

CYCLOPHARM

CYC

08 May 2007

BUY

AGM Comments - Growth Strategy on Track

A positive AGM, with strong a growth outlook for both divisions:

Technegas – Sales of Technegas generators increased strongly, with increasing sales to small scale users and entry to new markets, providing a good base for further growth. While consumable sales were below the pcp, this was due to the timing of contractual volume. This is expected to correct over the balance of the year to record levels.

The US FDA application is expected to be lodged in CY07 for approval CY08. Approval will be result in a EBIT of \$2.2 in the first full year of operations using conservative assumptions.

Molecular Imaging – CYC has advised that it is at an advanced stage of negotiations for the location of a PET central pharmacy within the St George Private Hospital oncology precinct in Sydney. CYC expects to complete Heads of Agreement on this and a Melbourne location by June 2007, with production to commence in CY 2008.

Each new pharmacy is expected to generate a pre-tax profit of \$2.0m in the first full year of operations using conservative assumptions.

CYC has also indicated "*acquisitions will be actively pursued*" to complement its existing nuclear medical operation.

Full Year Result

The result was in line with the recent Prospectus forecast, with profit on a continuing basis increasing by 5% to \$2.0m on a revenue increase of 17% to \$10.3m. The underlying result was stronger, with costs in 2006 inflated by costs and further development of the Technegas business and establishment of the Molecular Imaging division.

The strong sales growth was a combination of a 48% increase in generator sales, and an 8.4% increase in consumable sales reflecting continued success in Europe and Asia, developments in Latin American and consolidation of recent growth in Canada. While Australia generator sales increased by 36%, consumables sales fell by 6%, due to a lack of sustained marketing.

Outlook

Over the next 2 years CYC is expected to benefit from expansion of the installed generator base and increasing consumables sales as a result of increased marketing and penetration of new markets. Over the longer term CYC is expected to benefit from progress on its FDA application and Molecular Imaging initiatives from 2008.

We believe the current valuation is easily supported by expansion in the base Technegas operations, before any consideration of the substantial growth opportunities. Accordingly we expect price improvement with continuation of the base growth and the development of the opportunities in molecular imaging and technegas in the US.

Price:\$0.37	05(a)	06(a)	07(e)	08(e)	09(e)
Revenue (\$m)	8.8	10.3	12.0	21.1	32.3
Profit (\$m)	1.9	2.0	3.3	4.6	9.2
EPS (cps)	1.8	1.9	2.4	3.4	6.8
Growth (%)		3.5	29.3	40.8	99.8
PER (x)	20.5	19.8	15.3	10.9	5.4
Dividend (cps)	0.0	0.0	1.0	1.5	2.0
Yield (%)	0.0	0.0	2.7	4.1	5.4
Franking (%)	0.0	0.0	0.0	0.0	0.0

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Company Information

Share Price \$ps **\$0.37**

Target Price \$ps **\$0.45**

Healthcare Equipment & Services

www.cyclopharm.com.au

Issued Capital 135.7m

Market Cap \$48.9m

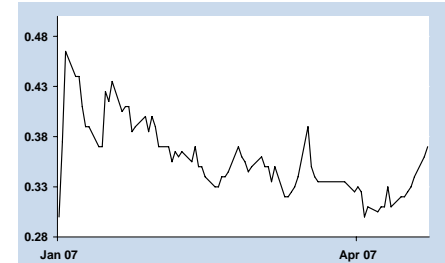
Gearing 0.0%

Return on Equity 17.3%

Analyst Brent Mitchell



Share Price Chart (\$ps)



Year Hi – Lo \$ps **\$0.51 - \$0.30**

Avg Monthly Vol **1,748,057**

Shareholders

Top 20	67.0%
Barleigh Wells	10.2%
CVC (Chairman)	11.0%
Normandy (Director)	9.2%
Chemical Trustees	8.4%

AGM COMMENTS

TECHNEGAS

Q1 revenue is lightly down on 2006 and budget, mainly in sales of consumables. While most areas are ahead of budget, the shortfall was due to volumes below contractual levels in France (-100,000) and Scandinavia (-70,000) mainly related to timing issues. Adjusting for these shortfalls, volumes were ahead of the pcp. This is expected to rectify in remaining 9 months of CY 2007, with:

- A return to contractual revenue in both France and Scandinavia, as order timing normalises.
- An agreement in the UK to increase contractual revenue by 50%, and
- Regulatory approvals in Italy, China (delays in registration of new Technegas Plus generator) and Brazil. Brazil is the largest Latin American market with 350 medical nuclear sites.

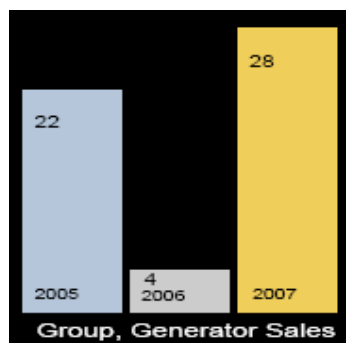


More importantly for long term growth, generators sales were strong with 28 sold or placed in Q1 (4 in Q1 04). This includes some placements to smaller users, including some rebuilt generators, and into new markets, including Argentina, Venezuela and Mexico.

USA FDA

CYC has reached 120 of 134 patients required and will submit an FDA application on this basis later this year, for approval in CY 08. Approval may occur in the second half, however, CYC will have in place a distribution and marketing network ahead of approval which would ensure significant sales in Calendar Year 2008, even if approval is received in the latter part of that year.

CYC believes US FDA approval will help its penetration of other key markets, such as Japan, which follow US regulatory outcomes.



MOLECULAR IMAGING

CYC has advised that it is in advanced stages of negotiation with St George Private Hospital for the location of its Sydney PET Central Pharmacy within its oncology precinct. St George has a stated ambition to be NSW's leading oncology centre. CYC is continuing discussions on the location of a Melbourne PET pharmacy. CYC hopes to have Heads of Agreement on both locations by 30/6/07. A third pharmacy is likely to be situated in Adelaide.

CYC is positive on the Australian market, stating

"CYC expects growth in PET procedures to follow US and European trends of over 100% growth annually".

This is based on:

- A rapid installation of camera numbers, expected to double to 30 by 2009, and an increasing number of combined PET/CT cameras.
- Expectations of a Federal Government increase in the number of indications for rebate, based on a 30,000 patient study.
- An aging population, with increasing incidence of cancer and increasing awareness on the advantage of PET studies.

CYC intends its central pharmacies to help meet that demand

Expansion Opportunities

CYC has also indicated *"acquisitions will be actively pursued"* in related areas in Australia, such as the supply of generic radio pharmaceuticals, capitalising on its strong position in nuclear medicine.

FULL YEAR RESULT

The result was as expected and in line with the prospectus forecasts from IPO in December 2006.

Profit & Loss					Balance Sheet				
	\$m	2005	2006	% Ch		\$m	2005	2006	% Ch
Total Revenue		9.1	10.3	13.3	Current Assets		4.3	7.0	
Expenses		-6.3	-7.6	20.8	Non Curr Assets		1.2	2.2	
Net Operating Profit		2.8	2.7	-3.6	Total Assets		5.4	9.2	70.0
Depreciation & Amortisation		-0.1	-0.1		Current Liabs		2.0	4.4	
EBIT		2.7	2.6	-4.4	Non Curr Liabs		0.5	5.4	
Interest		-0.1	-0.3		Total Liabilities		2.5	9.8	296.9
Pre-Tax profit		2.7	2.3	-13.3	Shareholder Funds		3.0	-0.6	-119.2
Tax		-0.7	-0.3		Return on Equity (%)			16.9	
Minorities		-0.1	0.0		Return on Assets (%)			55.8	
Normalised Profit		1.9	2.0	5.8	Net Debt		0.4	4.9	
Sig Items		-0.3	0.0		Gearing (%)		13.0	n.a.	
Reported Profit		1.6	2.0	28.9	Net Assets (cps)		2.8	-0.5	
EPS (cps)		1.8	1.9	3.5	NTAV (cps)		2.6	-1.6	-161.1
Cash Flow (cps)		1.9	2.0	4.2	Gross Op Profit Margin (%)		30.7	26.1	
DPS (cps)		0.0	0.0		Effective Tax Rate (%)		25.7	12.8	
Franking (%)		0.0	0.0		Interest Cover (x)		50.4	9.1	

Key Points were:

Revenue

Operating revenue increased by 17% to a record \$10.3m, with a combination of increased generator sales resulting, penetration of new regions, and an increase in consumables sales:

Consumable Sales (Patient Administration Sets)

Volume sales increased by 8.4% to 171,050 across 49 counties, mainly Europe (100,000), Asia Pacific (39,000) and Canada (17,000). This was boosted by a resurgence in the German market, with growth of 61% off a low base, and a continued usage in Canada and Asia, with increases of 28% and 34%. These increases were partly offset by a 6% decline in Australia, reflecting a lack of marketing resources over the last 2 years.

Technegas Sales and Placement

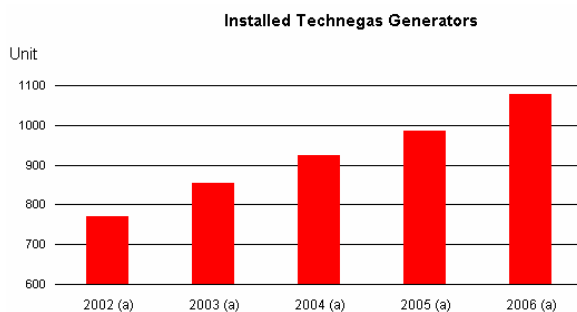
Sales and placement of Technegas generators increased by 48% to 93 units, mainly Australia (19), Europe (51) and Asia (14).

While the new installation in Europe covered existing established markets of France (16) and Germany (9), there were also sharp increases in new installations elsewhere in Europe and the Middle East (26).

The installed generator base increased to 1079 as at 31/12/06. (see chart on right)

This was helped by the recent release of the new

TechnegasPlus generator.



Costs

Expenses increased by 21%, due to:

- Costs of \$0.1 – 0.2m associated with the launch and marketing of the new TechnegasPlus generator.
- Write-off of initial expenses associated with establishment of the new Molecular Imaging division.
- Recruitment of new staff to increase marketing capacity, especially within the dormant UK and the neglected Australian markets.

Research and development costs of \$0.6m, mainly costs associated with the FDA application, were capitalised

Profit

The reported increase of 29% reflected inclusion in 2005 of the loss-making treadmill operations, since closed. The normalised profit benefited from a lower tax rate, reflecting the stronger growth rate in Europe, where CYC is subject to a substantially lower tax rate.

Balance Sheet

The negative NAV and NTAV reflects acquisition accounting and treatment of goodwill, ignoring the value of the Technegas business. Net debt will be negligible post the \$7m raised in IPO and additional costs related to the FDA application. This cash is earmarked for the establishment of the molecular imaging operations.

Regional Breakdown

Region	Revenue (\$m)			EBIT (\$m)			Margin (%)	
	2005	2006	% Ch	2005	2006	% Ch	2005	2006
Australia	1.8	1.8	2.0	0.6	0.5	-13.2	33.9	28.9
Asia	0.3	0.4	34.4	0.1	0.1	23.1	29.2	26.8
Europe	5.5	7.0	27.8	1.2	1.3	4.5	22.6	18.5
Nth America	1.1	0.9	-15.1	0.7	0.3	-47.1	58.4	36.4
Other	0.1	0.2	23.2	0.1	0.1	-23.9	68.6	42.3
Total	8.8	10.3	17.4	2.7	2.3	-12.4	30.3	22.6

Australia - The revenue increase in Australia reflects a 36% increase in generator sales, mostly offset by a 6% decline in consumables. The profit decline reflects the change revenue mix from the higher margin consumables and the increased cost structure.

Asia – the strong result was due to a strong increase in consumable sales, backed by a modest increase in generator sales, the latter constrained by delays in registration in some markets.

Europe – The strong revenue growth was mainly in the established markets of France (+49%) and Germany (+350%), albeit off a low base, helped by the acquisition of Amedis Altmann during 2005. Overall growth was restricted by a weak UK market, where pricing pressure reduced revenue.

North America (Canada) - The revenue and profit decline reflects lower generator sales, as penetration nears target levels, partly offset by a 28% increase in consumable sales.

Other – Continues to develop new markets, including Tunisia, Oman, Panama, Dominican Republic, Columbia, Peru and Venezuela.

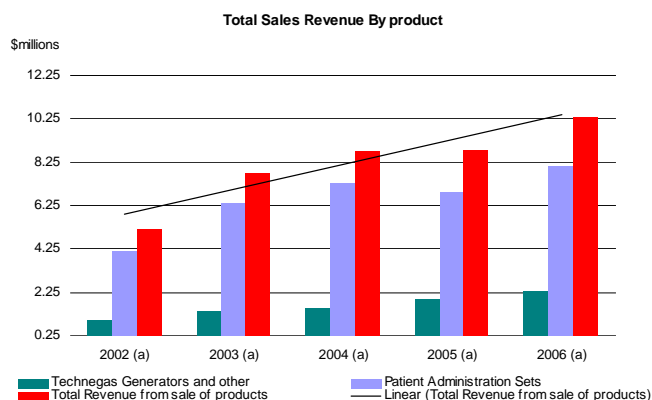
OUTLOOK

TECHNEGAS

We expect strong growth in the base Technegas business over the next 3 years, from:

Increased Penetration

CYC expects to increase penetration in some countries, especially those recently entered, such as Canada, Latin America, China and Korea.



Increased usage

While each Technegas generator has capacity of 2,000 procedures pa, only 203 were undertaken per generator on average in 2005, with usage varying from 270 procedures pa in Australia to 180 - 185 pa in Western Europe and much lower numbers in Japan and recently introduced countries. The usage rate is expected to increase with identification of new applications and a continued ramp up in higher use countries such as Canada.

Research is continuing on developing additional applications for Technegas, including research through the Royal North Shore Hospital. These and other new applications can be rolled out without the need for additional approvals.

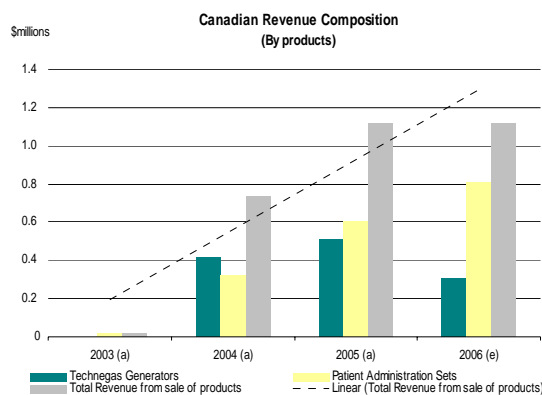
New Regions and countries

CYC is seeking Regulatory Approval in 29 other jurisdictions, such as the USA and Eastern Europe, following the recent success in Canada (see chart on right).

In the 3 years since regulatory approval was obtained in Canada, Technegas increased installations from nil to 39 hospitals (32% of nuclear medicine department), resulting in 17,000 procedures pa. Canadian operations now generate over 10% of Technegas revenue.

USA FDA submission

CYC is currently undertaking Phase III clinical trials covering 170 patient studies and an 8 patient bio distribution study.



As at 28 February 2007, 122 patient studies were completed, with the balance to be completed over the next 2 - 3 months and the submission lodged mid 2007. Once lodged, a decision is mandated to be received within 12 months. The USA is by far the largest nuclear medicine market, with 7,000 nuclear medical departments undertaking an estimated 26m nuclear medical procedures in 2005, including 2.1m lung studies.

Based on the Canadian experience, we would conservatively expect 240 generators (through year average of 120) to be installed in the US in the first full 12 months of operations, increasing to 600 (425) and 980 (800) in the second and third year of operations. Adjusting for multiple installations, the latter still only equates to around 10% of the market.

CYC believes US FDA approval will help its penetration of other key markets, such as Japan, which follow US regulatory outcomes. CYC is also expecting regulatory approval for Brazil, with its application currently under consideration. Brazil is the largest Latin American market with 350 nuclear centres and is considered to be a large potential market for Technegas.

Assuming 150 PAS pa per machine and assuming US\$25,000 per generator and US\$35 per PAS, we estimate in Year 1, 2 and 3 of full operations additional revenue of US\$6.8m, US\$10.9m and US\$13.6m, and EBIT of US\$2.2m, US\$3.6m and US\$4.5m. However, CYC will have in place a distribution and marketing network ahead of approval, which would ensure significant sales in Calendar Year 2008, even if approval is received in the latter part of that year.

MOLECULAR IMAGING

CYC expects a rapid increase in the number of PET procedures in Australia over the next 5 to 7 years, as a result of:

- The expected installation of a further 11 PET cameras by 2008. While each camera can process around 30 patients (doses) per day, this is limited by available supply of radiopharmaceuticals.
- An increase in reliable and consistent supply. While Australia has 7 cyclotrons, there are only 2 commercially operated PET central pharmacies in Melbourne and Brisbane, limiting available supply. The remaining 5 cyclotrons are based in nuclear medical hospitals and include a decommissioned and a non-FDG producing cyclotron, supplying mainly for internal use and research.

With camera demand of around 36,000 doses pa and a maximum production capacity of 25,000 doses pa (not achievable at present), there is a shortfall of at least 11,000 doses pa. While the planned 11 cameras to be installed over the next 2 years will potentially add over 85,000 doses pa to demand, this will only be partly met by planned roll-out of 3 central pharmacies by CYC, maintaining the current shortfall.

- Increased Government acceptance of PET for diagnosis and monitoring of cancer with wider reimbursement coverage, and increasing awareness by practitioners. Only 3 indications are currently approved for Government funded reimbursement, compared to 5 in Europe and 10 in the USA. Extension to other common cancer indications, such as lymphoma, melanoma and colorectal could significantly increase its use, as well as other modalities, including Parkinson's and Alzheimer's diseases.

CYC intends to be the leading industry participant in Australia and the Pacific region, supplying the increased radiopharmaceutical requirements. CYC is in the process of establishing 3 PET central pharmacies, initially in Melbourne and Sydney to supply this increasing need. A third central pharmacy will also be established, most likely in Adelaide with scope for up to 5 PET cameras, supported by a population and customer base, which includes two major nuclear medical hospitals, but no local supply.

CYC has estimated the capital cost of a Central Pharmacy at around A\$5 – 6m, with the licensed hardware facilitating high volume dose production of up to 100 doses per day. Based on initial conservative indications of the net return to CYC of \$350 per dose, based on reimbursements of between \$918 and \$953 for each application, we would estimate each PET Pharmacy would add pre-tax profit of \$2.0m pa in the first full year of operation, increasing to \$2.5m with the third pharmacy. We would expect this to increase significantly in subsequent years with increased demand from further camera installation, and an expansion of indications for re-imbursement and new areas, such as its use in clinical trials

FINANCIAL

The following forecasts are based on:

Technegas – Existing operations in existing regions. As CYC expects FDA approval for the USA in 2008, no revenue has been included, in 2007, although the costs of the FDA process have been expensed. Initial revenue would be expected in the second half of 2008.

New generator sales of 78 and 88 in 2006 and 2007 and reconditioned generator sales of 40 and 20 in 2007 and 2008.

Molecular Imaging – No revenue has been included for 2007, as CYC expects its first PET pharmacy to be opened in 2008. However, some preliminary and establishment costs have been expensed. For 2008, we have included 3 months revenue from 1 pharmacy and 1 month revenue from a second. We would not expect the third pharmacy to be operation before mid 2009.

Tax rate – The low tax reflects the location of the operational base for Europe in lower tax regimes and development cost offsets. While this will be ongoing, the overall effective tax rate will increase with expansion geographically.

INVESTMENT ATTRACTIONS

- CYC has a 20 year record of successful operations within the rapidly expanding nuclear medicine sector, being recognised globally as a leader in lung imaging, with over 1.8m patient doses administered without complication.
- CYC has built a leading market position in Europe and Asia Pacific with a market share of 41% and 38%, and has recently and rapidly built a position in the new markets of Canada, China and Latin America.
- The Technegas operations are expected to continue to expand with increased penetration in existing countries, the move into new regions, helped by the recent release of new 'TechnegasPlus' generator and increased usage, with a concentrated marketing effort and development of additional applications.
- A potential quantum increase in potential with the expected USA FDA approval expected during 2008. Sales will commence immediately on approval.
- Entry into and potential first mover advantage in Molecular Imaging, one of the fastest expanding areas of nuclear medicine. This is complimentary to the Technegas operations marketed to the same end users.
- CYC initially plans to establish 3 central pharmacies in each of the Australian East Coast capitals, and if successful, could potentially secure 50% of the Australian market. On conservative assumptions of 50 doses per day per pharmacy and assuming revenue of A\$325 per dose, we would estimate each PET Pharmacy would add pre-tax profit of \$2.0m pa, increasing to \$2.5m with the third pharmacy.
- Each division has substantial barriers to entry beyond the strong patent protection (until 2020), including technical, physical, financial and geographical. These will give CYC significant first mover advantage in the PET radiopharmaceutical market.
- An attractive valuation, compared to the healthcare and general industrial markets and comparable companies, both within Australia and overseas
- Blue Sky - CYC has additional opportunities emanating from existing products or its increasing presence in nuclear medicine, including:
 - Distribution of Radiopharm drugs and reagents in the Asia Pacific region, licensed from Cyclopharma SA France etc, utilising existing sales and distribution infrastructure to the existing client base.
 - Establishment of turnkey central pharmacies solutions for third parties for the supply of PET systems and hardware sales in the Asian Pacific Region.

FINANCIAL PERFORMANCE					
Year End	June	2006	2007	2008	2009
		(Act)	(Est)	(Est)	(Est)
Sales Revenue		10.3	12.0	21.1	32.3
Expenses		-7.6	-8.5	-12.7	-16.8
EBITDA	\$m	2.7	3.6	8.4	15.6
Depreciation & Amort		-0.1	-0.1	-0.8	-1.6
EBIT	\$m	2.6	3.5	7.6	13.9
Interest		-0.3	0.1	-1.3	-1.2
Pre Tax Profit	\$m	2.3	3.6	6.3	12.7
Tax		-0.3	-0.3	-1.7	-3.5
Reported Profit	\$m	2.0	3.3	4.6	9.2
Adjustments					
Other	\$m				
Sig Items & Costs	\$m				
Normalised Profit	\$m	2.0	3.3	4.6	9.2
Per Share					
Issued Shares (Wt Avg)	m	109.0	135.2	135.7	135.7
EPS	cps	1.9	2.4	3.4	6.8
EPS (dil for C/Notes & Opts)	cps	1.9	2.4	3.4	6.8
DPS	cps	0.0	1.0	1.5	2.0
Franking	%	0.0	0.0	0.0	0.0
Growth					
Sales Revenue	%	13.3	16.5	103.9	168.5
Normalised Profit	%	5.8	60.3	126.6	182.4
EPS	%	3.5	29.3	82.0	181.3
Ratios					
EBIT / Sales	%	25.2	29.1	36.0	43.1
Payout Ratio	%	0.0	41.4	44.1	29.4
Effective Tax Rate	%	12.8	8.4	26.5	27.5
Interest Cover	x	-9.9	55.6	-5.8	-11.6

VALUATION		
Valuation Method		Relative PE
PE of benchmark index (S&P/ASX 200)	x	15.0
Valuation Relative PE for 2007	x	0.9
Implied Company PE	x	13.9
2008 eps	cps	3.4
Valuation	cps	47
Current Price	cps	37

NOTES & COMMENTS	
Forecasts assume:	No further acquisitions/divestments
	No further equity raisings
	Normal Industry conditions

CASH FLOW					
Year End	June	2006	2007	2008	2009
		(Act)	(Est)	(Est)	(Est)
Operating EBITDA	\$m	1.9	3.3	5.4	10.9
Net Interest Paid	\$m	-0.3	0.1	-1.3	-1.2
Tax Paid	\$m	-0.3	-0.3	-1.7	-3.5
Chg WorkCap & Other	\$m	-0.7	-0.7	-3.0	-1.0
Operating Cash Flow	\$m	0.6	2.4	-0.5	5.1
Capex	\$m	0.0	-5.2	-11.3	-1.5
Free Cash Flow	\$m	0.6	-2.8	-11.8	3.7
Free Cash Flow ps	cps	0.5	-2.1	-8.7	2.7
Dividends Paid	\$m	0.0	-1.4	-2.0	-2.0
Net Acqn & AssetSales	\$m	-6.2	0.0	0.0	0.0
Equity	\$m	1.4	0.0	0.0	0.0
Debt	\$m	5.6	4.5	9.0	0.0
Other	\$m	0.0	-2.1	-0.8	-0.4
Increase in Net Cash	\$m	1.3	-1.8	-5.7	1.3

SEGMENTS					
Year End	June	2006	2007	2008	2009
		(Act)	(Est)	(Est)	(Est)
Sales Revenue (\$AM)					
Technegas - ROW	\$m	9.7	12.0	13.2	14.5
Technegas - USA		0.0	0.0	2.7	8.7
Molecular Imaging	\$m	0.0	0.0	5.2	9.1
EBIT (\$AM)					
Technegas - ROW	\$m	2.7	4.4	5.0	5.6
Technegas - USA		0.0	0.0	0.6	2.3
Molecular Imaging	\$m	0.0	0.0	2.0	6.0
EBIT GROWTH (%)					
Technegas - ROW	%	-0.9	63.4	13.4	11.0
Technegas - USA					270.9
Molecular Imaging	%				209.1
EBIT MARGIN (%)					
Technegas - ROW	%	27.9	36.6	37.8	38.3
Technegas - USA				23.6	26.8
Molecular Imaging	%			37.6	66.3

BALANCE SHEET					
		2006	2007	2008	2009
Current Assets	\$m	7.0	13.5	17.1	24.0
Non Current Assets	\$m	2.2	15.1	27.9	33.5
Total Assets	\$m	9.2	28.5	45.0	57.5
Current Liabilities	\$m	4.4	1.6	2.1	5.3
Non Current Liabs	\$m	5.4	11.0	21.1	23.3
Total Liabilities	\$m	9.8	12.6	23.2	28.6
Shareholder Funds	\$m	-0.6	16.0	21.7	28.9
Ratios					
Receivables turn		8.6	9.2	30.4	19.7
Net Debt / Equity	%	0.0	14.3	51.3	18.9
Curr Assets / Curr Liabs	x	1.6	8.4	8.1	4.5
Net Assets		-0.5	11.8	16.0	21.3
Net Tangible Assets		-1.6	5.2	8.8	13.8

Company Activities

Technegas – Technegas is an established global business, involved in the diagnosis of lung complaints, including pulmonary embolism and chronic obstructive pulmonary disease

Molecular Imaging – CYC is in the process of establishing and operating central pharmacies to produce radiopharmaceuticals for use in Positron Emission Tomography (PET) studies, a key test to detect and monitor cancer, neurological disorders and cardiac disease.

Company Directors

Mr Vanda Russell Gould (Ch)
John S. Sharman (MD/CEO)
Mr H G Townsing

Mr David James Heaney
Bernard C. Salin

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