact on the financial statements upon the Group's application of AASB 9.

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

This Standard amends AASB 2 Share-based Payment to address:
(a) the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
(b) the classification of share-based payment transactions with a net settlement feature for withholding tax obligations; and
(c) the accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

The adoption of this amended statement is not expected to have a material impact on the Group's financial statements.

AASB 15: Revenue from Contracts with Customers

AASB 15 supersedes AASB 18 Revenue and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new Standard establishes a five-step model to account for revenue arising from contracts with customers. Under AASB 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

This Standard requires entities to exercise judgement, taking into consideration all of the relevant fact and circumstances when applying each step of the model to contracts with their customers. The Standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) New and Amended Accounting Standards and Interpretations adopted by the Group (continued)

The Group adopted AASB 15 and there was no material impact to the financial statements.

The Group is in the business of providing medical and radiopharmaceutical equipment and consumables and aftersales services. The equipment, consumables and services are sold on their own in separately identified contracts with customers.

a) Sale of goods
The Group's contracts with customers for the sale of equipment and consumables generally include one performance obligation. The Group has concluded that revenue from sales of equipment and consumables should be recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the equipment. Therefore, the adoption of AASB 15 did not have an impact on the timing of revenue recognition. The amount of revenue recognised was not affected because contracts for the sales of equipment and consumables do not provide customers with a right of return or any volume rebates.

b) Rendering of services
The Group provides aftersales services which are sold separately from the sale of equipment to a customer. The aftersales services do not significantly customise or modify the equipment. Prior to the adoption of AASB 15, the Group accounted for the equipment and aftersales service as separate deliverables based on the invoiced amounts over the term of the aftersales contract. Under AASB 15, the Group assessed that there is no material impact to the accounting treatment.

c) Presentation and disclosure requirements
The Group disaggregated revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. The Group also disclosed information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment. Refer to note 3 for the disclosure on disaggregated revenue.

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

AASB 2017-1: Amendments to Australian Accounting Standards – Transfers of Investment Property, Annual Improvements 2014–2016 Cycle and Other Amendments

This Standard clarifies that:

b) a change in classification to or from investment property can only be made where there is evidence of a change in use of the property. A change in management's intention is, in isolation, not evidence of a change in use; and

b) the election by a venture capital organisation, mutual fund, unit trust or similar entity to measure investments in an associate or joint venture at fair value through profit or loss is made separately for each associate or joint venture.

The adoption of this Standard is not expected to have a material impact on the Group's financial statements.

Interpretation 22: Foreign Currency Transactions and Advance Consideration

The Interpretation clarifies that for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income is the date on which the entity recognises the payment or receipt of advance consideration in a foreign currency.

The adoption of Interpretation 22 is not expected to have a material impact on the Group's financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) New Accounting Standards and Interpretations Not Yet Adopted

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

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

AASB 16: Leases

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

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

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

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

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

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

Interpretation 23: Uncertainty over Income Tax Treatments

Interpretation 23 clarifies how to apply the recognition and measurement requirements in AASB 112 Income Taxes when there is uncertainty over income tax treatments.

Consequential amendments are made to AASB 1 First-time Adoption of Australian Accounting Standards as a result of Interpretation 23 by AASB 2017-4.

The adoption of this Interpretation is not expected to have a material impact on the Group's financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) New Accounting Standards and Interpretations Not Yet Adopted (continued)

AASB 2017-6: Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation.

This Standard amends AASB 9 to permit entities to measure at amortised cost or fair value through other comprehensive income particular financial assets that would otherwise have contractual cash flows that are solely payments of principal and interest but do not meet that condition only as a result of a prepayment feature.

The adoption of AASB 2017-6 is not expected to have a material impact on the Group's financial statements.

AASB 2017-7: Amendments to Australian Accounting Standards – Long-term Interests in Associates and Joint Ventures

This Standard amends AASB 128 to clarify that an entity is required to account for long-term interests in an associate or joint venture, which in substance form part of the net investment in the associate or joint venture but to which the equity method is not applied, using AASB 9 Financial Instruments before applying the loss allocation and impairment requirements in AASB 128.

The adoption of this Standard is not expected to have a material impact on the Group's financial statements.

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

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

The mandatory application date of AASB 2014-10 has been amended and deferred to annual reporting periods beginning on or after 1 January 2022 by AASB 2017-5.

These new and amended Standards are not expected to have a significant impact on the Group's financial statements.

d) Basis of consolidation

Cyclopharm Limited is the ultimate parent entity ("the Parent") in the wholly owned group. The consolidated financial statements comprise the financial statements of Cyclopharm and its subsidiaries as at 31 December each year ('the Group').

The Group's financial statements consolidate those of the parent company and all of its subsidiaries as of 31 December 2018. All subsidiaries have a reporting date of 31 December.

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 the Parent has control.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Transactions eliminated on consolidation

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

For business combinations involving entities under common control, which are outside the scope of *AASB 3 Business Combinations*, the Company applies the purchase method of accounting by the legal parent.

e) Foreign currency translation

Functional and presentation currency

The functional currency of each of the group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars (AUD $) which is the parent entity's functional and presentation currency.

Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items that are measured in terms of historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate when the fair value was determined.

Exchange differences arising on the translation of monetary items are recognised in the Statement of Comprehensive Income, except where deferred in equity as a qualifying cash flow hedge or net investment hedge. On disposal of a foreign entity the deferred cumulative amount in equity is recognised in the Statement of Comprehensive Income.

Group companies

The functional currency of the overseas subsidiaries Cyclomedica Ireland Limited, Cyclomedica Germany GmbH, Cyclomedica Europe Limited, and Inter Commerce Medical bvba, is European Euro (Euro €), Medicall Analys AB is Swedish Kroner (SEK) 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 the reporting date.
- Income and expenses are translated at the average exchange rates for the period.
- Retained profits/equity are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on the translation of foreign operations are recognised in other comprehensive income and are transferred directly to the Group's foreign currency translation reserve in the Statement of Financial Position. On disposal of a foreign operation, the related cumulative translation differences recognised in equity are reclassified to profit or loss and are recognised as part of the gain or loss on disposal. Exchange differences are charged or credited to other comprehensive income and recognised in the currency translation reserve in equity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Income tax

Income tax on the profit and loss for the year comprises current and deferred tax. Income tax is recognised in the Statement of Comprehensive Income, except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the Statement of Financial Position date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the Statement of Financial Position liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the Statement of Financial Position date and are expected to apply when the deferred tax asset is realised or the deferred tax liability is settled. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Tax consolidation

Cyclopharm Limited 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 Australian tax 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.

Cyclopharm Limited 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment

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

Depreciation

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

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

	Basis	Method
Plant and equipment	5 - 33%	Straight-line method
Leasehold Improvements	20 - 50%	Straight-line method
Motor vehicles	20 - 25%	Straight-line method

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the Statement of Comprehensive Income in the year the item is derecognised.

h) Investments Accounted For Using The Equity Method

Associates are companies in which the Group has significant influence through holding, directly or indirectly, 20% or more of the voting power of the Group. Investments in associates are accounted for in the financial statements by applying the equity method of accounting, whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the associate company. In addition, the Group's share of the profit or loss of the associate company is included in the Group's profit or loss.

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

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

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

Details of the Group's investments in associates are provided in Note 12.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Intangibles

Intangible assets

Intangible assets acquired as part of a business combination other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost.

Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment.

The gains and losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible assets. The method and useful lives of finite life intangible assets are reviewed annually.

Internally generated intangible assets, excluding development costs, are not capitalised and are recorded as an expense in the Statement of Profit or Loss.

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.

	Basis	**Method**
	New Patents and licences	**Technegas Development costs**
Useful lives	Patents - Finite	Finite
	Licenses - 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

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 the project will be a success considering its commercial and technical feasibility; the Group is able to use or sell the asset; the Group has sufficient resources; and intend to complete the development and its costs can be measured reliably. Development expenditure is measured at cost less any accumulated amortisation and impairment losses. 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 Technegas Plus and Ultralute generator has been capitalised. Costs will be amortised once the asset development is completed and the asset ready for use. No impairment provision has been deemed appropriate. The Directors are satisfied that the future economic benefits will eventuate to justify the capitalisation of the expenditure incurred. Development expenditure is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 90 days. The Group has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

p) Employee entitlements

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave and long service leave.

Employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled plus related on-costs. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow (after applying probability) to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the market yield as at the reporting date on national government bonds, which have terms to maturity approximating the terms of the related liability, are used.

Employee benefit expenses and revenues arising in respect of wages and salaries, non-monetary benefits, annual leave, long service leave and other leave benefits; and other types of employee benefits are recognised against profits on a net basis in their respective categories.

q) Employee share and performance share schemes

The fair value of performance rights issued under the Cyclopharm Long Term Incentive Plan are recognised as a personnel expense over the vesting period with a corresponding increase in Employee Equity Benefits Reserve.

The fair value of 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

s) Other Revenue

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.

Research & Development Tax Incentive

Government grants, including Research and Development incentives, are recognized at fair value where there is reasonable assurance that the grant will be received and all grant conditions will be met.

Grants relating to cost reimbursements are recognized as other income in profit or loss in the period when the costs were incurred or when the incentive meets the recognition requirements (if later)

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

t) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except where the GST incurred is not recoverable from the Australian Taxation Office ("ATO") and is therefore recognised as part of the asset's cost or as part of the expense item. Receivables and payables are stated inclusive of GST. The net amount of GST recoverable from, or payable to, the ATO is included as part of receivables or payables in the Statement of Financial Position. Cash flows are presented in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to the taxation authority are classified as operating cash flows.

u) Financial instruments

Financial 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.

Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

De-recognition of financial instruments

Financial liabilities

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

Impairment of financial assets

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 *AASB112 Income Taxes*, additional contributed equity was recorded to recognise the transfer of tax liabilities from Vita Medical Limited to Vita Life Sciences Limited, being the parent of the Australian tax consolidated group at the relevant time. This event occurred prior to Cyclopharm Limited acquiring its interests in the net assets of Vita Medical Limited.

As part of the restructure a subsidiary of Cyclopharm Limited, 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 Limited also acquired 100% of the other group operating subsidiaries from the ultimate holding company, Vita Life Sciences Limited. Accordingly, the group comprises Cyclopharm Limited 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 (deregistered 16 July 2017)
- Allrad 29 Pty Ltd (deregistered 16 July 2017)

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 Limited is the legal parent and Cyclomedica Australia Pty Limited is the financial parent, which for accounting purposes is deemed to be the acquirer.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

x) Fair Value

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

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

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

y) Significant Accounting Judgements and Estimates

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Key Estimates

Impairment – general

The Group assesses impairment at the end of each reporting period by evaluating conditions and events specific to the Group that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value-in-use calculations which incorporate various key assumptions.

The Group's property, plant and equipment relating to the Cyclotron facility have been fully impaired, based on management's assessment that the fair value of those assets is nil in the current industry circumstances and the condition of the damaged assets. Extensive damage to the Cyclotron facility caused by substantial water damage in June 2014, delayed any decisions about the future use of the Cyclotron facility until it is restored to its former operational status. Recent negotiations with other parties to establish a new business to operate the Cyclotron (as announced in September 2017) have not yet reached a sufficiently advanced stage to confirm that this proposed transaction will proceed. Accordingly, the suspended Cyclotron business is not considered to be a discontinued operation pending that final decision and its outcome. Refer to Note 11.

The assumptions used in the estimation of recoverable amount and the carrying amount of intangible assets are discussed in Note 13. No impairment has been recognised in respect of intangible assets at the end of the reporting period.

Useful lives of property, plant and equipment

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

Share based payment transactions

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

The Group measures the cost of share-based payments at fair value at the grant date using the Black-Scholes formula, taking into account the terms and conditions upon which the instruments were granted. Refer to Note 25 for details of the Company's Share Based Payment Plan.

Key Judgements

Taxation

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

3. REVENUE FROM CONTRACTS WITH CUSTOMERS

Set out below is the disaggregation of the Group's revenue from contracts with customers:

	For the period ended 31 December 2018		
	Technegas	Molecular Imaging	Total
Segments	**$**	**$**	**$**
Type of goods or service			
Sales of equipment and consumables	12,411,070	-	12,411,070
After sales services	993,152	-	993,152
Total revenue from contracts with customers	**13,404,222**	**-**	**13,404,222**
Geographical markets			
Asia Pacific	2,662,870	-	2,662,870
Europe	8,348,476	-	8,348,476
Canada	2,145,411	-	2,145,411
Other	247,465	-	247,465
Total revenue from contracts with customers	**13,404,222**	**-**	**13,404,222**
Timing of revenue recognition			
Goods transferred at a point in time	13,164,161	-	13,164,161
Services transferred over time	240,061	-	240,061
Total revenue from contracts with customers	**13,404,222**	**-**	**13,404,222**

	For the period ended 31 December 2017		
	Technegas	Molecular Imaging	Total
Segments	**$**	**$**	**$**
Type of goods or service			
Sales of equipment and consumables	12,508,594	-	12,508,594
After sales services	680,158	-	680,158
Total revenue from contracts with customers	**13,188,752**	**-**	**13,188,752**
Geographical markets			
Asia Pacific	2,365,268	-	2,365,268
Europe	8,339,838	-	8,339,838
Canada	2,199,283	-	2,199,283
Other	284,363	-	284,363
Total revenue from contracts with customers	**13,188,752**	**-**	**13,188,752**
Timing of revenue recognition			
Goods transferred at a point in time	12,958,680	-	12,958,680
Services transferred over time	230,072	-	230,072
Total revenue from contracts with customers	**13,188,752**	**-**	**13,188,752**

There are no impairment losses on receivables and contract assets arising from contracts with customers.

4. OPERATING SEGMENTS

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

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

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

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

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

Business segments

The tables under the heading business segments present revenue and profit information and certain asset and liability information regarding business segments for the years ended 31 December 2018 and 31 December 2017.

Geographical segments

The tables under the heading geographical segment present revenue and asset information regarding geographical segments for the years ended 31 December 2018 and 31 December 2017.

4. SEGMENT REPORTING (continued)

Business Segments

For the year ended	Technegas	Consolidated Molecular Imaging	Total
31 December 2018	**$**	**$**	**$**
Revenue			
Sales to external customers	13,404,222	-	13,404,222
Finance revenue	101,870	1,541	103,411
Other revenue	2,122,351	-	2,122,351
Total revenue	**15,628,443**	**1,541**	**15,629,984**
Result			
Profit / (loss) before tax and finance costs	**479,301**	**(334,764)**	**144,537**
Finance costs	(23,452)	(2,677)	(26,129)
Profit / (loss) before income tax	**455,849**	**(337,441)**	**118,408**
Income tax expense	(180,631)	26,767	(153,864)
Profit / (loss) after income tax	**275,218**	**(310,674)**	**(35,456)**
Assets and liabilities			
Segment assets	20,664,136	2,872,585	23,536,721
Segment asset increases for the period :			
- capital expenditure	279,143	-	279,143
Segment liabilities	(5,476,181)	(1,044,571)	(6,520,752)
Other segment information			
Depreciation and amortisation	(510,174)	(56)	(510,230)

4. SEGMENT REPORTING (continued)

Business Segments (continued)

For the year ended 31 December 2017	Consolidated		
	Technegas	Molecular Imaging	Total
	$	$	$
Revenue			
Sales to external customers	13,188,752	-	13,188,752
Finance revenue	77,723	1,806	79,529
Other revenue	2,390,586	-	2,390,586
Total revenue	**15,657,061**	**1,806**	**15,658,867**
Result			
Profit/(loss) before tax and finance costs	**1,182,365**	**(457,147)**	**725,218**
Finance costs	(17,487)	(2,592)	(20,079)
Profit/(loss) before income tax	**1,164,878**	**(459,739)**	**705,139**
Income tax expense	(1,977,557)	(252,153)	(2,229,710)
Profit/(loss) after income tax	**(812,679)**	**(711,892)**	**(1,524,571)**
Assets and liabilities			
Segment assets	20,973,846	2,403,395	23,377,241
Segment asset increases for the period :			
- capital expenditure	631,764	-	631,764
Segment liabilities	(5,501,830)	(626,019)	(6,127,849)
Other segment information			
Depreciation and amortisation	(318,025)	(63)	(318,088)

4. SEGMENT REPORTING (continued)

Geographical Segments

	Consolidated				
For the year ended	**Asia Pacific**	**Europe**	**Canada**	**Other**	**Total**
31 December 2018	**$**	**$**	**$**	**$**	**$**
Revenue					
Sales to external customers	2,662,870	8,348,476	2,145,411	247,465	13,404,222
Finance revenue	103,316	95	-	-	103,411
Other revenue	2,122,351	-	-	-	2,122,351
Total segment revenue	**4,888,537**	**8,348,571**	**2,145,411**	**247,465**	**15,629,984**
Assets					
Segment assets	16,025,379	6,686,068	825,274	-	23,536,721

	Consolidated				
For the year ended	**Asia Pacific**	**Europe**	**Canada**	**Other**	**Total**
31 December 2017	**$**	**$**	**$**	**$**	**$**
Revenue					
Sales to external customers	2,365,268	8,339,838	2,199,283	284,363	13,188,752
Finance revenue	79,529	-	-	-	79,529
Other revenue	2,390,586	-	-	-	2,390,586
Total segment revenue	**4,835,383**	**8,339,838**	**2,199,283**	**284,363**	**15,658,867**
Assets					
Segment assets	16,153,299	6,236,165	987,777	-	23,377,241

5. REVENUES AND EXPENSES

	Notes	Consolidated 2018 $	Consolidated 2017 $
Revenue			
Sales revenue		13,404,222	13,188,752
Finance revenue - Interest received from other parties		103,411	79,529
Other Revenue			
R&D Tax incentive refund		2,122,351	2,390,586
Total other revenue		2,122,351	2,390,586
(Note 3 discloses the disaggregation of the Group's revenue from contracts with customers)			
Expenses			
a) Cost of materials and manufacturing			
Cost of materials and manufacturing		2,965,588	2,647,649
b) Finance costs			
Interest paid on loans from external parties		26,129	20,079
c) Depreciation and amortisation			
Depreciation of plant and equipment		144,358	298,639
Depreciation of leasehold improvements		275,757	694
Amortisation of intangibles		90,115	18,755
		510,230	318,088
d) Research & development expense			
FDA expenses		2,964,770	2,584,716
Pilot Clinincal Trial expenses		251,301	270,101
Research expenses		3,314	16,471
		3,219,385	2,871,288
e) Employee benefits expense			
Salaries and wages		3,947,991	3,532,030
Defined contribution superannuation expense		297,777	316,715
Non-Executive Director fees		173,400	157,055
Share-based payments expense	25a	37,967	21,416
		4,457,135	4,027,216
f) Administration expense			
Legal and professional costs		2,184,313	1,268,746
Office and facility costs		707,308	599,075
(Reversal of) / Provision for doubtful debts		(122,220)	546,393
Operating lease expenses	20a	718,351	755,447
Travel and motor vehicle costs		553,142	731,148
		4,040,894	3,900,809
g) Other (income) / expense			
Realised Foreign exchange (gains) / losses		(86,574)	19,143
Unrealised Foreign exchange (gains) / losses		(277,724)	4,524
Other		214,947	343,041
		(149,351)	366,708

6. INCOME TAX

	2018	2017
	$	$
The components of income tax expense comprise:		
Current income tax expense	(98,216)	(2,035,950)
Deferred tax expense	(55,648)	(193,760)
	(153,864)	**(2,229,710)**
A reconciliation of income tax expense applicable to accounting profit before income tax at the statutory income tax rate to income tax expense at the Group's effective income tax rate is as follows:		
Accounting profit before income tax	**118,408**	**705,136**
Statutory income tax rate of 27.5% (2017: 30%)	(32,562)	(211,541)
Effects of lower rates on overseas income	161,606	212,127
Expenditure not allowable for income tax purposes	(2,130,823)	(2,416,088)
Tax expense offset against carry forward tax losses		
Non-assessable income	1,195,552	752,369
Tax losses brought to account overseas	-	43,214
Over / (under) provsion of previous years	709,074	(401,856)
Temporary differences reversed in Australian group	(55,554)	(197,066)
Temporary differences recognised overseas	94	3,306
Tax losses not recognised overseas	(1,251)	(14,175)
Total income tax expense	**(153,864)**	**(2,229,710)**
Effective income tax rate	(129.9%)	(316.2%)
Current income tax asset	**78,377**	**27,778**
Current income tax liability	**643,644**	**1,573,059**
Deferred tax assets		
Deferred tax assets from temporary differences on:		
Investments	402,139	432,505
Provisions and accruals	458,584	486,981
Other	182,798	179,463
Total deferred tax assets	**1,043,521**	**1,098,949**
Movements in deferred tax assets		
Opening balance	1,098,949	1,296,015
Deferred tax assets attributable to temporary differences brought to account	(55,428)	(197,066)
Closing balance	**1,043,521**	**1,098,949**
Deferred tax liabilities		
Deferred tax liabilities from temporary differences on:		
Provisions and accruals	517	549
Total deferred tax liabilities	**517**	**549**
Movements in deferred tax liabilities		
Opening balance	549	3,855
Reversal of temporary differences	(32)	(3,306)
Closing balance	**517**	**549**
Deferred tax assets for which no benefit has been recognised:		
- arising from temporary differences - at 27.5%	873,948	837,633
- arising from revenue tax losses - at 27.5%	-	-
- arising from capital tax losses - at 27.5%	21,686	21,686

7. NET TANGIBLE ASSETS AND LOSS PER SHARE

Net Tangible Assets per share

	Consolidated	
	2018	2017
	$	$
Net assets per share	0.25	0.25
Net tangible assets per share	0.18	0.21
	Number	Number
Number of ordinary shares for net assets per share	68,698,873	68,254,316
	2018	2017
	$	$
Net assets	17,015,969	17,249,392
Net tangible assets	12,445,625	14,482,362

The number of ordinary shares includes the effects of 500,000 Long Term Incentive Performance ('LTIP') shares issued on 2 July 2018 (2017: 225,000 Long Term Incentive Performance shares issued on 19 April 2017) and excludes 55,443 expired LTIP shares cancelled on 8 October 2018 as set out in Note 18.

Loss per share

	Consolidated	
	2018	2017
	cents	cents
Basic loss per share for continuing operations	(0.05)	(2.25)
Basic loss per share	(0.05)	(2.25)
Diluted loss per share	(0.05)	(2.25)
	Number	Number
Weighted average number of ordinary shares for basic loss per share	67,973,873	67,891,316
Weighted average number of ordinary shares for diluted loss per share	67,973,873	67,891,316
	2018	2017
	$	$
Loss used to calculate basic earnings per share	(35,456)	(1,524,571)
Loss used to calculate diluted earnings per share	(35,456)	(1,524,571)

The weighted average number of ordinary shares for basic loss per share excludes the effects of 500,000 LTIP shares issued on 2 July 2018 and 225,000 LTIP shares issued on 19 April 2017 set out in Note 18 as they are contingently returnable.

8. CASH AND CASH EQUIVALENTS

	Consolidated	
	2018	**2017**
	$	**$**
Cash at bank and in hand	5,854,959	8,689,676
Total cash and cash equivalents	**5,854,959**	**8,689,676**

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

The fair value of cash equivalents is $5,854,959 (2017: $8,689,676).

Reconciliation of Statement of Cash Flows	**2018**	**2017**
	$	**$**
For the purpose of the Statement of Cash Flows, cash and cash equivalents comprise the following:		
Cash at bank and in hand	5,854,959	8,689,676
	5,854,959	**8,689,676**
(a) Reconciliation of net loss after tax to net cash flows from operations		
Net loss after tax	**(35,456)**	**(1,524,571)**
Adjustments for non-cash income and expense items:		
Depreciation	420,115	299,333
Amortisation	90,115	18,755
Movement in intangible assets	(1,290,551)	(400,437)
Movement provision for employee benefits	(86,832)	(20,141)
Movement in foreign exchange	34,046	213,409
Movement in employee benefits reserve	37,967	21,416
Movement in other provisions	558,264	708,494
	(272,332)	**(683,742)**
Increase/decrease in assets and liabilities:		
(Increase) / Decrease in receivables	(744,320)	622,163
Increase in inventories	(94,243)	(44,199)
Increase in other receivables	(448,946)	(2,765,564)
Increase in current tax asset	(50,599)	(27,778)
Decrease in deferred tax assets	55,428	197,066
Increase in creditors	1,175,008	156,689
(Decrease) / Increase in current tax liabilities	(929,415)	1,545,220
Decrease in deferred tax liabilities	(32)	(3,306)
Increase in deferred income liability	202,116	321,330
Net cash flow used in operating activities	**(1,107,335)**	**(682,121)**

8. CASH AND CASH EQUIVALENTS (continued)

(b) Non-cash financing and investing activities

On 2 July 2018, 500,000 Long Term Incentive Plan (LTIP) shares were issued by way of loans. During 2018, 138,000 LTIP shares vested and an election was made to extend the exercise period for up to 5 years, whilst 55,443 LTIP shares lapsed and were cancelled. On 19 April 2017, 225,000 Long Term Incentive Plan (LTIP) shares were issued by way of loans. Refer to Note 18 Contributed Equity and Note 25 Share Based Payment Plans.

9. TRADE AND OTHER RECEIVABLES

		Consolidated	
		2018	2017
	Notes	$	$
Current			
Trade receivables, third parties		3,954,464	3,344,264
Allowance for expected credit loss	(v)	(417,610)	(551,730)
Net Trade receivables, third parties	(i)	3,536,854	2,792,534
Other receivables	(ii), (iii)	2,710,211	2,545,290
Total Current trade and other receivables		**6,247,065**	**5,337,824**
Non-current			
Trade receivables, associate		230,782	230,782
Allowance for expected credit loss		(230,782)	(230,782)
Total Non-current trade and other receivables		**-**	**-**
Total trade and other receivables		**6,247,065**	**5,337,824**

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 receivables are non-interest bearing and have repayment terms between 30 and 90 days.

(iii) Other receivables includes accrued R&D Tax Incentive of $2,324,467 (2017: $2,144,586) for the financial year ended 31 December 2018, which will be received upon lodgement and processing of the 2018 income tax return.

(iv) Related party details are set out in the Note 21 Related Party Disclosures.

(v) In late 2017, the company restructured its German distribution model to include the termination of commercial activities with Almedis Altmann GmbH and the termination of its General Manager for Germany. Almedis Altmann GmbH is an entity controlled by the former General Manager – Germany. As a result of these actions, the company recorded a provision for doubtful debts of $540,754 in 2017 (nil expected credit loss during the current year) relating to trade balances with Almedis Altmann GmbH.

9. TRADE AND OTHER RECEIVABLES (continued)

Movements in the allowance for expected credit losses (2017: provision for impairment of receivables) are as follows:

		Consolidated	
		2018	2017
	Notes	$	$
Opening balance		551,730	7,512
Additional provisions recognised		-	544,218
Receivables written off during the year as uncollectable		-	-
Unused amounts reversed		(134,120)	-
Closing balance		417,610	551,730

10. INVENTORIES

		Consolidated	
		2018	2017
	Notes	$	$
Current			
Raw materials at cost		1,198,130	1,128,888
Finished goods at lower of cost or net realisable value		1,614,033	1,584,721
Provision for obsolescence		(40,617)	(36,305)
Total inventory		**2,771,546**	**2,677,303**

11. PROPERTY, PLANT AND EQUIPMENT

Year ended 31 December 2018 Consolidated	Leasehold Land and buildings $	Leasehold improvements $	Plant and equipment $	Leased Plant and Equipment $	Capital Work in Progress $	Total $
1 January 2018						
at written down value	305,098	1,883,597	445,726	-	48,002	2,682,423
Additions / Transfers	-	90,910	116,573	-	71,660	279,143
Disposals / Transfers	-	-	(206)	-	(41,832)	(42,038)
Foreign exchange translation	4,798	3,845	(39,650)	-	-	(31,007)
Depreciation for the year	(10,006)	(275,757)	(134,352)	-	-	(420,115)
31 December 2018						
at written down value	**299,890**	**1,702,595**	**388,091**	**-**	**77,830**	**2,468,406**
1 January 2018						
Cost value	2,378,282	4,919,659	8,191,866	120,901	48,002	15,658,710
Impairment - Molecular Imaging*	(1,881,960)	(2,608,912)	(4,369,291)	-	-	(8,860,163)
Accumulated depreciation	(191,224)	(427,150)	(3,376,849)	(120,901)	-	(4,116,124)
Net carrying amount	**305,098**	**1,883,597**	**445,726**	**-**	**48,002**	**2,682,423**
31 December 2018						
Cost value	2,383,603	5,010,569	8,295,535	120,901	77,830	15,888,438
Impairment - Molecular Imaging*	(1,881,960)	(2,608,912)	(4,369,291)	-	-	(8,860,163)
Accumulated depreciation	(201,753)	(699,062)	(3,538,153)	(120,901)	-	(4,559,869)
Net carrying amount	**299,890**	**1,702,595**	**388,091**	**-**	**77,830**	**2,468,406**

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

11. PROPERTY, PLANT AND EQUIPMENT (continued)

Year ended 31 December 2017 Consolidated	Leasehold Land and buildings $	Leasehold improvements $	Plant and equipment $	Leased Plant and Equipment $	Capital Work in Progress $	Total $
1 January 2017						
at written down value	338,901	1,709,611	292,143	-	-	2,340,655
Additions / Transfers	-	174,680	409,082	-	48,002	631,764
Disposals / Transfers	-	-	(2)	-	-	(2)
Foreign exchange translation	(24,463)	-	33,802	-	-	9,339
Depreciation for the year	(9,340)	(694)	(289,299)	-	-	(299,333)
31 December 2017						
at written down value	**305,098**	**1,883,597**	**445,726**	**-**	**48,002**	**2,682,423**
1 January 2017						
Cost value	2,400,108	4,744,979	7,785,879	120,901	-	15,051,867
Impairment - Molecular Imaging*	(1,881,960)	(2,608,912)	(4,369,291)	-	-	(8,860,163)
Accumulated depreciation	(179,247)	(426,456)	(3,124,445)	(120,901)	-	(3,851,049)
Net carrying amount	**338,901**	**1,709,611**	**292,143**	**-**	**-**	**2,340,655**
31 December 2017						
Cost value	2,378,282	4,919,659	8,191,866	120,901	48,002	15,658,710
Impairment - Molecular Imaging*	(1,881,960)	(2,608,912)	(4,369,291)	-	-	(8,860,163)
Accumulated depreciation	(191,224)	(427,150)	(3,376,849)	(120,901)	-	(4,116,124)
Net carrying amount	**305,098**	**1,883,597**	**445,726**	**-**	**48,002**	**2,682,423**

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

Fair Value Measurement

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

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

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

11. PROPERTY, PLANT AND EQUIPMENT (continued)

Valuation techniques

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

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

The Cyclopharm Board decided to cease commercial production at its Cyclotron facility at the end of April 2014 due to the impact on the Group's profits of the government-owned competition. In making that decision, the Board valued the Cyclotron facility, comprised of buildings, leasehold improvements and plant and equipment at a fair value of nil, using the market approach and income approach techniques. The market technique predominantly used recent observable market data for similar new equipment in Australia, adjusted for loss in value caused by physical deterioration, functional obsolescence, economic obsolescence and the industry specific aspects affecting this highly specialised asset i.e. the government-owned competition which had rendered further participation in the molecular imaging industry uneconomic and its future use uncertain. The same industry specific factors were applied to the income approach technique. Both techniques resulted in a fair value of nil being recognised for the Cyclotron facility as at 31 December 2014. Cyclopharm considers that the same conditions still apply at 31 December 2018. Furthermore, the damage caused to the Cyclotron facility in June 2014 has delayed any final decisions about the future use of the Cyclotron facility until its restoration to its former functionality. Accordingly, Cyclopharm has concluded that as a result of this uncertainty, the fair value of the Cyclotron remains at nil as at 31 December 2018.

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

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

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

Non-Recurring fair value measurements:

	Level 2 2018 $	Level 2 2017 $
Buildings	-	-
Plant and equipment	-	-
Leasehold improvements	-	-
Total non-financial assets recognised at fair value	-	-

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

12. INVESTMENTS

		Consolidated	
		2018	2017
Equity accounted investments	**Notes**	**$**	**$**
Associated companies	(a)	-	-

Name	**Principal Activities**	**Principal place of business**	**Measurement Method**	**Ownership Interest**	
				2018	**2017**
Macquarie Medical Imaging Pty Ltd	Imaging centre	Sydney, Australia	Equity method	20%	20%

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

		Consolidated	
		2018	2017
Extract from the associate's statement of financial position:	**Notes**	**$**	**$**
Current Assets		1,667,541	1,086,606
Non-current Assets		9,622,837	12,006,519
Current Liabilities		(14,671,387)	(12,166,215)
Non-current Liabilities		(8,733,080)	(10,365,250)
Net Liabilities		(12,114,089)	(9,438,340)
Share of associate's Net Liabilities	(a)	(2,422,818)	(1,887,668)

		Consolidated	
		2018	2017
Extract from the associate's statement of comprehensive income:	**Notes**	**$**	**$**
Revenue		14,650,032	13,661,612
Net Loss	(a)	(2,589,397)	(1,969,568)

(a) The share of the associate's loss not recognised during the year was $517,879 (2017: loss of $393,914) and the cumulative share of the associate's loss not recognised as at 31 December 2018 was $3,451,842 (31 December 2017: $2,933,963). The comparative amounts have been revised after the receipt of the audited financial report of the associate subsequent to the last financial report of the Group.

The share of loss of associate not recognised as at 31 December 2018 is extracted from the unaudited financial report of the associate, and it may be revised when that financial report has been audited.

The fair value of the Group's investment in Macquarie Medical Imaging Pty Ltd was $nil (2017: $nil).

12. INVESTMENTS (continued)

Contingent liabilities

(b) Pursuant to a Shareholders' Agreement, CycloPet Pty Limited (a wholly owned subsidiary of Cyclopharm Limited) has undertaken to provide a put option to a 50% shareholder of Macquarie Medical Imaging Pty Limited ("MMI") such that if this option was exercised, CycloPet would be required to purchase all Redeemable Preference Shares and Ordinary Shares held by the 50% joint venturer for the value of the Redeemable Preference Shares plus any accumulated interest plus $1 for the Ordinary Shares. The cost to CycloPet had the put option been issued and exercised at balance date is estimated not to exceed $2,838,442 (2017: $2,393,465). If the put option was issued and exercised, control of MMI would be transferred to the Group and MMI's financial statements would be consolidated from that date.

13. INTANGIBLE ASSETS

Consolidated	Intellectual Property $	Goodwill on consolidation* $	Licences $	Technegas Development $	Target $	Ultralute $	Total $
Balance at							
1 January 2018	54,164	400,437	-	427,015	27,419	1,857,995	2,767,030
Additions	15,394	865,273	425,278	296,083	-	291,401	1,893,429
Transfers	-	(400,437)	400,437	-	-	-	-
Amortisation	(15,046)	-	(75,069)	-	-	-	(90,115)
Balance at							
31 December 2018	**54,512**	**865,273**	**750,646**	**723,098**	**27,419**	**2,149,396**	**4,570,344**
31 December 2018							
Non-Current	54,512	865,273	750,646	723,098	27,419	2,149,396	4,570,344
Total	**54,512**	**865,273**	**750,646**	**723,098**	**27,419**	**2,149,396**	**4,570,344**
31 December 2017							
Non-Current	54,164	400,437	-	427,015	27,419	1,857,995	2,767,030
Total	**54,164**	**400,437**	**-**	**427,015**	**27,419**	**1,857,995**	**2,767,030**

* Goodwill on consolidation arising upon the acquisition of Inter Commerce Medical bvba on 1 October 2017 and Medicall Analys AB on 1 May 2018. Refer to Note 28 for further details.

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

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 pre-tax discount rate used was 25.00% in 2018 (2017: 15.20%). The discount rate reflects management's estimate of the time value of money and the Group's adjusted weighted average cost of capital to reflect the current market risk–free rate but also price for the uncertainty inherent in the assets.

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

14. TRADE AND OTHER PAYABLES

		Consolidated	
		2018	2017
	Notes	$	$
Current			
Trade payables, third parties	(i)	2,366,062	1,561,789
Other payables and accruals	(ii)	1,233,403	1,044,805
Total current trade and other payables		**3,599,465**	**2,606,594**
Non-current			
Other payables and accruals		336,864	154,727
Total Non-current trade and other payables		**336,864**	**154,727**
Total trade and other payables		**3,936,329**	**2,761,321**

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 21 Related party disclosures.

15. INTEREST BEARING LOANS AND BORROWINGS

	Consolidated	
	2018	2017
	$	$
Current		
Lease liabilty - secured	61,592	20,204
Bank loan - secured (b)	58,985	67,332
Interest bearing loans and borrowings (current)	**120,577**	**87,536**
Non-current		
Lease liabilty - secured	-	81,719
Bank loan - secured (b)	-	5,611
Interest bearing loans and borrowings (non-current)	**-**	**87,330**
Total interest bearing loans and borrowings	**120,577**	**174,866**

(a) Financing facilities available:

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

		Consolidated	
		2018	2017
	Notes	$	$
Total facilities available:			
- secured bank loans, third party		120,577	174,866
		120,577	**174,866**
Facilities used at reporting date:			
- secured bank loans, third party	15	120,577	174,866
		120,577	**174,866**
Total facilities		120,577	174,866
Facilities used at reporting date:		(120,577)	(174,866)
Facilities unused at reporting date:		**-**	**-**

(b) Secured Bank Loans

Cyclopharm's wholly owned subsidiary, Inter Commerce Medical bvba ("ICM"), has a loan provided by Bank Nagelmackers nv which will be fully repaid by January 2019. The facility is secured by bank deposits held by the vendor of ICM.

16. PROVISIONS

	Consolidated		
	Employee Entitlements	Make good	Total
Consolidated	$	$	$
Balance at 1 January 2018	**956,611**	**200,000**	**1,156,611**
Arising during the year	83,866	86,347	170,213
Utilised	(170,698)	-	(170,698)
Balance at 31 December 2018	**869,779**	**286,347**	**1,156,126**
31 December 2018			
Current	855,517	-	855,517
Non-Current	14,262	286,347	300,609
Total	**869,779**	**286,347**	**1,156,126**
Number of employees			
Number of employees at year end	32		
31 December 2017			
Current	944,276	-	944,276
Non-Current	12,335	200,000	212,335
Total	**956,611**	**200,000**	**1,156,611**
Number of employees			
Number of employees at year end	27		

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

17. DEFERRED INCOME LIABILITIES

	Consolidated	
	2018	2017
	$	$
Deferred income liabilities	**663,559**	**461,443**

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

18. CONTRIBUTED EQUITY

		Consolidated			
		2018	2017	2018	2017
	Notes	Number	Number	$	$
Issued and paid up capital					
Ordinary shares	(a)	68,698,873	68,254,316	27,238,193	26,884,885
Other contributed equity	(b)	-	-	(5,333,158)	(5,333,158)
Total issued and paid up capital		**68,698,873**	**68,254,316**	**21,905,035**	**21,551,727**
(a) Ordinary shares					
Balance at the beginning of the period		68,254,316	59,726,733	26,884,885	20,296,125
Issue of Long Term Incentive Plan shares	(i)	500,000	225,000	-	-
Issue of non-renounceable entitlement shares	(ii)	-	8,684,768	-	6,588,760
Cancellation of expired Long Term Incentive Plan shares	(iii)	(55,443)	(382,185)	-	-
Settlement of loan for Long Term Incentive Plan shares	(iv)	-	-	353,308	-
Balance at end of period		**68,698,873**	**68,254,316**	**27,238,193**	**26,884,885**
(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) 500,000 LTIP shares were issued on 2 July 2018 and 225,000 LTIP shares were issued on 19 April 2017 as set out in Note 25.
(ii) On 30 June 2017, the Company completed a capital raising exercise comprising a pro-rata non-renounceable entitlement offer to eligible shareholders of 1 share for every 6.8 shares held by eligible shareholders at an issue price of $0.80 per new share, resulting in the issue of 8,684,768 shares.
(iii) 55,443 expired LTIP shares were cancelled on 8 October 2018 and 382,185 expired LTIP shares were cancelled on 8 September 2017.
(iv) Proceeds from settlement of loan to acquire LTIP shares.

18. 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 assesses 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 the entity's short or long term borrowings or sell assets to reduce borrowings.

Management monitors capital through the gearing ratio (net debt/total capital). Management aims to ensure that the Group's gearing ratio does not exceed 45%. There are no banking covenants as at 31 December 2018.

		Consolidated	
		2018	2017
	Notes	$	$
Total interest bearing loans and borrowings		120,577	174,866
Less: cash and cash equivalents	8	(5,854,959)	(8,689,676)
Net cash		**(5,734,382)**	**(8,514,810)**
Total equity		17,015,969	17,249,392
Gearing ratio		0.7%	1.0%

Dividends

During the current financial year, the Directors declared an unfranked interim dividend of 0.5 cent per share in respect of the financial year ended 31 December 2018 and an unfranked final dividend of 0.5 cent per share in respect of the financial year ended 31 December 2017. During the 2017 financial year, the Directors declared an unfranked interim dividend of 0.5 cent per share in respect of the financial year ended 31 December 2017 and an unfranked final dividend of 0.5 cent per share in respect of the financial year ended 31 December 2016.

The final unfranked dividend of 0.5 cent per share has not been recognised in these consolidated financial statements as it was declared subsequent to 31 December 2018.

	Consolidated			
	2018	2017	2018	2017
	Cents per share	Cents per share	$	$
Fully paid ordinary shares				
Final dividend in respect of the previous financial year				
- No franking credits attached	0.50	0.5	321,653	278,309
Interim dividend in respect of the current financial year				
- No franking credits attached	0.50	0.50	329,819	321,813
	1.00	**1.00**	**651,472**	**600,122**

19. FINANCIAL RISK MANAGEMENT OBJECTIVES

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

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

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

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

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

(a) Interest rate risk

As the Group has moved into a low debt, strong cash position, the main interest rate risk is now in cash assets exposure.

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

At 31 December 2018, 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	
	2018	2017
	$	$
Judgements of reasonably possible movements:		
Profit before income tax		
+1.0% (100 basis points)	57,960	86,167
-0.5% (50 basis points)	(28,980)	(43,084)

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

19. FINANCIAL RISK MANAGEMENT OBJECTIVES (continued)

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

(a) Interest rate risk (continued)

Consolidated Year ended 31 December 2018		Weighted average interest rate %	Non interest bearing	Floating interest rate	Fixed interest maturing in		Total
					1 year or less	1 to 5 years	
			$	$	$	$	$
FINANCIAL ASSETS							
Cash and cash equivalents	8	2.20%	-	5,854,959	-	-	5,854,959
Trade and other receivables	9	n/a	6,247,065	-	-	-	6,247,065
Total financial assets			**6,247,065**	**5,854,959**	**-**	**-**	**12,102,024**
FINANCIAL LIABILITIES							
Trade payables, third parties	14	n/a	3,936,329	-	-	-	3,936,329
Leases, third party	15	0.50%	-	-	61,592	-	61,592
Secured bank loans, third party	15	4.30%	-	-	58,985	-	58,985
Total financial liabilities			**3,936,329**	**-**	**120,577**	**-**	**4,056,906**
Net exposure			**2,310,736**	**5,854,959**	**(120,577)**	**-**	**8,045,118**

Consolidated Year ended 31 December 2017		Weighted average interest rate %	Non interest bearing	Floating interest rate	Fixed interest maturing in		Total
					1 year or less	1 to 5 years	
			$	$	$	$	$
FINANCIAL ASSETS							
Cash and cash equivalents	8	2.35%	-	8,689,676	-	-	8,689,676
Trade and other receivables	9	n/a	5,337,824	-	-	-	5,337,824
Total financial assets			**5,337,824**	**8,689,676**	**-**	**-**	**14,027,500**
FINANCIAL LIABILITIES							
Trade payables, third parties	14	n/a	2,761,321	-	-	-	2,761,321
Leases, third party	15	0.50%	-	-	20,204	81,719	101,923
Secured bank loans, third party	15	4.30%	-	-	67,332	5,611	72,943
Total financial liabilities			**2,761,321**	**-**	**87,536**	**87,330**	**2,936,187**
Net exposure			**2,576,503**	**8,689,676**	**(87,536)**	**(87,330)**	**11,091,313**

19. 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 2018, 100% (2017: 49%) of the Group's debt is due to mature in less than one year.

Refer to the table above with the heading 19 (a) Interest Rate Risk, which reflects all contractually fixed pay-offs for settlement of financial liabilities and collection of financial assets. Trade payables and other financial liabilities generally originate from the financing of assets used in our ongoing operations such as investments in working capital e.g. inventories and trade receivables and investment in property, plant and equipment. These assets are considered in the Group's overall liquidity risk. To monitor existing financial assets and liabilities as well as to enable an effective controlling of future risks, the Board and management monitor the Group's expected settlement of financial assets and liabilities on an ongoing basis.

The Group monitors the rolling forecast of liquidity reserves based on expected cash flow. At balance date the Group has no unused credit facilities (2017: $nil).

Consolidated Year ended 31 December 2018	Note	Less than 6 months $	6 months to 1 year $	1 year to 5 years $	Greater than 5 years $	Total $
Trade payables, third parties	14	3,262,601	336,864	336,864	-	3,936,329
Leases, third party	15	30,796	30,796	-	-	61,592
Secured bank loans, third party	15	29,493	29,492	-	-	58,985
		3,322,890	397,152	336,864	-	4,056,906
31 December 2017						
Trade payables, third parties	14	2,451,867	154,727	154,727	-	2,761,321
Leases, third party	15	10,102	10,102	81,719	-	101,923
Secured bank loans, third party	15	33,666	33,666	5,611	-	72,943
		2,495,635	198,495	242,057	-	2,936,187

(d) Commodity price risk

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

19. FINANCIAL RISK MANAGEMENT OBJECTIVES (continued)

(e) Foreign currency risk

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

The Group also has transactional currency exposures. Such exposure arises from sales or purchases by an operating unit in currencies other than the unit's functional currency. Approximately 78% (2017: 77%) of the Group's sales are denominated in currencies other than the functional currency of the operating unit making the sale, whilst approximately 60% (2017: 57%) of costs are denominated in the unit's functional currency.

At 31 December 2018, the Group had the following financial instrument exposure to foreign currency fluctuations:

	Consolidated	
	2018	2017
	$	$
United States dollars		
Amounts payable*	4,628,580	116,347
Amounts receivable	19,339	6,797
Euros		
Amounts payable	303,270	180,577
Amounts receivable	2,156,252	2,109,462
Canadian dollars		
Amounts payable	10,596	44,819
Amounts receivable	301,079	456,204
Swedish Kroners		
Amounts payable	80,411	-
Amounts receivable	571,480	-
Japanese Yen		
Amounts payable	13,821	11,467
Amounts receivable	1,657	3,463
Chinese Renminbi		
Amounts payable	-	80,584
Amounts receivable	-	-
Net exposure	**2,477,940**	**(2,142,132)**

* includes forward exchange contract commitment.

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

19. FINANCIAL RISK MANAGEMENT OBJECTIVES (continued)

(e) Foreign currency risk (continued)

Forward Exchange Contracts

The Company is party to a foreign exchange forward contract which was taken out as protection against possible future falls in the value of the Australian dollar against the US Dollar. The fair value of the contract as at 31 December has been measured and following which, a fair value adjustment of $274,904 has been recognised in the Statement of Profit or Loss and Other Comprehensive Income. The Company's hedging activities have been assessed under AASB 139 and do not meet the criteria under which hedge accounting is required to be done by that standard.

Fair values

All of the Group's financial instruments recognised in the Statement of Financial Position have been assessed at their fair values using Level 1 inputs: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

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 entered a hedge for US Dollar (USD) movement in estimated costs to complete the USFDA trials and have determined that it is not cost effective to hedge against other foreign currency fluctuations.

Cyclopharm is most exposed to European Euro (Euro), Canadian Dollar (CAD), US Dollar (USD) and Swedish Kroner (SEK) movements. The following table details Cyclopharm's sensitivity to a 10% change in the Australian dollar against those 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.

19. FINANCIAL RISK MANAGEMENT OBJECTIVES (continued)

(e) Foreign currency risk (continued)

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 2018		
Net (loss) / profit	(168,453)	185,298
Equity (decrease) / increase	(168,453)	185,298
31 December 2017		
Net (loss) / profit	(169,157)	186,073
Equity (decrease) / increase	(169,157)	186,073
CAD		
31 December 2018		
Net (loss) / profit	(26,408)	29,048
Equity (decrease) / increase	(26,408)	29,048
31 December 2017		
Net (loss) / profit	(37,399)	41,139
Equity (decrease) / increase	(37,399)	41,139
USD		
31 December 2018		
Net profit / (loss)	419,022	(460,924)
Equity increase / (decrease)	419,022	(460,924)
31 December 2017		
Net (loss) / profit	9,959	(10,955)
Equity (decrease) / increase	9,959	(10,955)
SEK		
31 December 2018		
Net profit / (loss)	(44,643)	49,107
Equity increase / (decrease)	(44,643)	49,107
31 December 2017		
Net (loss) / profit	-	-
Equity (decrease) / increase	-	-

20. COMMITMENTS & CONTINGENCIES

(a) Operating lease commitments

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

	Consolidated	
	2018	2017
	$	$
Operating Lease Commitments		
Minimum lease payments		
Due not later than one year	655,447	679,346
Due later than 1 year & not later than 5 years	1,597,798	1,889,463
More than 5 years	755,188	1,117,678
Total operating lease commitments	**3,008,433**	**3,686,487**
Operating lease expenses recognised as an expense during the year	718,351	755,447

- Cyclomedica Australia Pty Ltd.'s ("CMAPL") has entered into a commercial lease on office and manufacturing space at Kingsgrove, New South Wales, for 5 years with renewal options included in the contract. In 2017, the landlord extended the lease from 5 years to 10 years with renewal options. The lease term extension is reflected in the lease commitments disclosed above.
- CycloPet Pty Ltd has entered 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.
- Cyclomedica Canada Limited has entered a commercial lease for office space in Ontario, Canada. The lease has a term of 2 years.
- The Group also has entered commercial leases on motor vehicles that have an average life of approximately 3 to 4 years.

(b) Finance lease commitments

	Consolidated	
	2018	2017
	$	$
Finance Lease Commitments		
Minimum lease payments		
Due not later than one year	61,592	20,204
Due later than 1 year & not later than 5 years	-	81,719
More than 5 years	-	-
Total finance lease commitments	**61,592**	**101,923**

20. COMMITMENTS & CONTINGENCIES (continued)

(c) Capital commitments

There were no capital commitments as at the date of this report (2017: $nil).

(d) Contingent liabilities

(i) Pursuant to a Shareholders' Agreement, CycloPet Pty Limited (a wholly owned subsidiary of Cyclopharm Limited) has undertaken to provide a put option to a 50% shareholder of Macquarie Medical Imaging Pty Limited ("MMI") such that if this option was exercised, Cyclopet would be required to purchase all Redeemable Preference Shares and Ordinary Shares held by the 50% joint venturer for the value of the Redeemable Preference Shares plus any accumulated interest plus $1 for the Ordinary Shares. The cost to CycloPet had the put option been issued and exercised at balance date is estimated not to exceed $2,838,442 (2017: $2,393,465). If the put option was issued and exercised, control of MMI would be transferred to the Group and MMI's financial statements would be consolidated from that date.

21. RELATED PARTY DISCLOSURES

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

The following table provides the total amount of transactions that were entered into with related parties for the relevant financial year (for information regarding outstanding balances at year-end, refer to Note 9 Trade and Other Receivables, Note 14 Trade and Other Payables and Note 15 Interest Bearing Loans and Borrowings):

CONSOLIDATED		Sales to related parties $	Purchases from related parties $	Amounts owed by/ (to) related parties $	Provision for doubtful debts on Amounts owed by related parties $
Cell Structures Pty Ltd	*2018*	-	51,000	(28,050)	-
	2017	-	43,380	(27,500)	-
Macquarie Medical Imaging	*2018*	-	-	230,782	230,782
	2017	-	-	230,782	230,782
Almedis Altmann GmbH	*2018*	-	-	-	-
	2017	1,096,875	-	530,754	540,754

21. RELATED PARTY DISCLOSURES (continued)

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 $51,000 (2017: $43,380) were made to Cell Structures Pty Ltd (an entity controlled by Director, Mr. Tom McDonald). All payments relate to Mr. McDonald's role as a non-executive director including consultancy services provided by him.
- CycloPet Pty Ltd, a wholly owned subsidiary of Cyclopharm has a 20% interest in Macquarie Medical Imaging. Prior to ceasing commercial operations at the end of April 2014, CycloPet manufactured products that were sold to Macquarie Medical Imaging. As the trade debtor balance of $230,782 (2017: $230,782) is not expected to be repaid in the short term, it is included as an interest in the associate and a share of the associate's losses has been recognised under the equity method in the 2014 financial year. Refer to Note 12 for details of the investment in the associate.
- During the previous year, sales amounting to $1,096,875 were made to Almedis Altmann GmBH (an entity controlled by the former General Manager – Germany). In late 2017, the company restructured its German distribution model to include the termination of commercial activities with Almedis Altmann GmbH and the termination of its General Manager for Germany. As a result of these actions, the company recorded a provision for doubtful debts of $540,754 as at 31 December 2017 relating to trade balances with Almedis Altmann GmbH.

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

21. RELATED PARTY DISCLOSURES (continued)

Controlled Entities

Name	Note	Country of Incorporation	Percentage of equity interest held 2018	2017
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%
Inter Commerce Medical bvba	4	Belgium	100%	100%
Medicall Analys AB	5	Sweden	100%	-
Cyclomedica Germany GmbH	6	Germany	100%	100%
Cyclomedica Canada Limited	7	Canada	100%	100%

Notes

1. Cyclopharm Limited is the ultimate parent entity in the wholly owned group.
2. Audited by Nexia Sydney Audit Pty Ltd, Australia.
3. Audited by Andrew P.Quinn & Associates Limited, Republic of Ireland.
4. Audited by HLB Dodemont - Van Impe, Belgium, acquired on 1 October 2017.
5. Audited by Nexia Revision, Stockholm, Sweden, acquired on 1 May 2018.
6. Audited by Bilanzia GmbH Wirtschaftsprufungsgesellschaft, Germany.
7. Audited by Schwartz Levitsky & Feldman LLP, Toronto, Canada.

22. EVENTS AFTER THE BALANCE DATE

FINAL DIVIDEND

On 27 February 2019, the Directors declared a final unfranked dividend of 0.5 cent per share in respect of the financial year ended 31 December 2018, payable on 15 April 2019.

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

23. AUDITORS' REMUNERATION

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

	Consolidated	
	2018	2017
	$	$
Amounts received or due and receivable by the auditor of the parent entity and associated entities for:		
Audit and review of the financial statements	140,052	102,000
Other services:		
- tax compliance	10,901	3,112
- share registry	28,618	25,382
	179,571	**130,494**
Amounts received or due and receivable by other audit firms for:		
Audit of the financial statements of controlled entities	108,501	84,341
Other services	66,440	38,933
	174,941	**123,274**

24. DIRECTOR AND KEY MANAGEMENT PERSONNEL DISCLOSURE

Individual Directors and executives compensation disclosures

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

Summary of remuneration of Directors & Key Management Personnel:

	Short-term employee benefits		Post employment benefits	Other Long-term benefits	Share-based payment	Total
Consolidated	Salary & Fees $	Cash Bonus $	Superannuation $	$	$	$
2018	760,504	77,000	61,900	5,371	27,450	932,225
2017	688,972	50,000	53,592	7,162	11,706	811,432

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

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

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

Termination benefits
These amounts represent termination benefits paid out during the year.

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

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

25. 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	
	2018 $	2017 $
Expense arising from equity-settled share-based payment transactions (note 5)	37,967	21,416

The share-based payment reserve at 31 December 2018 was $663,005 (2017: $625,038).

25. 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 other than an amendment to allow allotment or transfer of Plan shares to an entity wholly owned and controlled by the participant. The amendment was approved by members at the Annual General Meeting held on 26 May 2015. An updated Plan was approved by members at the Annual General Meeting held on 29 May 2018.

Shares

Long Term Incentive Plan ("Plan") Shares ("Shares") are granted to certain 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 a Participant 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 with an updated Plan approved by Shareholders on 29 May 2018.

Implied Options

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

Where employee shares are issued under a non-recourse loan payment plan, the loan assets and the increments to Contributed Equity are not recognised at grant date but rather the increments to Contributed Equity are recognised when the share loans are settled by the relevant employees.

25. SHARE BASED PAYMENT PLANS (continued)

(c) Summary of Implied Options granted

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

		Consolidated 2018 Number	Consolidated 2017 Number	Weighted Average Exercise Price 2018 $	Weighted Average Exercise Price 2017 $
Balance at the beginning of the year		363,000	2,341,590	1.01	0.92
Granted during the year		500,000	225,000	1.55	0.90
Vested but unexercised during the year	(i)	(138,000)	(1,821,405)	1.20	0.90
Lapsed during the year		-	(382,185)	-	0.90
Balance at the end of the year		**725,000**	**363,000**	**1.35**	**1.01**
Vested but unexercised at the end of the year	(i)	1,923,962	3,544,861		

(i) 138,000 LTIP shares (2017: 1,821,405) issued to several group executives vested during the year. These executives elected to extend the exercise period for up to 5 years under limited security financial assistance arrangements offered by the Company, in accordance with the Plan terms.

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

The exercise price for Implied Options at the end of the year was $1.35 (2017: $1.01). The weighted average remaining contractual life for the Implied Options outstanding as at 31 December 2018 is 2.13 years (2017: 1.64 years). The weighted average fair value of Implied Options granted during the year was $0.153 (2017: $0.196).

(e) Option pricing models

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

Exercise price per Implied Option	**$0.90**	**$1.55**
Number of recipients	1	1
Number of Implied Options	225,000	500,000
Grant Date	19/04/2017	2/07/2018
Dividend yield	-	-
Expected annual volatility	44%	41%
Risk-free interest rate	1.80%	2.09%
Expected life of Implied Option (years)	3 years	3 years
Fair value per Implied Option	$0.196	$0.153
Share price at grant date	$0.76	$0.99
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.

26. PARENT ENTITY DISCLOSURE

	2018	2017
	$	$
(i) **Financial Position**		
Assets		
Current Assets	6,205,679	8,599,453
Non-current Assets	14,689,676	11,752,166
Total Assets	**20,895,355**	**20,351,619**
Liabilities		
Current Liabilities	560,499	1,503,270
Non-current Liabilities	8,856,700	8,654,583
Total Liabilities	**9,417,199**	**10,157,853**
Net assets	**11,478,156**	**10,193,766**
Equity		
Contributed equity	22,105,568	21,752,259
Employee equity benefits reserve	663,005	625,038
Accumulated Losses	(11,290,417)	(12,183,531)
Total Equity	**11,478,156**	**10,193,766**
(ii) **Financial Performance**		
Loss for the year	1,819,490	(565,207)
Other comprehensive income	-	-
Total Loss for the year	**1,819,490**	**(565,207)**

27. RESERVES

Nature and purpose of reserves:

(a) Employee equity benefits reserve

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

(b) Foreign currency Translation Reserve

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

28. BUSINESS COMBINATIONS

Acquisition of Medicall Analys AB

On 1 May 2018, the Group acquired via a Share Sale Agreement 100% of the ordinary shares of Medicall Analys AB ("MA"), a Swedish private company. MA and its subsidiaries specialise in the sales and marketing support of medical supplies in Sweden including the distribution of nuclear medicine imaging products. MA is the distributor for Technegas products in the Sweden, Norway and Finland markets and its purchase is expected to provide supply chain synergies to the Group.

The acquisition has been accounted for using the acquisition method. The consolidated financial statements include the results of MA for the period between 1 May 2018 and 31 December 2018.

The fair values of identifiable assets and liabilities of MA at the date of acquisition were:

	Fair value recognised on acquisition
	$
Assets	
Investments	154
Cash and cash equivalents	86,830
Inventories	76,372
Debtors	162,279
Other receivables and prepayments	35,300
Licences (fair valued at acquisition date)	425,278
Total Assets	**786,213**
Liabilities	
Trade and other payables	193,783
Borrowings	14,500
Provisions and other liabilities	81,269
Total liabilities	**289,552**
Total identifiable net assets at fair value	496,661
Goodwill arising on acquisition	865,273
Purchase consideration transferred/transferable (i)	**1,361,934**

	$
Net cash acquired with the subsidiary (included in cash flows from investing activities)	86,830
Cash paid	(680,967)
Net cash inflow	**(594,137)**

The fair value of trade and other receivables at acquisition date amounts to $197,579.

28. BUSINESS COMBINATIONS (continued)

(i) The purchase consideration of $1,361,934 included A$ 680,967 (SEK 4,423,221) future consideration payable in cash. The future consideration is payable in 2 tranches being A$ 340,483 (SEK 2,211,611) each on the first and second post completion dates.

From the date of acquisition to the end of the financial year, MA contributed revenue of $808,822 and a net profit after tax of $307,363 to the continuing operations of the Group. If the acquisition date had been at the beginning of the reporting period, MA would have contributed revenue of $1,576,110 and a net profit after tax of $354,150 to the continuing operations of the Group.

The goodwill recognised is primarily attributed to synergies available to the new group which will enhance shareholder value through capturing agency commissions and providing control over distribution and pricing. The goodwill is not deductible for income tax purposes. Transaction costs of $4,899 have been expensed and are included in Administration expense in the Statement of Comprehensive Income and are part of operating cash flows in the statement of cash flows.

Acquisition of Inter Commerce Medical bvba

On 1 October 2017, the Group acquired via a Share Sale Agreement 100% of the ordinary shares of Inter Commerce Medical bvba ("ICM"), a Belgian private company which specialises in the distribution of nuclear medicine Single Photon Emission Computed Tomography ("SPECT") and Positron Emission Tomography ("PET") imaging products and products used for both diagnostic and therapeutic procedures. ICM is the agent for Technegas products in the Belgium, Netherlands and Luxembourg markets and its purchase is expected to provide supply chain synergies to the Group.

The acquisition has been accounted for using the acquisition method resulting in a goodwill at acquisition date of $400,437. At 31 December 2017, the Group disclosed that the fair values of the identifiable assets and liabilities of ICM at the acquisition were provisional. Subsequent valuation of identifiable assets and liabilities has resulted the goodwill being revised to nil and $400,437 being allocated to an intangible asset (Pharmaceutical Wholesale License).

The consolidated financial statements include the results of ICM for the financial year ended 31 December 2018 and for the period between 1 October 2017 and 31 December 2017 for the comparatives.

Directors' Declaration

In the opinion of the Directors of Cyclopharm Limited:

1. (a) The financial statements and notes of the consolidated entity as set out on pages 45 to 102 are in accordance with the Corporations Act 2001, including:

    (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the year ended on that date; and

    (ii) complying with Accounting Standards which, as stated in accounting policy Note 2(a) to the financial statements, constitutes explicit and unreserved compliance with International Financial Reporting Standards (IFRS); and

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

2. The Directors have been given the declarations required by section 295A of the Corporations Act 2001 from the chief executive officer and chief financial officer for the financial year ended 31 December 2018.

Signed in accordance with a resolution of the Directors:

James McBrayer
Managing Director and CEO

Sydney, 29 March 2019

Independent Auditor's Report to the Members of Cyclopharm Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Cyclopharm Limited (the Company and its subsidiaries (the Group)), which comprises the consolidated statement of financial position as at 31 December 2018, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

i) giving a true and fair view of the Group's financial position as at 31 December 2018 and of its financial performance for the year then ended; and

ii) complying with Australian Accounting Standards and *the Corporations Regulations 2001.*

Basis for opinion

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

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

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

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Capitalised Development Costs for Ultralute ($2,149,396) Refer to note 13 Included in the Group's intangible assets are capitalised development costs $2,149,396 in respect of the Ultralute product. Capitalised Ultralute development costs are considered to be a key audit matter due to the quantum of the asset; the degree of management judgement and assumptions applied in measuring the carrying value of the asset; and assessing the presence of impairment of a development phase asset.	Our audit procedures on the Ultralute development costs included, amongst others: ▪ We assessed the project against the requirements for capitalisation contained in AASB 138 *Intangible Assets*. ▪ We tested material expenditure capitalised during the year and checked that they were appropriately allocated to the development asset. ▪ We assessed management's determination of the Group's cash generating units based on our understanding of the nature of the Group's business and how earnings streams are monitored and reported.

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

Key audit matter	How our audit addressed the key audit matter
The most significant and sensitive judgments incorporated into the assessment for impairment of capitalised development costs include projections of cash flows, discount rates applied and assumptions regarding the Group's ability to exploit new markets. Other considerations and judgments include whether the capitalised costs qualify for capitalisation as development phase costs in accordance with AASB 138 *Intangible Assets*. This includes an understanding of the Group's process for recording and measuring internally developed assets and the Group's ability to complete the development and demonstrate its ability to generate future cash flows from that asset.	▪ We tested the Group's assumptions and estimates used to determine the recoverable value of its assets, including those relating to forecast revenue, cost, capital expenditure, and discount rates by corroborating the key market related assumptions to external data and by reference to our understanding of the business. ▪ We performed sensitivity analysis in two main areas to assess whether the carrying value of the capitalised development costs exceeded its recoverable amount. These were the discount rate and growth assumptions.
Business Combination and acquisition accounting Refer to note 27 The Group's recent acquisitions are required to be accounted for under AASB 3 - Business Combinations. There is a risk that the acquisitions of these entities have not been accounted for consistently with AASB 3. Some business acquisitions include contingent consideration, payable upon the occurrence of future events. Determining the fair value of contingent consideration payable in a business combination requires significant estimates and judgements, including the likelihood of future events occurring. We consider the business combinations and accounting for acquisitions as a key audit matter due to: ▪ the degree of estimation involved in assessing the fair value of assets acquired and the reliance on management's expert in determining these values; ▪ the risk that all identifiable assets and liabilities are not appropriately recognised; and ▪ the accounting estimates and management judgements involved in the calculation of contingent consideration, including the likelihood that thresholds for the payment of contingent consideration will be met.	Our procedures included, amongst others: ▪ We read the purchase agreement to understand the key terms and conditions of the acquisition. ▪ We obtained management's Purchase Price Allocation and obtained evidence supporting the completeness of the acquired identifiable assets and liabilities; ▪ We evaluated the capability, competency and objectivity of management's expert; ▪ We evaluated the assumptions and methodology used by management to estimate the fair value of identifiable intangible assets in accordance with AASB 13 Fair Value Measurement; ▪ We examined whether the treatment of transactions costs was in accordance with AASB 3 Business Combinations; ▪ We tested that deferred tax liabilities arising from the transaction were calculated in accordance with AASB 112 Income Tax; ▪ We assessed whether the liability for contingent consideration was consistent with the terms of the purchase agreements, including consideration of the discount rates used and the classification of current and non—current liabilities; ▪ We evaluated the key assumptions and methodology used in management's forecasts to assess the probability of the contingent consideration thresholds being met; and ▪ We assessed the appropriateness of the disclosures in respect of business combinations in the financial statements.

Other information

The directors are responsible for the other information. The other information comprises the information in Cyclopharm Limited's annual report for the year ended 31 December 2018, but does not include the financial report and the auditor's report thereon.

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

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of the other information we are required to report that fact. We have nothing to report in this regard.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

Auditor's responsibility for the audit of the financial report

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

A further description of our responsibilities for the audit of the financial report is located at The Australian Auditing and Assurance Standards Board website at: www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 20 to 30 of the directors' Report for the year ended 31 December 2018.

In our opinion, the Remuneration Report of Cyclopharm Limited for the year ended 31 December 2018, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Nexia Sydney Audit Pty Limited

Andrew Hoffmann
Director
Dated: 29 March 2019
Sydney

ASX Additional Information

The following information is current at 28 February 2019

A. SUBSTANTIAL SHAREHOLDERS

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

Shareholder	No. of ordinary shares held	Percentage held of issued ordinary capital
Anglo Australian Christian and Charitable Fund	13,211,332	19.23%
Barings Acceptance Limited	11,433,424	16.64%
National Nominees Limited	8,103,322	11.80%
Chemical Trustee Limited	8,000,000	11.65%
Stinoc Pty Limited	6,970,393	10.15%

B. DISTRIBUTION OF EQUITY SECURITY HOLDERS

(i) Analysis of numbers of equity security holders by size of holding as at 28 February 2019

Category	Ordinary Shareholders
1 - 1,000	105
1,001 - 5,000	231
5,001 - 10,000	123
10,001 - 100,000	177
100,001 and over	39
Total	675

(ii) There were 36 holders of less than a marketable parcel of ordinary shares.

C. EQUITY SECURITY HOLDERS

	Twenty largest quoted equity security holders	Ordinary shares Number held	Percentage of issued shares
1	Anglo Australian Christian and Charitable Fund	13,211,332	19.23%
2	Barings Acceptance Limited	11,433,424	16.64%
3	National Nominees Limited	8,103,322	11.80%
4	Chemical Trustee Limited	8,000,000	11.65%
5	Stinoc Pty Limited	6,970,393	10.15%
6	McBrayer Reid Investments <LTIP Account Holding 6>	1,721,554	2.51%
7	Chemical Trustee Limited	1,176,470	1.71%
8	Lloyds & Casanove Investment Partners Limited	975,965	1.42%
9	Mr James McBrayer	861,728	1.25%
10	Mr James McBrayer	861,728	1.25%
11	South Seas Holdings Pty Ltd	675,000	0.98%
12	Melbourne Corporation Of Australia Pty Ltd (Super Fund A/c)	667,376	0.97%
13	Honne Investments Pty Limited	600,000	0.87%
14	City & Westminster Limited	544,789	0.79%
15	Malackey Holdings Pty Ltd	420,220	0.61%
16	Melbourne Corp Of Australia Pty Limited	400,000	0.58%
17	Mr Anthony Rex Morgan & Mrs Elena Morgan <ZIKLAG Super Fund A/c>	400,000	0.58%
18	Melbourne Corporation Of Australia Pty Ltd (Super Fund A/c)	350,000	0.51%
19	Sydney Schools Pty Limited	300,500	0.44%
20	Malackey Holdings Pty Limited (The Malackey A/c)	300,000	0.44%
		57,973,801	84.39%
	Other equity security holders	10,725,072	15.61%
	Total	**68,698,873**	**100.00%**

D. VOTING RIGHTS

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

General Information

Directors

David Heaney
Non-Executive Chairman

James McBrayer
Managing Director & CEO

Vanda Gould
Non-Executive Director

Thomas McDonald
Non-Executive Director

Company Secretary
James McBrayer

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

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

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

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

Cyclomedica Germany
Lützenkirchener Str. 410
51381 Leverkusen
Germany

Cyclomedica Europe
Unit A5,
Calmount Business Park
Ballymount
Dublin 12
Ireland

Auditors
Nexia Sydney Audit & Assurance
Level 16, 1 Market Street
Sydney NSW 2000

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

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

Solicitors
HWL Ebsworth
Level 19, 480 Queen Street
Brisbane QLD 4001

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

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