

Cyclopharm Limited Notice of Annual General Meeting and Explanatory Statement

**to be held at Level 1, Seminar Room of the
Australian School of Advanced Medicine, #2
Technology Place Drive, Macquarie University
Hospital, North Ryde, NSW 2109,
at 11.30am, (Sydney time) on
Thursday, 26 May 2011**

This document is important.

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

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cyclopharm

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IMPORTANT DATES

Close for receipt of written questions to Auditor	5.00 pm	Thursday, 19 May 2011
Close for receipt of Proxy Forms	11.30 am	Tuesday, 24 May 2011
Determination of Entitlement to Vote	5.00 pm	Tuesday, 24 May 2011
Meeting	11.30am	Thursday, 26 May 2011

NOTICE OF ANNUAL GENERAL MEETING OF CYCLOPHARM LIMITED

Notice is given that the Annual General Meeting of members of Cyclopharm Limited ACN 116 931 250 (**Company**) will be held at Level 1 Seminar Room of the Australian School of Advanced Medicine, #2 Technology Place Drive, Macquarie University Hospital, North Ryde, NSW, 2109, Australia on **Thursday, 26 May 2011** at **11.30am** Sydney time.

1. ORDINARY BUSINESS

1.1 Financial Statements and Reports

- (a) *To receive and consider the financial statements and the reports of the Directors and the Auditors of the Company for the year ended 31 December 2010.*

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

(b) Resolution 1 – Remuneration Report

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

"That the Remuneration Report as set out in the Annual Report of the Company for the financial year ended 31 December 2010 be adopted. "

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

The vote on this resolution is advisory only and it is not intended that it bind the Directors or the Company.

1.2 Resolution 2 – Re-election of Director

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

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

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

1.3 Resolution 3 - Share Buy-back

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

"That pursuant to and in accordance with section 257C of the Corporations Act 2001 (C'wlth), as amended, and for all other purposes, the shareholders approve, with effect from when the Directors make the relevant announcement to the ASX, the on-market buy-back of up to 25% of the fully paid ordinary shares in the Company expiring on whichever is the earlier of the anniversary of the passage of this resolution or the 2012 Annual General Meeting and otherwise on the terms and conditions set out in the Explanatory Statement accompanying the 2011 Annual General Notice of Meeting at which this resolution is to be put."

An explanation of this item is to be found in paragraph 4 of the Explanatory Statement.

1.4 Resolution 4 – Long Term Incentive Plan: Grant of a limited recourse loan to Managing Director to purchase shares

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

"That pursuant to ASX Listing Rules 10.14 and 10.15 and in accordance with Cyclopharm Limited's "Long Term Incentive Plan" tabled by the Chairman and initialed by him for purposes of identification, approval is given for the Directors to make a limited recourse loan to Mr James McBrayer, acting in his capacity as the Managing Director of the Company, for a sum of \$504,638, which will be used to purchase a total of 5,046,378 ordinary, fully paid shares in the Company, on the terms summarised in the Explanatory Statement accompanying the Notice of 2011 Annual General Meeting."

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

Voting Exclusion: The Company will disregard any votes cast on this resolution by the Directors (as persons who could benefit from participation in the Long Term Incentive Plan) and any other person who may obtain a benefit (except one solely in the capacity of a security holder) if the resolution is passed, and any Associate of the Directors or that person.

2. SPECIAL BUSINESS

2.1 Resolution 5 - Amendments to Constitution: Payment of Dividends

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

" THAT pursuant to section 136(2) of the Corporations Act 2001 (Cth), as amended, Rules 123 and 124 of the Constitution are repealed and the following rules are substituted in their respective places:

123. Source(s) of dividends

123.1 Except as permitted by the Act no dividend or bonus or payment by way of bonus is payable to members unless:

- (1) the assets of the Company exceed its liabilities immediately before the dividend is declared and the excess is sufficient for the payment of the dividend;
- (2) the payment of the dividend is fair and reasonable to the members as a whole; and
- (3) the payment of the dividend does not materially prejudice the ability of the Company to pay its creditors.

123.2 Assets and liabilities are to be calculated for the purposes of rule 123.1 in accordance with accounting standards in force at the relevant time (even if the standard does not otherwise apply to the financial year of the Company).

123.3 The directors may resolve to declare or determine a dividend out of any available account (including the capital of the Company) to the extent permitted by the Act.

123.4 A determination by the directors as to the financial position of the Company and the amount available to be declared and paid out by way of dividends for the purposes of rule 123.1 is conclusive evidence of the amount so available.

124. Declaration and Determination of dividends

124.1 The directors may declare or determine that a dividend is payable and fix:

- (1) the amount;
- (2) the time for payment; and
- (3) the method of payment.

124.2 The Company in a general meeting may declare or determine a dividend, but may do so only if the directors have recommended a dividend.

124.3 A dividend declared or determined by the Company in general meeting must not exceed the amount recommended by the directors.

124.4 Interest is not payable on a dividend.

An explanation of Resolution 5 is found in item 6 of the attached Explanatory Statement.

3. OTHER BUSINESS

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

By Order of the Board

James McBrayer
Company Secretary

Dated: 18 April 2011

PLEASE NOTE:

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

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

NOTES TO NOTICE OF MEETING:

1. Explanatory Statement

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

2. Voting and Required Majority

2.1 The Board, as the convenor of the meeting, has determined that the shareholding of each member for the purpose of ascertaining voting entitlements at the Annual General Meeting will be as it appears on the register of Shareholders at **5.00pm** (Melbourne time) on **Tuesday, 24 May 2011** and will process no transfers from that time until the end of the Meeting.

2.2 On a show of hands, every person present and qualified to vote shall have one vote. If a Shareholder appoints one proxy, then that proxy may vote on a show of hands. However, if the Shareholder appoints 2 proxies, neither may vote on a show of hands.

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

2.3 For the Resolutions to be effective:

- each Resolution must be passed at a meeting of which not less than 28 days' written notice specifying the intention to propose the Resolution has been given; and
- each ordinary Resolution must be passed by more than 50% present and at least 75% of all the votes cast by Shareholders entitled to vote on the Resolution (whether in person or by proxy, attorney or representative).

3. Voting Entitlement

3.1 The Company will disregard any votes cast on Resolution 2 and 4 by any person who has an interest or will receive a benefit in the passing of those Resolutions.

3.2 However, the Company need not disregard a vote if:

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

3.3 In approving the Notice of Meeting all Resolutions as set out as the business of the meeting have the support and recommendation of all the Directors except that in the case of the re-election of Messr Heaney as Director and the issue of shares to Mr McBrayer where, in relation to Resolution 2, Messr Heaney abstained from voting in respect of his own election and all Directors including Mr McBrayer abstained from voting on the issue of shares to Mr McBrayer.

4. Questions and Comments by Shareholders at the Meeting

4.1 In accordance with the Corporations Act and rule 104.3 of the Constitution, a reasonable opportunity will be given to Shareholders at the meeting to ask questions about, or make

comments on, the management of the Company.

4.2 Similarly, in accordance with the Corporations Act and rule 104.4 of the Constitution, a reasonable opportunity will be given to Shareholders to ask the Auditors, Russell Bedford NSW, questions relevant to:

- (1) the conduct of the audit;
- (2) the preparation and content of the Auditor's Report;
- (3) the accounting policies adopted by the Company in relation to the preparation of its financial statements; and
- (4) the independence of the Auditor in relation to the conduct of the audit.

4.3 Shareholders may also submit written questions to Russell Bedford NSW, via the Company, no later than 5 business days before the Annual General Meeting. Any question must be relevant to the content of Russell Bedford NSW's Audit Report or the conduct of its audit of the Company's financial report for the year ended 31 December 2010.

4.4 Relevant written questions for Russell Bedford NSW must be received no later than **5.00pm** (Melbourne time) on **Thursday, 19 May 2011**. A list of those relevant written questions will be made available to Shareholders attending the Annual General Meeting. Russell Bedford NSW will either answer the questions at the Annual General Meeting or table written answers to them at the Meeting. If written answers are tabled at the Meeting, they will be made available to Shareholders as soon as practicable after the Annual General Meeting.

5. Proxies

5.1 A Shareholder entitled to attend and vote at this Meeting is entitled to appoint not more than 2 proxies. If 2 proxies are appointed, each proxy must be appointed to represent a specific proportion or number of the Shareholders' voting rights. If the appointment does not specify the proportion or number of the Shareholders' votes each proxy may exercise, each proxy may exercise one half of the Shareholders' votes.

5.2 If Shareholders wish to appoint one proxy, please use the form provided. If you want to appoint 2 proxies, please contact the Company for an additional form and follow the instructions set out on the reverse side of the proxy form.

5.3 A Shareholder may appoint an individual or a body corporate as their proxy. A body corporate appointed as a proxy may then nominate an individual to exercise its powers at meetings. A proxy need not be a Shareholder of the Company.

5.4 To be effective a proxy form and an original or certified copy of the authority (if any) under which it is signed (such as a power of attorney or, in the case of a body corporate Shareholder, a certificate of appointment of personal representative) must be:

- delivered (by hand, mail, courier or fax) to the Company at Level 6, 1 Queens Road, Melbourne, Victoria, 3004 Australia;
- sent by facsimile to (+613) 9820 5957 or the registered office of the Company; or
- delivered to the registered office of the Company,

to arrive (in each case) no later than **11.30am** (Melbourne time) on **Tuesday, 24 May 2011**. If it is not received by that time, the appointment of proxy will not be treated as effective.

5.5 If a Shareholder is a body corporate, the proxy form may be signed by:

- 2 Directors;
 - a Director and either a company secretary or other authorised signatory;
 - in the case of a proprietary company that has a sole Director that is also the sole company secretary, by that Director, or
 - the body corporate's appointed attorney under power of attorney.
- 5.6 In the case of joint holdings a proxy may be signed by any one of the joint holders. However, if the Company receives more than one appointment for the same Share:
- an appointment signed by all joint holders will be accepted in preference to an appointment signed by the Shareholder whose name appears first in the register of Shareholders or by any other Shareholder holding the share jointly; and
 - subject to the preceding paragraph, an appointment signed by the Shareholder whose name appears first in the register of Shareholders will be accepted in preference to an appointment signed by any other Shareholder or Shareholders holding the share jointly.
- 5.7 Completion of a proxy form will not prevent individual Shareholders from attending the Meeting if they wish. Where a Shareholder completes and delivers a valid proxy form and attends in person, the authority of the proxy to speak and vote for that Shareholder is suspended while the Shareholder is present at the Meeting.
- 5.8 In the absence of your instructions, your proxy will vote or abstain from voting as they think fit.
- 5.9 Should you desire to direct your proxy how to vote, please insert 'X' or the percentage of votes in the box appropriate to each Resolution in the proxy form.

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

EXPLANATORY STATEMENT

1. IMPORTANT NOTICE

- 1.1 This Explanatory Statement is given to Shareholders to explain the resolutions to be considered at the Annual General Meeting (**Resolutions**) and to allow Shareholders to determine how they wish to vote on the Resolutions. The Explanatory Statement should be read in conjunction with, and forms part of, the Notice of Annual General Meeting which this Explanatory Statement accompanies.
- 1.2 *Capitalised words in this Explanatory Statement have a defined meaning which appears in it or in the Glossary.*
- 1.3 This Explanatory Statement is dated 18 April 2011.

2. REPORTS

- 2.1 The Corporations Act requires the financial statements and reports of the Directors and Auditors to be laid before the Meeting. These are all incorporated into the Annual Report. Neither the Act nor the Constitution requires Shareholders to vote on such statements and reports. However, Shareholders will be given ample opportunity to raise questions on the Annual Report at the Meeting. For further information see note 4 on page 6. The Annual Report is available on the Company's website at www.cyclopharm.com.au.

2.2 EXPLANATION OF RESOLUTION 1 - REMUNERATION REPORT

The Directors' Report - "Remuneration Report" (**Remuneration Report**) is contained in the Company's 2010 Annual Report.

The Corporations Act requires a resolution be put to the shareholders of a listed company to adopt the Remuneration Report as disclosed in the Directors' report component of the 2010 Annual Report (see pages 15 to 18 inclusive). This Resolution is being put so as to give Shareholders a reasonable opportunity to ask questions or make comments concerning the Remuneration Report during the Meeting. The vote on this Resolution is advisory only and non-binding on the Board.

The Remuneration Report:

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

2.3 Directors' Recommendation

The Board unanimously recommends that Shareholders vote in favour of Resolution 1.

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

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

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

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

- 3.2 The Constitution and the ASX Listing Rules require that, at each annual general meeting, one-third of the Directors must retire from office. Since Mr Heaney has been longest in office since election he has offered himself for re-election.
- 3.3 The Nominations Committee (excluding Mr Heaney) of the Board has conducted an assessment of Mr Heaney, and has reviewed the skills, knowledge, experience and diversity represented on the Board. Having conducted those assessments and that review, the Board recommends to Shareholders the re-election of Mr Heaney.
- 3.4 The following is a profile of Mr David Heaney:

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

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

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

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

3.5 Directors' Recommendation

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

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

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

“That pursuant to and in accordance with section 257C of the Corporations Act 2001 (C’w’th), as amended, and for all other purposes, the shareholders approve, with effect from when the Directors make the relevant announcement to the ASX, the on-market buy-back of up to 25% of the fully paid ordinary shares in the Company expiring on whichever is the earlier of the anniversary of the passage of this resolution or the 2012 Annual General Meeting and otherwise on the terms and conditions set out in the Explanatory Statement accompanying the 2011 Annual General Notice of Meeting at which this resolution is to be put.”

4.2 Background

The Corporations Act authorises a listed company to buy-back its own shares on market if the buy-back does not materially prejudice its ability to pay its creditors and it follows the procedures set out in the Corporations Act. Shareholder approval is required if all of the shares bought back in the last 12 months are more than 10% of the minimum number of shares on issue at any time during the last 12 months. This limit after which a company requires shareholder approval for an on-market buy-back is called the "10/12 limit".

Authority is sought to effect an on-market buy-back of Shares subject to conditions, such as the purchase of up to a maximum of 25% of the issued capital by the Company. Such an on-market buy-back would exceed the 10/12 limit.

Resolution 3 authorises an on-market buy-back for the current financial period expiring on whichever is the earlier of:

- the anniversary of the passage of this resolution; or
- the 2012 Annual General Meeting.

- 4.3 The price that the Company will pay under the on-market buy-back offer is the current market price as outlined below. For there to be a “current market price”:

- share trades must have been recorded on the ASX on at least 5 trading days in the 3 months preceding the buy-back (ASX Listing Rule 7.29);
- the Company must have made an announcement to the ASX that it complies with that Listing Rule and intends to proceed with an on-market buy-back; and
- there must be a moving cap calculated at 5% above the average of the market price of the Shares calculated over the last 5 days in which trading in the Shares was recorded, with the buy-back to occur on the next trading day (ASX Listing Rule 7.33).

- 4.4 As required by section 257C(1) of the Corporations Act, the implementation of the buy-back is conditional on the approval by a resolution passed at a general meeting of the Company. This resolution is an ordinary resolution and will be passed if a majority of votes cast, in person or by proxy, attorney or representative by Shareholders at the meeting is cast in favour of the resolution.
- 4.5 If this resolution is passed, the buy-back may be implemented by the Board at any time by making the announcement to the ASX required by the ASX Listing Rules. Nevertheless, the Board may choose not to proceed, or to proceed at a later date (see item 4.1 above).
- 4.6 If the Board makes the relevant announcement the on-market buy-back will be effected on the following terms:
1. The maximum percentage of Shares to be bought back is 25%. Based on the number of ordinary shares on issue as at the date of this notice being 168,212,616 shares, the maximum number of Shares to be bought back would be 42,053,154.
 2. The Constitution does not, at the relevant time, preclude the buy-back of Shares or restrict the Company's power to do so. The Company will stand in the market to buy-back not more than 25% of its ordinary share capital and this can be done on a continuous basis.
 3. The Company intends that no offer will be made earlier than 26 May 2011 and the relevant Shares will all have been bought back before the close of business on 26 May 2012, however, the resolution can operate for as long as 12 months or until the next AGM, whichever occurs first.
 4. In the event that the ASX Listing Rules are inconsistent with any term of the on-market buy-back set out in this explanatory statement, the Company intends that such Listing Rule(s) override that term to the extent of that inconsistency.
 5. Acceptances, once given, are irrevocable.
 6. At the date of this explanatory statement, no Director had determined whether he will accept a buy-back offer in respect of shares in which he has an interest.

4.7 Advantages of Introducing a Share Buy-back

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

1. increase the liquidity of the Shares;
2. an efficient use of any surplus capital that becomes available to the Company in a market where finding suitable investments proves difficult;
3. increasing price competition for the Shares; and
4. the promotion of a more efficient capital structure.

4.8 Disadvantages of Introducing a Share Buy-back

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

1. it reduces the cash balances of the Company; and
2. it is on a selective rather than equal access basis.

4.9 The financial effect of the proposed buy-back will be to deplete the Company's cash reserves and/or to increase its borrowings depending upon the appropriate funding mix utilised by the Directors at the time the offer proceeds. Against this, the share capital of the Company will be reduced with a likely beneficial increase of net tangible asset backing per share. The offer will not proceed if the buy-back would materially prejudice the Company's ability to pay its creditors.

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

By way of example, an on-market buyback offer at \$0.10 per Share would require maximum funding of approximately \$4,205,315 (assuming full acceptance of the buy-back offer 25%).

1. Accepting the on-market Share buy-back may have financial, taxation, or other ramifications for Shareholders depending upon each such Shareholders' personal circumstances and the Board recommends that before accepting any on-market offer, Shareholders should obtain their own professional advice.
2. The financial statements of the Company are available on the Company's website at www.cyclopharm.com.au.
3. The Company is satisfied that this notice of meeting and explanatory statement set out all the information known to the Company that is material to the decision how to vote on the resolution.

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

4.10 Directors' Recommendation

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

5. EXPLANATION AND SUMMARY OF RESOLUTION 4 – LONG TERM INCENTIVE PLAN: GRANT OF A LIMITED RECOURSE LOAN TO MANAGING DIRECTOR TO PURCHASE SHARES

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

"That pursuant to ASX Listing Rules 10.14 and 10.15 and in accordance with Cyclopharm Limited's "Long Term Incentive Plan" tabled by the Chairman and initialed by him for purposes of identification, approval is given for the Directors to make a limited recourse loan to Mr James McBrayer, acting in his capacity as the Managing Director of the Company, for a sum of \$504,638, which will be used to purchase a total of 5,046,378 new, ordinary, fully paid shares in the Company, on the terms summarised in the Explanatory Statement accompanying the Notice of 2011 Annual General Meeting."

- 5.2 Shareholder approval was previously sought and obtained at the meeting held on 8 May 2007 for the Company to adopt a Long Term Incentive Plan (**Plan**) with the purpose of encouraging Directors, officers and employees to share in the ownership of the Company and therefore to retain and motivate those benefiting to drive performance at both the individual and corporate levels. A summary of the Plan, as approved, is included in paragraph 5.9. The necessary resolution thus having been passed, the Corporations Act now permits financial assistance to be given to Mr James McBrayer, the Managing Director of the Company, to acquire Shares under the Plan.
- 5.3 The Corporations Act also regulates in Chapter 2E the giving of a financial benefit to a related party of a public company. Cyclopharm is such a company and, as a Director, Mr McBrayer is regarded as a related party. However, there is an exemption from the operation of Chapter 2E where the financial benefit is “remuneration” paid to a Director as an officer or employee of the company. Here, Mr McBrayer will receive remuneration in his capacity as an officer, namely, as Managing Director of the Company. The only type of benefit that satisfies the term “remuneration” is defined in the Corporations Act narrowly to be one that if it were received by a Director would be remuneration under the accounting standard AASB 124: Related Party Disclosures, dealing with disclosure of Directors’ remuneration in financial reports (like the Annual Report).
- 5.4 Mr McBrayer has been Managing Director of the Company since 3 June 2008. On 3 June 2008, Mr. McBrayer was issued 1,400,000 shares in the Company in two tranches. Tranche one of 700,000 was issued on 3 June 2008 and expired on 3 June 2010. Tranche two was issued on 3 June 2008 and will expire on 3 June 2012.

The Board, other than Mr McBrayer, have decided that his interests should more closely align with those of the Company and, for that reason, have agreed with Mr McBrayer that, subject to the appropriate resolution of Shareholders being passed at a Shareholders' meeting, make a limited recourse loan to Mr. McBrayer, or at the directors' election to a superannuation fund, acting in his capacity as Managing Director for a sum of \$504,638 which will be used to purchase a total of 5,046,378 ordinary, fully paid shares in the Company.

The provision of the limited recourse loan to Mr McBrayer is proposed to serve as a long term incentive for his continued involvement and support of the business.

- 5.5 The Plan Shares will be issued on the following terms:

(1) **LTIP Shares**

- Number:** The total number of Plan Shares applied for is 5,046,378.
- Price:** The price will be \$0.10 per Share.
- Security:** Limited to the Plan Shares taken up by Mr McBrayer, the Company will have no other recourse to Mr McBrayer for repayment of the loan other than the security provided by the Plan Shares themselves.
- Interest:** Limited to dividends on the Plan Shares.
- Hurdle:** 2 years employment as Managing Director.

Term: 2 years from the date of allotment (around 1 June 2013).

Application to list the shares will be made after allotment but the shares will be held under a standard arrangement in accordance with the Plan.

Shareholders should be aware that Mr McBrayer will only benefit from this loan in the event that the sale price of the Shares is in excess of \$0.10 per Share. This is because when he sells the Shares, the proceeds are directed first to retire the loan principal and he then only gets to keep any excess over \$0.10 per Share.

- 5.6 The Board, other than Mr McBrayer who absented himself during the deliberations and from voting at the relevant meeting on this matter, considers that to give the remuneration outlined above, in the form proposed, would be reasonable given the Company's current circumstances and those of Mr McBrayer, vis-à-vis the Company, including the responsibilities involved in, and obligations required as a result of, his office or employment. There are no obvious disadvantages to the Company of Resolution 4 being passed.
- 5.7 No Director (including Mr McBrayer) nor their Associates may vote on the Resolution. However, the Company need not disregard a vote if cast by a person as proxy for a person who is entitled to vote, in accordance with the directions of the proxy form or if it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.
- 5.8 A ordinary resolution is required for Resolution 4 which means the Resolution requires an affirming vote by 50% of those present at the Meeting in person, by proxy, attorney or representative and entitled to vote.
- 5.9 Appendix 1 (Resolution 4) - Summary Of Cyclopharm's Long Term Incentive Plan

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

Introduction to the Plan

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

Invitation to Participate and acquisition of Plan shares

- (b) The maximum Plan shares to be purchased pursuant to this Plan shall be not more than 7.5% of the Company's issued shares. As at the date of this Explanatory Statement approximately 0.4% of the Company's issued capital comprises Plan shares of which 0.4% are issued to Directors.
- (c) There may be risks associated with participation in the Plan in that in certain circumstances the Plan shares may lose value and participating employees or officers may not benefit from the investment. The issue of shares may have a dilutionary effect on the share price but the number in question here is regarded by the Directors as too few to be likely to have that effect.
- (d) Participation in the Plan is by invitation of the Directors. Such invitation to participate is at the absolute discretion of the Directors.
- (e) There are rules covering the form of invitation and a minimum parcel of 100 shares must be applied for by participating employees or officers.

- (f) There are rules covering the acceptance and allotment of Plan shares. Under no circumstances will shares be allotted if to do so would be in breach of the Corporations Act.

Financial assistance

- (g) A participating employee or officer may apply to the Company for financial assistance to finance the subscription for Plan shares.
- (h) The Company may accept the application for financial assistance by making an interest limited (limited to dividends on the underlying shares) loan to the participating employee or officer (“borrower”). In any event the Company will not accept an application for financial assistance under the Plan if to do so would be in breach of the Corporations Act.
- (i) Financial assistance is repayable:
 - (i) at the end of 5 years (or a longer period which the Company may determine); or
 - (ii) immediately upon the dismissal or resignation of the borrower; or
 - (iii) immediately upon failure to satisfy the performance hurdle (if any) within the time period determined by the Company or upon the death or retirement of the participating employee or officer or upon the termination of the employment of the participating employee or officer otherwise than by way of dismissal or resignation.
- (j) A participating employee or officer who received financial assistance shall:
 - (i) authorise the Company to sell any bonus shares, rights or further shares issued in respect of the Plan shares and to apply all or any of the proceeds thereof in reduction of the amount of the borrower’s indebtedness to the Company; and
 - (ii) give an irrevocable direction to the Company to pay to itself on behalf of the borrower and for the purposes of reducing the amount of the borrower’s indebtedness to the Company or to meet any interest charge on the financial assistance, all or any moneys that may from time to time become payable in respect of the Plan shares or other shares, including dividends.
- (k) A participating employee or officer who received financial assistance will be required to transfer the Plan shares to the Company for their original subscription price:
 - (i) upon dismissal or acceptance of resignation; or
 - (ii) upon failure to satisfy performance hurdles within the time period (if any); or
 - (iii) at the end of 5 years, unless the borrower lodges a written request to retain the Plan shares with the Directors before the fifth anniversary of the issue of the Plan shares and the Directors, at its absolute discretion, decides to waive the transfer requirement.
- (l) Where the financial assistance provided to a participating employee or officer is required to be repaid, the financial assistance provided must be repaid in full. Payment may be undertaken by offsetting any monies which the Company owes the borrower against the outstanding balance of the borrowings.
- (m) The Board may at its absolute discretion provide financial assistance to a participating employee or officer, which financial assistance is secured by and strictly limited in all circumstance to the value of the Plan shares. Where the Board has provided financial assistance in these circumstances, the Company will not in any

circumstances be able to make any claim against the participating employee or officer in excess of the value realised for the Plan shares.

- (n) If the Company is authorised to sell any Plan shares in order to pay any money owing by the participating employee or officer and the proceeds of sale exceed the total amount owing to the Company, the surplus shall be paid by the Company to the participating employee or officer.

Security for Financial assistance

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

Alteration of the terms and provisions of the Plan

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

Period of Plan

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

Expenses

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

Copy of Plan

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

5.10 Pursuant to ASX Listing Rule 10.15A, this notice includes the following detail:

- (a) Mr James McBrayer is a Director of the Company;

- (b) The maximum Plan shares to be purchased pursuant to this resolution if approved by members is 5,046,378 fully paid ordinary shares;
- (c) The price for each share acquired under the Plan proposed in this Notice of Annual General Meeting is \$0.10 per share;
- (d) At the 2010 Annual General Meeting, the issue of 700,000 shares to Mr James McBrayer was approved by members however the securities were not issued.
- (e) Assuming that shareholders approve the election or re-election of all Directors standing for election the names of those Directors entitled to participate in the plan are Messrs Gould, Heaney, McBrayer and Sharman;
- (f) No Director (including Mr McBrayer) nor their Associates may vote on the Resolution;
- (g) The terms of any loan as set out in paragraph 5.5;
- (h) Details of any securities issued under the Plan will be published in each annual report relating to a period in which securities have been issued and that approval for the issue of securities is obtained under ASX Listing Rule 10.14;
- (i) Any additional persons who become entitled to participate in the Plan after the resolution was approved and who were not named in the notice of meeting will not participate until approval is obtained under ASX Listing Rule 10.14; and
- (j) The Company will not issue the securities later than 3 years after the meeting.

5.11 Directors' Recommendation

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

6. EXPLANATION AND SUMMARY OF RESOLUTION 5: AMENDMENTS TO CONSTITUTION: PAYMENT OF DIVIDENDS

- 6.1 The Corporations Act 2001 (Cth), as amended, (in section 254T) was recently amended to change the circumstances in which the directors can declare and/or recommend the payment of dividend by the Company. Dividends no longer have to be paid out of profits. The 'profits' test for paying dividends has been replaced with a 'solvency' test. The solvency test focuses on a balance sheet test and the protection of shareholders and creditors. The change to the law was made in recognition to the increasing volatility of company profitability resulting from changes in treatments under the Australian Accounting Standards, in particular the concern that many non-cash expenses that companies are now required to be recognised in their financial statements, impede the ability of a company to pay dividends under the profits test, notwithstanding that those non-cash expenses do not affect the company's financial ability to pay dividend.
- 6.2 If this resolution 5 is approved by shareholders, the Company will now be allowed to pay a dividend where:
- (a) the Company's assets exceed its liabilities immediately before the dividend is declared and the excess is sufficient for the payment of the dividend;
 - (b) the payment of the dividend is fair and reasonable to the Company's shareholders as a whole; and
 - (c) the payment of the dividend does not materially prejudice the Company's ability to pay its creditors.
- 6.3 Under the Constitution, the Company or the Board has the ability to declare a dividend. As the new requirements require certain determinations to be made as a precondition to such a declaration, and the Board is best placed to do so, the Constitution is to be amended to require the Board to make those determinations before any such declaration takes effect. If they cannot or will not, no dividend can be declared.
- 6.4 Incidental amendments are required to the Constitution so that the profits test is expunged and the timing of payments brought into line with the solvency test.
- 6.5 Your Directors consider that the amendments will bring the Constitution into compliance with the law and afford the Company greater flexibility to determine when and how a dividend will be determined and paid whilst ensuring that the interests of creditors are protected. There are no disadvantages for shareholders in passing the amendments but the Directors will have a number of timing and other matters to consider which will make the process more complex from their perspective. The Directors do not consider that there are any advantages or disadvantages specific to them acting otherwise than as such and, where applicable, as shareholders or the representatives of shareholders of the Company.
- 6.6 As at the date of the Notice of Meeting, no decision of the directors has been taken as to whether further dividend will be declared.
- 6.7 A special resolution is required for Resolution 5 which means at least 21 days' notice of this Meeting was required and, to be passed, the Resolution requires an affirming vote by 75% of those present at the Meeting in person, by proxy, attorney or representative and entitled to vote.
- 6.8 Directors' Recommendation**
- The Board unanimously recommends that Shareholders vote in favour of Resolution 5.**

7. GLOSSARY OF TERMS

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

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

ASIC means the Australian Securities and Investments Commission;

ASX means ASX Ltd trading as Australian Securities Exchange;

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

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

Company means Cyclopharm Limited ACN 116 931 250 the registered office of which is located at Suite 630, 1 Queens Road, Melbourne, Victoria, 3004 Australia;

Constitution means the Constitution of the Company adopted by the Shareholders dated 31 October 2005;

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

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

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

Notice of Meeting means the notice of annual general meeting dated 18 April 2011 which accompanies this explanatory statement;

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

Record Date means the date when Shareholders on the register are entitled to receive a dividend, determined by the Directors and announced to the ASX;

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

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

Shareholders means the holders of Shares in the Company as recorded in the register no later than 48 hours before 11.30am on 26 May 2011, the date and time of the 2011 Annual General Meeting; and

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

8. SHAREHOLDER ENQUIRIES

Shareholders with questions regarding this Notice of Meeting and Explanatory Statement should contact the Company Secretary on +61 2 9543 0960 during normal office hours, contact details as shown below. He will attempt to answer your questions or refer you to someone who can do so, but no person is authorised by the Company to give any information, or make any representation, in connection with the Notice or Explanatory Statement not contained in them.