Giaconda Limited
ABN 68 108 088 517
Appendix 4E
Preliminary Final Report

Sydney, Australia. 28 August 2008. Giaconda Limited (ASX: GIA), the gastroenterology drug development Company, today announced the release of its unaudited results for the year ending 30 June 2008.

Results for Announcement to the Market

	Note	2008	2007	Change $	Change %
Revenue from ordinary activities	1	82,563	177,595	(95,032)	(53.51)%
Operating loss from ordinary activities before income tax and after significant item	2	602,150	1,521,594	919,444	60.43%
Operating loss from ordinary activities after income tax and significant item	3	2,821,414	1,011,253	(1,810,161)	(179.00)%
Operating loss attributable to members		2,821,414	1,011,253	(1,810,161)	(179.00)%
Net tangible assets per security		(0.0002)	0.02	(0.0202)	(101.00)%

No dividends have been declared or are expected to be declared.

Notes to Results for Announcement to the Market

1. Revenue has decreased as a result of a reduction in interest earned on cash investments which is due to the declining cash position.

2. Operating loss before tax and after significant item has improved as a result of the reduction in personnel expenditure (which was due to a reversal of the options reserve of $305,826), and a reduction in non-capital research and development expenditure. The option reserve was reversed as a result of all items being significantly “out of the money”. Note 23 to the unaudited financial statements details the inputs used in modified binomial option pricing model used to calculate the option reserve.

3. Operating loss after tax and significant item has increased due to a substantial increase in income tax expense. This is as a result of the directors’ decision to reverse the deferred tax asset in relation to accumulated income tax losses.

Key financial points

- The cash position is $281,243 (2007:$1.66m). This cash position is after allowing $714,516 (2007: $1.26m) for capitalised development costs.

- The financial statements have been prepared on a going concern basis. At balance date the Company had an excess of current assets over current liabilities, however cash reserves are insufficient to support the short and long term operations of the Company. The ability of the Company to continue as a going concern depends on its ability to raise additional equity funding or receive the support of its existing shareholders. Any inability to raise equity funding or receive support from its existing shareholders may have a material adverse effect on the Company's ability to continue as a going concern.

- The trading loss for the year was impacted by a reversal of the option reserve of $305,826 which was credited to the income statement. In the 2007 year there was a significant expense of $0.11M which resulted from the revaluation of the options issued to the CEO on 4 May 2005 due to a correction in vesting dates. These transactions did not have an impact on the cash balance of the Company.

- The financial performance for the year is as a result of the main operating activities that have occurred during the period, being progressing the development of the lead product Myoconda® and commercialisation of Giaconda's product portfolio.

Subsequent Event

The Company is party to a proposal with Australian Medical Therapy Investments Pty Limited (AMTI) for the subscription of up to 100,000,000 ordinary shares at $0.40 per share. On 15 August 2008 the Company granted AMTI an extension to complete its proposed subscription until 12 September 2008.

Other Items

This report is based on financial statements which are in the process of being audited. At this time the directors are not aware of any items which are in dispute or are subject to an audit qualification.

Operational Highlights

- Successful completion of pilot pharmacokinetic trial of Myoconda® towards satisfying regulatory requirements and leading to new intellectual property filing.

- Myoconda® received patent grants across the European Union completing coverage in all key markets

- Cooperative development agreement with Prague Clinical Services, s.r.o., of the Czech Republic enabling efficient clinical development for Myoconda® in Europe

- The Canadian Intellectual Property Office granted the patent for Heliconda

ENDS

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About Giaconda Limited

Giaconda Limited is a biotechnology company involved in developing and licensing innovative and cost effective medical therapies in the field of gastroenterology. Giaconda's products are targeted towards the treatment of serious conditions that are not adequately addressed by any existing therapy. In this way, Giaconda's products are intended to satisfy these significant unmet medical needs of the gastrointestinal market. The Giaconda portfolio consists of five products, all of which are novel combinations of known compounds. Giaconda has two lead products; Myoconda® for the treatment of MAP (*Mycobacterium avium ss paratuberculosis*) infection in Crohn's Disease and Heliconda® for the treatment of resistant *Helicobacter pylori* infection.

Except for historical information, this news release may contain forward-looking statements that reflect the Company's current expectation regarding future events. These forward looking statements involve risk and uncertainties, which may cause but are not limited to, changing market conditions, the successful and timely completion of clinical studies, the establishment of corporate alliances, the impact of competitive products and pricing, new product development, uncertainties related to the regulatory approval process, and other risks detailed from time to time in the Company's ongoing quarterly and annual reporting.

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INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2008

	Note	2008 $	2007 $
INCOME			
Revenue from ordinary activities	2	82,563	177,595
EXPENSES			
Personnel	3	(74,302)	(671,303)
Finance and legal		(206,538)	(192,678)
Administration		(312,670)	(337,346)
Research and development		(34,127)	(238,411)
Licensing		(57,077)	(148,848)
		(684,714)	(1,588,586)
Loss from ordinary activities before income tax benefit and significant item		(602,151)	(1,410,991)
Significant item	3	-	(110,605)
Loss from ordinary activities before income tax benefit but after significant item	3	(602,151)	(1,521,596)
Income tax benefit (expense) relating to ordinary activities and significant item	4	(2,219,264)	510,341
Loss from ordinary activities after income tax benefit (expense) attributable to members of the Company		(2,821,415)	(1,011,255)
Total changes in equity other than those resulting from transactions with owners as owners		(2,821,415)	(1,011,255)
Overall Operations:			
Basic earnings per share (cents per share)	7	(0.03)	(0.01)
Diluted earnings per share (cents per share)	7	(0.03)	(0.01)

BALANCE SHEET AS AT 30 JUNE 2008

	Note	2008 $	2007 $
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	8	281,243	1,661,479
Trade and other receivables	9	10,565	20,536
Other current assets	10	20,374	58,113
TOTAL CURRENT ASSETS		312,183	1,740,128
NON-CURRENT ASSETS			
Property, plant and equipment	11	24,675	45,272
Intangible assets	12	2,755,356	2,099,521
Deferred tax assets	15	-	1,839,185
TOTAL NON-CURRENT ASSETS		2,780,032	3,983,978
TOTAL ASSETS		3,092,215	5,724,106
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	13	140,876	303,190
Financial liabilities	14	203,236	3,904
Provisions	16	9,118	19,515
TOTAL CURRENT LIABILITIES		353,230	326,609
NON-CURRENT LIABILITIES			
Financial liabilities	14	-	3,236
Deferred tax liabilities	15	864,844	484,765
TOTAL NON-CURRENT LIABILITIES		864,844	488,001
TOTAL LIABILITIES		1,218,074	814,610
NET ASSETS		1,874,141	4,909,496
EQUITY			
Contributed equity	17	7,352,395	7,260,509
Reserves	18	-	305,826
Accumulated losses		(5,478,254)	(2,656,839)
TOTAL EQUITY		1,874,141	4,909,496

The accompanying notes form part of these financial statements.

CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2008

	$	$	$	$	$
	Share Capital Ordinary	**Accumulated Losses**	**Options Reserve**	**Hedge Reserve**	**Total**
Balance at *01.07.06*	7,055,622	(1,645,584)	187,166	-	5,597,204
Shares issued during the year (net of equity raising costs)	204,887	-	-	-	204,887
Options reserve on recognition of options at granting date	-	-	118,660	-	118,660
Foreign exchange movement due to designated cash flow hedge	-	-	-	(8,867)	(8,867)
Transfer from reserve to non-current asset	-	-	-	8,867	8,867
Losses attributable to members of parent entity	-	(1,011,255)	-		(1,011,255)
Sub-total	204,887	(1,011,255)	118,660	-	(687,708)
Balance at *30.06.2007*	7,260,509	(2,656,839)	305,826	-	4,909,496
Shares issued during the year (net of equity raising costs)	91,886				91,886
Options reserve on recognition of options at granting date			(305,826)		(305,826)
Losses attributable to members of parent entity		(2,821,415)			(2,821,415)
Sub-total	91,886	(2,821,415)	(305,826)	-	(3,035,355)
Balance at *30.06.2008*	7,352,395	(5,478,254)	-	-	1,874,141

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2008

	Note	2008 $	2007 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from operations		38,846	3,000
Payments to suppliers and employees		(1,043,037)	(1,739,755)
Interest received		43,716	174,595
Borrowing costs / lease charges		(547)	(981)
Net cash used in operating activities	22b	(961,022)	(1,563,141)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for property, plant and equipment		-	(3,360)
Proceeds from sale of property, plant and equipment		7,320	-
Payments for intellectual property		(714,516)	(1,261,540)
Net cash used in investing activities		(707,196)	(1,264,900)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares or shares to be issued		91,886	204,887
Proceeds from borrowings		200,000	-
Repayment of interest bearing liabilities		(3,904)	(4,476)
Net cash from financing activities		287,982	200,411
NET INCREASE (DECREASE) IN CASH HELD		(1,380,236)	(2,627,633)
Cash at beginning of year		1,661,479	4,289,110
CASH AT END OF YEAR	22a	281,243	1,661,479

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 1: BASIS OF PREPARATION

Basis of Preparation

This financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

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

The financial report has been prepared on an accruals basis and is based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

(a) Ongoing Viability

The financial statements have been prepared on a going concern basis.
At balance date the Company had an excess of current assets over current liabilities, however cash reserves at the end of the year are insufficient to support the short and long term operations of the Company.
The ability of the Company to continue as a going concern depends upon its ability to raise additional equity funding or receive the support of its existing shareholders. Any inability to raise equity funding or receive support from its existing shareholders may have a material adverse effect on the Company's ability to continue as a going concern.

(b) Income Tax

The income tax expense (revenue) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.
Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

(c) Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost or fair value as indicated less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment

Plant and equipment are measured on the cost basis.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The cost of fixed assets constructed within the Company includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation

The depreciable amount of all fixed assets including buildings and capitalised lease assets, but excluding freehold land, is depreciated on a straight-line basis over the asset's useful life to the consolidated group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation Rate
Office furniture and equipment	20% to 25%
Computer equipment	25%
Apartment furniture	20% to 25%

These notes form part of the financial statements

NOTE 1: BASIS OF PREPARATION (continued)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

(d) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that is transferred to entities in the consolidated group, are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

(e) Financial Instruments

Recognition

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

Financial assets at fair value through profit and loss

Financial assets are classified at fair value through profit or loss when they are held for trading for the purpose of short term profit taking, where they are derivatives not held for hedging purposes, or designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Realised and unrealised gains and losses arising from changes in fair value are included in profit or loss in the period in which they arise.

Loans and receivables

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

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the group's intention to hold these investments to maturity. They are subsequently measured at amortised cost using the effective interest rate method.

Financial liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

Derivative Investments

Derivative instruments are measured at fair value. Gains and losses arising from changes in fair value are taken to the income statement unless they are designated as hedges.

Giaconda Limited designates certain derivatives as hedges of highly probable forecast transactions (cash flow hedges).

At the inception of the transaction the relationship between hedging instruments and hedged items, as well as the group's risk management objective and strategy for undertaking various hedge transactions is documented.

Assessments, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in cash flows of hedged items, are also documented.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is deferred to a hedge reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in the hedge reserve in equity are transferred to the income statement in the periods when the hedged item will affect profit or loss.

Impairment

At each reporting date, the group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 1: BASIS OF PREPARATION (continued)

(f) Intangibles

Patents and trade marks

Patents and trademarks are recognised at cost of acquisition. Patents and trademarks have a finite life and are carried at cost less any accumulated amortisation and any impairment losses.

The amortisable amount of patents and trade marks is amortised on a straight line basis over the term of the patent and trade mark commencing from the time the intangible is registered.

Research and development

Expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technical feasibility studies identify that the project will deliver future economic benefits and these benefits can be measured reliably.

Development costs have a finite life and are amortised on a systematic basis matched to the future economic benefits over the useful life of the project.

(g) Employee Benefits

Provision is made for the Company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

Those cash flows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cash flows.

Equity-settled compensation

The company operates a number of share-based compensation plans. These include both an employee share option plan and an employee share plan. The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares of the options granted.

(h) Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the balance sheet.

(i) Revenue

Interest revenue is recognised using the effective interest rate method, which, for floating rate financial assets, is the rate inherent in the instrument.

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

(j) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(k) Foreign Currency Transactions and Balances

Functional and presentation currency

The functional currency of the Company is measured using the primary economic environment in which the Company operates. The financial statements are presented in Australian dollars which is the functional and presentation currency.

Transaction and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate.

Exchange differences arising on the translation of monetary items are recognised in the income statement, except where deferred in equity as a qualifying cash flow or net investment hedge.

(k) Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

Critical Accounting Estimates and Judgements

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Company.

Key Estimates – Impairment

The group assesses impairment at each reporting date by evaluating conditions specific to the group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

No impairment has been recognised in respect of intellectual property, including patents and trade marks, and capitalised development costs for the year ended 30 June 2008.

The financial report was authorised for issue on [TO BE ADVISED] by the board of directors.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 2: REVENUE	2008 $	2007 $
Operating activities		
— Grants received	38,846	3,000
— Interest received from financial institutions	43,716	174,595
Total Revenue	82,563	177,595

NOTE 3: LOSS FROM ORDINARY ACTIVITIES		
Loss from ordinary activities before income tax expense has been determined after debiting (crediting):		
Expenses		
Depreciation of property, plant and equipment	13,018	18,974
Amortisation of leased plant and equipment	1,918	2,551
Amortisation of intangible assets	58,679	47,684
Rental expense on operating leases		
- minimum lease payments	7,215	30,102
Research and development costs	34,126	238,410
Realised foreign exchange movements	(8,744)	634
Unrealised foreign exchange movements	3,169	248
Movement in Options Reserve transferred to personnel expenses in income statement (refer note 23)	(305,826)	8,055
Significant item		
The following significant expense item is relevant in explaining the financial performance:		
Revaluation of options issued to CEO on 4 May 2005 due to a correction in vesting dates (note 23)	-	110,605

NOTE 4: INCOME TAX BENEFIT		
a. The components of the tax benefit comprise:		
Current tax		-
Deferred tax (Note 15)	(2,219,264)	510,341
	(2,219,264)	510,341
b. The prima facie tax on loss from ordinary activities before income tax is reconciled as follows:		
Prima facie tax benefit on loss from ordinary activities before income tax at 30% (2006: 30%)	180,645	456,478
Add (less):		
Tax effect of:		
— tax losses not brought to account as a deferred tax asset	(2,333,886)	-
— tax losses brought to account as a deferred tax asset	-	76,062
— non-deductible amortisation	1,654	(14,576)
— other non-allowable items	91,748	(31,816)
— other allowable deductions	(158,041)	24,193
— movement in allowances and provisions	(1,384)	-
	(2,399,909)	53,863
Income tax attributable to Company	(2,219,264)	510,341
The applicable weighted average effective tax rates are as follows:	368%	(34%)

The weighted average effective tax rate has increased for 2008 as a result of reversing the deferred tax asset for carried forward income tax operating losses.

These notes form part of the financial statements

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 5: KEY MANAGEMENT PERSONNEL COMPENSATION

a. **Directors**

The following were Directors of Giaconda Limited during the financial year:

(i) *Chairperson – Non-executive Director*

Richard Andrew Wade Woods

(ii) *Executive Directors*

Professor Thomas Julius Borody, Chief Medical Officer

Patrick Laughlin McLean, Chief Executive Officer

(iii) *Non-executive Directors*

Professor Emeritus Anthony Ronald Moon

Trevor Moore

b. **Other key management personnel**

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, during the financial year

Name	*Position*
Kirrilli Parker	Chief Operating Officer (resigned 14 September 2007)

All of the above persons were also key management persons during the year ended 30 June 2008 unless otherwise stated.

c. **Compensation Practices**

The Board's policy for determining the nature and amount of compensation of key management for the group is as follows:

The compensation structure for key management personnel is based on a number of factors, including length of service, particular experience of the individual concerned, and overall performance of the Company. The contracts for service between the Company and key management personnel are on a continuing basis, the terms of which are not expected to change in the immediate future. Upon retirement key management personnel are paid employee benefit entitlements accrued to date of retirement. Key management personnel are paid up to 20 weeks of their salary in the event of redundancy, depending on their years of service.

The Company seeks to emphasise payment for results through providing various cash bonus reward schemes, specifically, the incorporation of incentive payments based on performance against targets contained in the approved business plan. These targets relate to the product development, product licensing and Company administration. This scheme provides management with a performance target focused upon the necessary steps to achieve approval and sale of Giaconda products in the marketplace and to fulfil its administration requirements.

Bonuses included per Note 5(d) are based on these targets. The objective of the reward scheme is to both reinforce the short- and long-term goals of the Company and to provide a common interest between management and shareholders.

The employment conditions of the Chief Executive Officer, Patrick McLean and other key management personnel are formalised in contracts of employment. Other than the Chief Medical Officer, Professor Thomas Borody, all other key management personnel are permanent employees of Giaconda Limited. Professor Thomas Borody is engaged to carry out the duties and responsibilities of Chief Medical Officer for the Company under a Services Agreement with the Centre for Digestive Diseases Pty Limited. The fixed five-year contract, which commenced on 1 January 2006, contains no incentive component.

The employment contracts of the other key executives stipulate a range of termination periods from 1 to 6 months, depending on the time of service. The Company may terminate an employment contract without cause by providing written notice for the appropriate termination period or making payment in lieu of notice, based on the individual's annual salary component together with a redundancy payment of up to 20 weeks of their salary, depending on their years of service. Termination payments are generally not payable on resignation (other than payment in lieu of notice) or dismissal for serious misconduct. In the instance of serious misconduct the company can terminate employment at any time. The employee may terminate the employment contract without cause by providing written notice for the appropriate termination period.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 5: KEY MANAGEMENT PERSONNEL COMPENSATION (CONTINUED)

d. **Key Management Personnel Compensation**

Key Management Person	Short-term Benefits				Post- employment Benefits
	Cash & salary	Performance Bonuses	Non-cash benefit	Other	Superannuation
	$	$	$	$	$
Financial Year 30 June 2008					
Capacity as Director					
Richard Andrew Wade Woods	96,000*****	-	-	-	450
Anthony Ronald Moon	48,000*****	-	-	-	450
Trevor Moore	48,000*****	-	-	-	450
Thomas Julius Borody	60,000**	-	-	-	-
Capacity as other key management personnel					
Patrick Laughlin McLean	148,934****	-	-	110,000******	7,875
Thomas Julius Borody	170,000***	-	-	-	-
Kirrilli Parker (resigned 14 September 2007)	24,615	-	-	-	2,250
	595,549	-	-	110,000	11,475
Financial Year 30 June 2007					
Capacity as Director					
Christopher Robert Bilkey	8,877	-	-	-	5,288
Richard Andrew Wade Woods	55,562*****	-	-	-	788
Anthony Ronald Moon	30,000*****	-	-	-	788
Trevor Moore	30,000*****	-	-	-	788
Thomas Julius Borody	60,000**	-	-	-	-
Capacity as other key management personnel					
Patrick Laughlin McLean	150,000	52,800**	-	110,000******	13,500
Thomas Julius Borody	170,000***	-	-	-	-
Rosa Surace	186,793	-	-	-	13,251
Kirrilli Parker	98,763	21,175	-	-	8,889
	789,995	73,975	-	110,000	43,292

** Taken up as a contingent liability.

*** Taken up as a contingent liability. Where payments are made in respect of this remuneration, they are paid to the Centre for Digestive Diseases, a related party of Professor Thomas Borody.

**** Of this amount, $61,346 (2007:$nil) has been taken up as a contingent liability.

***** Of these amounts, $5,000 was paid in cash; the remainder was paid in shares in the Employee Share Plan.

****** Of this amount, $62,354 (2007:$50,000) has been taken up as a contingent liability.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 5: KEY MANAGEMENT PERSONNEL COMPENSATION (CONTINUED)

e. **Options and Rights Holdings**

Number of Options Held by Key Management Personnel

	Balance 1.07.2007	Granted as Compensation	Options Exercised	Net Change* Other
Patrick Laughlin McLean	1,250,000	-	-	-
Kirrilli Parker (resigned 14 September 2007)	300,000	-		(300,000)
Total	1,550,000	-	-	(300,000)

The Net Change Other reflected above includes those options that are held by former Key Management Personnel.

	Balance 30.6.2008	Total Vested 30.6.2008	Total Exercisable 30.6.2008	Total Unexercisable 30.6.2008
Patrick Laughlin McLean	1,250,000	1,250,000	1,250,000	-
Total	1,250,000	1,250,000	1,250,000	-

f. **Shareholdings**

Number of Shares held by Key Management Personnel

	Balance 1.7.2007	Received as Compensation	Options Exercised	Net Change Other*	Balance 30.6.2008
Richard Andrew Wade Woods	465,795	280,492	-	-	746,287
Anthony Ronald Moon	127,704	131,905	-	-	259,609
Trevor Moore	121,704	131,905	-	-	253,609
Thomas Julius Borody	50,620,000	-	-	-	50,620,000
Patrick Laughlin McLean	707,000	-	-	-	707,000
Kirrilli Parker (resigned 14 September 2007)	6,000	-	-	-	6,000
Total	52,048,203	414,203	-	-	52,592,505

* Net Change Other refers to shares purchased or sold during the financial year.

NOTE 6: AUDITORS' REMUNERATION	2008 $	2007 $
Remuneration of the auditor for:		
- auditing or reviewing the financial report	25,000	23,000
- accounting services provided by related practice of auditor	86,583	89,943

NOTE 7: EARNINGS PER SHARE		
a. Reconciliation of earnings to loss		
Loss	(2,821,415)	(1,011,255)
Earnings used to calculate basic EPS	(2,821,415)	(1,011,255)
Earnings used in the calculation of dilutive EPS	(2,821,415)	(1,011,255)
	No.	No.
b. Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	73,498,505	72,707,101
Weighted average number of options outstanding	-	-
Weighted average number of converting preference shares on issue	-	-
Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	73,498,505	72,707,101

These notes form part of the financial statements

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 8: CASH AND CASH EQUIVALENTS	2008 $	2007 $
Cash at bank	281,243	1,661,479

Reconciliation of cash

Cash at the end of the financial year as shown in the cash flow statement is reconciled to items in the balance sheet as follows:

	2008 $	2007 $
Cash and cash equivalents	281,243	1,661,479

NOTE 9: TRADE & OTHER RECEIVABLES		
Trade and other debtors	10,565	20,536

NOTE 10: OTHER CURRENT ASSETS		
Prepayments – general	20,374	58,113

NOTE 11: PROPERTY, PLANT AND EQUIPMENT		
Office furniture at cost	-	8,812
Less accumulated depreciation	-	(3,746)
	-	5,066
Computer equipment at cost	37,610	39,533
Less accumulated depreciation	(26,699)	(21,131)
	10,911	18,402
Office equipment at cost	9,812	10,144
Less accumulated depreciation	(6,193)	(4,955)
	3,619	5,189
Apartment furniture at cost	7,106	7,106
Less accumulated depreciation	(3,760)	(2,920)
	3,346	4,186
Leased assets at cost	15,645	15,645
Less accumulated amortisation	(9,911)	(7,993)
	5,734	7,652
Website at cost	9,940	9,940
Less accumulated depreciation	(8,875)	(5,163)
	1,065	4,777
Total property, plant and equipment	24,675	45,272

Movements in Carrying Values

Movements in the carrying values for each class of property, plant and equipment between the beginning and the end of the current financial year

	Office Furniture	Computer Equipment	Office Equipment	Apartment Furniture	Leased Assets	Website	Total
Balance at the beginning of year	5,066	18,402	5,189	4,186	7,652	4,777	45,272
Additions	-	-	-	-	-	-	-
Disposals	(4,638)	(844)	(179)	-	--	-	(5,661)
Depreciation expense	(428)	(6,647)	(1,391)	(840)	(1,918)	(3,712)	(14,936)
Carrying value at the end of year	-	10,911	3,619	3,346	5,734	1,065	24,675

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 12: INTANGIBLE ASSETS	2008 $	2007 $
Intellectual property at cost	400,000	400,000
Less accumulated amortisation	(71,886)	(47,924)
	328,114	352,074
Patents and trade marks at cost	430,299	289,319
Less accumulated amortisation	(68,931)	(34,213)
	361,368	255,106
Development costs	2,065,874	1,492,338
Less accumulated amortisation	-	-
	2,065,874	1,492,338
	2,755,356	2,099,520

	Intellectual Property	Patents and Trade Marks	Development Costs	Total
	$	$	$	$
Year ended 30 June 2007				
Balance at the beginning of year	376,038	107,788	401,838	885,664
Additions	-	171,040	1,090,500	1,261,540
Disposals	-	-	-	-
Amortisation charge	(23,962)	(23,722)	-	(47,684)
Impairment losses	-	-	-	-
Closing value at 30 June 2007	352,076	255,106	1,492,338	2,099,520
Year ended 30 June 2008				
Balance at the beginning of year	352,076	255,106	1,492,338	2,099,520
Additions	-	140,979	573,536	714,515
Disposals	-	-	-	-
Amortisation charge	(23,962)	(34,717)	-	(58,679)
Impairment losses	-	-	-	-
Closing value at 30 June 2008	328,114	361,368	2,065,874	2,755,356

Intangible assets have finite useful lives. The current amortisation charges for intangible assets are included under administration in the income statement.

NOTE 13: TRADE & OTHER PAYABLES	2008 $	2007 $
Trade payables	75,274	168,439
Sundry payables	338	14,258
Accrued expenses *	65,264	120,493
	140,876	303,190

* accrued expenses are made up of directors' fees, employee incentives and audit fees.

NOTE 14: FINANCIAL LIABILITIES	Note		
CURRENT			
Borrowing from related party - non-interest bearing	14a	200,000	-
Lease liability	19	3,236	3,904
		203,236	3,904
NON-CURRENT			
Lease liability	19	-	3,236

14a. The loan from related party is only repayable should one of the following events occur:

- (i) The Company enters into a licensing agreement for one of its products and the Board of Directors reasonably determines that the repayment of this amount will not impact on the operational viability of the Company.
- (ii) The Company raises funds whether through debt or equity equal to or exceeding the cumulative amount of $5,000,000 in any financial year.
- (iii) There is a change in the ownership of more than 50% of the issued shares of the Company.
- (iv) The Company becomes insolvent or subject to any form of external administration other than for the purpose of corporate restructuring.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 15: TAX			Note	2008 $	2007 $
a.	**Deferred tax liabilities comprise:**				
	Capitalised development costs			897,472	484,765
	Deferred tax asset offset		15(b)	(32,628)	-
				864,844	484,765
b.	**Deferred tax assets comprise:**				
	Future income tax benefit attributable to tax losses			-	1,810,663
	Fair value adjustments			29,893	22,668
	Provisions			2,735	5,854
	Balance offset with deferred tax liability		15(a)	(32,628)	-
				-	1,839,185
	Deferred tax losses not brought to account, the benefits of which will only be realised if the conditions for deductibility set out in Note 1(b) occur:				
	-	Tax losses: operating losses $2,289,872			
c.	**Reconciliations**				
	i.	**Gross Movements**			
		The overall movement in the deferred tax account is as follows:			
		Opening balance		1,354,420	844,079
		Charged to income statement		(2,219,264)	510,341
		Closing balance		(864,844)	1,354,420
	ii.	**Deferred Tax Liabilities**			
		The movement in deferred tax liabilitiy for each temporary difference during the year is as follows:			
		Opening balance		484,765	120,551
		Credited to the income statement		380,079	364,214
		Closing balance		864,844	484,765
	iii.	**Deferred Tax Assets**			
		The movement in deferred tax assets for each temporary difference during the year is as follows:			
		Opening balance		1,839,185	964,630
		Charged to the income statement		1,839,185	874,535
		Closing balance		-	1,839,185

NOTE 16: PROVISIONS		Note	2008	2007
Employee benefits		16(a)	9,118	19,515
a.	Aggregate employee entitlement liability		9,118	19,515
b.	Number of employees at year end		1	2

These notes form part of the financial statements

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 17: ISSUED CAPITAL

73,498,505 (2007: 72,914,203) fully paid ordinary shares		7,352,395	7,260,509
a.	**Ordinary shares**	No.	No.
	At the beginning of reporting period	72,914,203	72,500,000
	Shares issued during the year		
	— issue of shares at $0.200 each	221,250	-
	— issue of shares at $0.290 each	40,000	-
	— issue of shares at $0.325 each	136,152	-
	— issue of shares at $0.370 each	119,594	-
	— issue of shares at $0.390 each	67,306	-
	— issue of shares at $0.458 each	-	47,702
	— issue of shares at $0.496 each	-	52,921
	— issue of shares at $0.500 each	-	313,580
	At reporting date	73,498,505	72,914,203

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

At the shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

b. **Options**

i. For information relating to the Giaconda Limited employee option plan, including details of options issued, exercised and lapsed during the financial year and the options outstanding at year-end, refer to Note 23 Share-based Payments.

ii. For information relating to share options issued to key management personnel during the financial year, refer to Note 23 Share-based Payments.

NOTE 18: RESERVES

Option Reserve

The option reserve records items recognised as expenses on valuation of employee share options.

NOTE 19: CAPITAL AND LEASING COMMITMENTS		2008 $	2007 $
a.	**Finance Lease Commitments Payable**		
	— not later than 1 year	3,362	4,476
	— later than 1 year but not later than 5 years	-	3,362
	Minimum lease payments	3,362	7,838
	Less future finance charges	(126)	(698)
	Total Lease Liability	3,236	7,140
b.	**Operating Lease Commitments**		
	Non-cancellable operating leases contracted for but not capitalised in the financial statements		
	Payable		
	— not later than 1 year	-	21,406
		-	21,406

Two leases form part of the operating lease commitment.

The lease for the principal place of business is a non-cancellable lease with a one-year term, with rent payable monthly in advance. The lease expires on 17 December 2007.

The lease for the residence of the Chief Executive Officer is a non-cancellable lease with a one-year term, with rent payable monthly in advance. Upon completion of the term, the tenant can stay in the premises unless or until the agreement is ended.

c.	**Capital Commitments**	2008 $	2007 $
	Future capital expenditure contracted for but not yet incurred		
	Payable		
	— not later than 1 year	-	136,590
	— later than 1 year but not later than 5 years	-	-
		-	136,590

The company engaged Biovail in Toronto, Canada to execute a pharmacokinetic study comparing two formulations of Myoconda. The study was completed in June 2007 and is in the process of analysis. Under the terms of the contract, the remainder of the contract will be due and payable upon completion of the analysis.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 20: CONTINGENT LIABILITIES	2008 $	2007 $
Estimates of the potential financial effect of contingent liabilities that may become payable:		
Chief Medical Officer Fees		
The Company has engaged Professor Thomas Borody as Chief Medical Officer. The agreement provided for an annual salary to be paid for these services of $230,000. The agreement operated from 1 January 2005 to 31 December 2005. Professor Borody has agreed to defer payment of this amount until the first to occur of;		
The Company enters into a licensing agreement or assignment agreement for one of its products; and the Board reasonably determines that the payment of these amounts will not impact on the operational viability of the Company; or		
There is change in ownership of more than 50% of the issued shares of the Company.		
In the event that the above is not accomplished, he will release the Company from these obligations.	230,000	230,000
Non-Executive Director Fees		
Professor Thomas Borody, as a non-executive director of the Company for the period 15 June 2004 to 31 December 2004 is entitled to a fee for his service. Professor Borody has agreed to defer payment of this amount until the first to occur of;		
The Company enters into a licensing agreement or assignment agreement for one of its products; and the Board reasonably determines that the payment of these amounts will not impact on the operational viability of the Company; or		
There is change in ownership of more than 50% of the issued shares of the Company.		
In the event that the above is not accomplished, he will release the Company from these obligations.	16,438	16,438
Executive Director Fees		
Professor Thomas Borody, as an executive director of the Company for the period 1 January 2006 to 30 June 2008 is entitled to a fee for his service. Professor Borody has agreed to defer payment of this amount until the first to occur of;		
The Company enters into a licensing agreement or assignment agreement for one of its products; and the Board reasonably determines that the payment of these amounts will not impact on the operational viability of the Company; or		
There is change in ownership of more than 50% of the issued shares of the Company.		
In the event that the above is not accomplished, he will release the Company from these obligations.	150,000	90,000
Chief Executive Officer Incentive Payment		
The Chief Executive Officer has been paid an incentive under his incentive program. The Chief Executive Officer has agreed to defer payment of this amount until the first to occur of;		
The Company enters into a licensing agreement or assignment agreement for one of its products; and the Board reasonably determines that the payment of these amounts will not impact on the operational viability of the Company; or		
There is change in ownership of more than 50% of the issued shares of the Company.		
In the event that the above is not accomplished, he will release the Company from these obligations. It is noted that $42,000 is in respect of services for the 2005 financial year and was payable in 2006. $93,600 is in respect of services for the 2006 financial year and was payable in 2007. $52,800 is in respect of services for the 2007 financial year and will be payable in 2008.	188,400	188,400
Chief Executive Officer Living-Away-From-Home-Allowance Payment		
The Chief Executive Officer is paid a living-away-from-home-allowance under his employment contract. The Chief Executive Officer has agreed to defer payment of this amount until the first to occur of;		
The Company enters into a licensing agreement or assignment agreement for one of its products; and the Board reasonably determines that the payment of these amounts will not impact on the operational viability of the Company; or		
There is change in ownership of more than 50% of the issued shares of the Company.		
The Company cumulatively raises $5,000,000 in a year.		
In the event that the above is not accomplished, he will release the Company from these obligations.	112,354	50,000
Centre of Digestive Diseases		
The Company has engaged the Centre for Digestive Diseases, a related party of Professor Thomas Borody, to provide the service of Chief Medical Officer. The agreement provides for an annual fee to be paid for these services of $170,000 commencing 1 July 2006. The Centre for Digestive Diseases has agreed to defer payment of this amount until the first to occur of;		
The Company enters into a licensing agreement or assignment agreement for one of its products; and the Board reasonably determines that the payment of these amounts will not impact on the operational viability of the Company; or		
There is change in ownership of more than 50% of the issued shares of the Company.		
In the event that the above is not accomplished, he will release the Company from these obligations.	340,000	170,000

These notes form part of the financial statements

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 20: CONTINGENT LIABILITIES (CONTINUED)	2008 $	2007 $
Estimates of the potential financial effect of contingent liabilities that may become payable:		
Chief Executive Officer Salary Payment		
The Chief Executive Officer is paid a salary under his employment contract. The Chief Executive Officer has agreed to defer payment of this amount until the first to occur of;		
The Company enters into a licensing agreement or assignment agreement for one of its products; and the Board reasonably determines that the payment of these amounts will not impact on the operational viability of the Company; or		
There is change in ownership of more than 50% of the issued shares of the Company.		
The Company cumulatively raises $5,000,000 in a year.		
In the event that the above is not accomplished, he will release the Company from these obligations.	61,346	-
Chief Executive Officer Travel Expense Reimbursement		
The Chief Executive Officer is required to travel overseas as part of his duties. During the year The Chief Executive Officer incurred costs in relation to overseas travel which he has not been reimbursed. The Chief Executive Officer has agreed to defer payment of this amount until the first to occur of;		
The Company enters into a licensing agreement or assignment agreement for one of its products; and the Board reasonably determines that the payment of these amounts will not impact on the operational viability of the Company; or		
There is change in ownership of more than 50% of the issued shares of the Company.		
The Company cumulatively raises $1,000,000 in a year.		
In the event that the above is not accomplished, he will release the Company from these obligations.	22,380	-

NOTE 21: SEGMENT REPORTING

Primary Reporting — Business Segments

	Development	
	2008 $	**2007 $**
REVENUE		
Segment income	82,563	177,595
RESULT		
Loss before income tax	(602,151)	(1,521,596)
Income tax benefit (expense)	(2,219,264)	510,341
Loss after income tax	(2,821,415)	(1,011,255)
ASSETS		
Segment assets	3,092,215	5,724,105
LIABILITIES		
Segment liabilities	1,218,074	814,607

Accounting Policies

Segment revenues and expenses are those directly attributable to the segments and include any joint revenue and expenses where a reasonable basis of allocation exists. Segment assets include all assets used by a segment and consist principally of cash, receivables, inventories, intangibles and property, plant and equipment, net of allowances and accumulated depreciation and amortisation. While most such assets can be directly attributed to individual segments, the carrying amount of certain assets used jointly by two or more segments is allocated to the segments on a reasonable basis. Segment liabilities consist principally of payables, employee benefits, accrued expenses, provisions and borrowings. Segment assets and liabilities do not include deferred income taxes.

Business and Geographical Segments

Business segments

The principal activity of the Company was that of the development and commercialisation of therapies for gastrointestinal diseases and disorders.

Geographical segments

The Company operates from Sydney, New South Wales, Australia. It will conduct clinical trials in the United Kingdom, Australia, Europe and North America.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 22: CASH FLOW INFORMATION		2008 $	2007 $
a.	**Reconciliation of Cash**		
	Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:		
	Cash on hand	-	-
	Cash at bank	281,243	1,661,479
		281,243	1,661,479
b.	**Reconciliation of Cash Flow from Operations with Loss from Ordinary Activities after Income Tax**		
	Loss from ordinary activities after income tax	(2,821,415)	(1,011,255)
	Non-cash flows in profit from ordinary activities:		
	— Amortisation	58,679	50,235
	— Depreciation	13,276	18,974
	— Lease charges	-	965
	Changes in assets and liabilities, net of the effects of purchase and disposals of subsidiaries		
	— Decrease in receivables	9,971	34,691
	— Increase (decrease) in deferred assets	1,839,185	(874,555)
	— Increase (decrease) in prepayments – general	37,739	(40,415)
	— Decrease in payables	(162,313)	(198,414)
	— Increase in deferred tax liabilities	380,079	364,214
	— Decrease in provisions	(10,397)	(26,241)
	— Increase (decrease) in option reserve	(305,826)	118,660
	Cash flows from operations	(961,022)	(1,563,141)
c.	**Non-cash Financing and Investing Activities**		
	There were no items acquired under a finance lease during the year.		

These notes form part of the financial statements

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 23: SHARE-BASED PAYMENTS

The following share-based payment arrangements existed at 30 June 2007:

(i) On 4 May 2005, 1,250,000 share options were granted to the Chief Executive Officer under the Giaconda Limited Employee Share Option Plan to take up ordinary shares at an exercise price of $0.50 each. The options are exercisable as follows;

Tranche	Number of Options	Exercise Date
1	500,000	Immediately.
2	250,000	Not before date which Giaconda is quoted on the ASX.
3	250,000	Not before 1 July 2006.
4	250,000	Not before 1 July 2007.

The options hold no voting or dividend rights and are not transferable. The options expire 5 years from the date of grant.

(ii) On 23 June 2005, 50,000 share options were granted to a "promoter" of the Giaconda Limited IPO under an Option Agreement dated 03 May 2005, to take up ordinary shares at an exercise price of $0.50 each. The options are exercisable as follows;

Tranche	Number of Options	Exercise Date
1	50,000	Not before date which Giaconda is quoted on the ASX

The options hold no voting or dividend rights and are not transferable. The options expire 5 years from the date which Giaconda Limited is quoted on the ASX.

(iii) On 23 June 2005, 100,000 share options were granted to a "promoter" of the Giaconda Limited IPO under an Option Agreement dated 20 June 2005, to take up ordinary shares at an exercise price of $0.50 each. The options are exercisable as follows;

Tranche	Number of Options	Exercise Date
1	100,000	Not before date which Giaconda received regulatory approval of Myoconda in the United States

The options hold no voting or dividend rights and are not transferable. The options expire 5 years from the date which Giaconda Limited is quoted on the ASX.

(iv) On 23 January 2006, 60,000 share options were granted to a substantial contributor to the development of Giaconda's products under an Option Agreement dated 13 January 2006, to take up ordinary shares at an exercise price of $0.50 each. The options are exercisable as follows;

Tranche	Number of Options	Exercise Date
1	60,000	Immediately

The options hold no voting or dividend rights and are not transferable. The options expire 5 years from the date of the agreement.

(v) On 23 January 2006, 150,000 share options were granted to the former Corporate Administration Officer/Assistant Company Secretary/Chief Operating Officer/Company Secretary under the Giaconda Limited Employee Share Option Plan to take up ordinary shares at an exercise price of $0.50 each. These options were forfeited on 13 November 2007.

(vi) On 26 July 2006, 150,000 share options were granted to the former Chief Administration Officer/Company Secretary/Chief Operating Officer/Company Secretary under the Giaconda Limited Employee Share Option Plan to take up ordinary shares at an exercise price of $0.50 each. These options were forfeited on 13 November 2007.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 23: SHARE-BASED PAYMENTS (CONTINUED)

All options granted are ordinary shares in Giaconda Limited, which confer a right of one ordinary share for every option held.

	2008		2007	
	Number of Options	Weighted Average Exercise Price $	Number of Options	Weighted Average Exercise Price $
Outstanding at the beginning of the year	1,760,000	0.50	2,360,000	0.50
Granted	-	-	150,000	0.50
Forfeited	(300,000)	0.50	(750,000)	0.50
Exercised	-	-	-	-
Expired	-	-	-	-
Outstanding at year-end	1,460,000	0.50	1,760,000	0.50
Exercisable at year-end	1,310,000	0.50	1,260,000	0.50

There were no options exercised during the year ended 30 June 2008 (2007: nil) and no options granted during the year (2007: 150,000).

The options outstanding at 30 June 2008 had a weighted average exercise price of $0.50 and a weighted average remaining contractual life of 2.07 years. The exercise price is $0.50 in respect of options outstanding at 30 June 2008.

The weighted average fair value of the options granted during the year was $nil (2007:$8,055).

The value of the Option Reserve has been calculated by using a modified binomial option pricing model applying the following inputs:

Weighted average exercise price	$0.50
Underlying share price	$0.28
Expected share price volatility	6%
Risk free interest rate	6.50%

Historical volatility has been the basis for determining expected share price volatility as it is assumed that this is indicative of future tender, which may not eventuate.

The life of the options is based on the contracted expiry date as no options have been exercised since the commencement of the Company.

Included under Personnel expenses in the income statement is a credit for $305,826 (2007: debit $8,055), that relates, in full, to the reversal of the share option reserve. This has resulted from the modified binomial option pricing model, using the inputs detailed above, indicating that all options will remain "out of the money", and therefore it has valued the options outstanding at $nil.

NOTE 24: EVENTS AFTER THE BALANCE SHEET DATE

The directors are not aware of any matter or circumstance that has arisen since the end of the financial period that has significantly affected, or may significantly affect, the operations, results of operations or state of affairs of the Company in subsequent periods.

NOTE 25: FINANCIAL INSTRUMENTS

a. **Financial Risk Management**

The Company's financial instruments consist mainly of deposits with banks, short-term investments, and accounts receivable and payable.

The main purpose of non-derivative financial instruments is to hedge foreign currency risk.

The Company does not have any derivative instruments at 30 June 2008.

i. Treasury Risk Management

Directors and the senior executive meet on a regular basis to consider the extent of interest rate exposure and where necessary evaluate treasury management strategies in the context of the most recent economic conditions and forecasts.

ii. Financial Risks

The main risks the Company is exposed to through its financial instruments are foreign currency risk and liquidity risk.

Interest rate risk

The Company is not exposed to interest rate risk.

Foreign currency risk

The Company manages foreign currency risk by maintaining a Canadian Dollar bank account to act as a natural hedge.

Liquidity risk

The Company manages liquidity risk by monitoring forecast cash flows and ensuring that adequate funds are maintained.

Credit risk

The Company does not have any material credit risk exposure to any single receivable or group of receivables under financial instruments entered into.

Price risk

The Company is not exposed to any material commodity price risk.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 25: FINANCIAL INSTRUMENTS (CONTINUED)

b. **Interest Rate Risk**

The Company's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

	Weighted Average Effective Interest Rate		Floating Interest Rate		Fixed Interest Rate Maturing			
					Within 1 Year		1 to 5 Years	
	2008	2007	2008	2007	2008	2007	2008	2007
Financial Assets	%	%	$	$	$	$	$	$
Cash	3.65%	5.16%	273,306	653,542	7,937	1,007,937	-	-
Total Financial Assets			273,306	653,542	7,937	1,007,937	-	-
Financial Liabilities								
Borrowing	-	-	-	-	200,000	-	-	-
Lease liability	10.62%	10.62%	-	-	3,236	3,904	-	3,236
Total Financial Liabilities			-	-	203,236	3,904	-	3,236

c. **Sensitivity Analysis**

Interest Rate Risk, Foreign Currency Risk and Price Risk

The group has performed sensitivity analysis relating to its exposure to interest rate risk, foreign currency risk and price risk at balance date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in these risks.

Foreign Currency Risk Sensitivity Analysis

At 30 June 2008, the effect on profit and equity as a result of changes in the value of the Australian Dollar to the Canadian Dollar, with all other variables remaining constant is as follows:

	2008 $	2007 $
Change in profit		
Improvement in AUD to CAD by 5%	158	12
Decline in AUD to CAD by 5%	(158)	(12)
Change in Equity		
Improvement in AUD to CAD by 5%	158	12
Decline in AUD to CAD by 5%	(158)	(12)

d. **Net fair values**

The aggregate net fair values and carrying amounts of financial assets and financial liabilities are disclosed in the statement of financial position and in the notes to the financial statements.

NOTE 26: RELATED PARTY TRANSACTIONS	2008 $	2007 $
Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.		
Transactions with related parties:		
Director		
Non-interest bearing loan from Professor Thomas Borody, a director and shareholder of the company. The terms of the loan are detailed at note 14a.	200,000	-
Director related entity		
The Company occupies offices located at the Centre for Digestive Diseases, a related entity of Professor Thomas Borody. No rent is being paid for the use of these offices.	-	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 27: CHANGE IN ACCOUNTING POLICY

The following Australian Accounting Standards have been issued or amended and are applicable to the parent and economic entity but are not yet effective. They have not been adopted in preparation of the financial statements at reporting date.

AASB Amendment	Standards Affected		Outline of Amendment	Application Date of Standard	Application Date for Group
AASB 2007–3 Amendments to Australian Accounting Standards	AASB 5	Non-current Assets Held for Sale and Discontinued Operations	The disclosure requirements of AASB 114: Segment Reporting have been replaced due to the issuing of AASB 8: Operating Segments in February 2007. These amendments will involve changes to segment reporting disclosures within the financial report. However, it is anticipated there will be no direct impact on recognition and measurement criteria amounts included in the financial report	1.1.2009	1.7.2009
	AASB 6	Exploration for and Evaluation of Mineral			
	AASB 102	Inventories			
	AASB 107	Cash Flow Statements			
	AASB 119	Employee Benefits			
	AASB 127	Consolidated and Separate Financial Statements			
	AASB 134	Interim Financial Reporting			
	AASB 136	Impairment of Assets			
	AASB 1023	General Insurance Contracts			
	AASB 1038	Life Insurance Contracts			
AASB 8 Operating Segments	AASB 114	Segment Reporting	As above	1.1.2009	1.7.2009
AASB 2007–6 Amendments to Australian Accounting Standards	AASB 1	First time adoption of AIFRS	The revised AASB 123: Borrowing Costs issued in June 2007 has removed the option to expense all borrowing costs. This amendment will require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. However, there will be no direct impact to the amounts included in the financial group as they already capitalise borrowing costs related to qualifying assets.	1.1.2009	1.7.2009
	AASB 101	Presentation of Financial Statements			
	AASB 107	Cash Flow Statements			
	AASB 111	Construction Contracts			
	AASB 116	Property, Plant and Equipment			
	AASB 138	Intangible Assets			
AASB 123 Borrowing Costs	AASB 123	Borrowing Costs	As above	1.1.2009	1.7.2009
AASB 2007–8 Amendments to Australian Accounting Standards	AASB 101	Presentation of Financial Statements	The revised AASB 101: Presentation of Financial Statements issued in September 2007 requires the presentation of a statement of comprehensive income.	1.1.2009	1.7.2009
AASB 101	AASB 101	Presentation of Financial Statements	As above	1.1.2009	1.7.2009

NOTE 28: COMPANY DETAILS

The registered office of the Company is:

Ground Floor, 44 East Street
Five Dock New South Wales 2046

The principal place of business of the Company is:

Ground Floor, 44 East Street
Five Dock New South Wales 2046