Cyclopharm Limited
Appendix 4E

1. Company details

Name of entity

CYCLOPHARM LIMITED		
ABN or equivalent company reference	**Financial year ended ('current period')**	**Financial year ended ('previous period')**
74 116 931 250	31 December 2017	31 December 2016

2. Results for announcement to the market

2.1 Revenues from ordinary activities	down	(8.3%)	to	13,188,752
2.2 Loss from ordinary activities after tax attributable to members	down	(271.0%)	to	(1,524,571)
2.3 Net Loss for the period attributable to members	down	(271.0%)	to	(1,524,571)

2.4 Dividends	Amount per security	Franked amount per security
Final dividend proposed	0.5 cent	0.0 cent
Interim dividend - 2017	0.5 cent	0.0 cent

The Directors have resolved to pay a final unfranked dividend in respect of the financial year ended 31 December 2017 of 0.5 cent per share payable on 16 April 2018. An unfranked interim dividend in respect of the financial year ended 31 December 2017 was paid on 12 September 2017.

Ex-dividend date	Friday, 6 April 2018
Record date for determining entitlements to the final dividend	Monday, 9 April 2018
Payment date	Monday, 16 April 2018

2.5 Brief explanation of any of the figures in 2.1 to 2.4 above necessary to enable the figures to be understood.

Key highlights of Cyclopharm's financial results for the 2017 year included:

- Sales Revenue of $13.19 million, up 1.4% on prior year after excluding previous year's $1.38m seeding of our Chinese distributor
- Technegas division Underlying Operating EBITDA of $2.64m
- Initiated a USFDA Phase 3 clinical trial in November 2017 with 33 patients fully enrolled as at 23 February 2018. Total spend for the USFDA clinical trial in FY 2017 totaled A$2.58m
- Net cash at year-end of $8.69 million following capital raising in June 2017
- Approved R&D tax incentive resulting in Other Income of $2.39 million, of which $1.94 milion to be received in H1 2018
- Sales to China expected to recommence in H2 2018, following utilisation of initial seeding stocks from Q4 2016
- Sales to France stable as contract renegotiated. New contract expected to be signed in H1 2018 with sales uplift in H2 2018
- Sales to Canada and other European markets grew strongly during the year
- Acquisition of IC Medical for a consideration of €400k paid over 3 years plus surplus net cash in IC Medical's balance sheet at acquisition date of €470k
- First commercial production batch of the Ultralute™ technology completed, sales revenue to commence in H1 2018
- Restructure of European operations. Acquisitions and restructuring designed to allow for acceleration of sales and marketing efforts for both Technegas and Ultralutetm throughout Europe plus more efficient operations
- Initiated Pilot Clinical Trial with the University of Newcastle and the Hunter Medical Research Institute, to support the expanded use of Technegas in indications beyond PE. (30 Patients imaged as at 23 February 2018)
- Final dividend of 0.5 cents per share (Full year totaling 1.0 cent per share, unfranked)

Cyclopharm Limited
Appendix 4E

The table below outlines Cyclopharm's consolidated performance on a comparative financial year basis:

YEAR ENDED 31 DECEMBER	2017 $'000	2016 $'000	INC/(DEC) $'000	CHANGE %
SALES REVENUE	**13,189**	**14,386**	**(1,197)**	**(8%)**
SALES REVENUE EXCLUDING CHINA SEEDING SALES	**13,189**	**13,008**	**181**	1.4%
GROSS MARGIN	**10,740**	**11,182**	**(442)**	**(4%)**
GROSS MARGIN % SALES	81.4%	77.7%	3.7%	
CONSOLIDATED EBITDA	**1,043**	**2,041**	**(998)**	**(49%)**
ADD BACK:				
CPET / ULTRALUTE™ DIVISION	457	366	91	25%
R&D TAX INCENTIVE	(2,391)	(495)	(1,896)	(383%)
RELOCATION EXPENSES*	-	428	(428)	(100%)
FDA EXPENSES	2,585	1,098	1,487	135%
PILOT CLINICAL TRIAL EXPENSES	270	-	270	100%
PROVISIONS FOR ALMEDIS GERMANY	677	-	677	100%
UNDERLYING EBITDA	**2,641**	**3,438**	**(797)**	**(23%)**
GROSS MARGIN – CHINA SEEDING SALES	-	(767)	767	(100%)
UNDERLYING EBITDA EXCLUDING CHINA SEEDING SALES	**2,641**	**2,671**	**(30)**	**(1%)**

* Includes make good, moving costs and double rent associated with facility relocation from Lucas Heights to Kingsgrove NSW

Further information is included in Attachment 1.

3. Statement of financial performance

Refer Attachment 1.

4. Statement of financial position

Refer Attachment 1.

5. Statement of cash flows

Refer Attachment 1.

6. Statement of retained earnings

Refer Attachment 1.

7. Dividends

Refer paragraph 2.4

8. Dividend reinvestment plans

The Group does not have a dividend reinvestment plan.

9. Net tangible assets

Refer Attachment 1.

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

Control over entities

Name of entity (or group of entities)	Refer Attachment 1.

Loss of control over entities

Name of entity (or group of entities)	Refer Attachment 1.

11. Details of associates and joint venture entities

Refer Attachment 1.

12. Significant Information

Refer Attachment 1.

13. Foreign Entities

Refer Attachment 1.

14. Commentary on results for the period

Refer Attachment 1.

15. A statement as to whether the report is based on accounts which have been audited or subject to review, are in the process of being audited or reviewed, or have not yet been audited or reviewed.

The accounts are in the process of being audited.

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

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

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

Not applicable

Contact details:

Mr James McBrayer
Managing Director and Company Secretary
Cyclopharm Limited

Phone: 61 (0) 418 967 073
Email: jmcbrayer@cyclopharm.com.au

Appendix 4E

Preliminary Final Report

For the year ended 31 December 2017

cyclopharm

Cyclopharm Limited and its Controlled Entities
ABN 74 116 931 250

Managing Director's Report

MANAGING DIRECTOR'S REVIEW

Dear Shareholders,

Cyclopharm's solid underlying financial results in 2017 support the continued delivery of our strategy to drive sales growth in new markets, develop new diagnostic applications for our core Technegas product and launch Ultralute our complementary nuclear medicine technology.

Key features of Cyclopharm's financial results for the 2017 year included:

- Sales revenue of $13.19 million
- Technegas division Underlying Operating EBITDA[1] of $2.64 million
- $2.58 million expended on our USFDA Phase 3 clinical trial program with patient recruitment commencing late 2017. (33 patients fully enrolled to date)
- Approved R&D tax incentive resulting in Other Income of $2.39 million, of which $1.94 million to be received in H1 2018
- First commercial production batch of the Ultralute™ technology completed
- Initiated a clinical trial using Technegas in the evaluation and management of severe asthma patients in partnership with the University of Newcastle and the Hunter Medical Research Institute
- Strong net cash position at year-end of $8.69 million following capital raising in June 2017
- Acquisition of IC Medical for a consideration of up to €400k paid over 3 years plus surplus net cash in IC Medical's balance sheet at acquisition date of €470k
- Final dividend of 0.5 cents per share (cps) giving full year unfranked dividends of 1.0 cps

Cyclopharm generated revenues of $13.19 million in the year ended the 31 December 2017 delivering underlying EBITDA of approximately $2.64 million. This Revenue result represents a 1.4% increase on the prior year and Underlying EBITDA in line with the prior year's results, after excluding the positive impact of the previous year's initial seeding of Technegas generators and consumables to our Chinese distributor in Q4 2016 ($1.38 million in sales with a gross margin of $0.77 million).

Net loss after tax was $1.52 million, which includes $2.58 million of pre-tax expenses associated with the US Food and Drug Administration (USFDA) trial of Technegas.

Unit sales of TechnegasPlus generators and Patient Administration Sets were 56 units (2016:119 units) and 4,238 units (2016: 4,284 units), respectively. Sales result for the period included:

- a restocking initiative resulting in the sale of 300 PAS units in Germany;
- flat sales in France ahead of renegotiated supply contract;
- continued growth in PAS sales in Canada and other European customers;
- the absence of sales to China which, in Q4 2016, included 50 Technegas Generators and 250 boxes of PAS to seed our distributer in China, valued at $1.38 million in addition to 4 Generators and 107 PAS units sold to our former Chinese distributors from Q1 to Q3 2016. We expect PAS sales in China to resume in the second half of calendar year 2018.

Gaining United States Food and Drug Administration (USFDA) approval to sell Technegas products in the US market is the most significant business opportunity for Cyclopharm. The US market represents half of the nuclear medicine departments globally. The existing US nuclear

[1] Underlying Results represent results from the Technegas Division excluding R&D tax incentive, costs/lease termination and double rent period costs, FDA Expenses, Pilot Clinical Trial expenses and provisions for Almedis Germany.

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).

The USFDA clinical trial process is expected to progress in 2018 with approval for US sales targeted in the first half of 2019. In 2018, the Company expects to spend approximately US$5.4 million on the USFDA approval process, bringing total expenditure on the USFDA approval process in line with the expected US$7.5 million.

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 from Xe-133 is achievable over 2 to 3 years with the balance of the target market converted within 5 to 7 years.

In December 2017, AusIndustry approved inclusion of some of the expensed costs associated with the company's overseas R&D activity, otherwise unable to be conducted in Australia. This decision has allowed the company to report Other Income of $2,390,586 for the period compared to $495,083 reported in 2016. Based on the positive advanced finding of our R&D program approved by AusIndustry, we expect to receive an R&D tax incentive of an amount similar to that received in FY2017 through to at least FY2020. The exact amount of any future R&D tax incentive will be subject to the nature, timing and value of R&D activities undertaken in each year, some elements of which will be outside of the company's direct control.

In June 2017, Cyclopharm successfully raised $6.59 million, after costs, through a fully-underwritten entitlement offer. The offer was supported by approximately 90% of eligible shareholders (by number of shares held) and was sub underwritten by the Group's largest institutional investor, Australian Ethical Investments. The funds raised will allow us to complete clinical trial recruitment and file for USFDA approval.

The proceeds of the entitlement offer along with the increased R&D tax incentive significantly strengthened Cyclopharm's balance sheet, with cash reserves at the end of the year standing at $8.69 million, up from $4.59 million for the pcp. Cash reserves are expected to be further strengthened during the first half of 2018 when $2.14 million from the accrued R&D tax incentive program is expected to be received.

During the year, the Group made progress against its other strategic priorities, which are:

1. Grow the core business, based on expanding Technegas sales in existing markets;
2. Pursue sales of Technegas in new applications such as Chronic Obstructive Pulmonary Disease ('COPD') and Asthma which are significantly larger markets than the Pulmonary Embolism market where Cyclopharm traditionally operates; and
3. Position the Group to commence sales of our exciting Ultralute™ nuclear medicine complementary technology in the first half of 2018.

We are also continuing to pursue regulatory approvals to commence sales of Technegas in Russia and additional European markets.

In October 2017, Cyclopharm acquired IC Medical, the Group's agent for its Technegas product in the Belgium, Netherlands and Luxembourg markets. The purchase price is paid in three instalments: firstly, €200,000 upfront along with the surplus cash in the business of €470,000. Then, there will be two additional payments, subject to performance objectives being met, of approximately €100,000 each in the first and second years post the acquisition. The acquisition is anticipated to be earning accretive in the first year and will allow Cyclopharm to capture

agency commissions and have greater control over distribution and pricing in the Benelux markets.

Additionally, this acquisition will assist Cyclopharm to expand the use of Technegas to new indications by providing direct access to referring respiratory physicians; expedite commercialisation of Ultralute™ in those markets; and expand our product offerings though its agency agreements with manufacturers of other non-competing nuclear medicine products.

The IC Medical acquisition will fit within a broader restructuring of Cyclopharm's European operations that will see the company's existing Irish operations as the distribution hub for the Group's European markets. The new European operating model will deliver cost and operational efficiencies that will assist driving higher sales and margins during 2018.

In late 2017, the company restructured its German distribution model to include the termination of commercial activities with Almedis GmbH and the termination of its General Manager for Germany, who also owned Almedis GmbH. As a result of these actions, the company recorded a provision of $0.68 million, comprising trade debtors, inventory and legal fees. Going forward, the company will distribute to the German market from its Dublin based operations.

GROUP FINANCIAL PERFORMANCE

During 2017, we recorded revenue of $13.19 million. This represents a 1.4% increase on the prior year, after excluding the positive impact of the previous year's initial sales to seed our Chinese distributor of 50 Technegas Generators and 250 boxes of PAS, totalling $1.38 million.

In total, PAS sales increased by $0.13 million, notwithstanding the absence of sales to China. This result was driven by stable volumes in France and volume growth in Canada and other European markets.

Cyclopharm is currently renegotiating its supply contract for sales into France. This process is expected to conclude in 1H 2018 and is expected to result in an uplift in PAS sales to that market from 2H 2018.

Service revenue in markets where we distribute our products directly, increased by 11% to $0.71 million. Revenue from Generator sales fell 47% over the year to $1.57 million, predominantly due to the impact of the 50 Technegas Generators sold to China in the prior year. This change in the sales mix, compared to the prior year, led to an improvement in gross margins from 78% in the pcp to 81%.

In line with our plans, expenditure on the Technegas US regulatory approval process increased to $2.58 million, from $1.1 million in 2016. In 2018, the Company expects to spend approximately US$5.4 million on the USFDA approval process, bringing total expenditure on the USFDA approval process in line with the expected US$7.5 million.

Net loss after tax for the year was $1,524,571 compared to net profit after tax of $891,368 in the pcp, representing Basic Loss per Share of 2.25 cents.

The financial results benefited from a decision by AusIndustry, in December 2017, to allow some of the overseas R&D activity unable to be conducted domestically to be included in the costs of R&D tax incentive program resulting in Other Income of $2,390,586 compared to $495,083 in 2016. The increase in R&D tax incentive income was partly offset by a $0.68 million provision for inventory, receivables and costs associated with the termination of the commercial relationship with Almedis Altmann GmbH in 2017.

Managing Director's Report
Continued

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 2017 to 1.0 cent per share, which it expects to grow over time.

Cyclopharm's Underlying Results[2]

YEAR ENDED 31 DECEMBER	2017 $'000	2016 $'000	INC/(DEC) $'000	CHANGE %
SALES REVENUE	**13,189**	**14,386**	**(1,197)**	**(8%)**
SALES REVENUE EXCLUDING CHINA SEEDING SALES	**13,189**	**13,008**	**181**	1.4%
GROSS MARGIN	**10,740**	**11,182**	**(442)**	**(4%)**
GROSS MARGIN % SALES	81.4%	77.7%	3.7%	
CONSOLIDATED EBITDA	**1,043**	**2,041**	**(998)**	**(49%)**
ADD BACK:				
CPET / ULTRALUTE™ DIVISION	457	366	91	25%
R&D TAX INCENTIVE	(2,391)	(495)	(1,896)	(383%)
RELOCATION EXPENSES*	-	428	(428)	(100%)
FDA EXPENSES	2,585	1,098	1,487	135%
PILOT CLINICAL TRIAL EXPENSES	270	-	270	100%
PROVISIONS FOR ALMEDIS GERMANY	677	-	677	100%
UNDERLYING EBITDA	**2,641**	**3,438**	**(797)**	**(23%)**
GROSS MARGIN – CHINA SEEDING SALES	-	(767)	767	(100%)
UNDERLYING EBITDA EXCLUDING CHINA SEEDING SALES	**2,641**	**2,671**	**(30)**	**(1%)**

* Includes make good, moving costs and double rent associated with facility relocation from Lucas Heights to Kingsgrove NSW

GROUP OPERATING PERFORMANCE

During 2017, Cyclopharm's core operations continued to generate healthy positive earnings and cashflows and significant progress was made in implementing our strategy to commercialise our IP in new markets whilst developing new products and applications in all markets to improve patient healthcare outcomes. This included developing new diagnostic indications for Technegas, as well as bringing our new technology, Ultralute™, to market. Operating highlights for the year included:

- Significant progress in seeking USFDA approval to market and distribute Technegas in the United States for a variety of functional ventilation indications, including the commencement of patient recruitment in late 2017.
- Patient recruitment initiated under pilot clinical trials targeting applications in chronic respiratory disease states in collaboration with the University of Newcastle, Hunter Regional Medical Institute and John Hunter Hospital.
- First peer reviewed article published from the Cyclopharm sponsored trial in China targeting the use of Technegas in COPD, furthering the strategy to expand Technegas beyond the Pulmonary Embolism market.
- Validation of first commercial batch of Cyclopharm's new patented Ultralute™ technology with sales expected in first half of 2018.

In November 2016, Cyclopharm announced that it received Special Protocol Assessment agreement from the USFDA for its proposed clinical trial design for Technegas. Patient

[2] Underlying Results represent results from the Technegas Division excluding R&D tax incentive, costs/lease termination and double rent period costs, FDA Expenses, Pilot Clinical Trial expenses and provisions for Almedis Germany.

recruitment for this trial commenced in late 2017. Cyclopharm expects the trials to progress in 2018 with FDA approval expected in the first half of 2019.

A key milestone in the USFDA approval process will be the recruitment of our first 40 patients in the first quarter of 2018 and the subsequent submission of an interim study in the second quarter of 2018. The interim study represents an opportunity for Cyclopharm to receive valuable feedback from the FDA prior to submitting a New Drug Application. As of 23 Feb 2018, enrolment generated from three clinical sites totalled 33 patients. Another two clinical sites will undergo clinical trial initiation visits during the week of 25 February 2018. It is expected that patient recruitment at these new sites will commence within two weeks following the site initiation visit.

Our strategy to expand the use of Technegas into new applications took two significant steps forward during the year.

1. The company initiated a research study in collaboration with the Hunter Medical Research Institute and the University of Newcastle using Technegas in small airways disease. The 100-patient study is designed to evaluate the use of Technegas in identifying ventilation traits in patients with severe asthma as an indicator to therapeutic selection. A secondary endpoint in the Newcastle study will be to evaluate how well patients respond to therapy. Patient enrollment commenced August 2017. As at 23 February 2018 30 patients have been imaged. For more information go to: https://hmri.org.au/news-article/nuclear-imaging-clear-airway-diagnosis .

2. The first peer review article based on our China COPD trial was published in the International Journal of COPD in May this year. The article entitled "Identifying the heterogeneity of COPD by V/P SPECT: a new tool for improving the diagnosis of parenchymal defects and grading the severity of small airways disease" concluded that three-dimensional ventilation using Technegas along with perfusion could diagnose and grade severity of COPD, and estimate preserved lung function. Even more important, this technique appears to be a unique physiological method to reveal pulmonary comorbidities with vascular and ventilatory defects, which contribute to the heterogeneity of COPD. The characteristics of these comorbidities suggest their impact on the symptoms, treatment, and prognosis of patients.

The final validation of the first commercial production batch of the Ultralute™ technology has been completed. This represents an important step towards the commercial launch of the product. Ultralute™ has generated strong international interest given its potential to bring significant cost savings and efficiencies in the delivery of pharmaceuticals used in nuclear medicine. The first sales are expected to be recorded in Europe in the first half of 2018.

Ultralute™ is a first in class proprietary technology developed to extend the useful life of Molybdenum-99 generators by up to 50%. Molybdenum-99 generators produce the isotope Technetium 99m, the isotope used in 85% of all nuclear medicine procedures. Ultralute™ is a key part of Cyclopharm's platform for next stage growth.

SUMMARY

2017 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 trails, R&D and ongoing dividends.

Managing Director's Report
Continued

The company's core Technegas business recorded consistent underlying sales when adjusted for the absence of $1.38 million of seed sales in Generators and PAS boxes in China. PAS sales grew across our other major markets with total PAS sales, ex-Asia, up 6.6% on the prior year.

In 2017, $2.58 million was invested to progress USFDA regulatory approval for the use of Technegas in the US. The US is the world's largest healthcare market where the nuclear medicine ventilation imaging market for diagnosing PE is valued at US$90 million. USFDA Trials are expected to progress to regulatory approval for use across several indications in 2019, 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

Our successful capital raising in June of 2017 gives us the balance sheet strength to fund the USFDA trials to completion and our near term R&D programs.

We invested close to $0.5 million in completing the validation of our exciting Ultralute™ technology in preparation for its first commercial sales in the first half of 2018. We also invested over $0.25 million in a successful clinical trial to expand the use of our Technegas into treatment of Chronic Obstruction Pulmonary Disease which represents a much larger market than our current application in the Pulmonary Embolism market. In addition, we completed the acquisition of Inter Commerce Medical bvba for a consideration of up to €870,000, paid over 3 years, to give us greater control over pricing and distribution in our European markets.

OUTLOOK

2018 will mark the start of the next growth phase for Cyclopharm. We will begin to see the revenues from the commercial launch of Ultralute™ in Europe. Our expectation is that initial revenues will be modest but grow through time as the Utralute™ technology is more widely adopted.

Sales in the Technegas business will be supported by several positive trends during 2018:

- Expected continued underlying demand in Generators
- PAS sales growth to be driven by:
    - Sales volumes returning in France as inventory destocking unwinds
    - Higher margin sales in Germany as restructuring efficiencies gain traction
    - IC Medical acquisition to allow for increased use of Technegas beyond the indication for Pulmonary Embolism
    - Canada to continue strong sales performance by expanding the use of Technegas in additional applications
    - Consumable sales in China in the 3rd Quarter to replenish the sell down of stock purchased in 2016

We anticipate a successful conclusion to the Phase 3 USFDA clinical trial of Technegas with approval for sales in 2019. The conclusion of the Phase 3 trial is contingent on establishing productive trial sites, as forecast, during 2018. The submission of an interim study report to the USFDA in the second quarter of 2018 will allow Cyclopharm the opportunity to engage with the US regulator to review, refine and improve the prospects for the successful conclusion of the phase III clinical trial.

The Group expects to spend an additional US$5.4 million in the current financial year on the approval process, with accumulated expenditure of approximately US$7.5 million, in line with initial expectations.

Managing Director's Report
Continued

Initial market research indicated there is a strong appetite within the US healthcare industry to convert to Technegas. The market for nuclear medicine ventilation imaging in the US is valued at US$90 million and we are predicting a 50% conversion rate in the first 2-3 years after regulatory approval.

We will continue to advance the research into the use of Technegas for diagnosing and assessing patient response to treatment in Asthma and COPD. These two new potential applications for Technegas represent significantly larger markets than the Pulmonary Embolism market we currently serve and should drive a significant expansion in Technegas revenue and profitability through time.

The introduction of Technegas to the US market is expected in early 2019. Although the precise timing of the generation of Technegas sales from new indications such as COPD and Asthma are not clear, they do represent significant drivers for Cyclopharm's next stage of growth and a step change in financial performance.

I expect Cyclopharm to continue to deliver solid sales and earnings growth in 2018 supported by the launch of Ultralute™ and additional Technegas sales in China. 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 strategic objectives and next phase growth drivers which are expected to deliver returns for our investors.

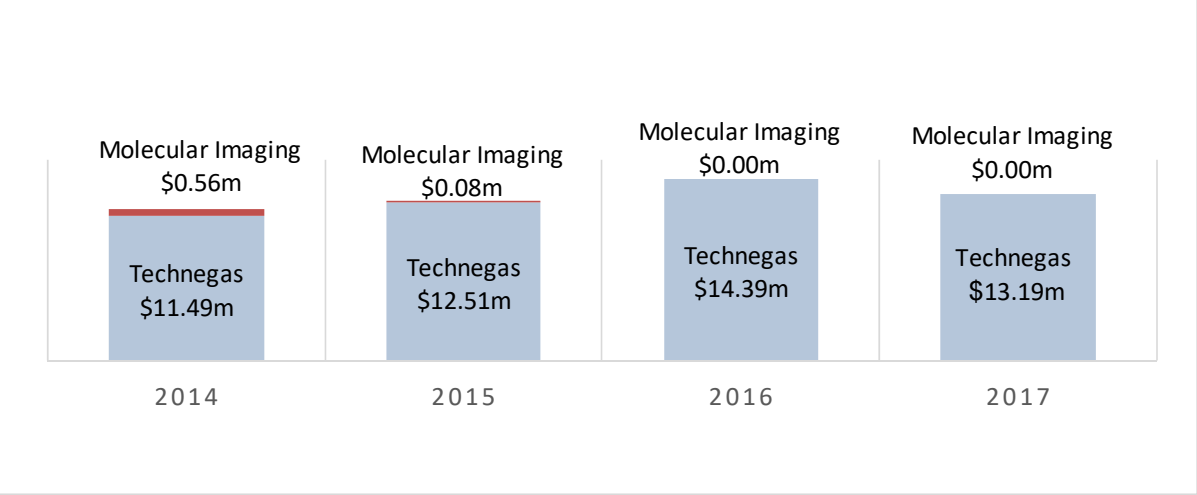
I thank all my colleagues who have contributed to the growth of the Company over recent years and assure you that the Cyclopharm management team, with the ongoing support of the Board, remains absolutely committed to delivering positive health outcomes for our patients and growing financial rewards to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

James McBrayer
Managing Director

Managing Director's Report
Continued

REVIEW OF OPERATIONS

Group Revenue by Segment



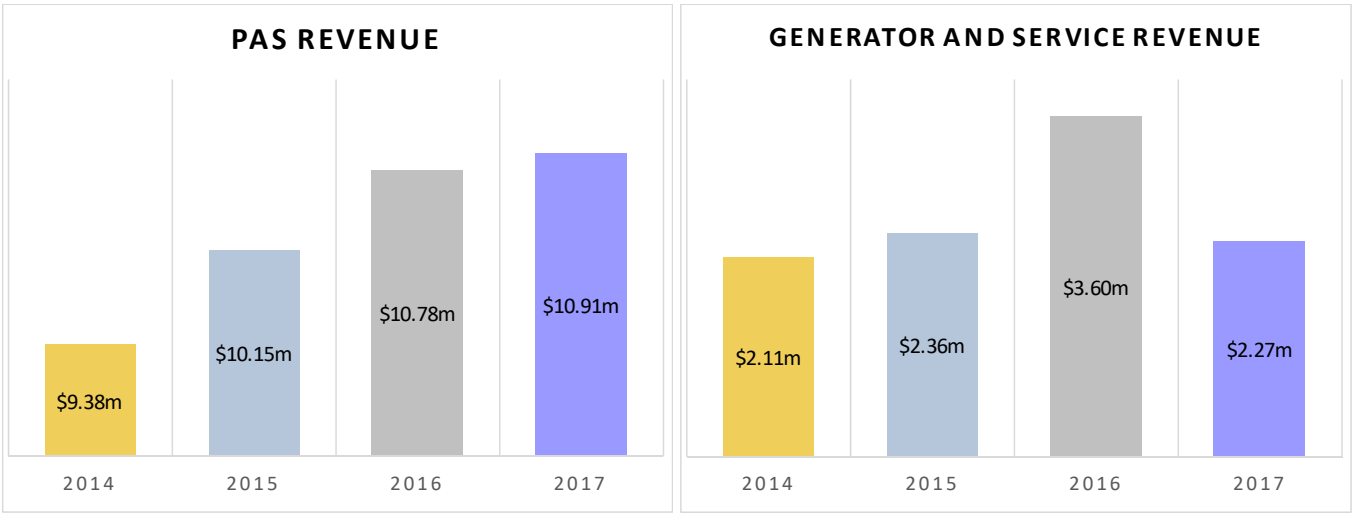
Note: 2016 Technegas Revenue includes $1.38 million of seed sales in Generators and PAS boxes in China

TECHNEGAS

Technegas is a lung imaging agent used primarily to diagnose the presence of blood clots in the lungs known as Pulmonary Emboli (PE). For the last 30 years, over 3.8 million patients have benefited from the Technegas system. Technegas, an Australian invented technology, is recognised globally as the nuclear medicine agent of choice for functional lung imaging.

Technegas' continued growth in sales demonstrates its ongoing relevance to the medical industry and provides the Company with secure and growing sales and cash flows.

Revenue Composition



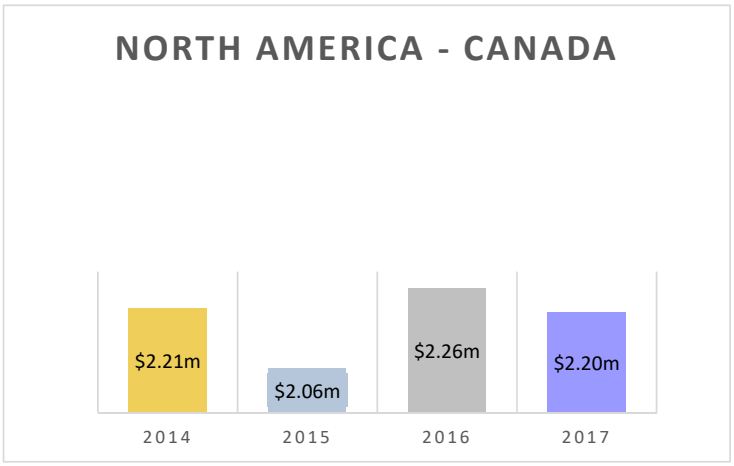
Sales revenue of $13.19 million from the segment's key products, PAS and Generators, fell by 8.3% over the preceding year (2016: $14.39 million) in the absence of the previous year's sales of 50 Technegas Generators and 250 PAS units to seed its distributor in China.

Managing Director's Report
Continued

Revenue from PAS and its consumables represented 83% of the segment's revenue in 2017 and was 1% higher at $10.91 million in 2017 compared to 2016 ($10.78 million). Excluding sales to Asia, the underlying sales of PAS rose 6.6% on the prior year.

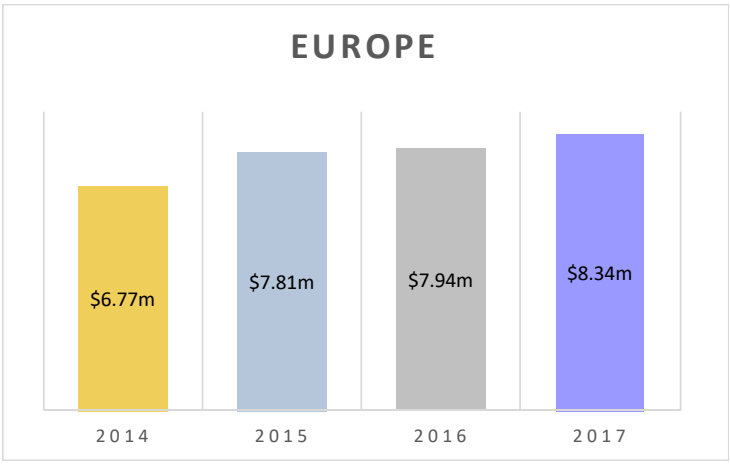
Technegas Generator sales and other service revenue was $2.3 million for the year, down 37% on the prior year (2016: $3.6 million). The decrease was a result of a 53% drop in Generator sales volume. This was partly offset by an increase in service and other revenue to $0.71 million (2016: $0.64 million).

REGIONAL REVIEW



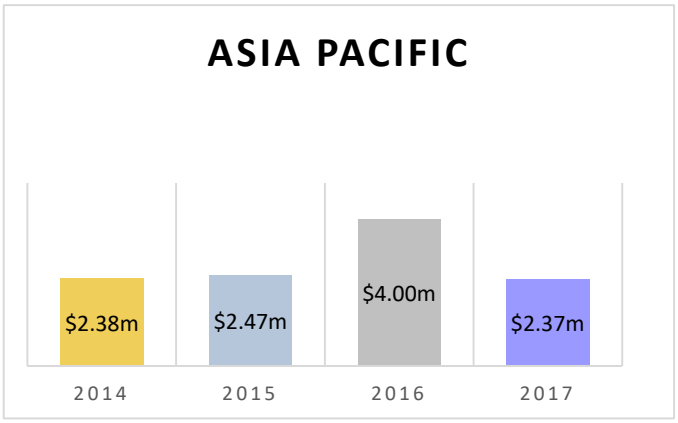
North America – Canada

Canada is the largest Technegas country market globally with 5 generators (2016: 11) and 912 PAS boxes (2016: 882) sold in 2017. The continued improvement in PAS sales in this region represents the 14th consecutive year of sales volume growth. Canada recorded total revenue of $2.2 million in 2017 (2016: $2.26 million). The Canadian market represents a strong indicator for anticipated take up rates in the United States following the anticipated approval to sell Technegas in that market.



Europe

Approximately 65% of sales revenue is derived in Europe (2016: 56%). Overall sales revenue was 5% higher at $8.3 million (2016: $7.9 million). Improvement in sales revenue was driven by 2,573 PAS boxes sold in Europe in 2017, up 17% on 2016 (2,194 PAS boxes) offset by lower Generator sales, with 36 sold in 2017 compared with 43 in the prior year.



Asia Pacific

Revenues in the Asia Pacific region fell by 41% in 2017.
In Australia, revenue was lower with a decrease in generator sales in 2017 (7 units) compared to 2016 (9 units) with a 5% decrease in PAS boxes sold in 2017 (626 PAS boxes) compared to 2016 (656 PAS boxes).
In the absence of sales to China, sales revenue to Asia dropped significantly by 92%. 3 generators were sold in 2017 compared to 56 units in 2016 while 16 PAS boxes sold in 2017 compared to 409 PAS boxes in 2016. The 2016 sales were 241 units higher than the prior year (2015: 116 units) and included the sale of 250 PAS units to its Chinese distributor for a seeding initiative. This initiative is expected to provide a platform for significantly higher PAS kit sales in that market from 2018.

North America – USA

Gaining USFDA approval to sell Technegas in the United States market is a major priority for the Company. Cyclopharm believes the US market has the potential to be the largest market for Technegas globally and could therefore drive a substantial increase in shareholder value. To facilitate this, Cyclopharm has been undertaking USFDA trials of Technegas in the US in order to gain those regulatory approvals.

In November 2016, Cyclopharm announced it had received USFDA approval for its Technegas trial design through a Special Protocol Assessment process. We anticipate a successful conclusion to the phase III USFDA clinical trial of Technegas with approval for sales in 2019.

The clinical trial program is designed to compare Technegas against Xe-133, the only approved nuclear medicine ventilation imaging agent in the USA. Cyclopharm is seeking a structural indication in a non-inferiority protocol including 240 patients across several respiratory disease states. The first phase of the trial, already submitted, reviewed and approved by the USFDA, was a desk-top study designed to determine both the inter and intra reader variability of Xe-133 as well as determining the number of patients required for the Phase III study.

It is expected that the trial will be conducted at 10 to 15 clinical sites. As at 23 February 2018, three active trial sites had been established with two additional sites located in the state of Texas are scheduled for site initiation visits during the week commencing 26 February 2018.

The conclusion of the Phase 3 trial is contingent on establishing productive trial sites. The submission of an interim study report, analysing the first 40 patients in the trial, to the USFDA in the second quarter of 2018 will allow Cyclopharm the opportunity to engage with the US regulator to review, refine and improve the prospects for the successful conclusion of the phase III clinical trial. As at 23 February 2018 33 patient studies have been imaged.

Following the conclusion of the trial, USFDA approval is expected to be received in 2019. We remain confident that the application for market entry into the United States will ultimately be successful, due to Technegas' existing global footprint and long-standing successful safe and efficacious track record of use.

The United States represents a major growth opportunity and has the potential to become the largest single market for Technegas. The Directors are therefore determined to continue to actively pursue USFDA approval but will ensure we cautiously and prudently manage the costs of doing so.

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. This is a prudent and conservative approach, notwithstanding the confidence of the Directors that such approval will ultimately be given.

The total cost of the USFDA trial and registration program is expected to be approximately US$7.5 million. For the full year 2017, these expenses totalled A$2.6 million compared to A$1.1 million in 2016.

NEW INDICATION DEVELOPMENT

Cyclopharm continues to make progress in developing new indications for Technegas. Other disease states beyond PE, which include COPD, asthma, CTEPH, lung transplants and lung cancer, offer significant market opportunities for Technegas.

These indications are currently being targeted through clinical studies, such as the recently completed Chinese COPD trials. Preliminary results of the trials showed Technegas was effective at diagnosing the extent of emphysema in trial patients and at an earlier stage of the disease than standard diagnostic methods. Technegas was also more accurate at measuring impairment in lung function and therefore better able to monitor the effectiveness of treatment.

Cyclopharm is actively progressing opportunities to present the findings to clinicians globally, in order to encourage the use of Technegas in not only the diagnosis and treatment monitoring of COPD but also the expansion of the traditional market of diagnosing PE. Specifically, in 2017, Cyclopharm presented at several respiratory focused conferences to educate clinicians on the benefits of Technegas in the treatment and monitoring of their patients. Additionally, the Group plans to make a number of small targeted investments to partner with other researchers and organisations, with the aim of expanding the number and types of trials and published results verifying the benefits of Technegas to relevant referring physicians and clinicians.

The Cyclopharm Board believes that the global COPD market is approximately 30 times the size of the global PE market. Together with the asthma and lung cancer patient populations, these indications represent significant opportunities to expand sales of Technegas materially over the medium term.

Based on the success of our work in China, the Group has commenced discussions with leading respiratory and nuclear medicine physicians in some of our established markets with a view to initiating additional pilot clinical trials targeting applications in chronic respiratory disease states.

One such example of Cyclopharm's clinical initiatives is the collaboration with the University of Newcastle, Hunter Regional Medical Institute and John Hunter Hospital. The study is designed to test two hypotheses:

1. There is ventilation heterogeneity among patients with severe obstructive airway diseases that can be assessed using Technegas functional lung ventilation imaging with quantification; and
2. Technegas functional lung ventilation imaging with quantification is responsive to change following intervention in patients with severe obstructive airway diseases.

If this study is successful, the use of Technegas could expand by enabling clinicians to improve their diagnosis and management of patients with COPD and other small airways diseases.

Patient enrolment commenced August 2017. Of the 100-patient study, as at 23 Feb 2018, patient enrolment is 30. With final results expected in late 2018, the cost of the trial is estimated to be approximately $600,000. More information on this trial is available at: https://hmri.org.au/news-article/nuclear-imaging-clear-airway-diagnosis .

ULTRALUTE ™

First commercial sales of Cyclopharm's patented nuclear medicine technology, Ultralute™, are expected in the first half of 2018.

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.

Mo-99 generators are used in diagnostic imaging to harvest Technetium-99m, or Tc-99m, which is the primary isotope used in diagnostic imaging throughout the world. This isotope accounts for approximately 80% of all nuclear medicine diagnostic imaging procedures.

Mo-99 has a half-life of 2.75 days. It then decays to Tc-99m, which has a 6-hour half-life. As Mo-99 decays there comes a time when the amount of Tc-99m eluted from the generator is so diluted that it becomes virtually unusable.

In early 2016 the International Atomic Energy Agency (IAEA) held a scientific summit to review emerging technologies in the production and supply of Molybdenum-99 (Mo99). During the IAEA sponsored review, Cyclopharm's new technology Ultralute™ was recognised for its optimisation of the isotope Tc99m.

Following a recommendation from summit participants, the IAEA has formally invited Cyclopharm to collaborate in launching a multi-country, multi-centre evaluation of Ultralute™ in 2018.

The invitation from the IAEA represents significant recognition for the technology's potential. In particular, Cyclopharm notes that in its invitation the IAEA referred to Ultralute™ as a "new innovation…that has significant global potential in the nuclear medicine supply chain".

Cyclopharm believes the commercial prospects for Ultralute™ are exciting and Cyclopharm is confident it provides the basis for superior shareholder returns over the longer term.

JOINT VENTURE - MACQUARIE MEDICAL IMAGING

Steady growth has continued in patient volumes at Macquarie Medical Imaging ("MMI"), Cyclopharm's joint venture diagnostic imaging service located at Macquarie University Hospital ("MUH") in Sydney. MMI achieved a 17% increase in sales during the year in comparison with the pcp.

MMI provides patients at MUH and neighbouring suburbs access to state-of-the-art imaging facilities including 3T MRI, CT, X-ray, Ultrasound and PET scanning.

Growth in MMI is tied closely to the hospital's strategies for both inpatient and outpatient services. Initiatives being implemented at MUH, including a new breast cancer clinic and expanded specialties such as cardiothoracic services, cancer care services, expanded PET indications and research, will assist in driving that growth.

In November 2016, MMI opened a satellite practice located at the nearby Macquarie Shopping Centre. Services at the Macquarie Shopping Centre are limited to high volume procedures to include x-ray, ultrasound and CT. Initial trading results are encouraging with the location drawing patients, shoppers, employees and the numerous businesses in the immediate business district and has been instrumental in contributing to the sales growth recorded.

The joint venture is accounted for on an equity basis due to Cyclopharm's minority shareholding. 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. Cyclotek NSW will strengthen the existing FDG marketplace and increase the research and development capability for new PET diagnostic agents and novel isotopes.

To support the establishment of Cyclotek NSW, Cyclopharm will provide to Cyclotek NSW operational control of its cyclotron facility at Macquarie University Hospital (formerly known as Cyclopet). PETTECH Solutions will also sell its existing FDG business operations and allow full use of the cyclotron facility at Lucas Heights to the new company. This collaborative strategy will be used to manufacture new PET diagnostics not otherwise produced in NSW.

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 provides for 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 licences. While these ongoing multi-party discussions involve a great deal of complexity and therefore related uncertainty regarding the future agreement, if any, Cyclopharm is excited with the significant progress that has been made and about the future opportunities for increasing patient and clinician access to world-best-in-class diagnostic and therapeutic products and research.

Statement of Comprehensive Income

for the year ended 31 December 2017

UNAUDITED

		Consolidated	
		2017	2016
	Notes	$	$
CONTINUING OPERATIONS			
Sales revenue	4	13,188,752	14,385,507
Finance revenue	4	79,529	47,308
Other revenue	4	2,390,586	495,083
Total revenue		**15,658,867**	**14,927,898**
Cost of materials and manufacturing	4a	(2,647,649)	(3,519,127)
Employee benefits expense	4e	(4,027,216)	(3,718,776)
Advertising and promotion expense		(351,462)	(281,302)
Depreciation and amortisation expense	4c	(318,088)	(106,392)
Freight and duty expense		(450,429)	(469,068)
Research and development expense	4d	(2,871,288)	(1,157,422)
Administration expense	4f	(3,900,809)	(3,110,536)
Other expenses	4g	(366,708)	(630,897)
Profit before tax and finance costs		**725,218**	**1,934,378**
Finance costs	4b	(20,079)	(17,952)
Profit before income tax		**705,139**	**1,916,426**
Income tax	5	(2,229,710)	(1,025,058)
(Loss) / Profit for the year		**(1,524,571)**	**891,368**
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)		302,106	(1,082,967)
Total comprehensive income / (loss) for the year		**(1,222,465)**	**(191,599)**
(Loss) / Earnings per share (cents per share)	6	**cents**	**cents**
-basic (loss) / earnings per share for continuing operations		(2.25)	1.55
-basic (loss) / earnings per share		(2.25)	1.55
-diluted (loss) / earnings per share		(2.25)	1.55

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

Statement of Financial Position
as at 31 December 2017

UNAUDITED

	Notes	Consolidated 2017 $	Consolidated 2016 $
Assets			
Current Assets			
Cash and cash equivalents	7	8,689,676	4,590,760
Trade and other receivables	8	5,337,824	3,738,193
Inventories	9	2,677,303	2,633,104
Current tax asset	5	27,778	-
Other assets		96,258	98,881
Total Current Assets		**16,828,839**	**11,060,938**
Non-current Assets			
Property, plant and equipment	10	2,682,423	2,340,655
Investments	11	-	-
Intangible assets	12	2,767,030	1,717,386
Deferred tax assets	5	1,098,949	1,296,015
Total Non-current Assets		**6,548,402**	**5,354,056**
Total Assets		**23,377,241**	**16,414,994**
Liabilities			
Current Liabilities			
Trade and other payables	13	2,606,594	2,604,632
Interest bearing loans and borrow ings	14	87,536	-
Provisions	15	944,276	923,242
Tax liabilities	5	1,573,059	27,839
Total Current Liabilities		**5,211,465**	**3,555,713**
Non-current Liabilities			
Trade and other payables	13	154,727	-
Interest bearing loans and borrow ings	14	87,330	-
Provisions	15	212,335	253,510
Deferred tax liabilities	5	549	3,855
Deferred income liabilities	16	461,443	140,113
Total Non-current Liabilities		**916,384**	**397,478**
Total Liabilities		**6,127,849**	**3,953,191**
Net Assets		**17,249,392**	**12,461,803**
Equity			
Contributed equity	17	21,551,727	14,962,967
Employee equity benefits reserve		625,038	603,622
Foreign currency translation reserve		(603,201)	(905,307)
Accumulated losses		(4,324,172)	(2,199,479)
Total Equity		**17,249,392**	**12,461,803**

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

Statement of Cash Flows
for the year ended 31 December 2017

UNAUDITED

	Notes	Consolidated 2017 $	2016 $
Operating activities			
Receipts from customers		14,509,179	14,980,856
Payments to suppliers and employees		(14,653,135)	(13,717,416)
Interest received		79,529	47,308
Borrowing costs paid		(20,079)	(17,952)
Income tax received / (paid)		(197,178)	(638,002)
Net cash flows (used in) / from operating activities	7	**(281,684)**	**654,794**
Investing activities			
Payments for acquisition of subsidiary		(1,003,021)	-
Cash acquired upon acquisition of subsidiary		1,175,958	-
Purchase of property, plant and equipment		(641,101)	(1,795,214)
Payments for intangible assets		(1,068,398)	(425,794)
Net cash flows used in investing activities		**(1,536,562)**	**(2,221,008)**
Financing activities			
Proceeds from issue of shares		6,947,816	-
Costs of raising capital		(359,056)	-
Dividends paid		(600,122)	(556,618)
Repayment of bank borrowings		(160,172)	(197,376)
Net cash flows from / (used in) financing activities		**5,828,466**	**(753,994)**
Net increase / (decrease) in cash and cash equivalents		**4,010,220**	**(2,320,208)**
Cash and cash equivalents			
- at beginning of the period		**4,590,760**	**6,444,995**
- net foreign exchange differences from translation of cash and cash equivalents		88,696	465,973
- at end of the year	7	**8,689,676**	**4,590,760**

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

Reconciliation of liabilities arising from financing activities

	Notes	2016 $'000	Cash flows $'000	Non-cash changes: Acquisition of controlled entity $'000	Non-cash changes: Foreign exchange movement $'000	2017 $'000
Interest bearing loans and borrowings	14	-	(160,172)	331,522	3,516	174,866

Statement of Changes in Equity
for the year ended 31 December 2017

UNAUDITED

CONSOLIDATED	Contributed Equity $	Other Contributed Equity $	Total Contributed Equity $	Retained Earnings / (Accumulated Losses) $	Foreign Currency Translation Reserve $	Employee Equity Benefits Reserve $	Total $
Balance at 1 January 2016	**20,296,125**	**(5,333,158)**	**14,962,967**	**(2,534,229)**	**177,660**	**495,845**	**13,102,243**
Profit for the year	-	-	-	891,368	-	-	891,368
Other comprehensive loss	-	-	-	-	(1,082,967)	-	(1,082,967)
Total comprehensive loss for the year	**-**	**-**	**-**	**891,368**	**(1,082,967)**	**-**	**(191,599)**
Dividends paid	-	-	-	(556,618)	-	-	(556,618)
Cost of share based payments	-	-	-	-	-	107,777	107,777
Total transactions with owners and other transfers	**-**	**-**	**-**	**(556,618)**	**-**	**107,777**	**(448,841)**
	-	-	-	-	-	-	-
Balance at 31 December 2016	**20,296,125**	**(5,333,158)**	**14,962,967**	**(2,199,479)**	**(905,307)**	**603,622**	**12,461,803**
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 income	-	-	-	-	302,106	-	302,106
Total comprehensive income 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**

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

1. CORPORATE INFORMATION

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Preparation

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

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

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

The financial report is presented in Australian dollars.

Change in Accounting Policy

Research & Development Tax Incentive

The Group voluntarily changed its accounting policy relating to the recognition of the Research & Development tax incentive, whereby the incentive was reclassified as Other Revenue under AASB 120: Government Grants for the year ended 31 December 2017 and for the comparative year. For the previous financial year ended 31 December 2016, the incentive was previously classified as an Income tax benefit under AASB 112: Income Tax. This change has been implemented as the Board has determined it is more appropriate to classify the incentive as Other Revenue under AASB 120 as the Group is entitled to a refundable tax offset and the refund is based on eligible Research & Development expenditure, irrespective of taxable income.

b) New and Amended Accounting Standards and Interpretations 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 2017. The new and amended Standards are not expected to have a significant impact on the Group's financial statements.

AASB 2015-9: Amendments to Australian Accounting Standards – Scope and Application Paragraphs

This amending Standard reinstates the scope paragraphs inadvertently deleted from AASB 8 and AASB 133. There is no change to the requirements or the applicability of AASB 8 and AASB 133.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

AASB 2016-1: Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses [AASB 112]

This Standard amends AASB 112 Income Taxes to clarify the circumstances in which the recognition of deferred tax assets may arise in respect of unrealised losses on debt instruments measured at fair value.

AASB 2016-2: Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107

This Standard amends AASB 107 Statement of Cash Flows to include additional disclosures and reconciliation relating to changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

AASB 2017-2: Amendments to Australian Accounting Standards – Further Annual Improvements 2014–2016 Cycle

AASB 2017-2 specifies that summarised financial information relating to a subsidiary, associate or joint venture is not required by AASB 12 Disclosure of Interests in Other Entities where an entity's interests in those entities are classified as held for sale, held for distribution to owners in their capacity as owners or discontinued operations in accordance with AASB 5 Non-current Assets Held for Sale and Discontinued Operations.

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 2018:

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 is not expected to have a significant impact on the Group's financial statements.

AASB 9: Financial Instruments and associated Amending Standards

The Standard will be applicable retrospectively (subject to the provisions on hedge accounting outlined below) and includes revised requirements for the classification and measurement of financial instruments, revised recognition and derecognition requirements for financial instruments and simplified requirements for hedge accounting.

The key changes made to the Standard that may affect the Group on initial application include certain simplifications to the classification of financial assets, simplifications to the accounting of embedded derivatives, and the irrevocable election to recognise gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. AASB 9 also introduces a new model for hedge accounting that will allow greater flexibility in the ability to hedge risk, particularly with respect to hedges of non-financial items. Should the entity elect to change its hedge policies in line with the new hedge accounting requirements of AASB 9, the application of such accounting would be largely prospective.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

The adoption of AASB 9 is not expected to have a significant impact on the Group's financial statements.

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

When effective, this Standard will replace the current accounting requirements applicable to revenue with a single, principles-based model. Except for a limited number of exceptions, including leases, the new revenue model in AASB 15 will apply to all contracts with customers as well as non-monetary exchanges between entities in the same line of business to facilitate sales to customers and potential customers. The core principle of the Standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. To achieve this objective, AASB 15 provides the following five-step process:

- Identify the contract(s) with a customer;
- Identify the performance obligations in the contract(s);
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract(s); and
- Recognise revenue when (or as) the performance obligations are satisfied.

The transitional provisions of this Standard permit an entity to either: restate the contracts that existed in each prior period presented as per AASB 108: Accounting Policies, Changes in Accounting Estimates and Errors (subject to certain practical expedients in AASB 15); or recognise the cumulative effect of retrospective application to incomplete contracts on the date of initial application. There are also enhanced disclosure requirements regarding revenue.

The adoption of AASB 15 is not expected to have a material impact on the Group's financial statements.

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

This Standard clarifies that:

a) 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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.

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.

Applicable to annual reporting periods beginning on or after 1 January 2022:

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

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

Subsidiaries are entities the parent controls. The parent controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Subsidiaries

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

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 €) and Cyclomedica Canada Limited is Canadian dollars (Can $).

The financial results and position of foreign operations whose functional currency is different from the group's presentation currency are translated as follows:

- Assets and liabilities are translated at year-end exchange rates prevailing at that reporting date.
- Income and expenses are translated at the weighted average exchange rates for the period.
- Retained profits/equity are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on the translation of foreign operations are recognised in other comprehensive income and are transferred directly to the group's foreign currency translation reserve in the Statement of Financial Position. These differences are recognised in the Statement of Comprehensive Income in the period in which the entity is disposed. Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the Statement of Comprehensive Income.

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

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

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

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

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

g) Property, plant and equipment

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

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

Impairment

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Depreciation

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

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

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

	New Patents and licences	**Technegas Development costs**
Useful lives	Patents - Finite Licenses - Infinite	Finite
Method used	8 - 10 years - Straight line	9 years - Straight line
Impairment test / Recoverable Amount testing	Annually and where an indicator of impairment exists	Amortisation method reviewed at each financial year-end; Reviewed annually for indicator of impairment

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

h) Investments Accounted For Using The Equity Method

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

The carrying amount of the investment includes goodwill relating to the associate. Any discount on acquisition whereby the Group's share of the net fair value of the associate exceeds the cost of investment is recognised in profit or loss in the period in which the investment is acquired. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Details of the Group's investments in associates are provided in Note 11.

i) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in the Statement of Comprehensive Income in the year in which they are incurred.

Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs incurred in connection with arrangement of borrowings, foreign exchange losses net of hedged amounts on borrowings, including trade creditors and lease finance charges.

j) Intangibles

Intangible assets

Intangible assets acquired separately are capitalised at cost and from a business combination are capitalised at fair value as at the date of acquisition. Following initial recognition, the cost model is applied to the class of intangible assets.

The useful lives of these intangible assets are assessed to be either finite or indefinite. Where amortisation is charged on assets with finite lives, this expense is taken to the Statement of Comprehensive Income through the 'depreciation and amortisation' line item.

Intangible assets, excluding development costs, created within the business are not capitalised and expenditure is charged against profits in the year in which the expenditure is incurred.

Intangible assets are tested for impairment where an indicator of impairment exists, and in the case of indefinite life intangibles, at each reporting date, either individually or at the cash generating unit level. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

Research and development costs

Expenditure on research activities is recognised as an expense when incurred.

Expenditure on development activities is capitalised only when it is probable that future benefits will exceed deferred costs and these benefits can be reliably measured. Capitalised development expenditure is stated at cost less accumulated amortisation. Amortisation is calculated using a straight-line method to allocate the costs over a period during which the related benefits are expected to be realised.

Expenditure on the development of the TechnegasPlus generator has been capitalised. A useful life of 9 years has been applied and amortisation for the year included in the Statement of Comprehensive Income. No impairment provision has been deemed appropriate. The Directors are satisfied that the future economic benefits will eventuate to justify the capitalisation of the expenditure incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

k) Inventories

Inventories are valued at the lower of cost and net realisable value where net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Costs incurred in bringing each product to its present location and conditions are accounted for as follows:

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

l) Trade and other receivables

Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. A specific estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

m) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held at call with banks, short-term deposits with an original maturity of three months or less and bank overdrafts. For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

n) Trade and other payables

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. Trade payables are normally settled within 30 to 60 days.

o) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue costs and any discount or premium on settlement. Gains and losses are recognised in the Statement of Comprehensive Income when the liabilities are derecognised and as well as through the amortisation process.

p) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of past events, for which it is probable that an outflow of economic benefits will result and that an outflow can be reliably measured. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Statement of Comprehensive Income net of any reimbursement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

q) Employee entitlements

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

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

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

r) Employee share and performance share schemes

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

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

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

s) Leases

Operating Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the Statement of Comprehensive Income on a straight-line basis over the lease term. Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

t) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Revenue is recognised (net of returns, discounts and allowances) when the significant risks and rewards of ownership and therefore control of the goods have passed to the buyer and can be measured reliably. Control is considered to have passed to the buyer at the time of delivery of the goods to the customer.

Provision of services

Revenue is recognised with reference to the stage of completion of the transaction at the end of the reporting period, where the outcome of the contract can be estimated reliably.

Interest

Revenue is recognised as the interest accrues using the effective interest rate method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

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

u) Other taxes

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

v) Financial instruments

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

Loans and receivables

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

De-recognition of financial instruments

Financial liabilities

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

Impairment of financial assets

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

w) Contributed equity

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Other contributed equity

In accordance with *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 acquiring its interests in the net assets of Vita Medical Limited.

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

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

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

x) Earnings per share

Basic earnings per share

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

Diluted earnings per share

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

y) 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.

z) 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 10.

The assumptions used in the estimation of recoverable amount and the carrying amount of intangible assets are discussed in Note 12. No impairment has been recognised in respect of intangible assets at the end of the reporting period.

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 23 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. SEGMENT REPORTING

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 2017 and 31 December 2016.

Geographical segments
The tables under the heading geographical segment present revenue and asset information regarding geographical segments for the years ended 31 December 2017 and 31 December 2016.

3. SEGMENT REPORTING (continued)

Business Segments

For the year ended 31 December 2017	Technegas $	Consolidated 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)

3. SEGMENT REPORTING (continued)

Business Segments

For the year ended 31 December 2016	Technegas $	Consolidated Molecular Imaging $	Total $
Revenue			
Sales to external customers	14,385,507	-	14,385,507
Finance revenue	47,273	35	47,308
Other revenue	495,083	-	495,083
Total revenue	**14,927,863**	**35**	**14,927,898**
Result			
Profit/(loss) before tax and finance costs	**2,300,882**	**(366,504)**	**1,934,378**
Finance costs	(16,920)	(1,032)	(17,952)
Profit/(loss) before income tax	**2,283,962**	**(367,536)**	**1,916,426**
Income tax expense	(576,733)	(448,325)	(1,025,058)
Profit/(loss) after income tax	**1,707,229**	**(815,861)**	**891,368**
Assets and liabilities			
Segment assets	14,011,599	2,403,395	16,414,994
Segment asset increases for the period :			
- capital expenditure	1,862,181	-	1,862,181
Segment liabilities	(3,327,172)	(626,019)	(3,953,191)
Other segment information			
Depreciation and amortisation	(106,208)	(184)	(106,392)

3. SEGMENT REPORTING (continued)

Geographical Segments

For the year ended 31 December 2017	Asia Pacific $	Europe $	Canada $	Other $	Consolidated Total $
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	11,412,679	10,976,785	987,777	-	23,377,241

For the year ended 31 December 2016	Asia Pacific $	Europe $	Canada $	Other $	Consolidated Total $
Revenue					
Sales to external customers	3,999,146	7,936,076	2,258,320	191,965	14,385,507
Finance revenue	47,308	-	-	-	47,308
Other revenue	495,083	-	-	-	495,083
Total segment revenue	**4,541,537**	**7,936,076**	**2,258,320**	**191,965**	**14,927,898**
Assets					
Segment assets	11,412,679	4,352,617	649,698	-	16,414,994

4. REVENUES AND EXPENSES

	Notes	Consolidated 2017 $	Consolidated 2016 $
Revenue			
Sales revenue		13,188,752	14,385,507
Finance revenue - Interest received from other parties		79,529	47,308
Other Revenue			
R&D Tax incentive refund		2,390,586	495,083
Total other revenue		2,390,586	495,083
Expenses			
a) Cost of materials and manufacturing			
Cost of materials and manufacturing		2,647,649	3,519,127
b) Finance costs			
Interest paid on loans from external parties		20,079	17,952
c) Depreciation and amortisation			
Depreciation of plant and equipment		298,639	83,412
Depreciation of leasehold improvements		694	2,853
Amortisation of intangibles		18,755	20,127
		318,088	106,392
d) Research & development expense			
FDA expenses		2,584,716	1,098,505
Pilot Clinincal Trial expenses		270,101	-
Research expenses		16,471	58,917
		2,871,288	1,157,422
e) Employee benefits expense			
Salaries and w ages		3,532,030	3,206,362
Defined contribution superannuation expense		316,715	299,474
Non-Executive Director fees		157,055	105,163
Share-based payments expense	23a	21,416	107,777
		4,027,216	3,718,776
f) Administration expense			
Legal and professional costs		1,268,746	1,099,628
Office and facility costs		599,075	730,700
Provision for doubtful debts		546,393	-
Operating lease expenses	19a	755,447	649,512
Travel and motor vehicle costs		731,148	630,696
		3,900,809	3,110,536
g) Other expenses			
Realised Foreign exchange losses		19,143	33,046
Unrealised Foreign exchange losses / (gains)		4,524	(15,494)
Other		343,041	613,345
		366,708	630,897

5. INCOME TAX

	2017	2016
	$	$
The components of income tax expense comprise:		
Current income tax expense	(2,035,950)	(817,695)
Deferred tax expense	(193,760)	(207,363)
	(2,229,710)	**(1,025,058)**
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	**705,139**	**1,916,426**
Statutory income tax rate of 30%	(211,541)	(574,928)
Effects of lower rates on overseas income	212,127	407,723
Expenditure not allowable for income tax purposes	(2,416,088)	(723,223)
Non-assessable income	752,369	106,491
Tax losses brought to account overseas	43,214	62,857
Underprovsion of previous years	(401,856)	-
Temporary differences recognised (reversed) in Australian group	(197,066)	(203,408)
Temporary differences recognised (reversed) overseas	3,306	(3,955)
Tax losses not recognised in Australian group	-	(95,430)
Tax losses not recognised overseas	(14,175)	(1,185)
Total income tax expense	**(2,229,710)**	**(1,025,058)**
Effective income tax rate	(316.2%)	(53.5%)
Current income tax asset (liability)	**1,573,059**	**27,839**
Deferred tax assets		
Deferred tax assets from temporary differences on:		
Investments	432,505	709,012
Provisions and accruals	486,981	492,652
Other	179,463	94,351
Total deferred tax assets	**1,098,949**	**1,296,015**
Movements in deferred tax assets		
Opening balance	1,296,015	1,499,423
Change in tax rate		
Deferred tax assets attributable to temporary differences brought to account	(197,066)	(203,408)
Closing balance	**1,098,949**	**1,296,015**
Deferred tax liabilities		
Deferred tax liabilities from temporary differences on:		
Provisions and accruals	549	3,855
Total deferred tax liabilities	**549**	**3,855**
Movements in deferred tax liabilities		
Opening balance	3,855	7,814
Reversal of temporary differences	(3,306)	(3,959)
Closing balance	**549**	**3,855**
Deferred tax assets for which no benefit has been recognised:		
- arising from temporary differences - at 27.5% (2016 30%)	837,633	913,782
- arising from revenue tax losses - at 26.5%	-	40,542
- at 30%	-	95,430
- arising from capital tax losses - at 27.5% (2016 30%)	21,686	23,657

6. NET TANGIBLE ASSETS AND EARNINGS PER SHARE

Net Tangible Assets per share

	Consolidated	
	2017	**2016**
	$	**$**
Net assets per share	0.25	0.21
Net tangible assets per share	0.21	0.18
	Number	**Number**
Number of ordinary shares for net assets per share	68,254,316	59,726,733
	2017	**2016**
	$	**$**
Net assets	17,249,392	12,461,803
Net tangible assets	14,482,362	10,744,417

The number of ordinary shares includes the effects of 225,000 LTIP shares issued on 19 April 2017 (2016: 138,000 Long Term Incentive Performance shares issued on 25 July 2016) and excludes 382,185 expired Long Term Incentive Plan shares cancelled on 8 September 2017 as set out in Note 17.

(Loss) / Earnings per share

	Consolidated	
	2017	**2016**
	cents	**cents**
Basic (loss) / earnings per share for continuing operations	(2.25)	1.55
Basic (loss) / earnings per share	(2.25)	1.55
Diluted (loss) / earnings per share	(2.25)	1.55
	Number	**Number**
Weighted average number of ordinary shares for basic (loss) / earnings per share	67,891,316	57,385,143
Weighted average number of ordinary shares for diluted (loss) / earnings per share	67,891,316	57,385,143
	2017	**2016**
	$	**$**
(Loss) / Earnings used to calculate basic earnings per share	(1,524,571)	891,368
(Loss) / Earnings used to calculate diluted earnings per share	(1,524,571)	891,368

The weighted average number of ordinary shares for basic earnings per share excludes the effects of 225,000 LTIP shares issued on 19 April 2017 and 138,000 Long Term Incentive Performance shares issued on 25 July 2016 set out in Note 17 as they are contingently returnable.

7. CASH AND CASH EQUIVALENTS

	Consolidated	
	2017	**2016**
	$	**$**
Cash at bank and in hand	8,689,676	4,590,760
Total cash and cash equivalents	**8,689,676**	**4,590,760**

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

The fair value of cash equivalents is $8,689,676 (2016: $4,590,760).

Reconciliation of Statement of Cash Flows	**2017**	**2016**
	$	**$**
For the purpose of the Statement of Cash Flows, cash and cash equivalents comprise the following:		
Cash at bank and in hand	8,689,676	4,590,760
	8,689,676	**4,590,760**
(a) Reconciliation of net (loss) / profit after tax to net cash flows from operations		
Net (loss) / profit after tax	**(1,524,571)**	**891,368**
Adjustments for non-cash income and expense items:		
Depreciation	299,333	86,265
Amortisation	18,755	20,127
Movement provision for employee benefits	(20,141)	(26,921)
Movement in foreign exchange	213,409	(1,548,940)
Movement in employee benefits reserve	21,416	107,777
Movement in other provisions	708,494	12,038
	(283,305)	**(458,286)**
Increase/decrease in assets and liabilities:		
Decrease in receivables	622,163	880,618
Increase in inventories	(44,199)	(424,491)
Increase in other receivables	(2,765,564)	(285,269)
Decrease / (increase) in current tax asset	(27,778)	-
Decrease in deferred tax assets	197,066	203,408
Increase in creditors	156,689	1,050,249
Increase / (Decrease) in current tax liabilities	1,545,220	(447,589)
Decrease in deferred tax liabilities	(3,306)	(3,959)
Increase in deferred income liability	321,330	140,113
Net cash flow (used in) / from operating activities	**(281,684)**	**654,794**

8. TRADE AND OTHER RECEIVABLES

		Consolidated	
	Notes	2017 $	2016 $
Current			
Trade receivables, third parties		3,344,264	3,422,209
Provision for doubtful debts	(v)	(551,730)	(7,512)
Net Trade receivables, third parties	(i)	2,792,534	3,414,697
Other receivables	(ii), (iii)	2,545,290	323,496
Total Current trade and other receivables		**5,337,824**	**3,738,193**
Non-current			
Trade receivables, associate		230,782	230,782
Provision for doubtful debts		(230,782)	(230,782)
Total Non-current trade and other receivables		**-**	**-**
Total trade and other receivables		**5,337,824**	**3,738,193**

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 for the financial year ended 30 June 2017, which will be received upon lodgement and processing of the 2017 income tax return. There was no accrual at 31 December 2016 as the year ended 30 June 2016 R&D Tax Incentive entitlement had not yet been calculated.

(iv) Related party details are set out in the Note 20 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 General Manager – Germany). As a result of these actions, the company recorded a provision for doubtful debts of $540,754 (2016: nil) relating to trade balances with Almedis Altmann GmbH.

9. INVENTORIES

		Consolidated	
	Notes	2017 $	2016 $
Current			
Raw materials at cost		1,128,888	1,257,819
Finished goods at lower of cost or net realisable value		1,584,721	1,375,285
Provision for obsolescence		(36,305)	-
Total inventory		**2,677,303**	**2,633,104**

10. PROPERTY, PLANT AND EQUIPMENT

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).

10. PROPERTY, PLANT AND EQUIPMENT (continued)

Year ended 31 December 2016 Consolidated	Leasehold Land and buildings $	Leasehold improvements $	Plant and equipment $	Leased Plant and Equipment $	Total $
1 January 2016					
at written down value	363,193	6,728	261,785	-	631,706
Additions / Transfers	-	1,706,485	155,696	-	1,862,181
Disposals / Transfers	-	(749)	(45,149)	-	(45,898)
Foreign exchange translation	(14,817)	-	(6,252)	-	(21,069)
Depreciation for the year	(9,475)	(2,853)	(73,937)	-	(86,265)
31 December 2016					
at written down value	**338,901**	**1,709,611**	**292,143**	**-**	**2,340,655**
1 January 2016					
Cost value	2,415,837	3,039,243	7,758,964	120,901	13,334,945
Impairment - Molecular Imaging*	(1,881,960)	(2,608,912)	(4,369,291)	-	(8,860,163)
Accumulated depreciation	(170,684)	(423,603)	(3,127,888)	(120,901)	(3,843,076)
Net carrying amount	**363,193**	**6,728**	**261,785**	**-**	**631,706**
31 December 2016					
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**

* 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.

10. 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 from PetNet, a subsidiary of Federal Government owned ANSTO. 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 2017. 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 2017.

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 2017 $	Level 2 2016 $
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.

11. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

		Consolidated	
		2017	2016
Equity accounted investments	**Notes**	**$**	**$**
Associated companies	(a)	-	-

Name	**Principal Activities**	**Principal place of business**	**Measurement Method**	**Ownership Interest**	
				2017	**2016**
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	
		2017	2016
Extract from the associate's statement of financial position:	**Notes**	**$**	**$**
Current Assets		1,086,606	1,877,768
Non-current Assets		12,006,519	8,237,485
Current Liabilities		(12,166,215)	(11,399,729)
Non-current Liabilities		(10,365,250)	(8,013,364)
Net Liabilities		(9,438,340)	(9,297,840)
Share of associate's Net Liabilities	(a)	(1,887,668)	(1,859,568)

		Consolidated	
		2017	2016
Extract from the associate's statement of comprehensive income:	**Notes**	**$**	**$**
Revenue		13,661,612	11,718,626
Net Loss	(a)	(1,969,568)	(2,461,137)

(a) The share of the associate's loss not recognised during the year was $393,914 (2016: loss of $453,708) and the cumulative share of the associate's loss not recognised as at 31 December 2017 was $2,933,963 (31 December 2016: $2,540,049). 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 2017 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 (2016: $nil).

11. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (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 $2,393,465 (2016: $1,986,650). 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.

12. INTANGIBLE ASSETS

Consolidated	Intellectual Property $	Goodwill on consolidation* $	Technegas Development $	Target $	Ultralute $	Total $
Balance at						
1 January 2017	58,748	-	248,870	27,419	1,382,349	1,717,386
Additions	14,171	400,437	178,145	-	475,646	1,068,398
Amortisation	(18,755)	-	-	-	-	(18,755)
Balance at						
31 December 2017	**54,164**	**400,437**	**427,015**	**27,419**	**1,857,995**	**2,767,030**
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**
31 December 2016						
Non-Current	58,748	-	248,870	27,419	1,382,349	1,717,386
Total	**58,748**	**-**	**248,870**	**27,419**	**1,382,349**	**1,717,386**

* Goodwill on consolidation arising upon the acquisition of Inter Commerce Medical bvba on 1 October 2017. Refer to Note 25 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 discount factor used was 15.20% in 2017 (2016: 18.78%).

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

13. TRADE AND OTHER PAYABLES

		Consolidated	
		2017	2016
	Notes	$	$
Current			
Trade payables, third parties	(i)	1,561,789	1,796,889
Other payables and accruals	(ii)	1,044,805	807,743
Total current trade and other payables		**2,606,594**	**2,604,632**
Non-current			
Other payables and accruals		154,727	-
Total Non-current trade and other payables		**154,727**	**-**
Total trade and other payables		**2,761,321**	**2,604,632**

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) Related party details are set out in the Note 20 Related Party Disclosures.

14. INTEREST BEARING LOANS AND BORROWINGS

	Consolidated	
	2017	2016
	$	$
Current		
Lease liabilty - secured	20,204	-
Bank loan - secured (b)	67,332	-
Interest bearing loans and borrowings (current)	**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	**174,866**	**-**

14. INTEREST BEARING LOANS AND BORROWINGS (continued)

(a) Financing facilities available:

		Consolidated	
		2017	2016
	Notes	$	$
Total facilities available:			
- secured bank loans, third party		174,866	-
		174,866	**-**
Facilities used at reporting date:			
- secured bank loans, third party	14	174,866	-
		174,866	**-**
Total facilities		174,866	-
Facilities used at reporting date:		(174,866)	-
Facilities unused at reporting date:		**-**	**-**

(b) Secured Bank Loans

Cyclopharm's new 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.

15. PROVISIONS

	Consolidated		
	Employee Entitlements	Make good	Total
Consolidated	**$**	**$**	**$**
Balance at 1 January 2017	**976,752**	**200,000**	**1,176,752**
Arising during the year	208,645	-	208,645
Utilised	(228,786)	-	(228,786)
Balance at 31 December 2017	**956,611**	**200,000**	**1,156,611**
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		
31 December 2016			
Current	923,242	-	923,242
Non-Current	53,510	200,000	253,510
Total	**976,752**	**200,000**	**1,176,752**
Number of employees			
Number of employees at year end	33		

16. DEFERRED INCOME LIABILITIES

	Consolidated	
	2017	2016
	$	$
Deferred income liabilities	**461,443**	**140,113**

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.

Notes
Continued

17. CONTRIBUTED EQUITY

		Consolidated			
	Notes	2017 Number	2016 Number	2017 $	2016 $
Issued and paid up capital					
Ordinary shares	(a)	68,254,316	59,726,733	26,884,885	20,296,125
Other contributed equity	(b)	-	-	(5,333,158)	(5,333,158)
Total issued and paid up capital		**68,254,316**	**59,726,733**	**21,551,727**	**14,962,967**
(a) Ordinary shares					
Balance at the beginning of the period		59,726,733	59,588,733	20,296,125	20,296,125
Issue of Long Term Incentive Plan shares	(i)	225,000	138,000	-	-
Issue of non-renounceable entitlement shares	(ii)	8,684,768	-	6,588,760	-
Cancellation of expired Long Term Incentive Plan shares	(iii)	(382,185)	-	-	-
Balance at end of period		**68,254,316**	**59,726,733**	**26,884,885**	**20,296,125**
(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) 225,000 LTIP shares issued on 19 April 2017 and 138,000 Long Term Incentive Plan shares were issued on 25 July 2016 as set out in Note 23.
(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) 382,185 expired Long Term Incentive Plan shares were cancelled on 8 September 2017.

17. 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 2017.

		Consolidated	
		2017	2016
	Notes	$	$
Total interest bearing loans and borrowings		174,866	-
Less: cash and cash equivalents	7	(8,689,676)	(4,590,760)
Net cash		**(8,514,810)**	**(4,590,760)**
Total equity		17,249,392	12,461,803
Gearing ratio		1.0%	0.0%

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 2017 and an unfranked final dividend of 0.5 cent per share in respect of the financial year ended 31 December 2016. During the 2016 financial year, the Directors declared a partially franked interim dividend of 0.5 cent per share in respect of the financial year ended 31 December 2016 and a fully franked final dividend of 0.5 cent per share in respect of the financial year ended 31 December 2015.

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 2017.

	Consolidated			
	2017	2016	2017	2016
	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	-	278,309	-
- Fully franked at 30% corporate tax rate	-	0.50	-	278,309
Interim dividend in respect of the current financial year				
- No franking credits attached	0.50	0.27	321,813	150,287
- Partially franked at 30% corporate tax rate	-	0.23	-	128,022
	1.00	**1.00**	**600,122**	**556,618**

18. 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 reviews 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 2017, 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	
	2017	2016
	$	$
Judgements of reasonably possible movements:		
Profit before income tax		
+1.0% (100 basis points)	86,167	45,908
-0.5% (50 basis points)	(43,084)	(22,954)

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

18. 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 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	7	2.35%	-	8,689,676	-	-	8,689,676
Trade and other receivables	8	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	13	n/a	2,761,321	-	-	-	2,761,321
Leases, third party	14	0.50%	-	-	20,204	81,719	101,923
Secured bank loans, third party	14	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**

Consolidated Year ended 31 December 2016		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	7	1.03%	-	4,590,760	-	-	4,590,760
Trade and other receivables	8	n/a	3,738,193	-	-	-	3,738,193
Total financial assets			**3,738,193**	**4,590,760**	**-**	**-**	**8,328,953**
FINANCIAL LIABILITIES							
Trade payables, third parties	13	n/a	2,604,632	-	-	-	2,604,632
Secured bank loans, third party	14	n/a	-	-	-	-	-
Total financial liabilities			**2,604,632**	**-**	**-**	**-**	**2,604,632**
Net exposure			**1,133,561**	**4,590,760**	**-**	**-**	**5,724,321**

18. 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 the counterparty's 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 2017, 49% of the Group's debt was due to mature in less than one year. As at 31 December 2016, there were no bank loans as the loan was fully repaid on 7 March 2016.

Refer to the table above with the heading 18 (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 (2016: $nil).

Consolidated Year ended 31 December 2017	Note	Less than 6 months $	6 months to 1 year $	1 year to 5 years $	Greater than 5 years $	Total $
Trade payables, third parties	13	2,451,867	154,727	154,727	-	2,761,321
Leases, third party	14	10,102	10,102	81,719	-	101,923
Secured bank loans, third party	14	33,666	33,666	5,611	-	72,943
		2,495,635	198,495	242,057	-	2,936,187
31 December 2016						
Trade payables, third parties	13	2,604,632	-	-	-	2,604,632
Secured bank loans, third party	14	-	-	-	-	-
		2,604,632	-	-	-	2,604,632

(d) Commodity price risk

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

18. 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 77% (2016: 71%) of the Group's sales are denominated in currencies other than the functional currency of the operating unit making the sale, whilst approximately 57% (2016: 63%) of costs are denominated in the unit's functional currency.

At 31 December 2017, the Group had the following financial instrument exposure to foreign currency fluctuations:

	Consolidated	
	2017	2016
	$	$
United States dollars		
Amounts payable	116,347	213,972
Amounts receivable	6,797	9,816
Euros		
Amounts payable	180,577	203,549
Amounts receivable	2,109,462	1,740,813
Canadian dollars		
Amounts payable	44,819	50,919
Amounts receivable	456,204	315,224
Japanese Yen		
Amounts payable	11,467	14,778
Amounts receivable	3,463	3,463
Chinese Renminbi		
Amounts payable	80,584	80,584
Amounts receivable	-	-
Net exposure	**(2,142,132)**	**(1,505,514)**

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

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, there was found to be no requirement to make any fair value adjustment to the Statement of 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.

18. FINANCIAL RISK MANAGEMENT OBJECTIVES (continued)

(e) Foreign currency risk (continued)

Fair values

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

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) and US Dollar (USD) 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.

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 2017		
Net (loss) / profit	(169,157)	186,073
Equity (decrease) / increase	(169,157)	186,073
31 December 2016		
Net (loss) / profit	(139,751)	153,726
Equity (decrease) / increase	(139,751)	153,726
CAD		
31 December 2017		
Net (loss) / profit	(37,399)	41,139
Equity (decrease) / increase	(37,399)	41,139
31 December 2016		
Net (loss) / profit	(24,028)	26,431
Equity (decrease) / increase	(24,028)	26,431
USD		
31 December 2017		
Net profit / (loss)	9,959	(10,955)
Equity increase / (decrease)	9,959	(10,955)
31 December 2016		
Net (loss) / profit	18,560	(20,416)
Equity (decrease) / increase	18,560	(20,416)

19. COMMITMENTS & CONTINGENCIES

(a) Operating lease commitments

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

	Consolidated	
	2017	2016
	$	$
Operating Lease Commitments		
Minimum lease payments		
Due not later than one year	679,346	589,966
Due later than 1 year & not later than 5 years	1,889,463	1,597,259
More than 5 years	1,117,678	-
Total operating lease commitments	**3,686,487**	**2,187,225**
Operating lease expenses recognised as an expense during the year	755,447	649,512

- 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. During the current financial year, the landlord has 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	
	2017	2016
	$	$
Finance Lease Commitments		
Minimum lease payments		
Due not later than one year	20,204	-
Due later than 1 year & not later than 5 years	81,719	-
More than 5 years	-	-
Total finance lease commitments	**101,923**	**-**

19. COMMITMENTS & CONTINGENCIES (continued)

(c) Capital commitments

There were no capital commitments as at the date of this report (2016: $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 $2,393,465 (2016: $1,986,650). 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.

20. RELATED PARTY DISCLOSURES

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

The following table provides the total amount of transactions that were entered into with related parties for the relevant financial year (for information regarding outstanding balances at year-end, refer to Note 8 Trade and Other Receivables, Note 13 Trade and Other Payables and Note 14 Interest Bearing Loans and Borrowings):

CONSOLIDATED		Sales to related parties $	Purchases from related parties $	Amounts owed by/ (to) related parties $	Provision for doubtful debts on Amounts owed by related parties $
Pilmora Pty Ltd	*2017*	-	-	-	-
	2016	-	11,888	-	-
Cell Structures Pty Ltd	*2017*	-	43,380	(27,500)	-
	2016	-	-	-	-
Macquarie Medical Imaging	*2017*	-	-	230,782	230,782
	2016	-	-	230,782	230,782
Almedis Altmann GmbH	*2017*	1,096,875	-	530,754	540,754
	2016	590,481	-	86,207	-

20. 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, no payments (2016: $11,888) were made to Pilmora Pty Ltd (an entity controlled by former Director, Mr. Henry Townsing). All payments related to Mr. Townsing's role as a non-executive director.
- During the year, payments of $43,380 (2016: nil) 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 (2016: $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 11 for details of the investment in the associate.
- During the year, sales amounting to $1,096,875 (2016: $590,481) were made to Almedis Altmann GmBH (an entity controlled by 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 (2016: nil) 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.

20. RELATED PARTY DISCLOSURES (continued)

Controlled Entities

Name	Note	Country of Incorporation	Percentage of equity interest held 2017	2016
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%	-
Cyclomedica Germany GmbH	5	Germany	100%	100%
Cyclomedica Canada Limited	6	Canada	100%	100%
Allrad No. 28 Pty Ltd	7	Australia	-	100%
Allrad No. 29 Pty Ltd	7	Australia	-	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 (2016: Audited by Moore Stephens, Republic of Ireland).
4. Not audited, acquired on 1 October 2017.
5. Audited by Bilzanzia GmbH Wirtschaftsprufungsgesellschaft, Germany
6. Audited by Schwartz Levitsky & Feldman LLP, Toronto, Canada.
7. Previously audited by Nexia Sydney Audit Pty Ltd , Australia. The voluntary deregistration of Allrad No.28 Pty Ltd and Allrad No. 29 Pty Ltd was completed on 16 July 2017.

21. EVENTS AFTER THE BALANCE DATE

FINAL DIVIDEND

On 26 February 2018, the Directors declared a final unfranked dividend of 0.5 cent per share in respect of the financial year ended 31 December 2017, payable on 16 April 2018.

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.

22. AUDITORS' REMUNERATION

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

	Consolidated	
	2017	2016
	$	$
Amounts received or due and receivable by the auditor of the parent entity and associated entities for:		
Audit and review of the financial statements	105,467	89,376
Other services:		
- tax compliance	3,112	27,802
- share registry	25,382	23,760
	133,961	**140,938**
Amounts received or due and receivable by other audit firms for:		
Audit of the financial statements of controlled entities	84,341	100,120
Other services	38,933	30,306
	123,274	**130,426**

23. SHARE BASED PAYMENT PLANS

(a) Recognised share-based payment expenses

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

	Consolidated	
	2017	2016
	$	$
Expense arising from equity-settled share-based payment transactions (note 4)	21,416	107,777

The share-based payment reserve at 31 December 2017 was $625,838 (2016: $603,622).

23. 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.

Shares

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

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

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

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

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

LTIP Shares issued

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

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.

23. SHARE BASED PAYMENT PLANS (continued)

(c) Summary of Implied Options granted

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

	Consolidated 2017 Number	Consolidated 2016 Number	Weighted Average Exercise Price 2017 $	Weighted Average Exercise Price 2016 $
Balance at the beginning of the year	2,341,590	2,203,590	0.92	0.92
Granted during the year	225,000	138,000	0.90	1.20
Exercised during the year	(1,821,405)	-	0.90	-
Lapsed during the year	(382,185)	-	0.90	-
Balance at the end of the year	**363,000**	**2,341,590**	**1.01**	**0.92**

(i) 1,821,405 LTIP shares 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 $1.01 (2016: $0.92). The weighted average remaining contractual life for the Implied Options outstanding as at 31 December 2017 is 1.64 years (2016: 0.59 years). The weighted average fair value of Implied Options granted during the year was $0.196 (2016: $0.27).

(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**	**$1.20**
Number of recipients	1	15
Number of Implied Options	225,000	138,000
Grant Date	19/04/2017	25/07/2016
Dividend yield	-	-
Expected annual volatility	44%	41%
Risk-free interest rate	1.80%	1.62%
Expected life of Implied Option (years)	3 years	2 years
Fair value per Implied Option	$0.196	$0.270
Share price at grant date	$0.76	$1.17
Model used	Black Scholes	Black Scholes

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

24. PARENT ENTITY DISCLOSURE

	2017	2016
	$	$
(i) **Financial Position**		
Assets		
Current Assets	8,599,453	3,069,205
Non-current Assets	11,752,166	8,751,989
Total Assets	**20,351,619**	**11,821,194**
Liabilities		
Current Liabilities	1,503,270	139,146
Non-current Liabilities	8,654,583	6,933,130
Total Liabilities	**10,157,853**	**7,072,276**
Net assets	**10,193,766**	**4,748,918**
Equity		
Contributed equity	21,752,259	15,163,497
Employee equity benefits reserve	625,038	603,622
Accumulated Losses	(12,183,531)	(11,018,201)
Total Equity	**10,193,766**	**4,748,918**
(ii) **Financial Performance**		
Profit / (Loss) for the year	(565,207)	(1,373,971)
Other comprehensive income	-	-
Total Profit / (Loss) for the year	**(565,207)**	**(1,373,971)**

25. BUSINESS COMBINATIONS

Acquisition of Inter Commerce Medical bvba

On 1 October 2017, the Group acquired 100% of the ordinary shares of Inter Commerce bvba ("ICM"), a Belgian private company which specialises in 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.

The acquisition has been accounted for using the acquisition method. The consolidated financial statements include the results of ICM for the period between 1 October 2017 and 31 December 2017.

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

	Provisional Fair value recognised on acquisition
	$
Assets	
Property, plant and equipment	375,747
Cash and cash equivalents	1,175,958
Debtors	115,835
Other receivables and prepayments	29,988
Total Assets	**1,697,528**
Liabilities	
Trade and other payables	54,758
Borrowings	331,522
Provisions and other liabilities	409,754
Total liabilities	**796,034**
Total identifiable net assets at fair value	901,494
Goodwill arising on acquisition	400,436
Purchase consideration transferred/transferable (i)	**1,301,930**

	$
Net cash acquired with the subsidiary (included in cash flows from investing activities)	1,175,958
Cash paid	(1,003,021)
Net cash inflow	**172,937**

The provisional fair value of receivables amounts to $145,823.

25. BUSINESS COMBINATIONS (continued)

(i) The purchase consideration of $1,301,930 included EUR671,000 cash and EUR 200,000 contingent consideration payable in cash. The contingent consideration is payable in 2 tranches being EUR100,000 each on the first and second post completion dates. Both tranches are subject to potential adjustment on those dates via a formula based on comparison of actual versus forecast 3-year average EBITDA.

From the date of acquisition to the end of the reporting period, ICM contributed revenue of $73,302 and a net loss after tax of $10,274 to the continuing operations of the Group. If the acquisition date had been at the beginning of the reporting period, ICM would have contributed revenue of $899,938 and a net profit after tax of $281,422 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 $29,603 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.

This page has been intentionally left blank.