19 JUNE 2007

CYCLOPHARM (CYC)

RESEARCH TOLHURST

Last Price	Price Target	Sector	Risk Rating	Short term <12m	Long Term >12m
$0.34	$0.75	Healthcare	HIGH	BUY	BUY

Company update	Initiation of coverage
Recommendation Change	Buy previously NA
Target Price Change	$0.75 previously NA
Forecast Change	FY07E NPAT $3.3m previously NA

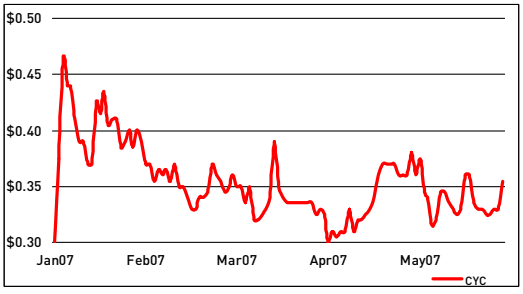
Market Stats

Market Capitalisation	$m	44.8
Price Range since 9/1/07		$0.30 - $0.46
Monthly Turnover	$m	0.8
Monthly Volume	#m	2.3
% of SOI traded per month	%	10.0

Fundamentals		2006A	2007E	2008E	2009E
Revenue	$m	10.3	12.7	15.4	22.0
Net Profit	$m	2.0	3.3	4.3	6.6
EBITDA	$m	2.7	4.2	6.1	9.2
EPS	¢	1.9	2.4	3.1	4.7
EPS Growth	%	21.7	26.1	30.0	53.8
PE	X	17.9	14.2	10.9	7.1
DPS	¢	0.0	1.0	1.0	1.0
Yield	%	0.0	3.0	3.0	3.0
Franking	%	0.0	0.0	0.0	0.0
P/CF	X	14.9	9.3	6.9	4.5
EV/EBITDA	X	15.2	12.0	8.2	5.5

Forecast Returns	% Return- 12 months
Forecast Price Appreciation	120.6
Expected Dividend Yield	3.0
Total Forecast Return	123.6

Share Price Chart **Since listing 17 Jan 07**



Initiation of coverage

The analyst has a beneficial interest in Cyclopharm

Thesis

Cyclopharm is a successful radiopharmaceutical company servicing the medical profession through the development and manufacture of medical and health care equipment in the fast growing niche market of nuclear medicine and medical imaging.

A number of earnings streams underpin Cyclopharm's future. The primary stream is nuclear medicine lung ventilation imaging, under the Technegas business. This product is commonly associated with critical care medicine and the detection of pulmonary embolism (PE), such as arises from deep vein thrombosis (DVT). With global markets for Technegas expanding, Cyclopharm's profits are set to rise strongly.

A second earnings stream will be the medical imaging/molecular imaging business. The infrastructure (i.e. cyclotrons) to supply hospital nuclear medicine departments with radioisotopes/radiopharmaceuticals is in limited supply. Demand for molecular imaging is pent up and growing. Cyclopharm is set to build and operate private cyclotrons. Two are planned to commence building in FY07. This small number will expand available supply, help fill the pent up demand, and create significant value for CYC from FY08.

Driving medical/molecular imaging growth is PET (positron emission tomography), arguably 'the next generation' of imaging, after X-ray, MRI and CT scans. Globally the increase in PET scans is exponential and Australia is set to follow. When read alongside CT or MRI scans, the combination gives both anatomic and metabolic information providing more accurate diagnosis and better therapy monitoring.

The nuclear medicine market is a fast growing niche market, where first mover advantage, and barriers to entry, lead to a lack of competition and provide pricing power, and should support CYC's business growth. Already an established business in the industry for 20 years, CYC has strong cash flows. The recent IPO has raised funds for infrastructure spending.

Industry growth

Nuclear medicine is experiencing rapid growth in the number of nuclear procedures worldwide. PET growth of 100% pa in Europe and US should follow suit in Australia. PET camera growth by diagnostic groups (SHL, SYB, DCA/CAID) is expected. Growth in new global markets is expected.

Company growth

We believe an announcement on two of three proposed cyclotron locations (each known as a PET central pharmacy) is imminent. The Australian Government is to increase the number of PET imaging indications for rebate. In the US, FDA approval for Technegas is expected before end FY08. Major industry participants (SHL, SYB, DCA/CAID) are expanding their molecular imaging strategy. Acquisitions will grow CYC's portfolio and uses of radiopharmaceuticals.

Valuation and Recommendation

Our valuation gives us a 12 month price target of $0.75. We initiate coverage with a 'Buy recommendation, acknowledging the 'small company 'high risk.

Research Analyst – Colin Mackie
For further information contact your financial advisor

CYCLOPHARM (CYC)

RESEARCH TOLHURST

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$0.34	$0.75	Healthcare	HIGH	BUY	BUY

Executive Summary

Why we think Cyclopharm stands out

Cyclopharm operates in the niche market of nuclear medicine where it develops and manufactures radiopharmaceutical medical and health care equipment.

The nuclear medicine market is a fast growing market where first mover advantage, barriers to entry, a lack of competition and pricing power are positives for CYC.

CYC's lung imaging business (Technegas) has been established for 20 years, is expanding internationally, and has strong cash flows to support capital expenditure which will further lift CYC growth. CYC is set to lodge in the US, Phase III trial data with the FDA shortly. Rapid growth in Technegas sales in FY 08 is expected with this approval.

CYC's Molecular Imaging business is set to build unique infrastructure (cyclotrons) that will provide a platform for strong revenue and profit growth.

Financials

CYC has solid operating cashflow due to its Technegas business. We estimate that with revenue growth from FY07's $12.7m to FY09's $22.0m, operating cashflow could nearly double from FY07's $4.6m to $8.6m in FY09.

The current balance sheet is appropriately geared for what will essentially be an infrastructure play (building cyclotrons), at around 75% net debt to equity. We currently model for debt reduction however, given strong cashflow and a very comfortable interest cover ratio, CYC retain flexibility on its balance sheet.

Earnings growth looks solid, at 26% in FY07 and we estimate it could rise to 50% in FY09 as international expansion of Technegas and new cyclotrons kick in.

Dividends of at least 1 cent per share were forecast to be paid from FY07 onwards in the prospectus. Management see no reason for this not to occur.

Valuation

Cyclopharm is undervalued at $0.34 ($45m market cap). Our DCF analysis values the company at $0.75 per share ($103m market cap); over 2 times the current price. This is based on a WACC of 12.4%, an average debt to equity of 50%, a tax rate of 20% is used as significant earnings derive through Ireland.

Recommendation

We initiate coverage with a 'Buy' recommendation acknowledging the small company high risk.

CYCLOPHARM (CYC)

RESEARCH TOLHURST

Last Price	Price Target	Sector	Risk Rating	Short term <12m	Long Term >12m
$0.34	$0.75	Healthcare	HIGH	BUY	BUY

Cyclopharm Limited				Share price	$0.36
As at	18 Jun 07	Recommendation:	Buy	Market Cap ($m):	$49.7

Profit and Loss

Y/e June 30	FY06(a)	FY07(e)	FY08(e)	FY09(e)
Total revenue	**10.3**	**12.7**	**15.4**	**22.0**
Cost of sales	2.8	3.6	4.6	6.6
Gross Profit	**7.6**	**9.1**	**10.8**	**15.4**
S G & A (inclu D&A)	4.8	4.9	4.7	6.2
R&D	0.0	0.1	0.1	0.1
EBITDA	**2.7**	**4.2**	**6.1**	**9.2**
Depreciation	0.1	0.1	0.3	0.6
EBITA	**2.6**	**4.1**	**5.7**	**8.6**
Amortisation : goodwill	0.0	0.0	0.0	0.0
Amortisation : other	0.0	0.0	0.0	0.0
EBIT	**2.6**	**4.1**	**5.7**	**8.6**
Net interest expense	0.3	0.0	0.4	0.4
Abnormals	0.0	0.0	0.0	0.0
Pre-tax profit	**2.3**	**4.1**	**5.4**	**8.3**
Tax	0.3	0.8	1.1	1.7
Outside equity interests	0.0	0.0	0.0	0.0
Reported NPAT	**2.0**	**3.3**	**4.3**	**6.6**
Normalised NPAT*	**2.0**	**3.3**	**4.3**	**6.6**

* TNL adj net profit = reported net profit+abnormals+goodwill amortisation+IP amort

Cashflow

Y/e June 30	FY06(a)	FY07(e)	FY08(e)	FY09(e)
Reported pre-tax profit	**2.3**	**4.1**	**5.4**	**8.3**
Dep'n and amort'n	0.1	0.1	0.3	0.6
Tax paid	0.0	0.8	1.1	1.7
(Inc) / dec in working cap.	-0.8	-0.5	-1.0	-1.9
Other non-cash items	-1.0	0.0	0.0	0.0
Operating cashflow	**1.2**	**4.6**	**5.8**	**8.6**
Capex	0.0	-2.0	-3.0	-5.0
Acquisitions / Investments	-6.2	0.0	0.0	0.0
(Purchase) / sale of intangibles	-0.5	-0.6	-0.6	-0.6
Investing cashflow	**-6.7**	**-2.6**	**-3.6**	**-5.6**
Equity raised	1.4	1.5	0.0	0.0
Dividends paid	0.0	0.0	1.4	1.4
Net change in borrowings	5.7	-1.8	-1.4	-1.1
Other	-0.1	0.0	0.0	0.0
Financing cashflow	**6.9**	**-0.3**	**0.0**	**0.3**
Net change in cash	**1.4**	**0.0**	**0.0**	**0.0**

Balance sheet

Y/e June 30	FY06(a)	FY07(e)	FY08(e)	FY09(e)
Cash	1.4	1.4	1.4	1.4
Current receivables	3.6	4.2	5.4	7.7
Current inventories	2.0	2.3	3.0	4.3
Other current assets	0.0	0.0	0.0	0.0
Total Current Assets	**7.0**	**7.9**	**9.8**	**13.3**
Property, plant and equipment	0.8	2.8	5.4	9.8
Non-current investments	0.0	0.0	0.0	0.0
Net intangibles	1.1	1.7	2.3	3.0
Other non-current assets	0.0	0.0	0.0	0.0
Total Non-Current Assets	**2.2**	**4.8**	**8.0**	**13.1**
Total Assets	**9.2**	**12.7**	**17.8**	**26.4**
Current accounts payable	2.6	3.1	3.9	5.6
Current borrowings	1.3	1.3	1.3	1.3
Other current liabilities	0.0	0.0	0.0	0.0
Total Current Liabilities	**4.4**	**4.9**	**5.7**	**7.4**
Non-current acc. payable	0.0	0.0	0.0	0.0
Non-current borrowings	5.0	3.2	3.2	3.5
Other non-curr. liab's	0.0	0.0	0.0	0.0
Total Non-Curr. Liab's	**5.4**	**3.6**	**3.6**	**3.9**
Total Liabilities	**9.8**	**8.4**	**9.3**	**11.3**
Ordinary share capital	1.2	2.7	2.7	2.7
Reserves	-0.4	-0.4	-0.4	-0.4
Retained earnings/(losses)	-1.4	1.9	6.2	12.8
Outside equity interests	0.0	0.0	0.0	0.0
Total Shareholders Equity	**-0.6**	**4.2**	**8.5**	**15.1**
Closing shares	135.7	139.9	139.9	139.9
W/A diluted shares	108.6	139.9	139.9	139.9

Valuation data

Y/e June 30	FY06(a)	FY07(e)	FY08(e)	FY09(e)
Normalised* NPAT ($m)	2.0	3.3	4.3	6.6
Normalised EPS (c)	1.9	2.4	3.1	4.7
EPS growth (%)	21.7%	26.3%	30.0%	53.8%
P/E ratio (x)	19.0	15.1	11.6	7.5
CFPS (c)	2.2	3.6	4.8	7.5
Price/CF (x)	15.8	9.8	7.3	4.7
DPS (c) ordinary	0.0	1.0	1.0	1.0
Franking (%)	0.0	0.0	0.0	0.0
Yield (%)	0.0	2.8	2.8	2.8
EV/EBITDA x	16.0	12.0	8.2	5.5
EV/EBIT x	16.6	12.2	8.7	5.8
NTA per share $	0.0	0.0	0.0	0.1
Price / NTA x	-29.7	18.5	7.6	3.9

Profitability ratios

Y/e June 30	FY06(a)	FY07(e)	FY08(e)	FY09(e)
EBITDA/sales (%)	26.3	34.8	39.4	41.9
EBIT / sales (EBIT margin)	25.4	34.0	37.2	39.2
Return on assets (%)	39.9	42.8	41.3	41.7
Return on equity (%)	159.2	180.0	67.3	55.8
Return on funds empl'd (%)	66.9	69.7	60.1	57.1
Dividend cover (x)	0.0	2.4	3.1	4.7
Effective tax rate (%)	13.3	20.0	20.0	20.0

Liquidity & Leverage ratios

Y/e June 30	FY06(a)	FY07(e)	FY08(e)	FY09(e)
Debt / equity %	-1115.3	107.7	53.1	32.1
Net debt/equity (%)	-868.3	74.6	36.7	22.9
Net interest cover (x)	9.2	-132.1	15.6	22.6
Net debt/(cash) (%)	3.5	2.3	2.2	2.5

Research Analyst – Colin Mackie
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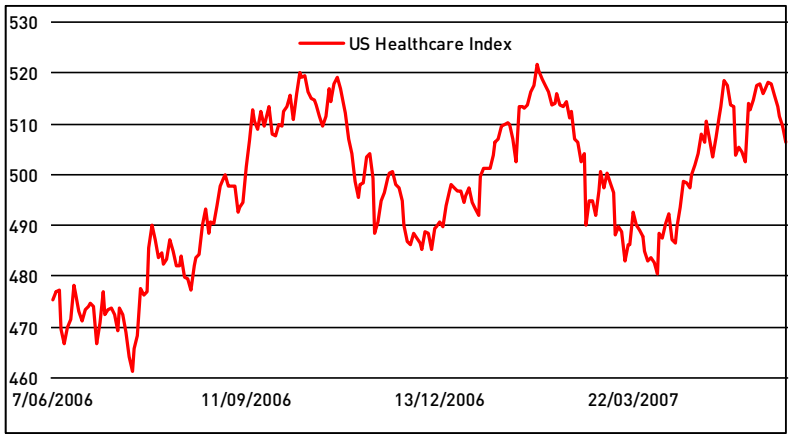
The International healthcare sector

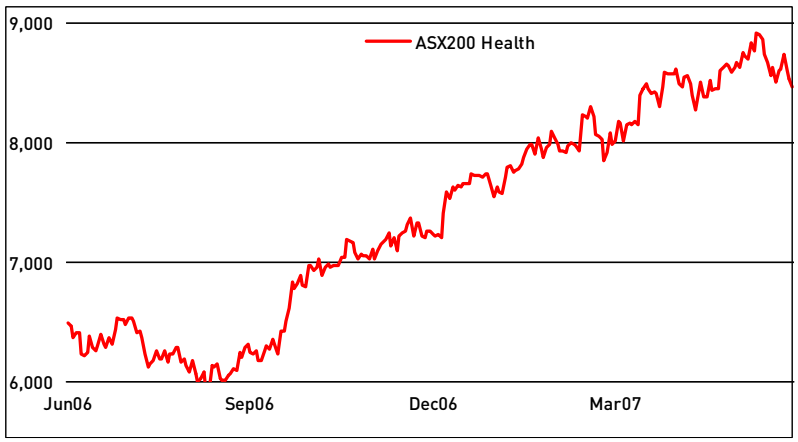
Internationally the healthcare sector has been range bound over the last year. For example, the US Healthcare Index is up only 6%. The relative earnings certainty of the sector has found it difficult to compete for investor funds against the growth profile of resources. The performance of the sector is dominated by large pharma. They have been on the acquisition trail to improve drug discovery and development capabilities but have had to contend with adverse trial news and blockbuster patent expiry.



The Australian healthcare sector

The Australian healthcare index over the last year, +30.9%, has been driven by the performance of CSL and smaller biotechs (where a large number are in phase III trials). There has been increased interest and investment from international funds management groups in Australia in the last year.

In the Healthcare - Equipment & Services sub-sector, a lack of experience from Australian institutional investors saw international companies compete in the 2H06 to acquire Vision Systems. We believe the value in CYC is yet to be realised by the Australian market.



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Company overview

Cyclopharm is a high quality radiopharmaceutical company servicing the medical profession.

CYC is an established business that has operated successfully in the nuclear medicine sector for the last 20 years. The nuclear medicine segment is one of the fastest-growing areas within healthcare.

Cyclopharm operations include the development and manufacture of medical and health care equipment with a specialisation in lung imaging.

Due to the specialised nature of its business, the company developed its products under a collaborative research program with a major teaching hospital and its nuclear physicist.

Cyclopharm's product Technegas was discovered in 1984. More than 1,000 Technegas systems have been installed in hospitals throughout the world and more than 1.7 million Technegas patient studies have been completed.

The manufacture of components for its medical equipment is outsourced with final assembly taking place at its custom designed facility, comprising clean environment laboratories and a packaging and manufacturing plant, adjacent to Australia's major nuclear research establishment at Lucas Heights, on the outskirts of Sydney.

Cyclopharm installations are likely to become important centres for a number of fields of medical research.

Cyclopharm (CYC) is set to build significant infrastructure (cyclotrons) for the radiopharmaceutical and nuclear medicine industry in Australia. New cyclotron installations will generate new revenue streams as well as expand the existing Technegas business and attract high profile research, and big pharma who will pay handsomely for access to this unique infrastructure. The recent IPO has raised the funds required for this.

CYC is currently undertaking recruiting for phase III clinical trials ahead of an FDA application expected later in calendar 2007. Rapid growth in Technegas sales in FY 08 is expected with this approval. CYC could meet its FY08 budget within one month given the level of interest shown and estimated unmet demand.

Cyclopharm was established as a result of Vita Life Sciences Limited (VLS) separating the established nuclear medicine business (known as "Technegas") from the 'over the counter' medicine business (known as "Vitahealth").

A Cyclotron

A Technegas generator

Research Analyst – Colin Mackie
For further information contact your financial advisor

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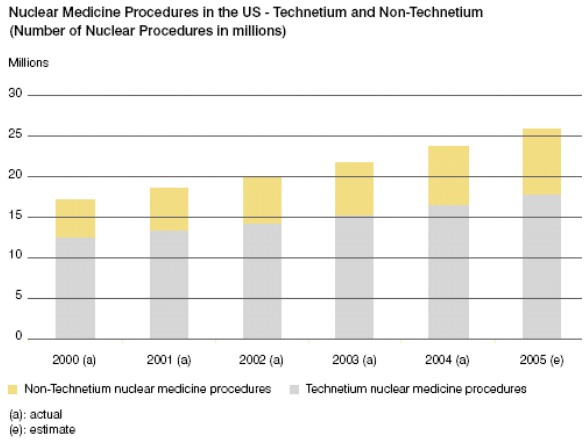
Growth example - the US



Source: Cycopharm Prospectus, Jan 2007.

INSTRUMENTS

PET is the fastest growing molecular imaging technique

U.S. REVENUES ($ MILLIONS)	2004	2005	2006	2007	2008	2009
Ultrasound	$1,355	$1,441	$1,526	$1,611	$1,700	$1,791
SPECT and SPECT/CT	439	453	467	483	503	517
MRI	1,760	1,828	1,893	1,937	1,961	1,969
PET and PET/CT	826	1,010	1,213	1,383	1,519	1,655
TOTAL	$4,380	$4,732	$5,099	$5,414	$5,683	$5,932

Note: SPECT = single photon emission computed tomography; CT = computed tomography; MRI = magnetic resonance imaging; PET = positron emission tomography. **Source:** Kalorama Information

IMAGING AGENTS

Sales in the U.S. will reach 60% of global sales by 2009

$ MILLIONS	2003	2004	2005	2006	2007	2008	2009
World	$3,810	$3,930	$4,170	$4,350	$4,560	$4,810	$5,200
U.S.	1,890	2,070	2,130	2,150	2,770	2,920	3,110

Source: Kalorama Information

PET Cameras Available to the Public

	2000		2005		
	Cameras	No. of people	Cameras	No. of people	Growth
USA	1	1.88 million	1	0.17 million	10.9x
Germany	1	3.76 million	1	0.82 million	4.6x
France	1	14.83 million	1	1.06 million	13.9x
Australia	1	4.78 million	1	1.44 million	3.3x
UK	1	9.81 million	1	4.03 million	2.4x

Source: Cycopharm Prospectus, Jan 2007.

Nuclear medicine

Nuclear medicine is a branch of medicine and medical imaging that uses the nuclear properties of matter in diagnosis and therapy. Many procedures in nuclear medicine use radionuclides, or pharmaceuticals that have been labeled with radionuclides (radiopharmaceuticals).

In diagnosis, radioactive substances are administered to patients and the radiation emitted is measured. The majority of these diagnostic tests involve the formation of an image using a gamma camera. Other diagnostic tests are invasive and use probes to acquire measurements from parts of the body, or counters for the measurement of samples taken from the patient. In therapy, radionuclides are administered to treat disease or provide palliative pain relief. For example, administration of Iodine-131 is often used for the treatment of thyrotoxicosis and thyroid cancer.

Nuclear medicine differ from most other imaging modalities in that the tests primarily show the physiological function of the system being investigated as opposed to the anatomy. Nuclear medicine images can be superimposed on images from modalities such as CT or MRI to highlight which part of the body the radiopharmaceutical is concentrated in. This practice is often referred to as image fusion or co-registration.

Nuclear medicine diagnostic tests are usually provided by a dedicated department within a hospital and may include facilities for the preparation of radiopharmaceuticals (PET central pharmacies with a cyclotron).

Nuclear Medicine relies on diagnostic radiotracers to detect and monitor various disease states for oncology, cardiology and neurology.

Nuclear medicine's key characteristics:

- Non invasive (provides a view of the "inside" without surgery);
- Safe, painless, cost effective;
- Provides information on major organs of the body;
- Approx 100 types of procedure available; and
- Radiation dose comparable to a diagnostic x-ray.

Nuclear medicine is a widely accepted, safe, painless and cost effective way of gathering information on virtually every major organ system of the body that may otherwise be unavailable or require a more expensive and risky diagnostic test.

There has been rapid growth in the number of nuclear medical procedures worldwide. This growth has been driven by the science, superior application and patient care.

In the USA alone, an estimated 14 million medical imaging and therapeutic procedures are performed each year.

Companies such as Eli Lilly, GlaxoSmithKline, Novartis, and Bristol-Myers Squibb have set up medical imaging divisions and are integrating molecular imaging into their drug development efforts.

Companies such as Siemens and GE Health are increasing their product range in the molecular imaging field, e.g. increasing the number of cameras.

Diagnostic groups are buying more and more PET cameras as demand for this service grows.

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A Technegas generator for lung imaging

For sale in 49 countries

Figure 4.
Countries where the Technegas System is installed
Technegas customers include general and teaching hospitals.
For example:

- Barts Hospital – London, UK
- Hospital St Antoine Assistance Public – Paris, France
- Royal North Shore Hospital – Sydney, Australia
- Sherbrooke University of Quebec - Quebec, Canada
- Jieki University Hospital - Tokyo, Japan
- National University Hospital - Seoul, South Korea
- Peter MacCallum Cancer Institute – Melbourne, Australia
- University Hospital of Karlsruhe – Karlsruhe, Germany
- Groote Schuur Hospital – Cape Town, South Africa

Technegas

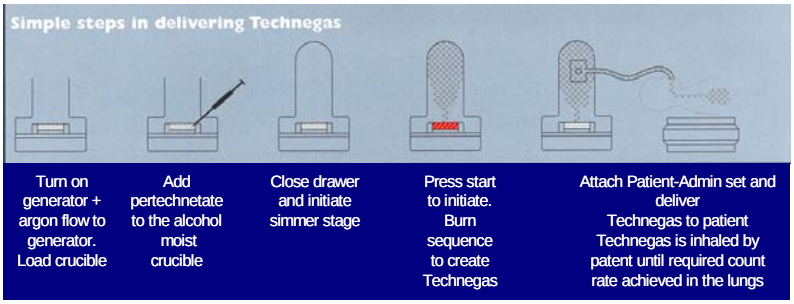
Established in 1986, Technegas manufactures and distributes drugs and equipment for lung imaging used in nuclear medicine departments of hospitals. Lung complaints diagnosed include pulmonary embolism (PE) and chronic obstructive pulmonary disease (COPD).

There are two components to the Technegas business.

1. Capital equipment sales in which Technegas generators are sold to nuclear medicine departments. The Technegas business has sold over in 1,100 generators.
2. Consumable sales where patient administration sets (PAS) are sold with every patient study. A PAS is a one-time consumable.

What is the Technegas system?

The Techengas system is a device which creates Technegas: an ultrafine dispersion of Tc99m labelled carbon used for nuclear medicine ventilation/perfusion (V/Q) exams. V/Q imaging is the primary technique used to diagnose pulmonary embolism (PE), a life threatening condition and Technegas has proven to be superior compared to the typical aerosol agents including Xenon-133 gas, Krypton-85 gas and DTPA aerosol.



What are the advantages of Technegas?

Technegas offers significant advantages over all other agents because it behaves as a true gas allowing its nano-sized particles to penetrate deep into the alveoli where they remain bound to the lining of the alveoli resulting in a very stable image of the highest quality. Showing a higher sensitivity and specificity result over traditional planar V/Q, Technegas is considered the agent of choice for quality SPECT-VQ. The Technegas business is a mature product with strong recurring cash flows and very good growth prospects.

Technegas has regulatory approval for sale in 49 countries across six continents covering 950 hospitals and has patents in 36 countries. The company has a market share of around 40% in the each of Europe and the Asia-Pacific markets respectively. It has a rapidly expanding presence in significant markets such as Canada and China.

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Technegas growth

Technegas growth is by way of:

1. Regulatory approval in new markets (US);
2. Installing generators in new sites;
3. Improved penetration in existing markets; and
4. Investment.

In the USA there are approximately 7000 nuclear medicine departments performing 21 million lung studies. CYC is currently undertaking phase III clinical trials ahead of an FDA application. CYC has completed 120 patient dossiers of an estimated 134 to be submitted shortly. FDA evaluation can take no longer than 12 months, or it may be sooner. Rapid growth in US sales in FY 08 is expected with this approval. If approved for sale in the US, CYC could meet its Technegas' FY08 generator sales budget within one month given the level of interest shown and estimated unmet demand.

At its AGM in May 2007 CYC highlighted revenue growth in France of 49%. This is CYC's largest market given it has the largest number of indications for rebate. Generator sales increased 23% in FY06. Further growth is expected in FY07.

Growth of 61% in Germany was comprised of strong generator and PAS sales. In other European markets, the maturity of nuclear medicine in the UK provides a strong foundation for growth.

Growth of 28% in Canada was due to PAS consumable sales which are expected to continue.

Asian growth of 100% derived off a low base.

Latin American sales efforts are only just beginning. Improved market penetration should see revenue growth above FY06's 23% rise. CYC continue to develop new markets in Panama, the Dominican Republique, Colombia, Peru, and Venezuela. Sales into Brazil are expected in FY07.

Australian growth saw generator sales increase 35% while PAS sales declined 6%. Renewed sales and marketing efforts are expected to lift growth in FY07.

Comparison of selected market shares of Technegas		
Country	**Installed Generators**	**Market share at 2005**
France	137	69%
Germany	140	47%
Canada	36	30%

The manufacture of components for its medical equipment is outsourced with final assembly taking place at its custom designed facility, comprising clean environment laboratories and a packaging and manufacturing plant, adjacent to Australia's major nuclear research establishment at Lucas Heights, on the outskirts of Sydney. Currently around 140 generators are manufactured per year. This can be increased. CYC expect to have sufficient inventory to meet sales orders.

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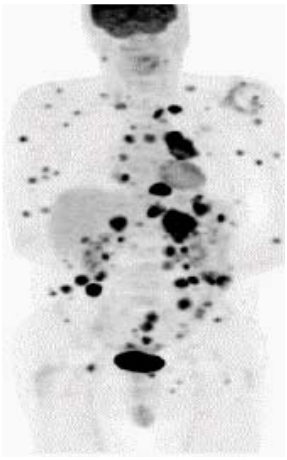
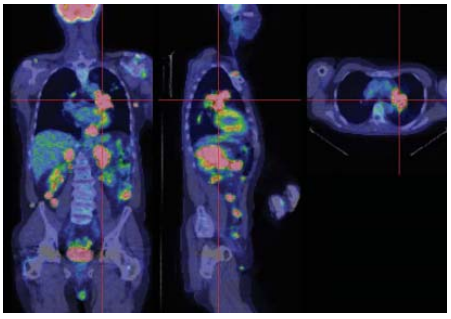
$0.34	$0.75	Healthcare	HIGH	BUY	BUY

In black & white

These dark spots are tumours, some are live and some are dead, the clinician needs a tool to determine which to treat, and PET can help do so.



The leading hybrid modality today is PET-CT. A PET scanner uses small concentrations of radioactive material injected into the blood to show concentrations of cancer cells in colour spectrum, while CT scanners produce cross sectional x-rays of the body. By combining the two modalities, radiologists and nuclear medicine physicians possess images that combine metabolic function and anatomic form.



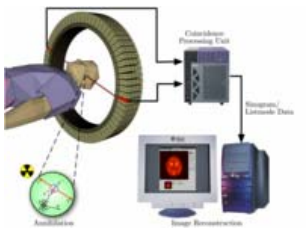
Tumours can be located more accurately and physicians can determine whether or not it has invaded other nearby structures or spread elsewhere in the body.

Molecular Imaging - PET

Nuclear medicine is experiencing significant growth driven by PET as both a medical and a research tool. Alternative methods of scanning include x-ray computed tomography (CT), magnetic resonance imaging (MRI) and functional magnetic resonance imaging (fMRI), ultrasound and single photon emission computed tomography (SPECT). No other imaging can show live cells or the body's metabolising processes.

PET is used heavily in clinical oncology, cardiology and neurology (e.g. Alzheimers). PET allows physicians to differentiate between healthy and diseased tissue and therein:

- Detect cancer more accurately;
- Detect cancer earlier than conventional methods;
- Identify the stage of the disease;
- Improve therapy prescription;
- Better monitoring of the therapy effectiveness; and
- Ultimately better patient care.



PET provides biochemical/functional information about the patient. No other form of imaging provides this sort of information to physicians.

Cyclopharm will sell PET capital equipment, cyclotrons, and consumables, radiopharmaceuticals, both used in with PET central pharmacies. A cyclotron is an integral part of a PET central pharmacy and produces short life PET isotopes.

PET typically uses small isotopes -carbon, nitrogen, fluorine, oxygen-which permit the labelling of naturally occurring molecules, e.g. substituting fluorine for hydrogen, which is a big intrinsic advantage. With other forms of radiopharmaceutical diagnosis, the most common isotope used is technetium, a large metal that must be chelated to the molecule of interest.

Another attractive feature is the minimisation of the radiation dose, via the use of short lived (<2 hours) radionuclides.

When PET is used to image cancer, a radiopharmaceutical (such as FDG, which includes both a sugar and a radionuclide) is injected into a patient. Cancer cells metabolize sugar at higher rates than normal cells, and the radiopharmaceutical is drawn in higher amounts to cancerous areas. PET scans show where FDG is by tracking the gamma rays given off by the radionuclide tagging the drug and producing three-dimensional images of their distribution within the body. PET scanning provides information about the body's chemistry, metabolic activity and body function.

Internationally growth of PET patient studies show best practice imaging diagnosis and monitoring of cancer (see page 4).

Research Analyst – Colin Mackie
For further information contact your financial advisor

CYCLOPHARM (CYC)

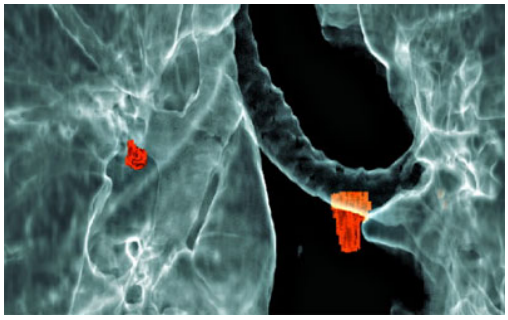
RESEARCH TOLHURST

Last Price	Price Target	Sector	Risk Rating	Short term <12m	Long Term >12m
$0.34	$0.75	Healthcare	HIGH	BUY	BUY

"Molecular imaging will revolutionize radiology and nuclear medicine over the next five to 10 years," predicts Juri Gelovani, MD, PhD, chair of experimental diagnostic imaging at MD Anderson Cancer Center in Houston.

The revolution is expected to bring clinical benefits to patients with multiple types of disease particularly cancer. Advances in molecular imaging will alter cancer diagnosis and management, and may enable physicians to detect patients at high-risk, pinpoint tumors at their earliest stages and prescribe individualized therapies.

"Molecular imaging is on the cusp of a revolution. New tracers and biomarkers will facilitate cancer screening, early diagnosis and individualized treatment"



Molecular Imaging Program/Stamford University

The orange areas of this PET/CT image indicate the uptake of FDG (18F-fluoro-2-deoxy-D-glucose) in a primary cancer lesion and a lymph node.

"What makes this particular field exciting is that you can very easily pair a therapeutic with a diagnostic"

The Australian PET market is growing. Driving the growth of this market will be an increase in the number of Medicare rebates from the current three indications to eleven. An industry submission has been made to increase these. We expect a decision by the Federal Health Dept in calendar 2007.

PET Imaging Government Funded Reimbursement (by Indication)

Indication	Australia	France	United States
Brain - Epilepsy	✓		
Lung - non small cell	✓	✓	✓
Solitary Pulmonary Nodule	✓	✓	✓
Colerectal		✓	✓
Head and Neck		✓	✓
Lymphoma		✓	✓
Melanoma		✓	✓
Breast		✓	✓
Cervical			✓
Esophagus			✓
Thyroid			✓

Australia lags behind the US and certain other European countries, notably France and Germany, in the adoption of PET. The momentum established in the US thus far is slowly flowing across to Australia.

A comparison of PET study growth		
Country	2000	2005
US	150,000	1,130,000
Australia	1,750	12,700
US to Aust per capita ratio	5:1	6.3:1

Growth in PET is limited by current infrastructure (cyclotron availability). There are currently three non-hospital cyclotrons in Australia: the National Medical Cyclotron in Sydney, and 2 PET-specific cyclotrons located in Melbourne.

CYC's proposed cyclotrons can produce over 200 doses per day. This is double the maximum output of the current cyclotrons. CYC's additional supply will help meet demand from the growth in PET cameras.

CYC aims to build new infrastructure via 2 PET central pharmacies in FY2008, one each in Melbourne and Sydney. This will enable PET supply to rise. Further PET camera installation in Melbourne and Sydney is expected to quickly take up the extra supply. This will be CYC's 2nd revenue source in FY08.

CYC's cyclotrons are also likely to become significant and prestigious oncology research centres, as researchers co-locate to the source of the best radio-pharmaceuticals. This could be a 3rd revenue source in FY08.

Drug development and Acquisition

Cyclopharm aims to expand and develop a family of radio-pharmaceuticals and radio-molecules. To this end, CYC declared at its AGM that it was considering, and is pursuing acquisitions of attractive businesses that will help create a comprehensive suite of radiopharmaceuticals.

Last Price	Price Target	Sector	Risk Rating	Short term <12m	Long Term >12m
$0.34	$0.75	Healthcare	HIGH	BUY	BUY

Board of Directors

Vanda Gould, Non-Executive Chairman, Chairman of CVC Ltd, 30 years in accounting finance & investment

John Sharman, Managing Director, Director of Vital Life Sciences, 15 years managerial and financial experience.

Dr Bernard Salin, Non-Executive Director, President of Cyclopharm Laboratories SA, PhD Biophysics and Researcher in Nuclear Medicine, 35 years experience in senior executive positions with Pfizer and Warner-Lambert.

David Heaney, Non-Executive Director, Director of Colorpak Ltd and Mariner Financial Ltd, with over 38 years experience in investment banking and finance.

Henry Townsing, Non-Executive Director, Director of Vital Life Sciences, 25 years in finance and investment.

Management

John Sharman, Managing Director, see above.

Professor Nabil Morcos, Chief Operating Officer, PhD. Nuclear Chemistry / Radio Chemistry, 10 years as Head of Commercial Radiopharmaceuticals for BMS and Mallinckrodt, HeaFinancial forecasts d of Radiopharmaceutical Research ANSTO.

Last Price	Price Target	Sector	Risk Rating	Short term <12m	Long Term >12m
$0.34	$0.75	Healthcare	HIGH	BUY	BUY

Financial forecasts

Our forecasts are based on:

Technegas

new generator sales total 90 in FY07, doubling in FY08
reconditioned generator sales of 40 in FY07, same in FY08
double digit PAS sales growth and continued strong margins
pricing - stable as govt. health authorities set these

existing operations in existing regions

Australia +30% in FY07, same in FY08
UK +150% in FY07, same in FY08
China +300% in FY07, same in FY 08
Middle East (Kuwait, Oman, Tunisia) +50%
Japan to lift PAS orders after US FDA approval

new operations in new regions

FDA approval in the US in FY08, which leads to sale of 100 generators and quantum leap in PAS sales in FY09
Italy 1H08
Latin America (Argentina, Venezuela, Mexico)
Brazil (350 nuclear medicine sites)

Molecular Imaging

2 new Cyclotron sites in Australia (IPO funds used for this) but no revenue expected in FY08. Establishment costs expensed. Revenues flow in FY09.

Overall

The main profit growth driver in FY07 will be global expansion of sales of Technegas PAS consumables and generators.

This will continue through FY08 with the possibility of a significant step up in sales once US FDA approval for Technegas comes through.

With the growth of PET, CYC will see further revenues from its cyclotron establishment program and accompanying radio-pharmaceutical expansion, which adds another revenue stream.

CYC is an infrastructure play in the fast expanding nuclear medicine sector.

We recommend a "Buy".

Last Price	Price Target	Sector	Risk Rating	Short term <12m	Long Term >12m
$0.34	$0.75	Healthcare	HIGH	BUY	BUY

ANSTO Cyclotron

APPENDIX 1.

Reactors vs cyclotrons

Reactors create long life isotopes (thousands of years) while cyclotrons create short life isotopes (hours only).

One of the frequently raised issues relating to the production of radioisotopes is the possibility of replacing reactors with cyclotrons for the radioisotopes used in the nuclear medicine industry.

Both reactors and cyclotrons are needed to make these radioactive substances and ANSTO uses both - its HIFAR reactor at Lucas Heights and the $20 million National Medical Cyclotron, which it owns and operates at Sydney's Royal Prince Alfred Hospital.

Around the world there are about the same number of reactors as cyclotrons producing medical radioisotopes as a major part of their functions. Over 80% of the radioisotopes actually used in medical procedures around the world come from reactors.

To understand why both types of facilities are needed it is necessary to know a little about the differences between cyclotron-produced and reactor-produced radioisotopes.

Nuclear reactors produce radioisotopes by adding an extra neutron into the atoms of the respective elements - that is, they are neutron-rich isotopes, and it is the excess of neutrons that makes the isotopes radioactive.

Cyclotrons bombard atoms with different particles (for example protons or deuterons) to produce isotopes that are deficient in the number of their neutrons. In this case it is the neutron deficiency that makes the isotopes radioactive.

This is a fundamental difference between the two processes. It means as a general rule that reactor radioisotopes will not be made by a cyclotron, nor will cyclotron radioisotopes be made in a reactor.

The choice of which radioisotope to use in a particular application depends on the type of radiation required, or the need of a particular chemical species.

An example of particular importance is the reactor produced radioisotope, technetium-99m, the basis for more than 80% of all nuclear medicine procedures worldwide.

Radiopharmaceuticals based on technetium-99m are used in a variety of diagnostic procedures. Researchers in a number of countries continue to work on the possibility of using a cyclotron to produce technetium-99m, but there are difficulties.

The United States Government has recently decided to use the reactor to produce the parent radioisotope of technetium-99m, but, at the same time, an alternative using a high energy accelerator is also under investigation.

ref: www. Ansto.gov.au

CYCLOPHARM (CYC)

RESEARCH TOLHURST

Last Price	Price Target	Sector	Risk Rating	Short term <12m	Long Term >12m
$0.34	$0.75	Healthcare	HIGH	BUY	BUY

Tolhurst's Recommendation and Risk Rating system:

Recommendations are assessments of each Tolhurst Analyst's view of potential total returns over Short Term and/or Long Term time horizons. A Short Term time horizon is less than 12 months; a Long Term time horizon is greater than 12 months.

Expected total Return is measured as (capital gain (or loss) + dividend)/purchase price

We have divided our recommendations into four main categories:

Buy: Expected Total Return more than 20%

Accumulate: Expected Total Return between 5% - 20%

Hold: Expected Total Return between -5% and 5%

Sell: Expected Total Return less than -5%

Risk Ratings:

Risk is a subjective assessment of overall risk within a company including price volatility and earnings variability, external liquidity, and size.

We divide our risk into three categories:

High: Company typically has high price volatility and earnings variability, low external liquidity and has a small market capitalisation.

Medium: Company typically has moderate price volatility and earnings variability, external liquidity and a medium size market capitalisation.

Low: Company typically has low price volatility and earnings variability, high external liquidity and is a large size market capitalisation.

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Analyst verification

I verify that I, Colin Mackie, have prepared this research report accurately and that any financial forecasts and recommendations that are expressed are solely my own personal opinions. In addition, I certify that no part of my compensation is or will be directly or indirectly tied to the specific recommendation or financial forecasts expressed in this report.

This report has been reviewed by peers within the research department.